

PROSPECTS IN THE SECOND HALF OF THE YEAR

In the second half of the year, demand for iron and steel products will increase as a result of the commencement of the first phase of western region development and the reaching of the final stage of the Three Gorges Project. However, in view of the uncertainties in the steel market upon China's entry to World Trade Organisation, such as the increase in domestic supply, the decrease in export and the increase in import, the steel market is not optimistic in the second half of the year. The Group will adjust product mix, increase efficiency, implement technical modification projects, reduce costs and enhance effectiveness so that the Group can maintain its position in the industry.

By adhering to the sales and marketing strategies of "securing market share, maintaining prices and full recovery of accounts receivable", the Group will closely attend to market changes and place emphasis on highly effective and comprehensive services so as to expand the market share.

While stabilizing the technical features of new products that have already commenced production, the Group will conduct market research so as to keep abreast of market needs. The Group will also develop high-tech and high value-added products on a timely basis. Market feedbacks on new products will be properly dealt with so as to ensure that new products satisfy the needs of the market.

The Group will further strengthen cost management in various departments and production process. The Group will continue to improve technological and economic performance indices to bring them in line with the advanced level of the other market players.

The Group will further strengthen the monitoring controls over product quality throughout the production process with particular focus on those weak areas so as to enhance and maintain the quality of products at a higher level.

Technical modification projects will be fostered. The capacity of the completed projects will be fully utilized while those projects under construction will be expedited so as to ensure their timely completion. The overhaul of blast furnace and other related auxiliary projects will be carried out under strict control. After the completion of the above technical modification and overhaul projects, the Group's production facilities will be enhanced and with stronger market competitiveness.