

NOTES TO 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 31st December 2000.

Comparative figures have been reclassified and extended to conform with the requirements of SSAP 1, Presentation of Financial Statements, issued by the Hong Kong Society of Accountants, which was adopted by the Group in preparing its annual accounts for the immediate preceding year.

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 31st December 2000 except that the Group has changed its accounting policy in respect of proposed dividends and disclosure of operating lease commitments, following its adoption of SSAP 9 (revised), Events After the Balance Sheet Date, and SSAP14 (revised), Leases respectively, issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2001.

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 12, opening retained profits at 1st January 2001 have increased by Rmb31,918,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not approved until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 31st December 2000 by Rmb31,918,000 for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 31st December 2000 balance sheet relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

2. TURNOVER AND SEGMENTAL INFORMATION

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

Six months ended 30th June

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Sales of steel products	1,721,541	1,568,818
Other sales	160,163	166,035
	1,881,704	1,734,853

No analysis of operating profit by principal business segment is presented as the amount attributed to the business segment other than the sales of steel products is not significant.

As all of the Group's assets and operations are located in the People's Republic of China (the "PRC"), which is considered as one geographic location in an economic environment with similar risks and returns, no geographical segment information is presented.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Crediting		
Net exchange gains	37	20
Gains on disposal of fixed assets	876	-
Charging		
Depreciation of fixed assets	79,895	74,157
Staff costs (including directors' emoluments)	127,908	95,237
Operating leases of land and buildings	7,316	7,033
Fixed assets impairment loss	26,420	-
Retirement benefit costs	23,099	21,966
Amortisation of relining cost of blast furnaces	6,541	5,249
Provision for slow-moving inventories	29,823	-
Provision for doubtful debts	26,111	14,862
Loss on disposal of fixed assets	-	834

4. TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profit in Hong Kong for the six months ended 30th June 2001 (2000: nil).

In accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to that of the joint stock 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 31st December 2001 is the Company's second profitable year after the change; accordingly, no taxation has been provided in the interim accounts for the six months ended 30th June 2001.

5. DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30th June 2001 (2000: nil).

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb123,685,000 (2000: Rmb23,731,000) and the 1,063,944,000 (2000: 1,063,944,000) shares in issue during the period.

7. FIXED ASSETS

	<i>Rmb'000</i>
Net book amount at 1st January 2001	2,462,840
Additions	162,807
Disposals	(1,263)
Depreciation	(79,895)
Impairment	(26,420)
Net book amount at 30th June 2001	2,518,069

As at 30th June 2001, the net book value of fixed assets of the Group pledged as security for the Group's bank loans amounted to Rmb319,600,000 (31st December 2000: Rmb203,232,000).

8. OTHER ASSETS

	<i>Rmb'000</i>
Net book amount at 1st January 2001	64,605
Additions	19,254
Amortisation	(6,541)
Net book amount at 30th June 2001	77,318

9. TRADE AND OTHER RECEIVABLES

30th June	31st December
2001	2000
<i>Rmb'000</i>	<i>Rmb'000</i>

Trade receivables (note (a))	341,700	362,530
Amounts due from fellow subsidiaries (note (b))	166,545	133,173
Prepayments and deposits	44,988	71,092
Other receivables	17,954	20,360
	571,187	587,155

- (a) Included in the trade receivables are Rmb6,601,000 (31st December 2000: Rmb15,001,000) due from certain enterprises owned by independent third parties (these enterprises are managed by Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") pursuant to management contracts entered into with each of these enterprises), and Rmb1,993,000 (31st December 2000: Rmb20,905,000) 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 30th June 2001 is analysed as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 3 months	277,368	272,393
Between 3 months and 1 year	44,776	36,802
Between 1 and 2 years	11,167	19,214
Between 2 and 3 years	8,389	34,121
	341,700	362,530

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

10. TRADE AND OTHER PAYABLES

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade payables (note (a))	648,604	660,606
Advances from customers	92,635	73,746
Amounts due to the Holding Company and fellow subsidiaries (note (b))	1,409	20,723
Other payables	54,586	29,191
Value added tax and sundry taxes payable	105,725	98,013

902,959 882,279

(a) The ageing analysis of trade payables as at 30th June 2001 is analysed as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 6 months	389,895	360,408
Between 6 months and 1 year	206,869	236,772
Between 1 and 2 years	1,003	3,865
Between 2 and 3 years	975	2,768
Over 3 years	49,862	56,793
	648,604	660,606

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

11. SHORT-TERM BANK LOANS

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 7&15)	256,000	180,000
Unsecured bank loans	72,930	70,630
	328,930	250,630

12. RETAINED PROFITS

	<i>Rmb'000</i>
At 1st January 2000	57,218
Profit attributable to shareholders	198,686
Transfer to statutory common reserve and statutory provident fund	(24,687)
At 31st December 2000, as restated	231,217

Representing:

Retained profits as at 31st December 2000, as previously reported	199,299
2000 final dividend proposed	31,918

	231,217
At 1st January 2001, as previously reported	199,299
Effect of adopting SSAP 9 (revised) (note 1)	31,918
At 1st January 2001, as restated	231,217
Profit attributable to shareholders	123,685
2000 final dividend, paid	(31,918)
At 30th June 2001	322,984

13. LONG-TERM LIABILITIES

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 7&15)	410,000	452,000
Unsecured bank loans	242,270	284,570
	652,270	736,570
Amount due to Holding Company	182,796	202,784
	835,066	939,354
Less: Amounts due within one year included under current liabilities		
Bank loans	(332,270)	(236,570)
Amount due to Holding Company	(79,296)	(99,284)
	(411,566)	(335,854)
	423,500	603,500

At 30th June 2001, the Group's bank loans were repayable as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	332,270	236,570
In the second year	20,000	245,000
In the third to fifth years inclusive	300,000	255,000
	652,270	736,570

The amount due to the Holding Company is unsecured, interest free and repayable on

demand commencing 12th August 1998 with annual repayments between 12th August 1998 and 11th 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 30th June 2001, the Group had capital commitments in respect of the construction and purchase of fixed assets as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for	104,741	48,060
Authorised but not contracted for	92,964	665
	197,705	48,725

(b) Operating lease commitments

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
		<i>(note (ii))</i>
Within one year	13,310	13,310
In the second to fifth years	47,976	47,976
After the fifth year	497,751	503,748
	559,037	565,034

Note:

- (i) Included in the above operating lease commitments, the Group had annual commitments of approximately Rmb11,994,000 (2000: Rmb11,994,000) in respect of the land under operating lease agreements with the Holding Company expiring in approximately 50 years commencing from August 1997.
- (ii) Comparative figures as at 31st December 2000 have been restated to conform with the current period's presentation following the adoption of SSAP14 (revised), Leases, issued by the Hong Kong Society of Accountants
- (c) At 30th June 2001, the Group had no contingent liabilities (31st December 2000: 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 12th October 1998 to 12th October 2003. As at 30th June 2001, these facilities were utilised to the extent of short-term loans and long-term loans of Rmb186,000,000 (31st December 2000: Rmb180,000,000) and Rmb150,000,000 (31st December 2000: Rmb232,000,000) respectively.

In addition to the above, short-term and long-term bank loans of the Group at 30th June 2001 of Rmb70,000,000 (31st December 2000: nil) and Rmb70,000,000 (31st December 2000: Rmb30,000,000) respectively were guaranteed by the Holding Company.

Other than the transactions described above, the Group has, in the normal course of business, entered into transactions with the Holding Company and fellow subsidiaries. The following is a summary of the significant transactions during the period:

	Six months ended 30th June	
	2001	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Income		
Sales to fellow subsidiaries (note (a))	394,607	274,992
Fees received for supporting services (note (b))	324	408
Expenditure		
Fees paid for supporting services (note (c))	20,470	14,500
Purchase of raw materials and spare parts (note (d))	255,581	238,304
Purchase of fixed assets (note (e))	20,655	20,852
Rental for land leases (note (f))	6,600	6,480
Retirement benefits costs paid through the Holding Company (note (g))	23,099	21,966
Social welfare expenses paid through the Holding Company (note (g))	21,968	18,116

- (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 water, electricity, natural gas and internal railway transportation services, the price of which is regulated by the Chongqing government.
- (c) Fees paid for supporting services mainly represent fees charged for environmental,

maintenance, technical, installation and transportation 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 a 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 a 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) Retirement benefit costs and social welfare expenses were paid through the Holding Company. No handling fee was charged by the Holding Company.