

II. Interim Financial Report (unaudited)

A. INTERIM FINANCIAL REPORT PREPARED IN ACCORDANCE WITH IAS 34 INTERIM FINANCIAL REPORTING

1. Income Statement (unaudited) for the six months ended 30 June 2001

		Six months ended 30 June	
		2001	2000
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	2	4,737,173	4,318,777
Cost of sales		(4,261,394)	(3,866,864)
Gross profit		475,779	451,913
Other operating income		14,639	9,456
Distribution and other operating expenses		(71,617)	(76,578)
Administrative expenses		(98,659)	(57,879)
Profit from operations		320,142	326,912
Net financing income		5,576	7,808
Profit from ordinary activities before taxation	3	325,718	334,720
Income tax expenses	4	(128,453)	(110,458)
Profit attributable to shareholders		197,265	224,262
Interim dividend	5	-	-
Earnings per share	6		
- Basic		Rmb0.067	Rmb0.089
- Diluted		Rmb0.067	Rmb0.085

2. Balance Sheet at 30 June 2001 (unaudited)

		At 30	At 31
		June 2001	December 2000
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current assets			
Property, plant and equipment		3,447,939	3,633,942
Construction in progress	7	1,354,047	901,039
Deferred tax assets		33,583	29,888

		4,835,569	4,564,869
Current assets			
Inventories		845,360	767,229
Amounts due from ultimate holding company and fellow subsidiary		328,685	265,719
Trade receivables	8	93,347	162,158
Prepayments, deposits and other receivables		95,811	119,481
Bills receivable	9	1,899,765	1,323,298
Deposits with banks		238,000	657,205
Cash and cash equivalents	10	1,829,208	1,627,239
		5,330,176	4,922,329
Current liabilities			
Bills payable	11	904,719	718,794
Trade payables	12	200,600	243,667
Income tax payable		41,582	40,972
Amount due to ultimate holding company		240,000	120,000
Dividend payable		132,048	-
Other payables		1,362,898	890,729
		2,881,847	2,014,162
Net current assets		2,448,329	2,908,167
Total assets less current liabilities		7,283,898	7,473,036
Non-current liabilities			
Convertible debentures		35,296	133,240
Amount due to ultimate holding company		-	120,000
		35,296	253,240
NET ASSETS		7,248,602	7,219,796
SHAREHOLDERS' FUNDS			
Share capital	13	2,951,689	2,917,943
Reserves	14	4,296,913	4,301,853
		7,248,602	7,219,796

3. Statement of Changes in Equity (unaudited) for the six months ended 30 June 2001

Share	Share	Statutory surplus	Statutory public welfare	Convertible debenture	Hedging	Retained
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	capital (note 13) Rmb'000	premium Rmb'000	reserve Rmb'000	fund Rmb'000	reserve Rmb'000	reserve Rmb'000	earnings Rmb'000	Total Rmb'000
At 1 January 2000	2,509,000	1,999,939	92,573	92,573	-	-	660,555	5,354,640
Net profit for the period	-	-	-	-	-	-	224,262	224,262
At 30 June 2000	2,509,000	1,999,939	92,573	92,573	-	-	884,817	5,578,902
At 1 January 2001	2,917,943	2,953,619	141,548	141,548	11,138	-	1,054,000	7,219,796
Net profit for the period	-	-	-	-	-	-	197,265	197,265
Net exchange difference on hedged transactions recognised	-	-	-	-	-	(6,816)	-	(6,816)
Share issued upon conversion of convertible debentures	33,746	79,750	-	-	(13,682)	-	-	99,814
Final dividend - 2000 (note 5)	-	-	-	-	-	-	(265,490)	(265,490)
Deferred tax released upon conversion of convertible debentures	-	-	-	-	4,033	-	-	4,033
At 30 June 2001	2,951,689	3,033,369	141,548	141,548	1,489	(6,816)	985,775	7,248,602

4. Condensed Cash Flow Statement (unaudited) for the six months ended 30 June 2001

	Six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Cash flows from operating activities	364,805	682,585
Cash flows from investing activities	(29,394)	(658,673)
Cash flows from financing activities	(133,442)	1,360,452
Net increase in cash and cash equivalents	201,969	1,384,364
Cash and cash equivalents at 1 January	1,627,239	995,815

Cash and cash equivalents at 30 June	1,829,208	2,380,179
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**5. Notes on the Interim Financial Report (unaudited)
For the six months ended 30 June 2001
(Expressed in Renminbi)**

1 Basis of preparation

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 Interim Financial Reporting adopted by the International Accounting Standards Board.

The Company also prepares an interim financial report in accordance with the PRC accounting rules and regulations. A reconciliation of the Company's profit attributable to shareholders and the shareholders' funds under IAS and the PRC accounting rules and regulations is presented in section C.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report, except that the accounting policy on the hedging of firm commitments and forecasted transactions has been revised as a result of the adoption of IAS 39 Financial Instruments: Recognition and Measurement with effect from 1 January 2001. According to IAS 39, retrospective application is not permitted. The revised accounting policy is as follows:

Hedging of firm commitments and forecasted transactions

Where a financial instrument hedges the variability in cash flows of a firm commitment or a forecasted transaction, any resultant gain or loss on the effective part of the financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Any gain or loss of the ineffective part is recognised in the income statement.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the 2000 annual accounts.

2 Turnover

The Company's principal activities are the production and sales of steel products.

Turnover represents the aggregate net invoiced value of goods sold, after allowances for

goods returned, trade discounts, value-added tax and sales surtaxes. All of the Company's operations are conducted in the PRC.

A geographical analysis of turnover is as follows:

	Six months ended 30 June	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Domestic - PRC	4,635,734	4,093,747
Export		
South Korea	34,860	37,938
United States	19,726	162,111
Taiwan	32,032	-
Others	14,821	24,981
	4,737,173	4,318,777

3 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest and other borrowing costs	10,455	6,000
Interest income	(16,716)	(13,920)
Cost of inventories	3,534,152	3,121,124
Depreciation	176,253	125,114
Loss on disposal of fixed assets	8,654	25

4 Taxation

Taxation in the income statement represents:

	Six months ended 30 June	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Provision for PRC income tax	128,115	114,080
Deferred taxation	338	(3,622)
	128,453	110,458

The provision for PRC income tax is calculated at 33% (2000: 33%) of the estimated assessable profits for the period determined in accordance with relevant income tax rules and regulations in the PRC.

The Company is in the process of seeking an approval from the PRC Ministry of Finance that the water and electricity use rights with a total carrying value of Rmb112,915,000 as at 31 December 2000 in the accounts prepared under the PRC accounting rules and regulations may continue to be treated as intangible assets under new PRC "Enterprises Accounting Regulations" which became effective from 1 January 2001. If the Company fails to obtain the approval, the water and electricity use rights would have to be retrospectively de-recognised in the accounts prepared under the PRC accounting rules and regulations and the related tax benefits would no longer exist. Under such circumstances, the related deferred tax assets of Rmb36,924,000 as at 30 June 2001 in the accounts prepared under IAS would have to be written off. This would increase the income tax expense and reduce the profit attributable to shareholders by Rmb36,924,000 for the six months ended 30 June 2001.

5 Dividends

A final dividend of Rmb 9 cents per share in respect of the financial year 2000 was approved during the period (financial year 1999: nil).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: nil).

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb197,265,000 (2000: Rmb224,262,000) and a weighted average number of shares in issue during the period of 2,939,484,359 (2000: 2,509,000,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb197,265,000 (2000: Rmb228,282,000) and a weighted average number of shares of 2,951,380,419 (2000: 2,696,312,687) after adjusting for the effects of conversion of remaining convertible debentures.

7 Construction in progress

	At 30	At 31
	June 2001	December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Construction of New Steel		
Smelting Plant	272,191	226,650
Combined pickling and continuous		
rolling line	644,781	644,749
Production line of galvanised steel		
strips and sheets	5,920	931

Upgrade of Large Section Plant	165,247	-
Improvement projects	265,908	28,709
	1,354,047	901,039

8 Trade receivables

Sales are generally on a cash basis. Subject to negotiation, credit is only available for certain major customers with well-established trading records.

The ageing analysis of the trade receivables is as follows:

	At 30 June 2001	At 31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Less than 3 months overdue	93,065	161,030
More than 3 months overdue but less than 12 months overdue	282	1,128
	93,347	162,158

9 Bills receivable

All bills receivable are due within 6 months.

10 Cash and cash equivalents

	At 30 June 2001	At 31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Bank balances	915,788	1,172,418
Deposits with banks with an initial term of less than three months	913,420	454,821
Cash and cash equivalents	1,829,208	1,627,239

11 Bills payable

All bills payable are due within 6 months.

12 Trade payables

The ageing analysis of the trade payables is as follows:

	At 30 June 2001	At 31 December 2000
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	<i>Rmb'000</i>	<i>Rmb'000</i>
Due on demand	186,014	194,454
Due within three months	14,586	49,213
	200,600	243,667

13 Share capital

	At 30 June 2001	At 31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
742,688,960 (2000:708,943,331) A shares of Rmb1 each	742,689	708,943
890,000,000 H shares of Rmb1 each	890,000	890,000
	2,951,689	2,917,943

During the period, 33,745,629 (financial year 2000:408,943,331) A shares were issued on the conversion of convertible debentures with total face value of Rmb111,215,000 (financial year 2000: Rmb1,349,528,000).

All the State-owned legal person, A and H shares rank pari passu in all material respects.

14 Reserves

No transfer to the statutory surplus reserve nor the statutory public welfare fund has been made during the period. According to the Articles of Association of the Company, any transfer shall be proposed by the Board and approved by the shareholders at the annual general meeting.

15 Commitments

As at 30 June 2001, the Company had the following capital commitments:

	At 30 June 2001	At 31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Authorised and contracted for	1,279,811	279,179

Authorised but not contracted for	2,668,484	1,646,313
	3,948,295	1,925,492

16 Related party transactions

Details of the related party transactions are presented in section B note 17. The financial data presented are the same as those prepared under IAS.

B. INTERIM FINANCIAL REPORT PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

1. Balance Sheet at 30 June 2001 (unaudited)

	<i>Note</i>	30 June 2001 Rmb'000	31 December 2000 Rmb'000
Assets			
Current assets			
Cash at banks and in hand		2,067,208	2,284,444
Trade receivables	2	93,347	162,158
Other receivables	3	84,538	106,009
Bills receivable	4	1,899,765	1,323,298
Prepayments	5	339,958	276,169
Inventories	6	845,360	767,229
Deferred expenses		-	
	3,022		
Total current assets		5,330,176	4,922,329
Fixed assets			
Fixed assets, at cost		5,455,380	5,470,457
Less: Accumulated depreciation		(2,336,518)	(2,169,126)
Net book value of fixed assets		3,118,862	3,301,331
Construction in progress	7	1,354,700	895,924
Total fixed assets		4,473,562	4,197,255
Intangible assets	8	440,969	445,526
Total assets		10,244,707	9,565,110
Liabilities and shareholders' funds			
Current liabilities			

Bills payable		904,719	718,794
Trade payables		200,600	243,667
Receipts in advance	9	1,155,000	581,308
Accrued payroll		39,589	23,364
Staff welfare payable		7,927	5,087
Dividends payable		132,048	262,615
Taxes payable		53,139	144,156
Other payables		148,688	176,357
Long-term liabilities due within one year	10	240,000	120,000
Total current liabilities		2,881,710	2,275,348
Long-term liabilities			
Long-term loan	10 120,000	-	
Convertible debentures		39,394	151,901
Total liabilities		2,921,104	2,547,249
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Shareholders' funds			
Share capital		2,951,689	2,917,943
Capital surplus		3,180,897	3,102,606
Surplus reserves		283,096	283,096
including: statutory public welfare fund		141,548	141,548
Undistributed profits		907,921	714,216
Total shareholders' funds		7,323,603	7,017,861
Total liabilities and shareholders' funds		10,244,707	9,565,110

**2. Income Statement and Profit Appropriation Statement (unaudited)
for the six months ended 30 June 2001**

<i>Note</i>	1 January to 30 June 2001 <i>Rmb'000</i>	1 January to 30 June 2000 <i>Rmb'000</i>
Income from principal operations	4,747,115	4,326,805
Less: Cost of sales	4,262,417	3,855,886
Business tax and surcharges	9,942	8,028

Profit from principal operations		474,756	462,891
Add: Other operating profit	11	14,593	9,306
Less: Distribution and other operating expenses		71,617	76,578
Administrative expenses		87,962	55,198
Add: Financial income	12	5,576	7,808
Operating profit		335,346	348,229
Add: Non-operating income		46	150
Less: Non-operating expenses	13	10,697	2,681
Total profit	324,695	345,698	
Less: Income tax expense	14	128,115	114,080
Net profit	196,580	231,618	
A. Net profit		196,580	231,618
Add: Undistributed profits at the beginning of the year		714,216	585,032
B. Distributable profit		910,796	816,650
Less: Transfer to statutory surplus reserve	15	-	-
Transfer to statutory public welfare fund	15	-	-
C. Profits distributable to shareholders		910,796	816,650
Less: Transfer to discretionary surplus reserve		-	-
Dividends	16	2,875	-
D. Undistributed profits		907,921	816,650

3. Cash Flow Statement (unaudited) for the six months ended 30 June 2001

	1 January to 30 June 2001
	<i>Rmb'000</i>
	<i>Note</i>
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from sales of goods	5,024,973
Sub-total of cash inflows	5,024,973
Cash paid for goods purchased	(3,621,531)
Cash paid to and on behalf of employees	(68,676)

Taxes paid		(346,248)
Cash paid in relation to other operating activities		(616,977)
Sub-total of cash outflows		(4,653,432)
NET CASH FLOWS ARISING FROM OPERATING ACTIVITIES	(a)	371,541
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of fixed assets, intangible assets and other long-term assets		2,038
Cash from interest received		13,106
Sub-total of cash inflows		15,144
Decrease of time deposits		419,205
Cash paid for acquisition of fixed assets		(45)
Cash paid for construction in progress, intangible assets and other assets		(450,591)
Sub-total of cash outflows		(31,431)
NET CASH FLOWS ARISING FROM INVESTING ACTIVITIES		(16,287)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid in relation to interest and dividend		(144,808)
Sub-total of cash outflows		(144,808)
NET CASH FLOWS ARISING FROM FINANCING ACTIVITIES		(144,808)
Effect of foreign exchange rates		(8,477)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(b)	201,969

**3. Cashflow Statement (Supplementary Information) (unaudited)
For the six months ended 30 June 2001**

**1 January to
30 June 2001**
Rmb'000

(a) Reconciliation of net profit to cash flow from operating activities:

Net profit	196,580
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Add: Depreciation of fixed assets	172,719
Amortisation of intangible assets	4,557
Loss on disposals of fixed assets	8,654
Increase in inventories	(78,131)
Financial income	(5,576)
Increase in operating receivables	(544,191)
Increase in operating payables	616,929
Net cash flows arising from operating activities	371,541

(b) Cash and cash equivalents

Cash and cash equivalents at the end of the period	1,829,208
Less: Cash and cash equivalents at the beginning of the period	(1,627,239)
Net increase in cash and cash equivalents	201,969

**4. Notes on the Interim Financial Report (unaudited)
For the six months ended 30 June 2001
(Expressed in Renminbi)**

1. Significant accounting policies

The significant accounting policies adopted in the preparation of the accounts conform with the Enterprises Accounting Standards and Enterprises Accounting Regulations effective from 1 January 2001 issued by the PRC Ministry of Finance and other relevant regulations.

2. Trade receivables

	30 June 2001 Rmb'000	Percentage	Provision for bad debts Rmb'000	31 December 2000 Rmb'000	Percentage	Provision for bad debts Rmb'000
Within one year	93,347	100%	-	162,158	100%	-

Trade receivables at 30 June 2001 comprise mainly Rmb93,065,000 for the sale of steel rails due from China Railway Material Shenyang Co., and sales proceeds of Rmb282,000 due from other enterprises. All of these amounts are aged within one year. The Board considers that no provision is necessary.

The five largest debtors are as follows:

Name of Debtors	Amount Rmb'000	Period	Nature
China Railway Material Shenyang Co.	93,065	May 2001	Sales of goods
Heilongjiang Materials Trade Centre	92	July 2000	Sales of goods

China Water Conservancy And Electric Power Equipment Co. Xian Branch	42	December 2000	Sales of goods
Shunde Lecong Shunlian Steel Trade Co., Ltd.	36	July 2000	Sales of goods
Minqi Industry Engineering Co.	30	July 2000	Sales of goods

93,265

No balance is due from a shareholder who holds 5% or more of the Company's shares.

3. Other receivables

Other receivables mainly include export tax refunds, time deposits interest, transportation expenses paid on behalf of customers, advances to employees and other receivables.

The ageing analysis of other receivables is as follows:

	30 June	Percentage	31 December	Percentage
	2001		2000	
	<i>Rmb'000</i>		<i>Rmb'000</i>	
Within one year	83,557	99%	102,918	97%
Between one to two years	118	-	2,169	2%
Between two to three years	28	-	922	1%
Over three years	856	1%	21	-
Total	84,559	100%	106,030	100%
Less: Provision for bad debts	21		21	
Other receivables, net	84,538		106,009	

The provision for bad debts in respect of other receivables amounted to Rmb21,000. Management consider that most of the other receivables could be recovered in the near future, and debtors have the ability to repay the debts. Hence, the level of bad debt provision is less than 5%.

The five largest debtors are as follows:

Name of Debtors	Amount	Period	Nature
	<i>Rmb'000</i>		
Anshan State Tax Bureau	69,638	2001	Export tax refund
China Insurance Company	835	1997	Insurance refund
Angang Construction and Installation Company	113	2001	Construction fee
China Erzhong Group Company Limited	100	2001	Construction fee

70,755

No balance is due from a shareholder who holds 5% or more of the Company's shares.

4. Bills receivable

At 30 June 2001, the Company had outstanding bills receivable of Rmb1,899,765,000 issued by banks, which are due before 31 December 2001. All bills receivable are not secured, and the bills receivable due from Anshan Iron and Steel Group Complex ("Angang Holding") and Angang New Steel and Iron Company Limited ("ANSI") amounted to Rmb470,405,000.

5. Prepayments

	30 June 2001	31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Prepayments to independent third parties on spare parts	11,271	10,450
Amounts due from and prepaid to Angang Holding and ANSI	328,687	265,719
Total	339,958	276,169

The ageing analysis of the prepayment to independent third parties on spare parts is as follows:

	30 June 2001	Percentage	31 December 2000	Percentage
	<i>Rmb'000</i>		<i>Rmb'000</i>	
Within one year	10,271	91%	9,435	90%
Between one to two years	12	-	249	3%
Between two to three years	222	2%	-	-
Over three years	766	7%	766	7%
Total	11,271	100%	10,450	100%

All of the amounts due from and prepaid to Angang Holding and ANSI are aged within one year.

The five largest balances of prepayments are as follows:

Name of Debtors	Amount	Period	Nature
	<i>Rmb'000</i>		

Angang Holding and ANSI materials	328,687	2001 Prepayment for
		and export
Fushun Special Steel Co., Inc. (Group) materials	2,469	2001 Prepayment for
Xian Metallurgy Mechanical Plant spare parts	2,053	2001 Prepayment for
Beijing Shouan Industry Fire Protection Engineering Co., Ltd. spare parts	780	2001 Prepayment for
Hengyang Coloured Metallurgy Plant spare parts	533	2001 Prepayment for
	334,522	

Angang Holding holds more than 5% of the Company's shares.

6. Inventories

	30 June 2001	31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Raw materials	243,127	183,287
Work in progress	84,532	105,429
Finished goods	132,883	138,720
Spare parts	462,738	417,713
Total	923,280	845,149
Less: Provision for spare parts	77,920	77,920
Inventories, net	845,360	767,229

The cost and the net realisable value of each item of the inventories at 30 June 2001 have no material differences compared with that at 31 December 2000. No provision is made during the period.

7. Construction in progress

Balance at 1 January 2001	Additions during the period	Transferred to fixed assets during the period	Balance at 30 June 2001	Source of fund	Project progress
<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>		

Construction of New Steel Smelting Plant	226,650	45,541	-	272,191	Equity finance	76.3%
Production line of galvanised steel strips and sheets	931	4,989	-	5,920	Equity finance	0.1%
Combined pickling and continuous rolling line	639,634	5,800	-	645,434	Equity finance	92.2%
Upgrade of Large Section Plant	-	165,247	-	165,247	Operating cash	85.9%
Upgrade of the second cold rolling system	-	95,250	-	95,250	Debt finance	5.3%
Renovation of No.2 and No.3 cutting lines	-	33,860	-	33,860	Debt finance	33.9%
Upgrade of Thick Plate Plant	-	2,951	-	2,951	Operating cash	3.0%
Technology renovation	16,042	94,854	(897)	109,999	Operating cash	42.4%
Equipment transformation	12,667	11,181	-	23,848	Operating cash	57.8%
	895,924	459,673	(897)	1,354,700		

8. Intangible assets

Intangible assets of the Company including water and electricity use rights were taken over by the Company from Angang Holding at 8 May 1997 when the Company was established. Intangible assets were carried at Rmb122,734,000 initially. Amortisation of intangible assets is provided on a straight line basis over the use period of 50 years. The net book value of intangible assets were Rmb112,915,000 at 31 December 2000. Management have conducted a review on whether the aforesaid water and electricity use rights may continue to be treated as intangible assets under "Intangible Assets" of the Enterprises Accounting Regulations which has become effective from 1 January 2001. The Company is seeking an approval from the PRC Ministry of Finance in this connection. A reply from the PRC Ministry of Finance is expected before 31 December 2001. Prior to that, the Company will continue to treat them as intangible assets.

If an adjustment is required to be made in respect of the aforesaid intangible assets, the capital reserve would be reduced by Rmb122,734,000, the opening balance of the undistributed profits would be reduced by Rmb9,819,000 and the net book value of intangible assets would be reduced by Rmb112,915,000 accordingly.

9. Receipts in advance

	30 June 2001	31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Receipts in advance	1,155,000	581,308
	1,155,000	581,308

At 30 June 2001, the balance of receipts in advance increased by Rmb573,692,000 compared with that at 31 December 2000. The increase is mainly attributable to the increase in purchase orders received.

10. Loan

	30 June 2001	31 December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Long-term loan		
Appropriation to Angang Holding	240,000	240,000
Less: current portion of long-term loan	240,000	120,000
	-	120,000

At 31 December 1996, the appropriation to Angang Holding amounted to Rmb600,000,000. According to the agreement entered into with Angang Holding, such amount was being classified as a long-term loan from Angang Holding and repayable with a minimum annual amount of Rmb120,000,000 commencing from 1 January 1998. This long-term loan is interest free.

11. Other operating profit

	1 January to 30 June 2001	1 January to 30 June 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Packaging materials profit	5,908	3,448
Scrap materials and others	8,685	5,858
Total	14,593	9,306

Increase in other operating profit for 2001 is mainly due to the commencement of the operations of the Steel Smelting Plant in the second half of 2000.

12. Financial income

	1 January to 30 June 2001	1 January to 30 June 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest income	16,716	13,920
Less: interest expenses	(10,455)	(6,000)
Exchange gain	163	17
Others	(848)	(129)
Total	5,576	7,808

13. Non-operating expenses

	1 January to 30 June 2001 <i>Rmb'000</i>	1 January to 30 June 2000 <i>Rmb'000</i>
Penalty for excess usage of the railway warehouse	2,033	1,553
Loss on disposal of fixed assets	8,654	25
Others	10	1,103
Total	10,697	2,681

The increase of the Company's non-operating expenses for the six months ended 30 June 2001 compared with that of the same period of 2000 was mainly due to the net loss of Rmb8,654,000 on disposal of fixed assets.

14. Income tax

	1 January to 30 June 2001 <i>Rmb'000</i>	1 January to 30 June 2000 <i>Rmb'000</i>
Income tax	128,115	114,080
	128,115	114,080

The provision for income tax is calculated at 33% (2000: 33%) of the estimated assessable profits for the period determined in accordance with relevant income tax rules and regulations.

15. Reserve fund

According to the Articles of Association of the Company, any transfer shall be proposed by the Board of Directors and approved by the shareholders at the annual general meeting. No transfer to the statutory surplus reserve nor the statutory public welfare fund has been proposed by the Board of Directors during the period.

16. Dividends

The dividends represent the profit distributable to ordinary shareholders on the increased number of shares issued which resulted from the conversion of A share convertible debentures from 1 January 2001 to the closing date of share register.

The Board does not recommend the payment of any interim dividend.

17. Related party transactions

Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relation to the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan, Liaoning Province	Production and sales of steel and metal products, steel filament tubes, and metal structures	Holding company	State-owned	Liu Jie

The registered paid-in capital of Angang Holding at 30 June 2001 was Rmb 10,794,160,000. It holds 44.69% of the Company's shares. There is no change in registered paid-in capital of Angang Holding during the period. The changes of percentage of shares held by Angang Holding are detailed in "Changes in share capital structure" of the interim report.

Related party without controlling interest:

Name of enterprise	Relation to the Company
ANSI	Subsidiary of Angang Holding

On 28 December 2000, Angang Holding, together with China Huarong Assets Management Company Limited and China Xinda Assets Management Company, set up a subsidiary, ANSI. ANSI consists of 24 plants, which were transferred from Angang Holding. ANSI commenced its operation on 1 January 2001. All the raw materials and utilities services, except the staff welfare service, other services and technology licence service, are now provided by ANSI instead of Angang Holding. The Company now sells its finished products to ANSI instead of to Angang Holding.

Angang Holding, ANSI and the Company will sign a Supplemental Supply of Materials and Services Agreement ("the Supplemental Agreement") in the second half of 2001 to revise certain terms as stipulated in the Supply of Materials and Services Agreement ("the Existing Agreement"), signed on 8 May 1997 and revised on 20 March 1999 by Angang Holding and the Company. The Existing Agreement is valid until Supplemental Agreement is signed. Meanwhile, the purchase of raw materials and services from and the sales of products to ANSI from 1 January 2001 complies the Existing Agreement before the Supplemental Agreement has become effective.

These transactions between Angang Holding, ANSI and the Company constitute connected transactions for the Company for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has made an application to the Stock Exchange for a waiver from strict compliance with the announcement/approval of the independent shareholders requirement as required under Chapter 14 of the Listing Rules in respect of these transactions.

Related party transactions with Angang Holding and ANSI:

	1 January to 30 June 2001	1 January to 30 June 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Transactions with ANSI		
Sales	370,973	308,168
Subcontracting fee	32,169	169,218
Sales/return of scrap materials	123,384	84,855
Purchase		
- Raw materials	3,269,994	3,231,323
- Ancillary materials and spare parts	32,687	12,818
Supply of fuel and power	136,130	99,367
Transactions with Angang Holding		
Staff welfare and other services	35,160	26,790
Technology licence fee	-	3,753

- Sales

The Company sold steel products to ANSI. The selling prices were not lower than the average prices charged to independent customers for the preceding month.

- Subcontract

The Company processed molten iron into molten steel on behalf of ANSI. The Company received a sub-contracting fee, which is based on the actual processing cost incurred by the Company with a profit margin of 5 per cent.

- Sales of scrap materials

The Company sold scrap materials to ANSI at average prices charged to independent customers by the Company.

- Purchase of raw materials

The Company purchased its principal raw materials from ANSI at prices no higher than the lowest sales prices charged by ANSI to independent customers and the average sales prices quoted to the Company by five independent suppliers for large quantities.

- Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from ANSI the price of which were based on the average prices of such materials charged by ANSI to

independent customers, market prices or applicable State prices.

- Supply of fuel and utilities

The Company purchased fuel and utilities such as industrial water, recycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, compressed air and steam from Angang Holding at cost.

- Staff welfare and other services

Angang Holding provides staff welfare and other services to the Company including: railway and road transportation services; agency services for the purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul services; design and engineering services, product quality testing and analysis; heating supply for employees' accommodation; newspaper, telephone, fax and other media communication services and staff training. These services are charged either at the applicable State prices, market prices or at cost.

- Technology licence fee

The Company entered into technology licence agreement with Angang Holding under which Angang Holding licensed to the Company patents relating to the production of products in return for an annual licence fee.

Amounts due from or prepaid to Angang Holding and ANSI

The detailed information of amounts due from or prepaid to Angang Holding and ANSI is in note 5.

Loan from Angang Holding

The outstanding loan from Angang Holding amounted to Rmb240,000,000 at 30 June 2001.

The detailed information of loan from Angang Holding is set out in note 10.

Guarantee

The issuance of five-year, A share convertible debentures amounting to Rmb1,500,000,000 on 15 March 2000 was guaranteed by Angang Holding.

18. Capital commitments

The capital commitments of the Company at 30 June 2001 were as follows:

Authorised but not contracted for	Contracted but not provided for	Total
<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>

Construction of New Steel Smelting Plant	346,940	8,627	355,567
Production line of galvanised steel strips and sheets	1,182,210	229,735	1,411,945
Combined pickling and continuous rolling line	53,870	700	54,570
Upgrade of Large Section Plant	2,650	23,973	26,623
Upgrade of the second cold rolling system	951,947	794,343	1,746,290
Renovation of No.2 and No.3 cutting lines	72,000	-	72,000
Upgrade of Thick Plate Plant	27,451	71,349	98,800
Other projects	31,416	151,084	182,500
Total	2,668,484	1,279,811	3,948,295

19. Comparative figures

Certain comparative figures in the 2000 financial report have been reclassified to conform with current period's presentation.

C. DIFFERENCES BETWEEN ACCOUNTS PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS ("IAS") AND PRC ACCOUNTING RULES AND REGULATIONS

	Note	Profit attributable to shareholders		Shareholder's funds	
		1 January to 30 June 2001 Rmb'000	1 January to 30 June 2000 Rmb'000	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000
Accounts prepared under PRC Accounting Rules and Regulations ("PRC accounts")		196,580	231,618	7,323,603	7,017,861
Dividends	(i)	-	-	-	262,615
Intangible assets	(ii)	1,023	1,227	(111,892)	(112,915)
Convertible debentures	(iii)				
- Discount on convertible debentures		-	-	3,961	17,232
- Additional borrowing costs capitalised		-	-	6,163	5,115
Hedging transactions	(iv)	-	-	(6,816)	-
Provisions for major overhaul and fixed assets impairments	(v)	-	(12,205)	-	-
Deferred tax	(vi)	(338)	3,622	33,583	29,888
Accounts prepared under IAS					

("IAS accounts")	197,265	224,262	7,248,602	7,219,796
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Note:

- (i) According to IAS 10, dividends should be recognised as a liability in the period in which they are declared or approved. However, in the PRC accounts, dividends are recognised in the period to which the dividends relate.
- (ii) The intangible assets were injected on the formation of the Company in 1997 by Angang Holding as a result of the reorganisation of Angang Holding. The intangible assets as recognised under PRC accounting rules and regulations were set off against the shareholders' funds as incurred under IAS.
- (iii) The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IAS and PRC accounts.
- (iv) The amount represents the different treatment on exchange differences arising from hedging transactions between the IAS and PRC accounts.
- (v) The amounts represent the different treatment on provisions for major overhaul and fixed assets impairments between the IAS and PRC accounts.
- (vi) Deferred tax is provided on certain IAS adjustments at the tax rate of 33%.