

VII. Interim Financial Report (unaudited)

A. Interim Financial Report prepared in accordance with IAS 34 Interim Financial Reporting

Consolidated income statement

for the six months ended 30 June 2002 (unaudited)

		Six months ended 30 June	
		2002	2001
	Note	Rmb'000	Rmb'000 (restated)
Turnover	3	5,012,114	4,737,173
Cost of sales		(4,527,618)	(4,261,394)
Gross profit		484,496	475,779
Other operating income		12,345	14,639
Distribution and other operating expenses		(82,473)	(71,617)
Administrative expenses		(95,102)	(98,659)
Profit from operations		319,266	320,142
Net financing (costs)/income		(4,442)	5,576
Profit from ordinary activities before taxation	4	314,824	325,718
Income tax expense	5	(120,194)	(165,715)
Profit attributable to shareholders		<u>194,630</u>	<u>160,003</u>
Earnings per share	7		
Basic		<u>Rmb 0.066</u>	<u>Rmb 0.054</u>
Diluted		<u>Rmb 0.066</u>	<u>Rmb 0.054</u>

The notes on pages 25 to 33 form part of this interim financial report.

Consolidated balance sheet at 30 June 2002 (unaudited)

		At 30 June 2002	At 31 December 2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Non - current assets			
Property, plant and equipment		3,818,742	4,015,435
Construction in progress	8	1,851,589	1,082,644
Lease prepayments		116,645	117,116
Deferred tax assets		64,467	66,141
		<u>5,851,443</u>	<u>5,281,336</u>
Current assets			
Inventories		984,366	904,213
Amounts due from fellow subsidiaries		644,678	399,668
Trade receivables	9	2,244,119	2,569,147
Prepayments, deposits and other receivables		147,971	186,329
Deposits with banks		—	50,000
Cash and cash equivalents	10	1,060,064	711,229
		<u>5,081,198</u>	<u>4,820,586</u>
Current liabilities			
Trade payables	11	1,788,746	1,397,474
Income tax payable		46,785	126,861
Amount due to ultimate holding company		39,199	167,977
Other payables		841,612	688,339
Dividend payable		236,635	—
		<u>2,952,977</u>	<u>2,380,651</u>
Net current assets		<u>2,128,221</u>	<u>2,439,935</u>
Total assets less current liabilities carried forward		<u>7,979,664</u>	<u>7,721,271</u>

**Consolidated balance sheet at 30 June 2002 (unaudited)
(continued)**

		At 30 June 2002	At 31 December 2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Total assets less current liabilities brought forward		7,979,664	7,721,271
		-----	-----
Non-current liabilities			
Convertible debentures		12,412	17,529
Bank loans	12	700,000	400,000
		-----	-----
		712,412	417,529
		-----	-----
Net assets		7,267,252	7,303,742
		=====	=====
Shareholders' funds			
Share capital	13	2,959,743	2,957,935
Reserves	14	4,307,509	4,345,807
		-----	-----
		7,267,252	7,303,742
		=====	=====

Approved and authorised for issue by the Board of Directors on 19 August 2002.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The notes on pages 25 to 33 form part of this interim financial report.

Consolidated statement of changes in equity

for the six months ended 30 June 2002 (unaudited)

		Share capital	Share premium	Reserves	Retained earnings	Total
	Note	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
		(Note 13)			(restated)	(restated)
At 1 January 2001		2,917,943	2,953,619	294,234	1,054,000	7,219,796
Net profit for the period		—	—	—	160,003	160,003
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	6	—	—	—	(265,490)	(265,490)
Deferred tax released upon conversion of convertible debentures		—	—	4,033	—	4,033
		<u>2,951,689</u>	<u>3,033,369</u>	<u>277,769</u>	<u>948,513</u>	<u>7,211,340</u>
At 30 June 2001						
At 1 January 2002, as previously reported		2,957,935	3,046,099	366,581	1,072,927	7,443,542
Adjustment to land use rights	14	—	—	(151,956)	12,156	(139,800)
		<u>2,957,935</u>	<u>3,046,099</u>	<u>214,625</u>	<u>1,085,083</u>	<u>7,303,742</u>
At 1 January 2002, as reclassified						
Net profit for the period		—	—	—	194,630	194,630
Share issued upon conversion of convertible debentures		1,808	4,136	(582)	—	5,362
Final dividend- 2001	6	—	—	—	(236,635)	(236,635)
Deferred tax released upon conversion of convertible debentures		—	—	153	—	153
		<u>2,959,743</u>	<u>3,050,235</u>	<u>214,196</u>	<u>1,043,078</u>	<u>7,267,252</u>
At 30 June 2002						

The notes on pages 25 to 33 form part of this interim financial report.

Consolidated condensed cash flow statement

for the six months ended 30 June 2002 (unaudited)

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash flows from operating activities	928,800	364,805
Cash flows from investing activities	(760,162)	(29,394)
Cash flows from financing activities	180,000	(133,442)
Net increase in cash and cash equivalents	348,638	201,969
Effect of foreign exchange rates	197	—
Cash and cash equivalents at 1 January	711,229	1,627,239
Cash and cash equivalents at 30 June	<u>1,060,064</u>	<u>1,829,208</u>

The notes on pages 25 to 33 form part of this interim financial report.

Notes on the interim financial report

for the six months ended 30 June 2002 (unaudited)

1 Basis of preparation

This 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 (“IASB”).

The 2001 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the IASB. IFRS includes IAS and interpretations issued and approved by the IASB.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2001 annual financial statements except the following. As described in Note 14, land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the shareholders’ equity as of 1 January 2002. In addition, the accounting policy on valuation of property, plant and equipment has been revised as follows:

Property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

The revaluation of property, plant and equipment will be performed by external qualified valuers on or before 31 December 2002.

1 Basis of preparation (continued)

On 8 February 2002, the Company and Thyssen Krupp Stahl AG jointly established ANSC-TKS Galvanizing Co., Ltd with a registered capital of US\$60,000,000 with each party holding a 50% interest. The accounting policy on investment in jointly controlled entities is stated below.

Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

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 Group since the 2001 annual financial statements.

The Group also prepares an interim financial report which complies with the People's Republic of China ("PRC") Accounting Rules and Regulations. A reconciliation of the Group's results and the shareholders' funds prepared under IFRS and PRC Accounting Rules and Regulations is presented in Section C.

2 Segment reporting

The Group's profits are almost entirely attributable to the production and sale of steel products in the PRC. Accordingly, no segmental analysis is provided.

3 Turnover

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 Group's operations are conducted in the PRC.

3 Turnover (continued)

A geographical analysis of turnover and profit is as follows:

	Six months ended 30 June			
	2002		2001	
	Contribution to profit from operations		Contribution to profit from operations	
	Turnover	operations	Turnover	operations
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Domestic - PRC	4,808,451	306,496	4,635,734	314,914
Export				
— South Korea	50,895	3,191	34,860	1,046
— United States	119,347	7,484	19,726	1,026
— Taiwan	20,592	1,291	32,032	2,563
— Others	12,829	804	14,821	593
	<u>5,012,114</u>	<u>319,266</u>	<u>4,737,173</u>	<u>320,142</u>

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest and other borrowing costs	17,866	11,947
Less: Amount capitalised as construction in progress	<u>(11,275)</u>	<u>(1,492)</u>
Net interest expense	6,591	10,455
Interest income	(2,856)	(16,716)
Depreciation	<u>207,115</u>	<u>172,719</u>

5 Income tax expense

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
		<i>(restated)</i>
Provision for PRC income tax	118,367	128,453
Deferred taxation	1,827	37,262
	<hr/>	<hr/>
	120,194	165,715
	<hr/> <hr/>	<hr/> <hr/>

The provision for PRC income tax is calculated at 33% (2001: 33%) of the estimated assessable profits for the period determined in accordance with relevant income tax rules and regulations in the PRC.

Pursuant to the requirement under the PRC “Accounting Regulations for Business Enterprises”, which became effective from 1 January 2001, the water and electricity use rights, which were capitalised as intangible assets with a total carrying value of Rmb112,915,000 as at 31 December 2000 would have to be retrospectively de-recognised in the financial statements prepared under the PRC Accounting Rules and Regulations and the related tax benefits of Rmb37,262,000 would no longer exist.

Upon the issuance of interim financial report for the six months ended 30 June 2001, the Company was in the process of seeking an approval from the PRC Ministry of Finance to continue to treat the water and electricity use rights as intangible assets under the PRC “Accounting Regulations for Business Enterprises”. The proposed treatment was not approved by the Ministry of Finance and the deferred tax assets of Rmb37,262,000 as at 31 December 2000 were written off in the second half of 2001. The comparative figures of the interim financial report have been restated to this effect.

6 Dividend

A final dividend of Rmb8 cents per share totalling Rmb236,635,000 in respect of the financial year 2001 was approved during the period (Financial year 2000: Rmb9 cents per share totalling Rmb265,490,000).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb194,630,000 (2001: Rmb160,003,000 (restated)) and a weighted average number of shares in issue during the period of 2,958,662,764 (2001: 2,939,484,359).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb194,630,000 (2001: Rmb160,003,000 (restated)) and a weighted average number of shares of 2,962,837,530 (2001: 2,951,380,419) after adjusting for the effects of conversion of remaining convertible debentures.

8 Construction in progress

	At 30 June 2002	At 31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Upgrade of existing production plants	1,752,042	984,378
Construction of new steel smelting plant	49,731	48,678
Combined pickling and continuous rolling line	49,816	49,588
	<u>1,851,589</u>	<u>1,082,644</u>

9 Trade receivables

The Company requests customers to pay cash or bills in full prior to delivery of goods. Subject to negotiation, credit term of three months is only available for certain major customers with well-established trading records.

	At 30 June 2002	At 31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i> (audited)
Debtors	149,857	145,798
Bills receivable	2,094,262	2,423,349
	<u>2,244,119</u>	<u>2,569,147</u>

The ageing analysis of trade receivables is as follows:

	At 30 June 2002	At 31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i> (audited)
Less than 3 months	1,603,993	1,617,264
More than 3 months but less than 9 months	640,126	951,883
	<u>2,244,119</u>	<u>2,569,147</u>

10 Cash and cash equivalents

	At 30 June 2002	At 31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i> (audited)
Bank balances	997,201	559,141
Deposits with banks with an initial term of less than three months	62,863	152,088
Cash and cash equivalents	<u>1,060,064</u>	<u>711,229</u>

11 Trade payables

	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>
Creditors	222,457	219,882
Bills payable	1,566,289	1,177,592
	<u>1,788,746</u>	<u>1,397,474</u>

The ageing analysis of trade payables is as follows:

	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>
Due on demand	205,273	188,514
Due within three months	793,677	533,512
Due after three months but within six months	789,796	675,448
	<u>1,788,746</u>	<u>1,397,474</u>

12 Bank loans

Lender	Period	Interest rate p.a.	Interest type	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>
Industrial and Commercial Bank of China	Due in 2004	5.94%	Fixed	300,000	300,000
Bank of China	Due in 2005	5.49%	Fixed	400,000	—
Bank of China	Due in 2006	6.03%	Fixed	—	100,000
				<u>700,000</u>	<u>400,000</u>

13 Share capital

	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
750,743,412 (2001: 748,935,149) A shares of Rmb1 each	750,743	748,935
890,000,000 H shares of Rmb1 each	890,000	890,000
	<u>2,959,743</u>	<u>2,957,935</u>

During the period, 1,808,263 (financial year 2001: 39,991,818) A shares were issued on the conversion of convertible debentures with a total carrying value of Rmb5,944,000 (financial year 2001: Rmb132,472,000).

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

14 Reserves

Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As such, certain comparative figures have been reclassified to conform with the current period's presentation.

Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.

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

At 30 June 2002, the Group had capital commitments as follows:

	At 30 June 2002	At 31 December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Authorised and contracted for:		
— improvement projects of production lines	1,545,153	949,681
— investment in jointly controlled entity	128,295	—
— technology transfer fee	23,971	—
Authorised but not contracted for:		
— investment in jointly controlled entity	—	248,040
— improvement projects of production lines	2,822,891	3,484,120
	<u>4,520,310</u>	<u>4,681,841</u>

16 Related party transactions

Details of the related party transactions are presented in Section B Note 34. The financial data presented are the same as those prepared under IFRS.

B. Interim Financial Report prepared in accordance with the PRC Accounting Rules and Regulations

Balance sheets at 30 June 2002 (unaudited)

		The Group At 30 June 2002	The Company At 30 June 2002	At 31 December 2001
	Note	Rmb '000	Rmb '000	Rmb '000 (audited)
Assets				
Current assets				
Cash at bank and in hand	5	1,060,064	982,799	761,229
Bills receivable	6	2,094,262	2,094,262	2,423,349
Trade receivables	7	149,857	149,857	145,798
Other receivables	8	113,612	173,612	141,591
Prepayments	9	657,893	620,110	407,468
Inventories	10	984,366	984,366	904,213
Deferred expenses	11	22	—	3,244
Subsidy receivable	12	21,122	21,122	33,694
Total current assets		<u>5,081,198</u>	<u>5,026,128</u>	<u>4,820,586</u>
Long term investment	13	—	120,018	—
Fixed assets				
Fixed assets, at cost or valuation	14	6,464,396	6,462,729	6,455,191
Less: Accumulated depreciation		<u>(2,645,654)</u>	<u>(2,645,613)</u>	<u>(2,439,756)</u>
Net book value of fixed assets		3,818,742	3,817,116	4,015,435
Construction in progress	15	<u>1,839,435</u>	<u>1,778,301</u>	<u>1,076,095</u>
Total fixed assets		<u>5,658,177</u>	<u>5,595,417</u>	<u>5,091,530</u>
Intangible assets and other assets				
Intangible assets	16	323,033	322,220	325,772
Long-term deferred expenses	17	<u>2,108</u>	—	—
Total intangible assets and other assets		<u>325,141</u>	<u>322,220</u>	<u>325,772</u>
Total assets		<u><u>11,064,516</u></u>	<u><u>11,063,783</u></u>	<u><u>10,237,888</u></u>

The accompanying notes form part of this interim financial report.

Balance sheets at 30 June 2002 (unaudited) (continued)

		The Group	The Company	
		At	At	At
		30 June	30 June	31 December
		2002	2002	2001
<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
				<i>(audited)</i>
Liabilities and shareholders' funds				
Current liabilities				
Bills payable	18	1,566,289	1,566,289	1,177,592
Trade payables	19	222,457	222,457	219,882
Receipts in advance	20	648,300	648,300	480,296
Wages payable		39,274	39,274	40,733
Staff welfare payable		6,164	6,164	4,292
Dividend payable	21	236,635	236,635	236,635
Taxes payable	22	58,005	58,005	177,812
Other payables	23	143,873	143,140	155,861
Accrued expenses	24	31,933	31,933	4,000
Current portion of long-term loans	25	—	—	120,000
Total current liabilities		<u>2,952,930</u>	<u>2,952,197</u>	<u>2,617,103</u>
Long-term liabilities				
Long-term loans	25	700,000	700,000	400,000
Convertible debentures	26	13,447	13,447	19,388
Total long-term liabilities		<u>713,447</u>	<u>713,447</u>	<u>419,388</u>
Total liabilities		<u>3,666,377</u>	<u>3,665,644</u>	<u>3,036,491</u>
Shareholders' funds				
Share capital	27	2,959,743	2,959,743	2,957,935
Capital reserve	28	3,076,113	3,076,113	3,072,099
Surplus reserves	29	365,160	365,160	365,160
Including: Statutory public welfare fund	29	182,580	182,580	182,580
Undistributed profits	30	997,123	997,123	806,203
Total shareholders' funds		<u>7,398,139</u>	<u>7,398,139</u>	<u>7,201,397</u>
Total liabilities and shareholders' funds		<u><u>11,064,516</u></u>	<u><u>11,063,783</u></u>	<u><u>10,237,888</u></u>

Approved and authorised by the Board of Director on 19 August 2002.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes form part of this interim financial report.

Income statements and profit appropriation statements

for the six months ended 30 June 2002 (unaudited)

		The Group	The Company	
		Six months	Six months	Six months
		ended 30 June	ended 30 June	ended 30 June
		2002	2002	2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
				<i>(restated)</i>
Income from principal operations	31	5,021,697	5,021,697	4,747,115
Less: Cost of sales		4,523,135	4,523,135	4,281,191
Business tax and surcharges		9,583	9,583	9,942
		<hr/>	<hr/>	<hr/>
Profit from principal operations		488,979	488,979	455,982
Add: Other operating profit	32	12,246	12,246	14,593
Less: Operating expenses		82,473	82,473	71,617
Administrative expenses		99,085	99,085	86,939
Financial expenses/(income)	33	9,849	9,849	(5,576)
		<hr/>	<hr/>	<hr/>
Operating profit		309,818	309,818	317,595
Add: Subsidy income		—	—	18,774
Non-operating income		99	99	46
Less: Non-operating expenses		630	630	10,697
		<hr/>	<hr/>	<hr/>
Total profit		309,287	309,287	325,718
Less: Income tax expenses		118,367	118,367	128,453
		<hr/>	<hr/>	<hr/>
Net profit		<u>190,920</u>	<u>190,920</u>	<u>197,265</u>

The accompanying notes form part of this interim financial report.

Income statements and profit appropriation statements

for the six months ended 30 June 2002 (unaudited) (continued)

		The Group	The Company	
		Six months	Six months	Six months
		ended 30 June	ended 30 June	ended 30 June
		2002	2002	2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
				<i>(restated)</i>
Net profit		190,920	190,920	197,265
Add: Undistributed profits at the beginning of the period		806,203	806,203	714,216
		<hr/>	<hr/>	<hr/>
Distributable profits		997,123	997,123	911,481
Less: Transfer to statutory surplus reserve	29	—	—	—
Transfer to statutory public welfare fund	29	—	—	—
		<hr/>	<hr/>	<hr/>
Profits distributable to shareholders		997,123	997,123	911,481
Less: Transfer to discretionary surplus reserve		—	—	—
Dividend	21	—	—	2,875
		<hr/>	<hr/>	<hr/>
Undistributed profits		<u>997,123</u>	<u>997,123</u>	<u>908,606</u>

The accompanying notes form part of this interim financial report.

Supplementary information of income statements and profit appropriation statements

for the six months ended 30 June 2002 (unaudited)

	The Group	The Company	
	Six months ended 30 June 2002 <i>Rmb'000</i>	Six months ended 30 June 2002 <i>Rmb'000</i>	Six months ended 30 June 2002 <i>Rmb'000</i>
Income on closure of departments or disposal of investment	—	—	—
Loss on natural disaster	—	—	—
Increase/(decrease) on changes in accounting policy	—	—	1,023
Increase/(decrease) on changes in accounting estimation	—	—	—
Loss on debts restructuring	—	—	—
Others	—	—	—

The accompanying notes form part of this interim financial report.

Cash flow statements

for the six months ended 30 June 2002 (unaudited)

	The Group	The Company
	Six months	Six months
	ended 30 June	ended 30 June
<i>Notes to the cash</i>	2002	2002
<i>flow statements</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash flows from operating activities		
Cash received from sale of goods	6,301,948	6,301,948
Refund of taxes and levies	7,125	7,125
	<hr/>	<hr/>
Sub-total of cash inflows	6,309,073	6,309,073
	<hr/>	<hr/>
Cash paid for purchase of goods	(4,401,372)	(4,401,372)
Cash paid to and on behalf of employees	(111,070)	(111,070)
Taxes paid	(337,946)	(337,946)
Cash paid in relation to other operating activities	(514,016)	(581,360)
	<hr/>	<hr/>
Sub-total of cash outflows	(5,364,404)	(5,431,748)
	<hr/>	<hr/>
Net cash flow from operating activities	944,669	877,325
	<hr/>	<hr/>
Cash flows from investing activities		
Withdrawal of time deposits	50,000	50,000
Proceeds from disposal of fixed assets	178	178
Interest received	2,826	2,826
	<hr/>	<hr/>
Sub-total of cash inflows	53,004	53,004
	<hr/>	<hr/>
Cash paid for acquisition of fixed assets	(1,008)	—
Cash paid for investment	—	(120,018)
Cash paid for construction in progress, intangible assets and other assets	(818,655)	(709,566)
	<hr/>	<hr/>
Sub-total of cash outflows	(819,663)	(829,584)
	<hr/>	<hr/>
Net cash flow from investing activities	(766,659)	(776,580)
	<hr/>	<hr/>

The accompanying notes form part of this interim financial report.

Cash flow statements

for the six months ended 30 June 2002 (unaudited) (continued)

	The Group	The Company
	Six months	Six months
	ended 30 June	ended 30 June
<i>Notes to the cash</i>	2002	2002
<i>flow statements</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash flows from financing activities		
Proceeds from borrowings	400,000	400,000
Sub-total of cash inflow	400,000	400,000
Dividends or interest paid	(9,372)	(9,372)
Repayments of loans	(220,000)	(220,000)
Sub-total of cash outflows	(229,372)	(229,372)
Net cash flow from financing activities	170,628	170,628
Effect of exchange rate fluctuations on cash held	197	197
Net increase in cash and cash equivalents (c)	<u>348,835</u>	<u>271,570</u>

The accompanying notes form part of this interim financial report.

	The Group	The Company
	Six months	Six months
	ended 30 June	ended 30 June
	2002	2002
Notes to the cash flow statements	<i>Rmb'000</i>	<i>Rmb'000</i>
(a) Reconciliation of net profit to cash flows from operations:		
Net profit	190,920	190,920
Add: Bad debt provision	(56)	(56)
Depreciation of fixed assets	207,074	207,074
Amortisation of intangible assets	3,552	3,552
Amortisation of deferred expenses	3,244	3,244
Loss on disposals of fixed assets	112	112
Financial expenses	6,129	6,129
Increase in inventories	(60,969)	(60,969)
Stock provision written back	(19,184)	(19,184)
Decrease in operating receivables	194,940	127,596
Increase in operating payables	418,907	418,907
	<hr/>	<hr/>
Net cash flow from operating activities	<u>944,669</u>	<u>877,325</u>
(b) Non-cash transactions of financing activities:		
Conversion of debt to capital	5,805	5,805
(c) Increase in cash and cash equivalents:		
Cash at the end of the period	997,201	919,936
Less: Cash at the beginning of the period	(559,141)	(559,141)
Add: Cash equivalents at the end of the period	62,863	62,863
Less: Cash equivalents at the beginning of the period	(152,088)	(152,088)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<u>348,835</u>	<u>271,570</u>

The accompanying notes form part of this interim financial report.

Notes on the interim financial report

for the six months ended 30 June 2002 (unaudited)

1. Status of the Company

Angang New Steel Company Limited (the “Company”) was established as a joint stock limited company in accordance with the Company Law of the People’s Republic of China (“PRC”). The Company was established on 8 May 1997 as part of the restructuring of Anshan Iron & Steel Group Complex (“Angang Holding”). The Company issued shares overseas on 22 July 1997 (“H shares”), and the H shares were listed on The Stock Exchange of Hong Kong Limited on 24 July 1997; the Company also issued shares in the PRC on 16 November 1997 (“A shares”) and the A shares were listed on the Shenzhen Stock Exchange on 25 December 1997. Pursuant to the reorganisation, the Company took over the business of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the “Plants”) of Angang Holding.

Angang Holding is one of the iron and steel comprehensive production companies in the PRC. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sales, research and development, and administration activities of the Plants together with the relevant assets and liabilities as its contribution to the Company.

The Company obtained the Business Enterprise Licence issued by the Liaoning Provincial Administration for Industry and Commerce Bureau on 8 May 1997.

On 1 July 1999, the Company acquired certain production and related assets of the Large Section Plant from Angang Holding in cash and established the Large Section Plant.

The Company purchased three converter furnaces from Angang Holding on 1 April 2000 in cash. The new converter furnaces and the self-constructed continuous casting facilities of the Company became the main production line facilities of the Steel Smelting Plant of the Company.

On 9 January 2002, the Company entered into a joint venture agreement and a technology transfer agreement with Thyssen Krupp Stahl AG (“TKS”) to engage in the production of galvanised steel. The business licence of the jointly controlled entity, ANSC-TKS Galvanizing Co., Ltd (“ANSC-TKS”), has been obtained on 8 February 2002.

1. Status of the Company (continued)

The principal activities of the Group are the production and sale of steel billets, wire rods, thick plates, cold rolled sheets and large section steel.

2. Significant accounting policies

The significant accounting policies adopted by the Company and its jointly controlled entity (the “Group”) in the preparation of the financial statements conform with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance (“MOF”) of the PRC.

(a) Accounting year

The Group’s accounting period is from 1 January to 31 December.

(b) Basis of preparation

The Group’s financial statements have been prepared on an accrual basis, with historical cost method as the measurement basis.

(c) Reporting currency & translation of foreign currencies

The reporting currency of the Group is Renminbi.

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People’s Bank of China and other recognised exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People’s Bank of China and other recognised exchange rates ruling at the balance sheet date.

Exchange gains and losses on foreign currency transactions are dealt with in the income statement, except that the gains and losses directly relating to the purchase or construction of fixed assets are capitalised as part of the costs of the fixed assets before they are put in use.

2. Significant accounting policies (continued)

(d) Scope of consolidation and accounting method

The consolidated financial statements include the Company's proportionate share of the jointly controlled entity's assets, liabilities, revenue and expenses with items of similar nature on a line by line basis.

(e) Cash equivalents

Cash equivalents are short-term, highly liquid investments with insignificant risk of changes in value, which are readily convertible into known amounts of cash. Cash equivalents comprise time deposits with an initial term of less than three months.

(f) Bad debt provision

Bad debts expenses are accounted for based on allowance method under which bad debt expenses are estimated periodically. Trade receivables showing signs of uncollectibility are identified individually, and allowance is then made based on the probability of being uncollectible. In respect of trade receivables showing no sign of uncollectibility, allowance is made based on the aging analysis and a reasonable portion as determined by the management with reference to their past experience.

Allowances for other receivables are determined based on their specific nature and corresponding possibility of collectibility.

(g) Inventories

Inventories include raw materials, work in progress, finished goods and spare parts as well as low value consumables and packaging materials.

Inventories, except spare parts and low value consumables, are stated at the cost of purchase computed using the weighted average method and are carried at the lower of cost and net realisable value at the end of the period. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

2. Significant accounting policies (continued)

(g) Inventories (continued)

Low value consumables are charged to the income statement as and when incurred. Spare parts and packaging materials are charged to the income statement with reference to the actual consumption.

Inventory provision is provided at the difference between cost of individual inventory item and its net realisable value. Net realisable value is determined according to the estimated selling price subsequent to the balance sheet date in the ordinary course of business or management's estimation based on the prevailing market conditions, less the estimated costs of completion and selling expenses.

(h) Long-term investment

Investment in jointly controlled entity in the Company's financial statements is accounted for under the equity method. In the Company's balance sheet, it is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Company's share of net assets of the jointly controlled entity.

In the Company's income statement, it reflects the Company's share of results of the jointly controlled entity for the year.

(i) Fixed assets

(i) Fixed assets include buildings, plant and machinery, and transportation equipment with an estimated useful life over one year, together with non-operating equipment articles with a unit cost over Rmb2,000 and useful life over two years.

(ii) Fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses (refer to Note 2(q)). The cost of a fixed asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the relevant fixed assets. All other expenditure is charged to the income statement in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised as income or expense in the income statement on the date of disposal.

2. Significant accounting policies (continued)

(i) Fixed assets (continued)

(iv) Depreciation is provided to write off the cost or valuation where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings and plants	12 to 42 years
Machinery and equipment	6 to 21 years
Other fixed assets	4 to 15 years

(j) Construction in progress

Construction in progress represents buildings, plant and equipment under construction and is stated at cost less impairment losses (refer to Note 2(q)). Cost comprises direct costs of construction and purchase cost, as well as the related interest charges and foreign exchange differences on the related borrowed funds during the period of construction, installation and testing.

Capitalisation of these borrowing costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets

Intangible assets are stated at cost or valuation less accumulated amortisation and impairment losses (refer to Note 2(q)). Amortisation is provided on a straight-line basis over the beneficial period or the useful life of the asset as specified in the relevant rules and regulations.

(l) Convertible debentures

Convertible debentures are stated at par value. Interest expense is capitalised as the cost of corresponding construction in progress. Upon the completion of the construction in progress, the interest expense is charged directly to financial expenses of the same period.

Upon conversion, the carrying value of the debenture including the accrued interest are credited to the share capital and capital surplus accounts.

2. Significant accounting policies (continued)

(m) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(n) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

(o) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or related expenses that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

(p) Retirement benefits

Contributions to defined contribution pension scheme are recognised as an expense in the income statement as incurred. Further information is set out in Note 35.

(q) Impairment

The carrying amounts of the Group's assets, other than inventories (refer to Note 2(g)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2. Significant accounting policies (continued)

(q) Impairment (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(r) Taxation

The taxes applicable to the Group are income tax, value added tax ("VAT"), city construction and maintenance tax, stamp duty, directional fixed assets investment tax and vehicle duty, etc.

(i) Income tax

Income tax is provided on accrual basis and the income tax rate applicable to the Group is 33%.

(ii) VAT

The VAT rate applicable to the Company is 17%.

(iii) Business tax and surcharges

The Company is subject to surcharges, including city construction and maintenance tax, educational tax and local education surcharge, which are computed based on 7%, 3% and 1% of net VAT payable, respectively.

2. Significant accounting policies (continued)

(s) Profit appropriation

Profit appropriation is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its jointly controlled entity.

(t) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individual or other entities.

3. Changes in accounting policy

Angang Holding contributed the water and electricity use rights totalling Rmb122,733,000 to the Company upon its establishment on 8 May 1997. The water and electricity use rights are amortised over 50 years on a straight line basis and the net book value as at 31 December 2000 amounted to Rmb112,915,000. The management of the Company reviewed the nature of the water and electricity use rights based on the definition of “intangible assets” under the PRC Accounting Regulations for Business Enterprises which became effective since 1 January 2001 and decided not to treat the water and electricity use rights as intangible assets. The water and electricity use rights were adjusted retrospectively in the financial statements for the year ended 31 December 2001. Accordingly, the comparative figures of the income statement for the six month period ended 30 June 2001 were adjusted by decreasing administrative expenses amounting to Rmb1,023,000 and increasing income tax expenses amounting to Rmb338,000.

4. Jointly controlled entity

Particulars of the jointly controlled entity are set out below:

Name of jointly controlled entity	Economic nature	Registered capital	Principal activities	Percentage of equity held by the Company
ANSC-TKS	Sino-foreign equity joint venture	US\$60 million	Production and sale of rolled hot dip galvanised and galvanised steel products.	50%

5. Cash at bank and in hand

	Exchange rate	The Group		The Company		
		Original currency	At 30 June 2002	Original currency	At 30 June 2002	At 31 December 2001
		'000	Rmb'000	'000	Rmb'000	Rmb'000
Cash in hand						
Renminbi			7		7	4
Cash at bank						
Renminbi			732,319		714,941	197,453
Hong Kong Dollars	1.06	105,687	112,091	105,687	112,091	201,597
US Dollars	8.28	7,439	61,575	204	1,688	2,500
Euro	8.15	18,492	150,782	18,492	150,782	345,428
Pounds Sterling	12.65	260	3,290	260	3,290	14,165
Deutsche Marks			—	—	—	82
			<u>1,060,064</u>		<u>982,799</u>	<u>761,229</u>

6. Bills receivable

All bills receivable are not secured.

Due to the increasing use of cash by customers for settlement of accounts, there is a decrease in the balance of bills receivable of the Group as at 30 June 2002 compared with last year.

Among the balance of bills receivable, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

7. Trade receivables

	The Group/Company		The Company	
	At 30 June 2002		At 31 December 2001	
	Rmb'000	%	Rmb'000	%
Within one year	149,857	100	145,798	100
Less: Bad debt provision	—	—	—	—
	<u>149,857</u>	<u>100</u>	<u>145,798</u>	<u>100</u>

The management considers that no provision for bad debt in respect of trade receivables as at 30 June 2002 is necessary as all of these amounts are due within one year and it is expected that the amounts can be fully recovered.

7. Trade receivables (continued)

The trade receivables of the Group at 30 June 2002 were as follows:

Name of the debtor	Period	Particulars	Amount	Percentage
	of original			of trade
	debts		<i>Rmb'000</i>	receivables
				%
China Railway Materials Shenyang Co.	2002	Sales of goods	121,206	81
China Railway Construction (Shenyang) Corporation Northeast Office	2002	Sales of goods	24,611	16
Shanghai Magnetically Levitated Transportation Development Co. Ltd.	2002	Sales of goods	3,512	2
09 Unit Dongbei Branch	2002	Sales of goods	528	1
			149,857	100
			149,857	100

Among the balance of trade receivables, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

8. Other receivables

	The Group		The Company			
	At 30 June 2002		At 30 June 2002		At 31 December 2001	
	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%
Other receivables						
Within one year	72,530	64	94,933	55	139,804	99
Between one and two years	39,403	35	77,000	44	1,674	1
Between two and three years	1,679	1	1,679	1	113	—
Over three years	56	—	56	—	56	—
	113,668	100	173,668	100	141,647	100
Less: Bad debt provision						
Over three years	(56)	—	(56)	—	(56)	—
Other receivables, net	113,612	100	173,612	100	141,591	100

8. Other receivables (continued)

Bad debt provision of Rmb56,000 (2001: Rmb 56,000) has been provided for other receivables. Management considers that all debtors have the ability to repay the debts and most of the other receivables can be recovered in the near future. Hence, the level of bad debt provision is less than 5%.

The Group's five largest debtors at 30 June 2002 were as follows:

Name of the debtor	Period of original debts	Particulars	Amount Rmb'000	Percentage of other receivables %
ANSC-TKS	2002	Advances of equipment costs	67,344	59
Anshan State Tax Bureau	2002	VAT receivable	23,652	21
Dalian Custom	2002	Import duty deposit	7,210	6
China Railway Construction (Dongbei Branch)	2002	Reimbursement of freight charges	3,292	3
China Life Insurance Co. (Anshan Branch)	2002	Insurance premium refund	1,000	1
			102,498	90
			102,498	90

Among the balance of other receivables, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

9. Prepayments

	The Group		The Company			
	At 30 June 2002		At 30 June 2002	At 31 December 2001		
	Rmb'000	%	Rmb'000	%	Rmb'000	%
Within one year	654,512	99	616,729	99	407,040	100
Between one and two years	3,254	1	3,254	1	410	—
Between two and three years	127	—	127	—	18	—
	657,893	100	620,110	100	407,468	100
	657,893	100	620,110	100	407,468	100

Prepayments for spare parts aged over one year are mainly due to the long implementation period of certain spare parts purchasing contracts and therefore the final payment of these contracts has not been made.

9. Prepayments (continued)

The Group's prepayments as at 30 June 2002 were as follows:

	The Group		The Company	
	At 30 June 2002		At 30 June 2002	At 31 December 2001
	Rmb'000		Rmb'000	
Angang New Steel and Iron Company Limited ("ANSI")	527,736		527,736	615,305
Angang International Trade Co.	116,942		79,159	(215,637)
	<u>644,678</u>		<u>606,895</u>	<u>399,668</u>
Prepayments for spare parts	13,215		13,215	7,800
	<u>657,893</u>		<u>620,110</u>	<u>407,468</u>

Among the balance of prepayments, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

10. Inventories

	The Group/Company		The Company	
	At 30 June 2002	%	At 31 December 2001	%
	Rmb'000		Rmb'000	
At cost				
Raw materials	112,090	11	122,362	13
Work in progress	119,681	11	91,098	9
Finished goods	235,091	23	209,464	21
Spare parts and consumables	571,786	55	554,755	57
	<u>1,038,648</u>	<u>100</u>	<u>977,679</u>	<u>100</u>
Less: Provision for diminution in value of inventories				
Spare parts and consumables	(54,282)	—	(73,466)	—
	<u>984,366</u>	<u>100</u>	<u>904,213</u>	<u>100</u>

Included in spare parts and consumables are inventories of Rmb 208,834,000 (2001: Rmb 152,324,000), stated net of a provision made in order to account for the obsolescence of these inventories.

11. Deferred expenses

	At 1 January 2002 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Amortisation <i>Rmb'000</i>	At 30 June 2002 <i>Rmb'000</i>
The Company				
— Heating expenses	3,244	—	(3,244)	—
ANSC— TKS				
— Insurance of construction projects	—	32	(10)	22
	<u>3,244</u>	<u>32</u>	<u>(3,254)</u>	<u>22</u>
The Group	<u>3,244</u>	<u>32</u>	<u>(3,254)</u>	<u>22</u>

12. Subsidy receivable

Subsidy receivable represents the VAT recoverable for the Company's export sales under the "First Levy Then Refund" policy. Export tax recoverable decreased after the adoption of "Exempt, Deduct, Refund" policy by Anshan State Tax Bureau since 30 December 2001.

13. Long-term investment

Pursuant to the joint venture agreement dated 9 January 2002, the Company is committed to inject US\$30,000,000 (equivalent to Rmb 248,313,000) to the jointly controlled entity as registered capital. As at 30 June 2002, US\$14,500,000 (equivalent to Rmb 120,018,000) has been injected by the Company, the remaining balance of contribution is disclosed as capital commitments in Note 36. The Group's first injection to the joint venture US\$4,500,000 with the equivalent of Rmb37,247,850 had been verified by Dalian Hengping United Public Accountants and the capital verification report was issued on 28 March 2002. The joint venture is still in the set up stage.

14. Fixed assets

The Group

	Building and plants <i>Rmb'000</i>	Machinery and equipment <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation:				
At 1 January 2002	1,362,701	4,696,657	395,833	6,455,191
Additions	—	—	1,771	1,771
Transferred from construction in progress (Note 15)	—	670	8,375	9,045
Disposals	—	(1,611)	—	(1,611)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	1,362,701	4,695,716	405,979	6,464,396
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Accumulated depreciation:				
At 1 January 2002	484,959	1,610,094	344,703	2,439,756
Charge for the period	27,072	169,100	10,943	207,115
Written back on disposal	—	(1,217)	—	(1,217)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2002	512,031	1,777,977	355,646	2,645,654
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net book value:				
At 30 June 2002	<u>850,670</u>	<u>2,917,739</u>	<u>50,333</u>	<u>3,818,742</u>

14. Fixed assets (continued)

The Company

	Building and plants <i>Rmb'000</i>	Machinery and equipment <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation:				
At 1 January 2002	1,362,701	4,696,657	395,833	6,455,191
Additions	—	—	104	104
Transferred from construction in progress (Note 15)	—	670	8,375	9,045
Disposals	—	(1,611)	—	(1,611)
	<u>1,362,701</u>	<u>4,695,716</u>	<u>404,312</u>	<u>6,462,729</u>
At 30 June 2002	<u>1,362,701</u>	<u>4,695,716</u>	<u>404,312</u>	<u>6,462,729</u>
Accumulated depreciation:				
At 1 January 2002	484,959	1,610,094	344,703	2,439,756
Charge for the period	27,072	169,100	10,902	207,074
Written back on disposal	—	(1,217)	—	(1,217)
	<u>512,031</u>	<u>1,777,977</u>	<u>355,605</u>	<u>2,645,613</u>
At 30 June 2002	<u>512,031</u>	<u>1,777,977</u>	<u>355,605</u>	<u>2,645,613</u>
Net book value:				
At 30 June 2002	<u>850,670</u>	<u>2,917,739</u>	<u>48,707</u>	<u>3,817,116</u>
At 31 December 2001	<u>877,742</u>	<u>3,086,563</u>	<u>51,130</u>	<u>4,015,435</u>

16. Intangible assets

	Cost or valuation <i>Rmb'000</i>	At 1 January 2002 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Amortisation <i>Rmb'000</i>	At 30 June 2002 <i>Rmb'000</i>
The Company					
— Land use rights	354,200	325,772	—	(3,552)	322,220
ANSC-TKS					
— Software	825	—	825	(12)	813
The Group	<u>355,025</u>	<u>325,772</u>	<u>825</u>	<u>(3,564)</u>	<u>323,033</u>

Land use rights include contribution of Rmb226,800,000 made by Angang Holding and the amount of Rmb127,400,000 acquired by the Company. Land use rights are amortised over a remaining period of 45 years.

The cost of software was amortised on a straight line basis over 10 years.

17. Long-term deferred expenses

Long-term deferred expenses represent pre-operating expenses incurred by ANSC-TKS. The amount will be recognised in the income statement when ANSC-TKS commences operation.

18. Bills payable

Bills payable primarily represented the bank accepted bills for materials and goods purchasing. The repayment terms are within six months.

18. Bills payable (continued)

The Group's five largest bills payable at 30 June 2002 were as follows:

Name of creditor	Period of original debts	Particulars	Amount <i>Rmb'000</i>	Percentage of bills payable %
ANSI	2002	Purchase goods	1,250,000	80
Jilin Ferroalloy Company Limited	2002	Purchase goods	14,736	1
Jinguang Ferroalloy Company Limited	2002	Purchase goods	10,670	0.7
Angang International Trade Co. Dalian Branch	2002	Purchase goods	10,714	0.7
Xi'an Heavy Machine Academe	2002	Purchase goods	9,550	0.6
			<u>1,295,670</u>	<u>83</u>

Among the balance of bills payable, no balance is due to a shareholder who holds more than 5% (including 5%) of the Company's shares.

19. Trade payables

There is no material trade payables aged over three years. Among the balance of trade payables, no balance is due to a shareholder who holds more than 5% (including 5%) of the Company's shares.

20. Receipts in advance

All receipts in advance of the Group as at 30 June 2002 were aged within one year.

Among the balance of receipts in advance, no balance is due to a shareholder who holds more than 5% (including 5%) of the Company's shares.

21. Dividend payable

Dividend payable represents the dividend of Rmb0.08 yuan per share attributable to the year ended 31 December 2001 which was paid in July 2002.

22. Taxes payable

	The Group/Company	The Company
	At 30 June	At 31 December
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
VAT payable	10,172	48,298
Income tax payable	46,785	126,861
Surcharges and other taxes payable	1,048	2,653
	<hr/>	<hr/>
	58,005	177,812
	<hr/> <hr/>	<hr/> <hr/>

23. Other payables

Other payables of the Group include Rmb39,199,000 payable to Angang Holding in respect of the staff welfare facilities and the other services provided by Angang Holding.

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

24. Accrued expenses

	The Group/Company	The Company
	At 30 June	At 31 December
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Annual overhaul expenses	15,380	—
Maintenance expenses	5,005	—
Audit fee	4,000	4,000
Research and development costs	3,000	—
Agency fee	2,147	—
Others	2,401	—
	<hr/>	<hr/>
	31,933	4,000
	<hr/> <hr/>	<hr/> <hr/>

25. Loans

		The Group/Company	The Company
		30 June	31 December
		2002	2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Current portion of long-term loan appropriation to Angang Holding	(a)	—	120,000
Long-term bank loans	(b)	700,000	400,000
		<u>700,000</u>	<u>520,000</u>

- (a) Up to 31 December 1996, distribution payable to Angang Holding in connection with the accumulated profits prior to listing of the Company 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 unsecured, interest free and has been fully repaid in June 2002.
- (b) The interest rates and terms of repayment for long-term bank loans are as follows:

Lender	Period	Interest rate p.a.	Interest type	The Group/Company	The Company
				At 30 June	At 31 December
				2002	2001
				<i>Rmb'000</i>	<i>Rmb'000</i>
Industrial and Commercial Bank of China	Due in 2004	5.94%	Fixed	300,000	300,000
Bank of China	Due in 2005	5.49%	Fixed	400,000	—
Bank of China	Due in 2006	6.03%	Fixed	—	100,000
				<u>700,000</u>	<u>400,000</u>

The bank loans are mainly used for technology renovation projects and are guaranteed by Angang Holding.

26. Convertible debentures

On 15 March 2000, the Company issued convertible debentures (the “Debentures”) amounting to Rmb1,500,000,000. The Debentures are listed on the Shenzhen Stock Exchange and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14 September 2000 to 13 March 2005 into A shares with a par value of Rmb1 each of the Company at a conversion price of Rmb3.3 per share. Since 22 June 2001, the conversion price has been revised to Rmb3.21 per share. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 454,918,327 A shares.

The Debentures are interest bearing at a rate of 1.2% per annum payable in arrears on 14 March each year.

The Company may redeem in whole or in part the Debentures from 14 March 2001 if the closing price of the Company’s A shares on the Shenzhen Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days.

The Debenture holder may require the Company to redeem all or part of the Debentures half a year before the maturity date from 14 September 2004 to 13 March 2005 if the closing price of the A shares on the Shenzhen Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

By 30 June 2002, 450,743,000 A shares were issued on the conversion of convertible debentures with a carrying amount of Rmb1,486,599,000 and accrued interest expenses of Rmb10,249,000. The conversion of convertible debentures increased the capital surplus by Rmb1,046,085,000 and a cash payment of Rmb20,000 for the odd lot convertible debentures.

27. Share capital

	The Group/Company	The Company
	At	At
	30 June	31 December
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and paid up capital		
Unlisted shares		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
	-----	-----
Listed shares		
748,935,149 (2001: 708,943,331) shares of Rmb1 each issued at the beginning of period/year (“A share”)	748,935	708,943
Additional issue of 1,808,263 (2001: 39,991,818) shares upon the conversion of convertible debentures	1,808	39,992
	-----	-----
750,743,412 (2001: 748,935,149) shares of Rmb 1 each issued at the end of period/year	750,743	748,935
890,000,000 overseas-listed foreign invested shares of Rmb1 each (“H share”)	890,000	890,000
	-----	-----
	1,640,743	1,638,935
	-----	-----
	<u>2,959,743</u>	<u>2,957,935</u>

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

28. Capital reserve

	The Group/Company		
	At 1 January		At 30 June
	2002	Increase	2002
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
Net asset conversion	709,817	—	709,817
Written off of water and electricity use rights	(122,733)	—	(122,733)
Proceeds from the issuance of H shares, net of expenses	594,722	—	594,722
Proceeds from the issuance of A shares, net of expenses	848,222	—	848,222
Conversion of A share convertible debentures	1,042,071	4,014	1,046,085
	<u>3,072,099</u>	<u>4,014</u>	<u>3,076,113</u>

29. Surplus reserves

	The Group/Company		
	At	Transfer	At 30 June
	1 January	from	2002
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
Statutory surplus reserve	182,580	—	182,580
Statutory public welfare fund	182,580	—	182,580
	<u>365,160</u>	<u>—</u>	<u>365,160</u>

In accordance with the PRC Company Law and Article 147 of the Company's Articles of Association, 10% of the Company's net profit after taxation is allocated to the statutory surplus reserve, until the reserve aggregates to 50% of the Company's registered capital; and 5% to 10% of the Company's net profit after taxation is allocated to the statutory public welfare fund.

30. Undistributed profits

	The Group/Company	The Company
	At	At
	30 June	31 December
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Undistributed profits at the beginning of the period/year	806,203	724,034
Add: Profit for the period/year	190,920	403,743
Less: Transfer to reserves	—	(82,064)
Dividends	—	(236,635)
Balance of dividends in respect of the year 2000	—	(2,875)
	<u> </u>	<u> </u>
Undistributed profits at the end of the period/year	<u>997,123</u>	<u>806,203</u>

31. Income from principal operations

	The Group/Company	The Company
	Six months ended	Six months ended
	30 June 2002	30 June 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Wire rods	793,101	911,884
Thick plates	1,125,775	1,317,240
Cold rolled sheets	1,736,401	1,588,915
Large section steel products	1,210,931	889,727
Steel billets	155,489	39,349
	<u> </u>	<u> </u>
	<u>5,021,697</u>	<u>4,747,115</u>

For the period ended 30 June 2002, the sales to the five largest customers were Rmb1,682,379,000 which accounted for 33.5% of the total sales income from principal operations of the Group.

32. Other operating profit

	The Group/Company Six months ended 30 June 2002 <i>Rmb'000</i>	The Company Six months ended 30 June 2001 <i>Rmb'000</i>
Packaging material profits	3,270	5,908
Income from sales of scrap materials	8,815	8,691
Others	161	(6)
	<u>12,246</u>	<u>14,593</u>

33. Financial expenses/(income)

	The Group/Company Six months ended 30 June 2002 <i>Rmb'000</i>	The Company Six months ended 30 June 2001 <i>Rmb'000</i>
Interest and other borrowing costs	17,538	10,900
Less: Amount capitalised as construction in progress	<u>5,570</u>	<u>445</u>
Net interest expenses	<u>11,968</u>	<u>10,455</u>
Net exchange difference	(18,966)	27,709
Less: Amount capitalised as construction in progress	<u>(18,769)</u>	<u>27,872</u>
Net exchange gain	<u>(197)</u>	<u>(163)</u>
Interest income	<u>(2,826)</u>	<u>(16,716)</u>
Bank charges	<u>904</u>	<u>848</u>
	<u>9,849</u>	<u>(5,576)</u>

34. Related party transactions

- (a) Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relation with the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan Liaoning Province	Production and sale 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 as at 30 June 2002 was Rmb10,794,160,000. It held 44.59% of the total share capital of the Company. There is no change in the registered capital of Angang Holding during the period. The changes in percentage of shares held by Angang Holding are detailed in Note 27 “Share Capital”.

- (b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary of Angang Holding

34. Related party transactions (continued)

(c) Details of related party transactions:

	The Group/Company	The Company
	Six months ended	Six months ended
	30 June 2002	30 June 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales (excluding business tax and surcharges)	539,721	370,973
Subcontracting fee (excluding business tax and surcharges)	—	32,169
Sales of scrap materials (excluding business tax and surcharges)	104,802	123,384
Purchase		
— Raw materials	3,575,265	3,269,994
— Ancillary materials and spare parts	42,005	32,687
Supply of fuel and power	155,207	136,130
Staff welfare and other services	36,924	35,160

(i) 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.

(ii) Sub-contract

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. No sub-contracting income was incurred during the current period as the relevant sub-contracting contract was expired at the end of year 2001.

(iii) Sales of scrap materials

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

34. Related party transactions (continued)

(iv) Purchase of raw materials

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

(v) 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.

(vi) 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 ANSI at cost.

(vii) Staff welfare and other services

Angang Holding provides staff welfare and other services to the Company, which include: 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 by Angang Holding.

(viii) Balances with Angang Holding and ANSI

Details regarding the balances with Angang Holding and ANSI are set out in Note 9 and Note 23 respectively.

34. Related party transactions (continued)

(ix) Guarantee of debentures

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

(x) Guarantee of loans

As at 30 June 2002, total amount of loans obtained by the Company from The Industry and Commercial Bank of China and the Bank of China amounted to Rmb700,000,000. These bank loans are guaranteed by Angang Holding.

35. Retirement benefits and other staff benefits

According to the decision of the working conference of Liaoning Provincial Government on 17 August 2000, with effect from 1 January 2001, the required contribution from the Group to the retirement benefits scheme has been increased from 25.5% to 30.5% of the aggregate monthly salaries of all employees of the Group.

36. Capital commitments

	The Group	The Company	
	At 30 June	At 30 June	At 31 December
	2002	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Authorised and contracted for			
— improvement projects of production lines	1,545,153	1,063,578	949,681
— investment in jointly controlled entity (Note13)	128,295	128,295	—
— technology transfer fee	23,971	—	—
Authorised but not contracted for			
— investment in jointly controlled entity (Note13)	—	—	248,040
— improvement projects of production lines	2,822,891	2,738,323	3,484,120
	<u>4,520,310</u>	<u>3,930,196</u>	<u>4,681,841</u>

37. Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2002.

38. Post balance sheet event

There were no material post balance sheet events for the Group after 30 June 2002.

C. Differences between financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations

	Profit attributable to shareholders		Shareholders' funds		
	Six months ended 30 June 2002	Six months ended 30 June 2001	At 30 June 2002	At 31 December 2001	
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	
Financial statements prepared under PRC Accounting Rules and Regulations (“PRC financial statements”)		190,920	197,265	7,398,139	7,201,397
Dividends	(i)	—	—	—	236,635
Convertible debentures — discount on convertible debentures	(ii)	—	—	988	1,676
— additional borrowing costs capitalised		—	—	6,777	6,549
Pre-operating expenses		(2,108)	—	(2,108)	—
Deferred tax	(iii)	(1,827)	(37,262)	64,467	66,141
Revaluation of land use rights	(iv)	2,268	—	(206,388)	(208,656)
General borrowing costs capitalised		5,377	—	5,377	—
Financial statements prepared under IFRS (“IFRS financial statements”)		194,630	160,003	7,267,252	7,303,742

C. Differences between financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations (continued)

Notes:

- (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 financial statements, the dividends are recognised in the period to which the dividends related.*
- (ii) *The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IFRS and PRC financial statements.*
- (iii) *Deferred tax is provided on the IFRS adjustments at the tax rate of 33%.*

Pursuant to the requirement under the PRC “Accounting Regulations for Business Enterprises”, which became effective from 1 January 2001, the water and electricity use rights, which were capitalised as intangible assets with a total carrying value of Rmb112,915,000 as at 31 December 2000 would have to be retrospectively de-recognised in the financial statements prepared under the PRC financial statements and the related tax benefits would no longer exist. Under such circumstances, the related deferred tax assets of Rmb37,262,000 as at 31 December 2000 were written off in the IFRS financial statements.

- (iv) *Effective 1 January 2002, land use rights are carried at historical cost base under IFRS. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders’ equity. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.*

By order of the Board

Liu Jie
Chairman

Anshan City, the PRC
19 August 2002