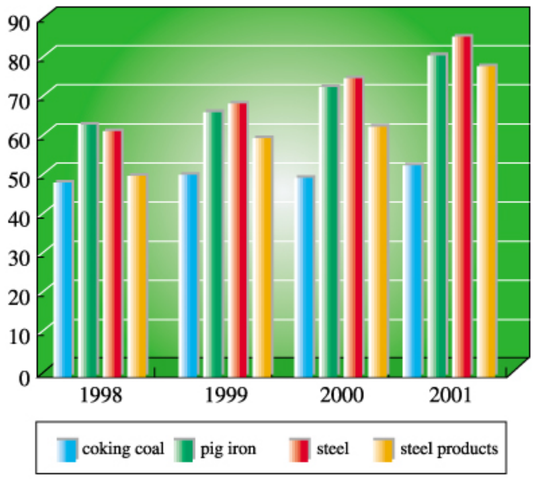
REVIEW OF OPERATIONS

During the first half of the year, due to the combined effect of substantial increases in domestic steel production and imported steel products and billets, the increase in supply was well in excess of the corresponding increase in demand. Prices fluctuated over the period and with an overall declining trend. In view of the fierce market competition, the Group has capitalised on its strength of technology innovation and competitiveness on cost control, and secured the market share through strengthening of its sales and marketing network. At the same time, the Group endeavours to reduce costs and develop new products to enhance its market competitiveness. The Group's operation has developed stably and achieved the predetermined target. Profit for the Period amounted to Rmb128,423,000.

Production Volume of Principal Products
(Six months ended 30th June)
(10'000 tons)



Production capacity was fully utilised. During the period, the Group produced 536,457 tons of coking coal, 815,483 tons of pig iron, 863,124 tons of steel, 787,688 tons of steel products, representing respectively 6.30%, 10.98%, 14.02% and 24.03% increase from the same period of last year. 66,000 tons of which were "substitutes for imported steel products", representing a 4.61% over the plan.

The Group has strengthened the sales and marketing function by its responsiveness to the market conditions. The Group fully utilized its sales branches to collect regional market information. Under this difficult market condition and the significant fluctuation in steel prices, the Group timely adjusted its sales and marketing strategies, grasped the opportunities, and achieved good operating results. The sales of steel product amounted to 755,800 tons in the first half of the year, representing an increase of 14.65% from the same period of last year.

The Group placed strong emphasis on key success factors to explore its potentials based on defined objectives. The Group has positioned year 2001 as the "Year of Cost Management". The Group has implemented cost reduction measures throughout the whole operating process from production to sales and marketing in order to explore its potentials. The Group achieved various improvements in technological and economic performance indices, of which, 14 indices achieved historical high records. Comparing with the same period of last year, there were obvious improvements in key indices including the reduction in aggregate energy consumption rate per ton by 48 kg, aggregate blast furnace coking rate by 17kg, iron and steel wastage by 8kg; and the increase in blast furnace utilization factor by 0.144. Costs continued to decrease month by month.

Maintaining and enhancing product quality. The Group's strict compliance with ISO 9002 as accredited by Lloyd's Register Quality Accreditation ensures that the Group maintains and enhances its product quality. Pass rates of coking coal, pig iron, steel and steel products were 100%, 100%, 99.83% and 99.39% respectively, of which the pass rate of steel increased by 0.03% as compared with the same period of last year.

Active development of new products. Being business oriented, the Group actively developed high value-added products. During the Period, the Group successfully developed 10 new and tailor-made products. The production and sales of new products amounted to 69,738 tons.

Steady progress in technical modification. Spherical Conglomerated Mine Project was completed in June which further enhances the building materials and structure of blast furnaces. The construction of Jingxing Dolomite Mine Project was completed and trial operation commenced at the end of June. This secures the supply of auxiliary materials for smelting. Blast Furnace Coal Blower Project, Coking Furnace Gas Desulphurisation and Dehydrogenation Project and Medium-gauge Plate Rolling and Flattening Machine Renovation Project were in progress in accordance with the plan.