V. Operations Review and Prospect

1. MAJOR OPERATIONS OF THE COMPANY DURING THE REPORTING PERIOD

The Company is principally engaged in the production and sale of steel and iron products. The production process mainly comprises coking, sintering, iron smelting, steel smelting and steel rolling. The Company's principal steel products can be divided into four categories: wire rods, steel sections, medium and thick steel plates and train wheels, which are of different types, specifications and versatility. A majority of them are sold in the domestic market, with a small portion exported to overseas markets. The Company is also engaged in the sale of a small volume of pig iron and coking by-products.

As at the first half of the year ended 30 June 2001, under PRC accounting standards and system, the unaudited net profit of the Group for the period was RMB130,210,000, representing an increase of RMB66,740,000 or 105.15% over the same period of last year. Under Hong Kong accounting standards, the unaudited net profit of the Group for the period was RMB103,970,000, a representing an increase of RMB40,500,000 or 63.81% over the corresponding period in the previous year.

In the first half of the year, the Company achieved a breakthrough in productivity. Through practising economies of scale, the financial structure of the Company was improved, with financial operations enhanced at the same time. A better result was thus achieved.

An increase was recorded in product output. Produced in the first half of the year were 2,250,000 tons of pig iron, 2,300,000 tons of steel and 2,150,000 tons of steel products, representing an increase of RMB0.27 million or 13.6%, RMB0.38 million or 19.8% and RMB0.39 million or 22.2% respectively over the same period of last year.

Improvements were recorded in economic indicators. Compared with the average levels of the last year, coking ratio in the iron smelting process dropped by 22kg/t, and iron and steel consumption by 4kg/t. On the other hand, continuous casting ratio rose by 5.62%, and composite product yield by 0.63%. Composite energy consumption amount of standard coal for each ton of steel products produced was 906 kg, representing a drop of 80 kg over the average level of last year.

A decrease was also recorded in production costs and financial expenses. In the first half of the year, unit production cost further decreased from the average level of the same period of previous year. Financial expenses dropped by RMB24,050,000 as compared to the average level of same period of last year.

Sales revenues recorded a more substantial increase, with funds collection rate also registered a rise. In the first half of the year, the Company sold 2,090,000 tons of steel products, representing an increase of 340,000 tons or 19.8%, over the same period of last year. Accumulative production-to-sale ratio was 100%. Exported steel products amounted to 228,000 tones, a 44.6% increase over the same period of last year. In respect of steel product sale, 100,000 tons were met by production instead of import. The sales revenue for the first half of the year amounted to RMB4,721,610,000, an increase of 26.5% over the same period in the previous year. Debtor collection ratio was 100.54%, which represented an increase of 2.08% over the corresponding period of last year. Cash collection ratio was 95.45%, a 5.39% increase over the same period in the previous year.

2. INVESTMENTS OF THE COMPANY

Use of proceeds from capital raised

A total amount of RMB6,497,570,000 of the proceeds had been utilised as at 31 December 1999, all of which had been used as disclosed in the A Shares and H Shares prospectus.

Other investments

In the first half of the year, the Company invested RMB302,400,000 mainly on projects like no. 1 steel-making plant electric arc furnace; billet continuous casting machines of no. 1 steel-making plant; modification of train wheel rolling system; coke dry quenching project; no. 3 steel-making plant's gas recycling scheme; heat and electricity supply plant's modification of its high gas boiler; and, new ball-shaped iron-ore production lines.

3. CHANGE OF PRODUCTION AND OPERATIONAL ENVIRONMENT AND ITS IMPACTS ON THE COMPANY

There are three more significant factors affecting the production and operations of the Company since the beginning of the year. Firstly, the prices of raw materials, fuels, electricity and the like have risen, resulted in an increase in the Company's operating costs. Secondly, the supply of coal, charcoal, scrap steel and transportation services has dropped, causing difficulties to the production unit. Thirdly, the global economy remains weak, pushing down the export prices of the Company's products. The three adverse factors are expected to persist in the latter half of the year. In addition, the more substantial growth in steel products in the country and the continual net import of steel products have also intensified the domestic competition in the sale of steel products.

4. PLAN AND MAJOR OPERATIONAL STRATEGY FOR THE LATTER HALF OF THE YEAR

To maintain high output and stable production, and to further enhance production capacity and take advantage of economies of scale;

To continue to improve technological and economic indicators; to better implement the technological strategy focused on reducing energy and material consumption, study the factory setting and work procedures in order to explore ways of improvement, enhance financial indices, and further reduce production costs in the latter half of the year.

To continue to control purchase prices of raw materials and fuels; to study and improve purchase strategies to improve purchase structure in the latter half of the year when great pressure on energy price inflation still exists; to invite tenders for the shipment of imported ore in order to improve the shipment procedure and reduce shipment costs; and, To improve resources allocation and explore new ways of economic development; to face up with the reality in production and operations and eliminate factors with substantial impacts on the Company's performance; to conduct a thorough study and improve the financial operations of the Company and enhance cost effectiveness.