

UNAUDITED CONDENSED INTERIM ACCOUNTS

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Note	Unaudited	
		Six months ended 30 June	
		2002	2001
		Rmb'000	Rmb'000
TURNOVER	2	1,814,817	1,881,704
COST OF SALES		<u>(1,581,885)</u>	<u>(1,579,079)</u>
GROSS PROFIT		232,932	302,625
OTHER REVENUES		3,981	4,127
DISTRIBUTION COSTS		(53,279)	(38,706)
ADMINISTRATIVE EXPENSES		(56,132)	(82,956)
OTHER OPERATING EXPENSES		<u>(3,613)</u>	<u>(26,109)</u>
OPERATING PROFIT	3	123,889	158,981
FINANCE COSTS		<u>(32,049)</u>	<u>(30,558)</u>
PROFIT BEFORE TAXATION		91,840	128,423
TAXATION	5	<u>(12,776)</u>	<u>—</u>
PROFIT AFTER TAXATION		79,064	128,423
MINORITY INTERESTS		<u>3,674</u>	<u>(4,738)</u>
PROFIT FOR THE PERIOD		<u>82,738</u>	<u>123,685</u>
EARNINGS PER SHARE	7	<u>Rmb0.078</u>	<u>Rmb0.116</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2002 AND 31 DECEMBER 2001

		Unaudited	Audited
		30 June	31 December
		2002	2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
FIXED ASSETS	8	2,706,108	2,684,739
OTHER INVESTMENTS		5,000	—
OTHER ASSETS	9	200,786	134,038
CURRENT ASSETS			
Inventories		824,583	739,677
Trade and other receivables	10	517,580	425,646
Pledged bank deposit		3,000	3,000
Bank balances and cash		245,566	319,374
		<u>1,590,729</u>	<u>1,487,697</u>
CURRENT LIABILITIES			
Trade and other payables	11	1,163,269	953,934
Income tax payable		14,314	1,538
Short-term bank loans	12	598,900	566,200
Current portion of long-term liabilities	13	99,948	174,284
		<u>1,876,431</u>	<u>1,695,956</u>
NET CURRENT LIABILITIES		<u>(285,702)</u>	<u>(208,259)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,626,192</u>	<u>2,610,518</u>
Financed by:			
SHARE CAPITAL		1,063,944	1,063,944
RESERVES		625,089	625,089
RETAINED PROFITS		426,929	344,191
PROPOSED DIVIDEND		—	31,918
SHAREHOLDERS' FUNDS		<u>2,115,962</u>	<u>2,065,142</u>
MINORITY INTERESTS		138,900	142,615
LONG-TERM LIABILITIES	13	371,330	402,761
		<u>2,626,192</u>	<u>2,610,518</u>

Tang Min Wei
Director

Zeng Chao Bi
Director

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Unaudited	
	As restated	
	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	209,830	200,881
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(180,953)	(178,841)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(102,685)	(57,797)
DECREASE IN BANK BALANCES AND CASH	(73,808)	(35,757)
BANK BALANCES AND CASH AT 1 JANAURY	319,374	332,289
BANK BALANCES AND CASH AT 30 JUNE	<u>245,566</u>	<u>296,532</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Unaudited			Total <i>Rmb'000</i>
	Share	Reserves <i>Rmb'000</i>	Retained	
	capital <i>Rmb'000</i>		profits <i>Rmb'000</i>	
At 1 January 2001	1,063,944	594,628	231,217	1,889,789
Profit for the period	—	—	123,685	123,685
2000 final dividend paid	—	—	(31,918)	(31,918)
	<u>1,063,944</u>	<u>594,628</u>	<u>322,984</u>	<u>1,981,556</u>
At 30 June 2001	<u>1,063,944</u>	<u>594,628</u>	<u>322,984</u>	<u>1,981,556</u>
At 1 January 2002	1,063,944	625,089	376,109	2,065,142
Profit for the period	—	—	82,738	82,738
2001 final dividend paid	—	—	(31,918)	(31,918)
	<u>1,063,944</u>	<u>625,089</u>	<u>426,929</u>	<u>2,115,962</u>
At 30 June 2002	<u>1,063,944</u>	<u>625,089</u>	<u>426,929</u>	<u>2,115,962</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed interim accounts (the “condensed interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

The condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 December 2001.

The accounting policies and methods of computation used in the preparation of the condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

- SSAP 1 (revised) : Presentation of financial statements
- SSAP 15 (revised) : Cash flow statements
- SSAP 25 (revised) : Interim financial reporting
- SSAP 34 : Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group’s financial results for the six months ended 30 June 2002.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of steel products. An analysis of the Group's turnover is as follows:

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales of steel products	1,655,632	1,721,541
Other sales	159,185	160,163
	1,814,817	1,881,704

No business segment information is presented as over 90% of the Group's turnover and operating profit are earned from sales of steel and its by-products.

No geographical segment information is presented as all of the Group's turnover and operations in the first half of 2002 (2001: no export sales) were earned within the PRC, and all assets of the Group are located in the PRC.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Crediting		
Net exchange gain	—	37
Write back of provision for doubtful debts	5,579	—
Gain on disposal of fixed assets	—	876
	<u> </u>	<u> </u>
Charging		
Depreciation of fixed assets	80,022	79,895
Impairment of fixed assets	—	26,420
Amortisation of relining cost of blast furnaces	8,649	6,541
Staff costs (including directors' emoluments) (note 4)	174,070	151,007
Operating leases of land and buildings	7,921	7,316
Provision for slow-moving inventories	—	29,823
Provision for doubtful debts	—	26,111
Loss on disposal of fixed assets	131	—
	<u> </u>	<u> </u>

4. STAFF COSTS

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Wages and salaries	119,419	105,940
Retirement benefit costs		
—defined contribution plans (note 15(h))	27,145	23,099
Other social expenses (note 15(h))	27,506	21,968
	<u> </u>	<u> </u>
	<u>174,070</u>	<u>151,007</u>

5. TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong for the six months ended 30 June 2002 (2001: nil).

In accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7 December 1998 and the tax registration certificate received by the Company on 31 August 1999, the Company's status has been changed to a joint stock limited company with foreign investment. In accordance with Article 8 of the "Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises", enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ending 31 December 2002 is the Company's third profitable year after the change; income tax has been provided at 50% of the standard income tax rate (i.e. 12%) on its estimated taxable income for the six months ended 30 June 2002 (2001: nil).

In accordance with the relevant regulations, the subsidiary of the Company, Chongqing Hengda Steel Industrial Co., Ltd ("Hengda"), is also qualified as a foreign investment production enterprise following the change in the Company's status, and is therefore entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ending 31 December 2002 is Hengda's fourth profitable year after the change. No income tax was provided for the period as Hengda has no taxable profits for the period (2001: nil).

6. DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2002 (2001: nil).

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of Rmb82,738,000 (2001: Rmb123,685,000) and 1,063,944,000 (2001: 1,063,944,000) shares in issue during the period.

8. FIXED ASSETS

	<i>Rmb'000</i>
Net book value at 1 January 2002	2,684,739
Additions	114,399
Disposals	(13,008)
Depreciation charge	(80,022)
Net book value at 30 June 2002	<u>2,706,108</u>

As at 30 June 2002, the net book value of fixed assets of the Group pledged as security for the Group's bank loans amounted to Rmb312,413,000 (31 December 2001: Rmb321,689,000).

9. OTHER ASSETS

	<i>Rmb'000</i>
Net book value at 1 January 2002	134,038
Additions	75,397
Amortisation charge	(8,649)
Net book value at 30 June 2002	<u>200,786</u>

10. TRADE AND OTHER RECEIVABLES

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables (note (a))	267,998	253,157
Amounts due from fellow subsidiaries (note (b))	152,632	118,888
Prepayments and deposits	73,214	41,403
Other receivables	23,736	12,198
	<u>517,580</u>	<u>425,646</u>

10. TRADE AND OTHER RECEIVABLES (Cont'd)

- (a) Included in trade receivables are Rmb1,527,587 (31 December 2001: Rmb3,209,000) due from certain enterprises owned by independent third parties but managed by Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") pursuant to management contracts entered into with each of these enterprises, and Rmb1,351,975 (31 December 2001: Rmb36,000) due from fellow subsidiaries.

The Group normally requires its new customers to make advanced payments before delivery is made. For other customers, the Group normally offers a 3-month credit period.

The ageing analysis of trade receivables as at 30 June 2002 is analysed as follows:

	30 June	31 December
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 3 months	218,503	155,731
Between 3 months and 1 year	36,434	85,381
Between 1 and 2 years	8,218	6,200
Between 2 and 3 years	4,843	5,845
	267,998	253,157
	267,998	253,157

- (b) Amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

11. TRADE AND OTHER PAYABLES

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade payables (note (a))	877,031	709,985
Advances from customers	101,265	62,697
Amounts due to Holding Company and fellow subsidiaries (note (b))	18,164	2,326
Other payables	72,060	67,664
Value added tax and sundry taxes payable	94,749	111,262
	<u>1,163,269</u>	<u>953,934</u>

- (a) The ageing analysis of trade payables as at 30 June 2002 is analysed as follows:

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 6 months	441,171	434,682
Between 6 months and 1 year	415,893	227,232
Between 1 and 2 years	1,997	3,772
Between 2 and 3 years	1,257	2,840
Over 3 years	16,713	41,459
	<u>877,031</u>	<u>709,985</u>

- (b) Amounts due to the Holding Company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

12. SHORT-TERM BANK LOANS

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 15)	200,330	210,730
Unsecured bank loans	398,570	355,470
	<u>598,900</u>	<u>566,200</u>

13. LONG-TERM LIABILITIES

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 15)	340,000	318,000
Unsecured bank loans	81,330	120,000
	<u>421,330</u>	<u>438,000</u>
Amount due to Holding Company	49,948	139,045
	<u>471,278</u>	<u>577,045</u>
Less: Amounts due within one year included under current liabilities		
– Bank loans	(50,000)	(75,000)
– Amount due to Holding Company	(49,948)	(99,284)
	<u>(99,948)</u>	<u>(174,284)</u>
	<u>371,330</u>	<u>402,761</u>

13. LONG-TERM LIABILITIES (Cont'd)

The maturity of the long-term bank loans is as follows:

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	50,000	75,000
In the second year	145,000	108,000
In the third to fifth years inclusive	226,330	255,000
	<u>421,330</u>	<u>438,000</u>

The amount due to the Holding Company is unsecured, interest-free and repayable on demand commencing 12 August 1998 with annual repayments between 12 August 1998 and 11 August 2003 being limited to a maximum of 20% of the principal amount of Rmb496,419,000.

14. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

At 30 June 2002, the Group had capital commitments in respect of construction and purchase of fixed assets as follows:

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for	79,470	114,560
Authorised but not contracted for	6,310	27,480
	<u>85,780</u>	<u>142,040</u>

14. COMMITMENTS AND CONTINGENCIES (Cont'd)

(b) Operating lease commitments

At 30 June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30 June 2002	31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	14,922	14,922
In the second to fifth years	52,772	52,772
After the fifth year	528,819	535,416
	<u>596,513</u>	<u>603,110</u>

Included in the above operating lease commitments are commitments of the Group in respect of the land under operating lease agreements with the Holding Company expiring in approximately 50 years commencing from August 1997. At 30 June 2002, the Group had future aggregate minimum lease payments under such operating leases of approximately Rmb594,784,000 (31 December 2001: Rmb601,381,000).

(c) Contingent liabilities

At 30 June 2002, the Group had no contingent liabilities (31 December 2001: nil).

15. RELATED PARTY TRANSACTIONS

In 1998, the Holding Company pledged 650,000,000 State-owned shares of the Company to a bank as security for facilities made available to the Group by the bank up to a maximum amount of Rmb650,000,000 during the period from 12 October 1998 to 12 October 2003. As at 30 June 2002, these facilities were utilised to the extent of short-term and long-term loans of Rmb197,330,000 (31 December 2001: Rmb210,730,000) and Rmb165,000,000 (31 December 2001: Rmb125,000,000) respectively.

15. RELATED PARTY TRANSACTIONS (Cont'd)

In addition to the above, short-term and long-term bank loans of the Group at 30 June 2002 of Rmb180,670,000 (31 December 2001: Rmb302,270,000) and Rmb70,000,000 (31 December 2001: Rmb70,000,000) respectively were guaranteed by the Holding Company.

Other than the transactions described above, the following is a summary of the significant transactions with the Holding Company and fellow subsidiaries entered into by the Group on normal commercial terms during the period:

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Income		
Sales to fellow subsidiaries (note (a))	360,081	394,607
Fees received for supporting services (note (b))	462	324
Expenditure		
Fees paid for supporting services (note (c))	24,191	20,470
Purchase of raw materials and spare parts (note (d))	283,541	255,581
Purchase of fixed assets (note (e))	32,192	20,655
Rental for land leases (note (f))	6,600	6,600
Rental for office premises (note (g))	1,151	—
Retirement benefit costs paid through the Holding Company (note (h))	27,145	23,099
Social welfare expenses paid through the Holding Company (note (h))	27,506	21,968
	<u>27,506</u>	<u>21,968</u>

(a) Sales to fellow subsidiaries were made at prices determined by reference to those charged to and contracted with other third party customers of the Group.

(b) Fees received for supporting services mainly represent fees charged to the Holding Company and fellow subsidiaries for internal railway transportation services at prices determined by reference to those charged to and contracted with other third party customers of the Group.

15. RELATED PARTY TRANSACTIONS (Cont'd)

- (c) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import agency services provided by the Holding Company and fellow subsidiaries. These services were charged at prices determined by reference to market prices.
- (d) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (e) Purchase of fixed assets was made at prices determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (f) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Group and the Holding Company.
- (g) Rental expenses for office premises were determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (h) Retirement benefit costs and social welfare expenses were paid through the Holding Company. No handling fee was charged by the Holding Company.