VII INTERIM FINANCIAL REPORT

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

Consolidated income statement (unaudited)

for the six months ended 30 June 2003

(Expressed in Renminbi)

		Six months ended 30 June	
		2003	**2002**
	Note	*Rmb'000*	*Rmb'000*
Turnover	3	6,947,111	5,012,114
Cost of sales		(5,735,614)	(4,527,618)
Gross profit		1,211,497	484,496
Other operating (loss)/income		(44,213)	12,345
Distribution and other operating expenses		(97,378)	(82,473)
Administrative expenses		(141,885)	(95,102)
Profit from operations		928,021	319,266
Net financing income/(costs)		5,720	(4,442)
Profit from ordinary activities before taxation	4	933,741	314,824
Income tax expense	5	(313,389)	(120,194)
Profit attributable to shareholders		620,352	194,630
Earnings per share	7		
Basic		Rmb 0.210	Rmb 0.066
Diluted		Rmb 0.209	Rmb 0.066

The notes on pages 32 to 43 form part of the interim financial report.

Consolidated balance sheet (unaudited)

at 30 June 2003

(Expressed in Renminbi)

	Note	At 30 June 2003 Rmb'000	At 31 December 2002 Rmb'000 (audited)
Non-current assets			
Property, plant and equipment		3,942,219	4,235,362
Construction in progress		3,178,906	2,327,558
Lease prepayments		300,167	148,995
Deferred tax assets		64,709	64,618
Investment in associate		14,400	–
		7,500,401	6,776,533
Current assets			
Inventories		1,144,386	1,217,049
Amount due from a fellow subsidiary		535,859	643,698
Trade receivables	8	2,079,582	1,811,534
Prepayments, deposits and other receivables		79,121	142,700
Cash at bank and in hand		1,680,010	1,702,051
		5,518,958	5,517,032
Current liabilities			
Trade payables	9	1,638,654	1,750,785
Income tax payable		167,861	48,748
Amounts due to fellow subsidiaries		170,601	206,201
Other payables		971,360	1,076,312
Short term bank loan		100,000	65,000
		3,048,476	3,147,046
Net current assets		2,470,482	2,369,986
Total assets less current liabilities carried forward		9,970,883	9,146,519

Consolidated balance sheet (unaudited) (continued)

at 30 June 2003

(Expressed in Renminbi)

	Note	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Total assets less current liabilities brought forward		9,970,883	9,146,519
Non-current liabilities			
Convertible debentures		7,312	9,264
Bank loans		1,963,000	1,463,000
		1,970,312	1,472,264
NET ASSETS		8,000,571	7,674,255
SHAREHOLDERS' FUNDS			
Share capital	10	2,961,577	2,960,874
Reserves	11	5,038,994	4,713,381
		8,000,571	7,674,255

Approved and authorised for issue by the Board of Directors on 18 August 2003.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 32 to 43 form part of the interim financial report.

Consolidated statement of changes in equity (unaudited)

for the six months ended 30 June 2003

(Expressed in Renminbi)

	Note	Share capital *Rmb'000* *(Note 10)*	Share premium *Rmb'000*	Reserves *Rmb'000*	Retained earnings *Rmb'000*	Total *Rmb'000*
At 1 January 2002		2,957,935	3,046,099	214,625	1,085,083	7,303,742
Net profit for the period		—	—	—	194,630	194,630
Shares 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
At 30 June 2002		2,959,743	3,050,235	214,196	1,043,078	7,267,252
At 1 January 2003		2,960,874	3,052,752	332,853	1,327,776	7,674,255
Net profit for the period		—	—	—	620,352	620,352
Shares issued upon conversion of convertible debentures		703	1,572	(196)	—	2,079
Final dividend - 2002	6	—	—	—	(296,149)	(296,149)
Deferred tax released upon conversion of convertible debentures		—	—	34	—	34
At 30 June 2003		2,961,577	3,054,324	332,691	1,651,979	8,000,571

The notes on pages 32 to 43 form part of the interim financial report.

Consolidated condensed cash flow statement (unaudited)

for the six months ended 30 June 2003

(Expressed in Renminbi)

	Six months ended 30 June	
	2003	**2002**
	Rmb'000	*Rmb'000*
Cash flows from operating activities	502,532	928,800
Cash flows from investing activities	(776,983)	(760,162)
Cash flows from financing activities	252,514	180,000
Net (decrease)/increase in cash and cash equivalents	(21,937)	348,638
Effect of foreign exchange rates	(104)	197
Cash and cash equivalents at 1 January	1,702,051	711,229
Cash and cash equivalents at 30 June	1,680,010	1,060,064

The notes on pages 32 to 43 form part of the interim financial report.

Notes on the interim financial report (unaudited)

for the six months ended 30 June 2003

(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 Main Board Listing Rules of 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 financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Group's annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2003.

The 2002 annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the IASB. IFRS includes IAS and related interpretations.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2002 annual financial statements.

On 17 March 2003, the Company, together with Angang International Trading (Group) Company and Angang New Steel and Iron Company ("ANSI") jointly established Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang").

1 Basis of preparation (continued)

The principal activities of Angang Shenyang include the sales, processing and distribution of steel products. The Company holds 30% interests in Angang Shenyang, whose registered capital amounted to Rmb48,000,000.

The accounting policy on investment in associate is stated below.

Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Change of depreciation rates

Effective from 1 January 2003, the Group revised the estimated useful lives of certain property, plant and equipment.

	Estimated useful lives	
	Up to 31 December 2002	**From 1 January 2003 onwards**
Buildings	12 to 42 years	10 to 40 years
Plant, machinery and equipment	6 to 21 years	5 to 20 years
Transportation vehicles and other related equipment	4 to 15 years	4 to 15 years

1 Basis of preparation (continued)

Change of depreciatin rates (continued)

These changes were made, after taking into account of commercial and technological obsolescence as well as normal wear and tear, to better reflect the estimated periods during which such assets will remain in service.

The change had the effect of increasing depreciation expense by Rmb39 million and decreasing profit after taxation by Rmb26 million for the six months ended 30 June 2003. The change is expected to increase depreciation expense of Rmb78 million and decrease the profit after taxation of Rmb52 million in each subsequent year until the relevant assets are fully depreciated or disposed of.

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 2002 annual financial statements.

The Company 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 under IFRS and the 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 of the 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.

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2003	**2002**
	Rmb'000	*Rmb'000*
Interest and other borrowing costs	54,050	17,866
Less: amount capitalised as construction in progress	(53,128)	(11,275)
Net interest expense	922	6,591
Interest income	(7,746)	(2,856)
Depreciation #	263,003	207,115
Loss on disposals of property, plant and equipment	60,114	216
Write down of inventories #	16,000	—
Cost of inventories #	5,735,614	4,527,618

\# *Cost of inventories includes Rmb200,192,000 (2002: Rmb160,160,000) relating to depreciation expenses and write down of inventories which amount is also included in the respective total amounts disclosed separately above.*

5 Income tax expense

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2003	**2002**
	Rmb'000	*Rmb'000*
Provision for PRC income tax	313,446	118,367
Deferred taxation	(57)	1,827
	313,389	120,194

The provision for PRC income tax is calculated at 33% (2002: 33%) of the estimated assessable profits for the period determined in accordance with relevant income tax rules and regulations in the PRC.

6 Dividend

A final dividend of Rmb10 cents per share totalling Rmb296,149,000 in respect of the financial year 2002 was approved during the period (financial year 2001: Rmb8 cents per share totalling Rmb236,635,000).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: 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 Rmb620,352,000 (2002: Rmb194,630,000) and a weighted average number of shares in issue during the period of 2,961,028,820 (2002: 2,958,662,764).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb620,352,000 (2002: Rmb194,630,000) and a weighted average number of shares of 2,963,560,833 (2002: 2,962,837,530) after adjusting for the effects of conversion of remaining convertible debentures.

8 Trade receivables

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Accounts receivable	96,852	92,060
Bills receivable	1,982,730	1,719,474
	2,079,582	1,811,534

The ageing analysis of trade receivables is as follows:

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Less than 3 months	1,716,216	1,594,836
More than 3 months but less than 12 months	363,366	216,698
	2,079,582	1,811,534

The Group requests customers to pay cash or settle by 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.

9 Trade payables

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Accounts payable	133,724	224,994
Bills payable	1,504,930	1,525,791
	1,638,654	1,750,785

The ageing analysis of trade payables is as follows:

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Due on demand	117,740	199,825
Due within three months	787,268	737,273
Due after three months but within six months	733,646	813,687
	1,638,654	1,750,785

10 Share capital

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
752,576,674 (2002: 751,873,679) A shares of Rmb1 each	752,577	751,874
890,000,000 H shares of Rmb1 each	890,000	890,000
	2,961,577	2,960,874

During the period, 702,995 (financial year 2002: 2,938,530) A shares were issued on the conversion of convertible debentures with total carrying value of Rmb2,184,000 (financial year 2002: Rmb9,592,000).

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

11 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.

12 Commitments

(a) As at 30 June 2003, the Group had capital commitments as follows:

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
Authorised and contracted for:		
– construction projects of production lines	474,753	771,467
– technology transfer fee	16,220	20,780
Authorised but not contracted for:		
– improvement projects of production lines	1,286,634	2,635,629
	1,777,607	3,427,876

(b) In October 2002, ANSC-TKS Galvanizing Co., Ltd, the jointly controlled entity of the Company, ("ANSC-TKS"), entered into a long-term loan facility of Rmb1,080 million (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights; construction in progress; property, plant and equipment of ANSC-TKS at carrying amount of Rmb732,641,000 (at 31 December 2002: Rmb519,248,000) at 30 June 2003.

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

The drawndown of the Syndicated Loan at 30 June 2003 amounted to Rmb400,000,000 (at 31 December 2002: Nil).

Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

13 Related party transactions

The following is a summary of significant transactions carried out between the Group, ANSI (its fellow subsidiary) and Anshan Iron & Steel Group Complex ("Angang Holding", its ultimate holding company) and its business undertakings ("Angang Group") during the period.

(a) Significant transactions

(i) Significant transactions which the Company conducts with ANSI and Angang Group in the normal course of business are as follows:

		Six months ended 30 June	
		2003	**2002**
	Note	*Rmb'000*	*Rmb'000*
Sales of finished goods	(a)	611,913	539,721
Return of scrap materials	(b)	109,789	104,802
Purchases of			
– raw materials	(c)	4,433,743	3,575,265
– ancillary materials and spare parts	(d)	46,839	42,005
Utility supplies	(e)	171,745	155,207
Fees paid for welfare and other support services	(f)	110,339	84,254

Notes:

(a) The Company sold finished products to ANSI and other fellow subsidiaries for their own consumption at average prices charged to independent customers for preceding month.

(b) The Company purchased raw materials from ANSI for production and returned scrap materials to ANSI at average prices charged to independent customers.

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

13 Related party transactions (continued)

(a) Significant transactions (continued)

(i) Significant transactions which the Company conducts with ANSI and Angang Group in the normal course of business are as follows: (continued)

Notes: (continued)

(d) The Company purchased from ANSI ancillary materials in the form of steel products and spare parts based on the average prices of such materials charged by ANSI to independent customers.

(e) The Company purchased from ANSI utilities in the form of industrial water, re-cycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam at cost.

(f) Angang Group charged the Company for railway and road transportation services; agency services for purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul; design and engineering services, product quality testing and analysis services, heating supply for employees' accommodation, education facilities; newspapers, telephone, fax and other media communication services and staff training either at applicable State price, market price or at cost.

(ii) Certain fellow subsidiaries were engaged to construct the production line of ANSC-TKS under similar terms for third parties. Total construction costs of Rmb13,676,000 (2002: Nil) were incurred by ANSC-TKS during the period.

(iii) Pursuant to an agreement dated 14 January 2003, the Group acquired certain land use rights and buildings in the PRC from Angang Holding at a consideration of Rmb150,915,000.

13 Related party transactions (continued)

(b) Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries mainly represent prepayments and amounts payable for the purchase of raw materials and other services. Advances are received by the Company in respect of sales of finished goods.

The amounts due from/to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(c) Convertible debentures

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

(d) Bank loans

As at 30 June 2003, certain bank loans amounted to Rmb1,863,000,000 (at 31 December 2002: Rmb1,463,000,000) were guaranteed by Angang Holding.

(e) Equity interest in ANSC-TKS

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligation of ANSC-TKS under the agreement of the Syndicated Loan.

The Company also committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

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

BALANCE SHEETS (UNAUDITED)

AT 30 JUNE 2003

		The Group		The Company	
		At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
	Note	*Rmb'000*	*Rmb'000* *(audited)*	*Rmb'000*	*Rmb'000* *(audited)*
Assets					
Current assets					
Cash at bank and in hand	6	1,680,010	1,702,051	1,616,504	1,675,586
Bills receivable	7	1,982,730	1,719,474	1,982,730	1,719,474
Trade receivables	8	96,852	92,060	96,852	92,060
Other receivables	9	20,702	94,200	19,915	56,235
Prepayments	10	636,903	676,208	636,903	676,208
Inventories	11	1,144,386	1,217,049	1,144,386	1,217,049
Deferred expenses	12	188	4,534	—	4,321
Total current assets		5,561,771	5,505,576	5,497,290	5,440,933
Long-term investments	13	14,400	—	262,705	248,305
Fixed assets					
Fixed assets, at cost or valuation	14	6,929,026	7,071,140	6,925,199	7,068,914
Less: Accumulated depreciation		(3,000,352)	(2,840,975)	(2,999,902)	(2,840,761)
Net book value of fixed assets		3,928,674	4,230,165	3,925,297	4,228,153
Construction in progress	15	3,368,618	2,358,791	2,957,621	2,094,732
Total fixed assets		7,297,292	6,588,956	6,882,918	6,322,885
Intangible assets and other assets					
Intangible assets	16	328,658	323,863	315,113	318,666
Long-term deferred expenses	17	17,494	6,955	—	—
Total intangible assets and other assets		346,152	330,818	315,113	318,666
Total assets		13,219,615	12,425,350	12,958,026	12,330,789

BALANCE SHEETS (UNAUDITED) (CONTINUED)

AT 30 JUNE 2003

	Note	The Group At 30 June 2003 Rmb'000	The Group At 31 December 2002 Rmb'000 (audited)	The Company At 30 June 2003 Rmb'000	The Company At 31 December 2002 Rmb'000 (audited)
Liabilities and shareholders' funds					
Current liabilities					
Short-term loans	18	—	65,000	—	—
Bills payable	19	1,504,930	1,525,791	1,504,930	1,525,791
Trade payables	20	220,498	298,724	220,498	298,724
Receipts in advance	21	714,683	995,222	714,683	995,222
Accrued payroll	22	62,497	38,753	62,497	38,599
Staff welfare payable		14,175	7,795	14,175	7,795
Taxes payable	23	243,866	95,309	243,866	95,253
Other payables	24	187,116	120,187	125,527	90,836
Accrued expenses	25	69,080	—	69,080	—
Current portion of long-term liabilities	26	100,000	—	100,000	—
Total current liabilities		3,116,845	3,146,781	3,055,256	3,052,220
Long-term liabilities					
Long-term loans	26	1,963,000	1,463,000	1,763,000	1,463,000
Convertible debentures	27	7,822	10,121	7,822	10,121
Total long-term liabilities		1,970,822	1,473,121	1,770,822	1,473,121
Total liabilities		5,087,667	4,619,902	4,826,078	4,525,341
Shareholders' funds					
Share capital	28	2,961,577	2,960,874	2,961,577	2,960,874
Capital reserve	29	3,080,249	3,078,693	3,080,249	3,078,693
Surplus reserves	30	484,078	484,078	484,078	484,078
(including: statutory public welfare fund)	30	242,039	242,039	242,039	242,039
Undistributed profits	31	1,606,044	1,281,803	1,606,044	1,281,803
(including: cash dividend)		-	296,087	-	296,087
Total shareholders' funds		8,131,948	7,805,448	8,131,948	7,805,448
Total liabilities and shareholders' funds		13,219,615	12,425,350	12,958,026	12,330,789

These financial statements have been approved by the Board of Directors on 18 August 2003.

Liu Jie	**Ma Lianyong**
Chairman	*Chief Accountant*

The accompanying notes on pages 52 to 100 form an integral part of these financial statements.

INCOME STATEMENTS AND PROFIT APPROPRIATION STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

		The Group		The Company	
		Six months ended 30 June		Six months ended 30 June	
		2003	2002	2003	2002
	Note	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Income from principal operations	32	6,973,390	5,021,697	6,973,390	5,021,697
Less: Costs of sales	33	5,719,614	4,523,135	5,719,614	4,523,135
Business taxes and surcharges	34	26,279	9,583	26,279	9,583
Profit from principal operations		1,227,497	488,979	1,227,497	488,979
Add: Other operating profit	35	16,152	12,246	16,152	12,246
Less: Operating expenses	36	96,556	82,473	96,556	82,473
Administrative expenses	37	151,109	99,085	151,109	99,085
Financial expenses	38	1,706	9,849	1,706	9,849
Operating profit		994,278	309,818	994,278	309,818
Add: Non-operating income		589	99	589	99
Less: Non-operating expenses	39	61,031	630	61,031	630
Total profit		933,836	309,287	933,836	309,287
Less: Income tax expense		313,446	118,367	313,446	118,367
Net profit		620,390	190,920	620,390	190,920

The accompanying notes on pages 52 to 100 form an integral part of these financial statements.

INCOME STATEMENTS AND PROFIT APPROPRIATION STATEMENTS (UNAUDITED) (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

		The Group		The Company	
		Six months ended 30 June		Six months ended 30 June	
		2003	2002	2003	2002
	Note	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Net profit		620,390	190,920	620,390	190,920
Add: Undistributed profits at the beginning of the period		985,716	806,203	985,716	806,203
Prior year adjustment	3	296,087	236,635	296,087	236,635
Distributable profits		1,902,193	1,233,758	1,902,193	1,233,758
Less: Transfer to statutory surplus reserve	30	—	—	—	—
Transfer to statutory public welfare fund	30	—	—	—	—
Profits distributable to shareholders		1,902,193	1,233,758	1,902,193	1,233,758
Less: Transfer to discretionary surplus reserve		—	—	—	—
Dividends	31	296,149	236,635	296,149	236,635
Undistributed profits		1,606,044	997,123	1,606,044	997,123

INCOME STATEMENTS AND PROFIT APPROPRIATION STATEMENTS (UNAUDITED) (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

Additional information on the income statements and profit appropriation statements

	The Group		The Company	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Proceeds from the sale and disposal of divisions or invested entities	—	—	—	—
Losses arising from natural disasters	—	—	—	—
Increase (or decrease) in total profits due to the changes in accounting policy	—	—	—	—
Increase (or decrease) in total profits due to the changes in accounting estimates	(39,392)	—	(39,392)	—
Losses arising from debt restructuring	—	—	—	—
Others	—	—	—	—

The accompanying notes on pages 52 to 100 form an integral part of these financial statements.

CASH FLOW STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Notes to the cash flow statements	**The Group** *Rmb'000*	**The Company** *Rmb'000*
Cash flows from operating activities:			
Cash received from sales of goods		7,506,203	7,506,203
Refund of taxes		14,273	14,273
Sub-total of cash inflows		7,520,476	7,520,476
Cash paid for goods		(6,184,544)	(6,184,544)
Cash paid to and on behalf of employees		(130,771)	(130,771)
Taxes paid		(457,256)	(457,256)
Cash paid in relation to other operating activities		(52,811)	(52,811)
Sub-total of cash outflows		(6,825,382)	(6,825,382)
Net cash flow from operating activities	(a)	695,094	695,094
Cash flows from investing activities:			
Net proceeds from the disposal of fixed assets		534	534
Cash received relating to other investing activities		37,363	7,616
Sub-total of cash inflows		37,897	8,150
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(939,507)	(815,102)
Cash paid for acquisition of investments		(14,400)	(14,400)
Sub-total of cash outflows		(953,907)	(829,502)
Net cash flow from investing activities		(916,010)	(821,352)

CASH FLOW STATEMENTS (UNAUDITED) (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Notes to the cash flow statements	**The Group** *Rmb'000*	**The Company** *Rmb'000*
Cash flows from financing activities:			
Proceeds from loans		625,000	400,000
Sub-total of cash inflows		625,000	400,000
Repayments of loans		(90,000)	—
Cash paid for dividends or interest payment		(335,168)	(331,754)
Cash paid relating to other financing activities		(853)	(853)
Sub-total of cash outflows		(426,021)	(332,607)
Net cash flow from financing activities		198,979	67,393
Effect of exchange rate fluctuations on cash held		(104)	(217)
Net decrease in cash and cash equivalents	(c)	(22,041)	(59,082)

The accompanying notes on pages 52 to 100 form an integral part of these financial statements.

CASH FLOW STATEMENTS (UNAUDITED) (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	The Group	The Company
	Rmb'000	*Rmb'000*
Notes to the cash flow statements		
(a) Reconciliation of net profit to cash flows from operations:		
Net profit	620,390	620,390
Add: Bad debt provision	(44)	(44)
Inventory provision	16,000	16,000
Depreciation of fixed assets	262,720	262,720
Amortisation of intangible assets	3,553	3,553
Decrease in deferred expenses	4,321	4,321
Increase in accrued expenses	69,080	69,080
Loss on disposal of fixed assets	60,114	60,114
Financial expenses	1,706	1,706
Decrease in inventories	56,663	56,663
Increase in operating receivables	(208,070)	(208,070)
Decrease in operating payables	(191,339)	(191,339)
Net cash flow from operating activities	695,094	695,094
(b) Non-cash transactions of investing and financing activities:		
Conversion of debt to capital	2,184	2,184
(c) Net decrease in cash and cash equivalents:		
Cash at the end of the period	1,680,010	1,616,504
Less: Cash at the beginning of the period	(1,702,051)	(1,675,586)
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net decrease in cash and cash equivalents	(22,041)	(59,082)

The accompanying notes on pages 52 to 100 form an integral part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2003

1. STATUS OF THE COMPANY

Angang New Steel Company Limited (the "Company") was formally established on 8 May 1997 as a joint stock limited company.

The Company was established as a joint stock limited company under the Company Law of the People's Republic of China ("PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole originator, pursuant to the approval document Tigaisheng [1997] No.62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. 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 largest iron and steel comprehensive production companies in China. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sale, research and development, administration activities of the Plants together with the relevant assets and liabilities as at 31 December 1996 as its contribution to the Company. The above assets and liabilities had been revalued by China Assets Appraisal Co., Ltd. The revalued net asset value amounted to Rmb2,028,817,600. The valuation was confirmed by the State Administration of State-owned Assets under the document Guoziping [1997] No.326.

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

Pursuant to the approval document Guoziqifa [1997] No.65 issued by the State Administration of State-owned Assets, the above net assets transferred from Angang Holding to the Company was converted into 1,319,000,000 shares of Rmb1.00 each based on the conversion ratio of 65.01%.

Pursuant to the approval document Zhengweifa [1997] No.40 issued by the Securities Committee of the State Council, the Company issued 890,000,000 ordinary H shares ("H shares") with a par value of Rmb1.00 each on 22 July 1997 which were subsequently listed on the Stock Exchange of Hong Kong Limited on 24 July 1997.

1. STATUS OF THE COMPANY (continued)

Pursuant to the approval documents "Notice on the Limit of A Shares to be Issued by Angang New Steel Company Limited" (Yetiban [1997] No.16) issued by the Ministry of Metallurgical Industry and "Reply on the Application of the Public Offering of the Shares of Angang New Steel Company Limited" (Zhengjianfazi [1997] No.503) issued by the China Securities Regulatory Commission, the Company also issued 300,000,000 ordinary A shares ("A shares") with a par value of Rmb1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 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 become 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 ("Thyssen"). The business registration of ANSC-TKS Galvanizing Co. Ltd. ("ANSC-TKS") was completed on 8 February 2002.

The principal activities of the Company 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-ANSC-TKS (collectively referred to as the "Group") in the preparation of the financial statements conform with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC.

(a) Accounting period

The Group's accounting year is from 1 January to 31 December.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(b) Preparation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the Accounting Regulations for Business Enterprises and the Interim Provisions on Consolidated Financial Statements (Caikuaizi [1995] No.11) issued by the Ministry of Finance.

ANSC-TKS is a sino-foreign equity joint venture established between the Company and Thyssen over which the control exercised by each party is established under contractual agreement. During the preparation of the consolidated financial statements, the Company consolidated the assets, liabilities, revenue, costs and expenses of ANSC-TKS on a pro rata basis.

(c) Accounting basis and pricing principle

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

(d) 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 as the gains and losses of the current period, except that the gains and losses directly relating to the purchase or construction of fixed assets before they are put in use are capitalised as part of the costs of the fixed assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Bad debt provision

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

Bad debt provision for other receivables is determined based on their specific nature and corresponding risk assessment 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 addition to the actual cost for the purchase of raw materials, the cost of work in progress and finished goods also includes direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

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.

Spare parts are stated at cost less stock provision.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories (continued)

Except spare parts, 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 equity investments

Long-term investments are carried at the lower of the carrying amount and the recoverable value. Whenever the recoverable value falls below the carrying amount, provisions for diminution in value is made on the difference.

Long-term investments controlled or jointly controlled by the Company or over which the Company exercises significant influence are accounted for under the equity method. It is initially recorded at cost and adjusted thereafter according to the Company's share of equity interest in the invested entity. Difference arising from equity investments is the difference between the original cost of investments and the share of equity interests in the invested entity, which should be amortised on a straight-line basis. Amortisation charge for the period is accounted for in the investment income.

(i) Fixed assets

(i) Fixed assets represent assets with a useful life of over one year and with a higher unit cost which are held by the Group for production and operation purpose.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(i) Fixed assets (continued)

(ii) Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation and impairment losses (refer to Note 2 (r)). The cost of a fixed asset comprises its purchase price, related charges 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 asset. All other expenditure is charged to the income statement in the period when 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 period when it is incurred.

(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 deducting its estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings and plants	10 to 40 years
Machinery and equipment	5 to 20 years
Other fixed assets	4 to 15 years

(j) Construction in progress

Construction in progress represents buildings, plants and equipment under construction and is stated at cost less impairment losses (refer to Note 2 (r)). Costs of construction represent all direct and indirect costs related to the acquisition or construction of fixed assets which are incurred before the related assets are ready for their intended use, including the interest charges (and the related exchange gains or losses) on specified borrowings incurred during the construction period, are capitalised as construction in progress.

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(j) Construction in progress (continued)

Capitalisation of these borrowing costs and exchange gains or losses 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 in the balance sheet at cost or valuation less accumulated amortisation and impairment losses (refer to Note 2 (r)). Amortisation is provided on a straight-line basis over the beneficial period, the useful life of the asset or the period as specified in the relevant rules and regulations.

(l) Convertible debentures

Convertible debentures are stated at par value. Interest expense is accrued annually and 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 and the accrued interest is credited to the share capital and capital reserve.

(m) Pre-operating expenses

All the costs incurred during the set up period, except from that incurred for the purchase or construction of fixed assets, are initially recorded as long-term deferred expenses and are subsequently accounted for on a lump sum basis as profits or losses in the month when the enterprise commences operation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due 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.

(o) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the income statement as and when they are incurred.

(p) Research and development costs

Research and development costs are charged to the income statement in the period as and when they are incurred.

(q) 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 41.

(r) Impairment

The carrying amounts of the Group's assets (including long-term investments, fixed assets, construction in progress, intangible assets, etc), other than trade receivables and inventories (refer to Notes 2 (f), 2 (g)), are reviewed periodically in order to assess whether the recoverable amounts have decreased below the carrying value. These assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such a decrease has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by these assets are discounted to their present value. The amount of the impairment loss is recognised in the income statement of the current period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Impairment (continued)

Whenever there is any indication that an impairment loss recognised for an asset in prior years may no longer exist, or there has been a change in the estimates used to determine the recoverable amount which has led to a decrease in the impairment loss, the impairment loss will be reversed and the reversed amount is recognised in the income statement of the current period.

(s) Income tax

Income tax is provided on an accrual basis. The income tax of the Group for the year is calculated according to the taxable income and the applicable tax rate.

(t) Profit appropriation

Profit appropriation of the Group is made in accordance with relevant rules and regulations of the Company Law of the PRC and the Articles of Association of the concerned entity.

(u) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control and jointly control the party or exercise significant influence over the party, or vice versa, or where the Group and the party or parties are subject to common control or common significant influence. Related parties may be individuals or entities.

(v) Taxation

The taxes applicable to the Group are income tax, value added tax ("VAT") and other taxes.

(i) Income tax

The income tax rate applicable to the Group is 33%.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Taxation (continued)

(ii) VAT

The VAT rate applicable to the Group is 17%.

(iii) Others

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

3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

a) Change in accounting policy

According to the revised Accounting Standard for Business Enterprises: Events After Balance Sheet Date (Caikuaizi [1998] No. 14) and The Notice on the Accounting Standard for Business Enterprises: Events After Balance Sheet Date issued by the Ministry of Finance on 14 April 2003 (Caikuai [2003] No. 12), the Group has presented, separately in the shareholders' funds in the balance sheet, the cash dividends proposed by the board of directors after the balance sheet date but before the issuance of the financial statements. The Group has restated the financial statements of 2002.

	The Group/The Company	**The Company**
	2003	**2002**
	Rmb'000	*Rmb'000*
Shareholders' funds at 1 January previously reported	7,509,361	7,201,397
Dividends payable	296,087	236,635
Restated balance	7,805,448	7,438,032

3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES (continued)

b) Change in accounting estimates

The Group has adjusted the useful lives of the fixed assets beginning from 1 January 2003. The adjustment is mainly for shortening the estimated useful lives of the fixed assets held by the Group.

The adjustment increased the depreciation expenses for the first half year of 2003 by approximately Rmb39,392,000 and decreased the profit after tax by approximately Rmb26,393,000, accordingly.

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. SEGMENT REPORTING

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

6. CASH AT BANK AND IN HAND

The Group

	At 30 June 2003			At 31 December 2002		
	Original currency *'000*	**Exchange rate**	**Rmb/ Rmb equivalent** *Rmb'000*	**Original currency** *'000*	**Exchange rate**	**Rmb/ Rmb equivalent** *Rmb'000* *(audited)*
Cash in hand						
Renminbi	—	—	14	—	—	26
Euro	2	9.46	19	—	—	—
Cash at bank						
Renminbi	—	—	1,628,361	—	—	1,607,669
HK Dollars	25,603	1.06	27,170	33,376	1.06	35,412
US Dollars	955	8.28	7,906	1,822	8.28	15,085
Euro	1,720	9.46	16,281	5,050	8.64	43,608
Pounds Sterling	19	13.65	259	19	13.21	251
			1,680,010			1,702,051

6. CASH AT BANK AND IN HAND (continued)

The Company

	At 30 June 2003			At 31 December 2002		
	Original currency	Exchange rate	Rmb/ Rmb equivalent	Original currency	Exchange rate	Rmb/ Rmb equivalent
	'000		*Rmb'000*	*'000*		*Rmb'000* *(audited)*
Cash in hand						
Renminbi	—	—	10	—	—	23
Cash at bank						
Renminbi	—	—	1,571,769	—	—	1,589,096
HK Dollars	25,603	1.06	27,170	33,376	1.06	35,412
US Dollars	125	8.28	1,035	873	8.28	7,230
Euro	1,718	9.46	16,261	5,046	8.64	43,574
Pounds Sterling	19	13.65	259	19	13.21	251
			1,616,504			1,675,586

The balance of cash at bank and in hand of the Group as at 30 June 2003 has decreased by Rmb 22,041,000 as compared with the end of the previous year. The decrease is mainly due to the increase in payment for construction costs.

7. BILLS RECEIVABLE

All the bills receivable held by the Company represent the bills of acceptance issued by banks which are not secured.

Due to the increase in sales volume, the balance of bills receivable as at 30 June 2003 increased as compared with last year.

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

8. TRADE RECEIVABLES

	The Group/The Company At 30 June 2003		The Group/The Company At 31 December 2002	
	Rmb'000	*%*	*Rmb'000* *(audited)*	*%*
Within one year	96,852	100	92,060	100
Less: Bad debt provision	—	—	—	—
	96,852	100	92,060	100

The management of the Group considers that no provision for bad debt in respect of trade receivables as at 30 June 2003 is necessary as all of these amounts are due within one year and it is expected that the amounts can be fully recovered.

The trade receivables of the Group at 30 June 2003 were as follows:

Name of debtor	Particulars	Amount	Percentage of total trade receivables
		Rmb'000	*%*
China Railway Materials Shenyang Co.	Sales of goods	70,942	73
Zhongtie Shanqiao Group Co.	Sales of goods	21,073	22
Shenyang Railway Materials Supply Centre	Sales of goods	4,837	5
		96,852	100

8. TRADE RECEIVABLES (continued)

The total trade receivables of the Group's five largest debtors at 30 June 2003 were as follows:

	The Group/The Company At 30 June 2003	The Group/The Company At 31 December 2002 *(audited)*
Amount (Rmb'000)	96,852	92,060
Percentage of total trade receivables	100%	100%

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

9. OTHER RECEIVABLES

	The Group				The Company			
	At 30 June 2003		At 31 December 2002		At 30 June 2003		At 31 December 2002	
	Rmb'000	*%*	*Rmb'000* *(audited)*	*%*	*Rmb'000*	*%*	*Rmb'000* *(audited)*	*%*
Other receivables								
Within one year	18,157	87	62,579	66	18,157	90	24,704	44
Between one and two years	1,982	10	31,107	33	1,195	6	31,017	55
Between two and three years	563	3	514	1	563	3	514	1
Over three years	116	—	160	—	116	1	160	—
	20,818	100	94,360	100	20,031	100	56,395	100
Less: Bad debt provision over three years	(116)	—	(160)	—	(116)	—	(160)	—
Other receivables, net	20,702	100	94,200	100	19,915	100	56,235	100

9. **OTHER RECEIVABLES (continued)**

Bad debt provision	**The Group/ The Company At 30 June 2003** *Rmb'000*	**The Group/ The Company At 31 December 2002** *Rmb'000* *(audited)*
Balance at the beginning of the period /year	160	56
Add: Provision for the period	—	104
Less: Written back for the period	44	—
Balance at the end of the period/year	116	160

The management considers that all debtors at 30 June 2003 have the ability to repay the debts and most of the other receivables can be recovered, hence, the level of bad debt provision is less than 5%.

The five largest debtors of other receivables of the Group at 30 June 2003 were as follows:

Name of debtor	**Particulars**	**Amount** *Rmb'000*	**Percentage of total other receivables** *%*
Anshan State Tax Bureau	Rebate of VAT receivable	13,827	67
Rautaruukki Oyj Helsinki, Finland	Prepayment for acquisition of software	2,600	13
Angang Holding	Prepayments for land use rights and construction costs	1,190	6
Shenzhen Stock Exchange	Prepayment of interests for the convertible debentures	519	2
Dalian Customs	Import duty deposit	305	1
		18,441	89

9. OTHER RECEIVABLES (continued)

The total other receivables of the Group's five largest debtors at 30 June 2003 were as follows:

	The Group/The Company At 30 June 2003	The Group/The Company At 31 December 2002 *(audited)*
Amount (Rmb'000)	18,441	85,942
Percentage of total other receivables	89%	91%

The decrease in other receivables during the period as compared with 2002 is mainly due to the reimbursement of deposits of approximately Rmb36,748,000 paid to Dalian Customs for the purchase of overseas equipment during the second quarter of 2003 and the settlement of approximately Rmb15,696,000 with Angang Holding for the prepayment of land use rights and construction costs during February 2003.

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

10. PREPAYMENTS

	The Group/The Company At 30 June 2003		The Group/The Company At 31 December 2002	
	Rmb'000	*%*	*Rmb'000* *(audited)*	*%*
Within one year	625,320	98	673,231	100
Between one and two years	11,581	2	2,961	—
Between two and three years	2	—	16	—
	636,903	100	676,208	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 payments of these contracts have not been made.

10. PREPAYMENTS (continued)

The Group's prepayments as at 30 June 2003 were as follows:

	The Group/The Company At 30 June 2003 *Rmb'000*	The Group/The Company At 31 December 2002 *Rmb'000* *(audited)*
Angang New Steel and Iron Company Limited ("ANSI")	587,512	632,463
Subsidiaries of Angang Holding	15,940	11,235
	603,452	643,698
Prepayments for spare parts	33,451	32,510
	636,903	676,208

Prepayments to ANSI are mainly the prepayments made by the Company for purchase of raw materials.

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

11. INVENTORIES

	The Group/The Company At 30 June 2003		The Group/The Company At 31 December 2002	
	Rmb'000	*%*	*Rmb'000* *(audited)*	*%*
At cost:				
Raw materials	126,695	11	144,609	11
Work in progress	193,560	16	124,735	10
Finished goods	320,337	26	366,471	29
Spare parts and consumables	574,076	47	635,516	50
	1,214,668	100	1,271,331	100
Less: Provision for diminution in value - Spare parts	(70,282)	—	(54,282)	—
	1,144,386	100	1,217,049	100

	The Group/The Company At 30 June 2003	The Group/The Company At 31 December 2002
	Rmb'000	*Rmb'000* *(audited)*
Provision for diminution in value		
Balance at the beginning of the period/year	54,282	73,466
Provision for the period	16,000	—
Written back for the period	—	(19,184)
Balance at the end of the period/year	70,282	54,282

11. INVENTORIES (continued)

	The Group/The Company Six months ended 30 June 2003 *Rmb'000*	The Group/The Company Six months ended 30 June 2002 *Rmb'000*
Costs of inventories recognised in the income statement are as follows:		
- Cost of sales	5,719,614	4,523,135

The net realisable value of the spare parts of which provision had been made amounted to Rmb 100,539,000 (2002: Rmb 85,076,000).

The decrease in the balance of inventories as at 30 June 2003 as compared with previous year is mainly because that the thick plate plant is undergoing renovation from June 2003 and the purchase of raw materials decreased accordingly. The increase in sales during the period has led to a further decrease of finished goods. Moreover, the Company strengthened the management of stock and purchase, leading to the decrease of spare parts at 30 June 2003.

12. DEFERRED EXPENSES

	Balance at the beginning of the period *Rmb'000*	Additions *Rmb'000*	Amortisation *Rmb'000*	Balance at the end of the period *Rmb'000*
The Company				
- Heating expenses	4,321	—	(4,321)	—
ANSC - TKS				
- Software license fee	213	22	(47)	188
The Group	4,534	22	(4,368)	188

13. LONG-TERM INVESTMENTS

	Balance at the beginning of the period *Rmb'000*	Additions *Rmb'000*	Amortisation *Rmb'000*	Balance at the end of the period *Rmb'000*
Investment in jointly controlled entity	248,305	—	—	248,305
Less: Provision for diminution in value	—	—	—	—
Subtotal	248,305	—	—	248,305
The Group				
Investment in associate	—	14,400	—	14,400
Less: Provision for diminution in value	—	—	—	—
Subtotal	—	14,400	—	14,400
The Company				
Total	248,305	14,400	—	262,705

At 30 June 2003, the Company's investment in jointly controlled entity was as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment *Rmb'000*
ANSC-TKS	50%	50 years	248,305

13. LONG-TERM INVESTMENTS (continued)

The Company's first injection to ANSC - TKS had been verified by Dalian Hengping United Public Accountants and the capital verification report was issued on 28 March 2002. The Company's second injection had been verified by KPMG Huazhen and the capital verification report was issued on 28 September 2002. At 28 August 2002, the registered capital of ANSC - TKS had been fully paid in accordance with the Articles of Association. ANSC - TKS is still in the set up stage.

Pursuant to an Equity Pledge Agreement entered into between the Company and Bank of China, Liaoning Branch on 20 October 2002, the Company pledged to Bank of China, Liaoning Branch all its equity interests in ANSC - TKS to secure the performance of the obligations of ANSC - TKS, i.e. to repay and settle the related debts due to Bank of China, Liaoning Branch in full and in a timely manner. Details of the arrangement are set out in Note 26.

At 30 June 2003, the Group/the Company's investment in associate was as follows:

Name of invested entity	**Share of equity interest in the invested entity**	**Term of investment**	**Initial cost of investment**
			Rmb'000
Angang Shenyang Steel Product Processing And Distribution Company Limited ("Angang Shenyang")	30%	50 years	14,400

On 17 March 2003, the Company entered into an agreement with Angang International Trading (Group) Company ("AITG") and ANSI to set up Angang Shenyang. The principal activities of Angang Shenyang include the sale, processing and distribution of steel products. The Company holds 30% interests in Angang Shenyang, whose registered capital amounted to Rmb48,000,000.

14. FIXED ASSETS

The Group	Buildings and plants	Machinery and equipment	Others	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost or valuation:				
Balance at the beginning of the period	1,813,147	4,833,550	424,443	7,071,140
Additions	5,373	—	1,726	7,099
Transferred from construction in progress (Note 15)	1,364	5,054	8,596	15,014
Reclassification	44,370	(44,370)	—	—
Disposals	(1,005)	(158,588)	(4,634)	(164,227)
Balance at the end of the period	1,863,249	4,635,646	430,131	6,929,026
Accumulated depreciation:				
Balance at the beginning of the period	537,485	1,915,465	388,025	2,840,975
Charge for the period	36,566	210,256	16,134	262,956
Written back on disposal	(58)	(99,722)	(3,799)	(103,579)
Balance at the end of the period	573,993	2,025,999	400,360	3,000,352
Net book value:				
Balance at the end of the period	1,289,256	2,609,647	29,771	3,928,674
Balance at the beginning of the period	1,275,662	2,918,085	36,418	4,230,165

14. FIXED ASSETS (continued)

The Company

	Buildings and plants *Rmb'000*	Machinery and equipment *Rmb'000*	Others *Rmb'000*	Total *Rmb'000*
Cost or valuation:				
Balance at the beginning of the period	1,813,147	4,833,550	422,217	7,068,914
Additions	5,373	—	125	5,498
Transferred from construction in progress (Note 15)	1,364	5,054	8,596	15,014
Reclassification	44,370	(44,370)	—	—
Disposals	(1,005)	(158,588)	(4,634)	(164,227)
Balance at the end of the period	1,863,249	4,635,646	426,304	6,925,199
Accumulated depreciation:				
Balance at the beginning of the period	537,485	1,915,465	387,811	2,840,761
Charge for the period	36,566	210,256	15,898	262,720
Written back on disposal	(58)	(99,722)	(3,799)	(103,579)
Balance at the end of the period	573,993	2,025,999	399,910	2,999,902
Net book value:				
Balance at the end of the period	1,289,256	2,609,647	26,394	3,925,297
Balance at the beginning of the period	1,275,662	2,918,085	34,406	4,228,153

At 30 June 2003, the net book value of the fully depreciated fixed assets of the Group which are still in use was Rmb 19,311,000.

Part of the fixed assets are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 26.

15. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred for buildings, plants, machinery and equipment which have not yet put into operation.

	Amount		Capitalisation of interest charges	
	The Group	The Company	The Group	The Company
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost:				
Balance at the beginning of the period	2,358,791	2,094,732	38,410	38,033
Additions	1,024,841	877,903	44,801	41,795
Transferred to fixed assets (note 14)	(15,014)	(15,014)	—	—
Balance at the end of the period	3,368,618	2,957,621	83,211	79,828
Less: Provision for diminution in value				
Balance at the beginning of the period	—	—		
Additions	—	—		
Deductions	—	—		
Written off	—	—		
Balance at the end of the period	—	—		
Net amount:				
Balance at the end of the period	3,368,618	2,957,621		
Balance at the beginning of the period	2,358,791	2,094,732		

Interest charge of the Group for the period was capitalised at a rate of 5.2% (2002: 5.5%).

15. CONSTRUCTION IN PROGRESS (continued)

At 30 June 2003, the projects under construction of the Group/the Company were as follows:

Project	Budget	Balance at 1 January 2003	Additions	Transferred to fixed assets	Balance at 30 June 2003	Percentage of budget	Source of fund	Interest charges capitalised during the period
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000* *(Note 14)*	*Rmb'000*			*Rmb'000*
Upgrade of the second cold rolling production line	3,750,000	1,561,337	674,697	(9,461)	2,226,573	80%	Equity finance and bank loans	40,911
Upgrade of continuous casting and rolling mill, and all - purposes rolling mill	600,000	302,027	53,965	—	355,992	99%	Operating fund	—
Upgrade of the heavy plate rolling line	368,000	221,452	100,592	—	322,044	75%	Operating fund and bank loans	884
Technology renovation	109,000	9,916	48,649	(5,553)	53,012	69%	Operating fund	—
Total for the Company	4,827,000	2,094,732	877,903	(15,014)	2,957,621			41,795
Dalian galvanised steel production line	641,000	264,059	146,938	—	410,997	85%	Operating fund and bank loans	3,006
Total for the Group	5,468,000	2,358,791	1,024,841	(15,014)	3,368,618			44,801

Part of the construction in progress are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 26.

16. INTANGIBLE ASSETS

	The Company			The Group
	Land use rights	Software	Industrial technology	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost:				
Balance at the beginning of the period	354,200	2,182	3,117	359,499
Additions	—	3,835	4,560	8,395
Deductions	—	—	—	—
Balance at the end of the period	354,200	6,017	7,677	367,894
Less: Accumulated amortisation				
Balance at the beginning of the period	35,534	102	—	35,636
Additions	3,553	47	—	3,600
Deductions	—	—	—	—
Balance at the end of the period	39,087	149	—	39,236
Less: Provision for diminution in value				
Balance at the beginning of the period	—	—	—	—
Additions	—	—	—	—
Deductions	—	—	—	—
Balance at the end of the period	—	—	—	—
Net amount:				
Balance at the end of the period	315,113	5,868	7,677	328,658
Balance at the beginning of the period	318,666	2,080	3,117	323,863

16. INTANGIBLE ASSETS (continued)

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. Software is amortised on a straight-line based over 10 years. Industrial technology purchased by ANSC-TKS from Thyssen, has a useful life of 12 years commencing from the date when ANSC-TKS obtained its business license. Amortisation is calculated on a straight-line basis over its remaining useful life commencing from the date when it was put into use.

17. LONG-TERM DEFERRED EXPENSES

	The Group *Rmb'000*	The Company *Rmb'000*
Cost:		
Balance at the beginning of the period	6,955	—
Additions	10,539	—
Deductions	—	—
Balance at the end of the period	17,494	—
Net amount:		
Balance at the end of the period	17,494	—
Balance at the beginning of the period	6,955	—

Long-term deferred expenses represent pre-operating expenses incurred by ANSC-TKS. At 30 June 2003, ANSC-TKS was still in the set up stage.

18. SHORT-TERM LOANS

The Group

	At 30 June 2003			At 31 December 2002		
	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
	Rmb'000			*Rmb'000* *(audited)*		
Bank loans	—			65,000	5.04%	Credit

The Company

	At 30 June 2003			At 31 December 2002		
	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
	Rmb'000			*Rmb'000* *(audited)*		
Bank loans	—			—		

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's shares.

19. BILLS PAYABLE

Bills payable of the Company primarily represent bank accepted bills for raw materials and spare parts purchasing. The repayment terms are within six months.

The Group's five largest bills payable at 30 June 2003 were as follows:

Name of creditor	Particulars	Amount	Percentage of total bills payable
		Rmb'000	*%*
ANSI	Purchase goods	1,200,000	80
Heilongjiang First Heavy Industries Company Limited	Construction costs	23,000	2
Jinguang Ferroalloy Company Limited	Purchase goods	12,200	1
Angang International Trade Company Dalian Branch	Freight charges	6,977	—
Shanghai Jingyu Equipment Construction Company Limited	Construction costs	6,542	—
		1,248,719	83

The total bills payable of the Company's five largest creditors at 30 June 2003 were as follows:

	The Group/The Company At 30 June 2003	The Group/The Company At 31 December 2002 *(audited)*
Amount (Rmb'000)	1,248,719	1,501,576
Percentage of total bills payable	83%	98%

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

20. TRADE PAYABLES

At 30 June 2003, the balance of trade payables of the Group included Rmb 50,093,000 due to ANSI for the purchase of raw materials and Rmb 35,867,000 due to the subsidiaries of Angang Holding for the purchase of raw materials and maintenance services .

None of the trade payables of the Group at 30 June 2003 were aged over three years.

Among the balance of trade payables, no balance is due to a shareholder who holds 5% or more of the Company's shares.

21. RECEIPTS IN ADVANCE

The balance of receipts in advance of the Group at 30 June 2003 includes Rmb 70,968,000 and Rmb 32,935,000 received from AITG and other subsidiaries of Angang Holding respectively in respect of the purchase of steel products.

None of the receipts in advance of the Group at 30 June 2003 were aged more than one year.

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

22. ACCRUED PAYROLL

The Company's salary is composed of basic salary and performance-linked salary. The increase in the Company's profit for the period led to an increase in accrued payroll and performance-linked salary.

The accrued payroll (Rmb 62,497,000) represents performance-linked salary payable.

23. TAXES PAYABLE

	The Group		The Company	
	At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
VAT	56,639	43,574	56,639	43,574
Income tax	167,861	48,748	167,861	48,748
City construction and maintenance taxes	3,964	2,229	3,964	2,229
Individual income tax	15,402	758	15,402	702
Total	243,866	95,309	243,866	95,253

24. OTHER PAYABLES

	The Group		The Company	
	At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
	Rmb'000	*Rmb'000 (audited)*	*Rmb'000*	*Rmb'000 (audited)*
Construction costs	121,701	52,671	62,763	35,877
Freight charges	11,714	14,159	11,714	14,159
Deposit for steel shelves	30,762	18,418	30,762	18,418
Payables to Thyssen	1,966	11,340	—	—
Pension and unemployment insurance	4,143	4,143	4,143	4,143
Tax withheld	711	2,203	711	2,203
Staff education fund	4,895	3,751	4,895	3,751
Education surcharge	2,266	1,274	2,266	1,274
Others	8,958	12,228	8,273	11,011
Total	187,116	120,187	125,527	90,836

24. OTHER PAYABLES (continued)

The balance of other payables of the Group includes Rmb48,408,000 due to AITG and other subsidiaries of Angang Holding in respect of the construction and other services rendered.

Among the balance of other payables, no balance is due to a shareholder who holds 5% or more of the Company's shares.

25. ACCRUED EXPENSES

	The Group/The Company At 30 June 2003 *Rmb'000*	The Group/The Company At 31 December 2002 *Rmb'000* *(audited)*
Maintenance fee	60,520	—
Research and development fees	4,810	—
Property insurance fee	3,750	—
Total	69,080	—

26. LOANS

	The Group At 30 June 2003 *Rmb'000*	The Company At 30 June 2003 *Rmb'000*	The Group/ The Company At 31 December 2002 *Rmb'000* *(audited)*
Current portion of long-term debts	100,000	100,000	—
Long-term loans	1,963,000	1,763,000	1,463,000
	2,063,000	1,863,000	1,463,000

26. LOANS (continued)

The interest rates and terms of repayment for current portion of long-term loans

Bank	Period	Interest rate p.a.	The Group At 30 June 2003	The Company At 30 June 2003	The Group/ The Company At 31 December 2002
			Rmb'000	*Rmb'000*	*Rmb'000*
	(Note 1)	*(Note 2)*			*(audited)*
Industrial and Commercial Bank of China	Due in 2004	5.49%	100,000	100,000	—

The interest rates and terms of repayment for long-term bank loans

Bank	Period	Interest rate p.a	The Group At 30 June 2003	The Company At 30 June 2003	The Group/ The Company At 31 December 2002
			Rmb'000	*Rmb'000*	*Rmb'000*
	(Note 1)	*(Note 2)*			*(audited)*
Industrial and Commercial Bank of China	Due in 2004	5.49%	263,000	263,000	363,000
Bank of China	Due in 2005	5.49%	1,100,000	1,100,000	1,100,000
Bank of China	Due in 2006	5.49%	400,000	400,000	—
Bank of China	Due from 2004 to 2014	5.76%	200,000	—	—
			1,963,000	1,763,000	1,463,000

The bank loans of the Company are mainly used for technology renovation and equipment upgrading and are guaranteed by Angang Holding.

26. LOANS (continued)

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged its land use rights, construction in progress, buildings and plants, machinery and equipment with a carrying value of Rmb732,641,000 at 30 June 2003 to Bank of China as collaterals of the loan.

The Company pledged to Bank of China its 50% equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

At 30 June 2003, ANSC-TKS had drawn down Rmb400,000,000 from the above syndicated loan facility.

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's shares.

(Note 1): The repayment period of the loans is between 28 June 2004 and 20 December 2014.

(Note 2): The interest rate of the long-term loans was based on rates quoted by the People's Bank of China.

27. 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 rate of Rmb3.3 per share. Since 22 June 2001, the conversion rate has been revised to Rmb3.21 per share. Since 4 July 2002, the conversion rate has been further revised to Rmb3.13 per share. The conversion rate has been revised to Rmb 3.03 per share since 3 June 2003. The exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,108,687 A shares.

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

27. CONVERTIBLE DEBENTURES (continued)

By 30 June 2003, 452,576,674 A shares were converted from the Debentures of the Company at a conversion price of Rmb1,492,328,000. The par value of Debentures converted in excess the par value of the shares and the accrued interest expenses of Rmb10,251,000 have increased the capital surplus by Rmb1,049,980,000. A cash payment of Rmb22,000 was made for the odd lot convertible debentures.

28. SHARE CAPITAL

	At 30 June 2003 *Rmb'000*	At 31 December 2002 *Rmb'000* *(audited)*
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		
751,873,679 Renminbi ordinary shares ("A shares") (2002: 748,935,149) shares of Rmb1 each issued at the beginning of period	751,874	748,935
Additional issue of 702,995 (2002: 2,938,530) A shares upon the conversion of convertible debentures	703	2,939
752,576,674 (2002: 751,873,679) A shares of Rmb1 each issued at the end of period	752,577	751,874
890,000,000 overseas-listed foreign invested shares (2002: 890,000,000) of Rmb1 each ("H share")	890,000	890,000
	1,642,577	1,641,874
	2,961,577	2,960,874

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

29. CAPITAL RESERVE

	The Group/The Company		
	At 1 January 2003	Increase	At 30 June 2003
	Rmb'000	*Rmb'000*	*Rmb'000*
Net asset conversion	709,817	—	709,817
Write 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	1,048,500	1,480	1,049,980
Write off of trade payables	165	—	165
Receipt of non-cash assets donation	—	76	76
	3,078,693	1,556	3,080,249

30. SURPLUS RESERVES

	The Group/The Company		
	At 1 January 2003	Profits distribution	At 30 June 2003
	Rmb'000	*Rmb'000*	*Rmb'000*
Statutory surplus reserve	242,039	—	242,039
Statutory public welfare fund	242,039	—	242,039
	484,078	—	484,078

In accordance with the Company Law of the People's Republic of China and Article 147 of the Company's Articles of Association, the Company allocates 10% of its net profit after taxation to the Statutory surplus reserve, until the reserve aggregates to 50% of the Company's registered capital. In addition, 10% of the Company's net profit after taxation will be allocated to the Statutory public welfare fund.

31. UNDISTRIBUTED PROFITS

	The Group/ The Company At 30 June 2003 *Rmb'000*	The Group/ The Company At 31 December 2002 *Rmb'000* *(audited)*
Undistributed profits at the beginning of the period/year	985,716	806,203
Add: Prior year adjustment	296,087	236,635
Adjusted undistributed profits at the beginning of the period/year	1,281,803	1,042,838
Add: Profit for the period/year	620,390	594,588
Less: Transfer to surplus reserves	—	(118,918)
Dividends	(296,087)	(236,635)
Balance of dividends	(62)	(70)
Undistributed profits at the end of the period/year	1,606,044	1,281,803

Proposed dividends in respect of the financial year 2002 and the actual amount paid are Rmb296,087,000 and Rmb296,149,000 respectively. Additional dividends are distributed to the holders of A shares which were issued upon the conversion of convertible debentures before the closing of the register of members.

32. INCOME FROM PRINCIPAL OPERATIONS

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Wire rods	569,969	793,101
Thick plates	1,764,050	1,125,775
Cold rolled sheets	3,088,482	1,736,401
Large section steel products	1,344,963	1,210,931
Steel billets	205,926	155,489
	6,973,390	5,021,697

Total sales to the five largest customers were Rmb1,548,518,000 (2002: Rmb1,682,379,000) which accounted for 22% (2002: 34%) of the total sales income of the Group for the period ended 30 June 2003.

There is an increase in the sales income of the Company for the period ended 30 June 2003 as compared with the previous year. It is mainly due to the increase in sales volume, the improvement in sales mix and the increase in product price of the Company.

33. COST OF SALES

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Wire rods	500,062	769,580
Thick plates	1,279,438	1,056,822
Cold rolled sheets	2,633,511	1,658,682
Large section steel products	1,096,858	894,004
Steel billets	209,745	144,047
	5,719,614	4,523,135

34. BUSINESS TAXES AND SURCHARGES

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
City construction and maintenance taxes	16,723	6,098
Education surcharge and local education surcharge	9,556	3,485
	26,279	9,583

35. OTHER OPERATING PROFIT

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Profit from sales of packaging materials	3,251	3,270
Profit from sales of scrap materials	12,831	8,815
Others	70	161
	16,152	12,246

36. OPERATING EXPENSES

The increase in operating expenses for the first six months of 2003 as compared with the same period in 2002 is due to the increase in related transportation, packaging and other expenses, etc. as a result of the increase in sales.

37. ADMINISTRATIVE EXPENSES

The increase in administrative expenses for the first half of 2003 as compared with 2002 is mainly due to the increase in salaries, welfare expenses and amortisation of land use rights as a result of the commencement of operation of the second cold rolling production line and colour coating plate production line.

38. FINANCIAL EXPENSES

	The Group Six months ended 30 June 2003 *Rmb'000*	The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Interest and other borrowing costs	53,128	50,122	17,538
Less: amount capitalised as construction in progress	44,801	41,795	5,570
Net interest expenses	8,327	8,327	11,968
Net exchange difference	227	227	(18,966)
Less: amount capitalised as construction in progress	80	80	18,769
Net exchange loss/(gain)	147	147	(197)
Interest income	(7,620)	(7,620)	(2,826)
Bank charges	852	852	904
	1,706	1,706	9,849

The decrease in financial expenses is due to the decrease in interest expenses as a result of the decrease in interest rate and the increase in interest income as a result of increase in deposits placed.

39. NON-OPERATING EXPENSES

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Loss on disposal of fixed assets	60,114	216
Others	917	414
	61,031	630

40. 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 capital of Angang Holding at 30 June 2003 was Rmb10,794,160,000. It held 44.54% of the total share capital of the Company. There was 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 28 "Share Capital".

40. RELATED PARTY TRANSACTIONS (continued)

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary
Angang Shenyang	Associate and fellow subsidiary
ANSC-TKS	Jointly controlled entity

(c) Details of related party transactions:

	The Group/ The Company Six months ended 30 June 2003 *Rmb'000*	The Group/ The Company Six months ended 30 June 2002 *Rmb'000*
Sales (excluding business taxes and surcharges)	611,913	539,721
Sales of scrap materials (excluding business taxes and surcharges)	109,789	104,802
Purchase		
Raw materials	4,433,743	3,575,265
Ancillary materials and spare parts	46,839	42,005
Supply of fuel and power	171,745	155,207
Staff welfare and other services	110,339	84,254

(i) Sales

The Company sold steel products to ANSI and various subsidiaries of Angang Holding at selling prices not lower than the average prices charged to independent customers for the preceding month.

40. RELATED PARTY TRANSACTIONS (continued)

(c) Details of related party transactions (continued):

(ii) Sales of scrap materials

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

(iii) 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.

(iv) Purchase of ancillary materials and spare parts

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

(v) 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.

40. RELATED PARTY TRANSACTIONS (continued)

(c) Details of related party transactions (continued):

(vi) Staff welfare and other services

The subsidiaries of 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 the subsidiaries of Angang Holding.

(vii) Balances with Angang Holding and ANSI

Details regarding the balances with Angang Holding and ANSI are set out in Note 9, 10, 19, 20, 21 and 24 respectively.

(viii) Guarantee of debentures

The issuance of Debentures amounting to Rmb1,500,000,000 on 15 March 2000 was guaranteed by Angang Holding.

(ix) Guarantee of loans

At 30 June 2003, total amount of loans obtained by the Company from The Industrial and Commercial Bank of China and The Bank of China amounted to Rmb1,863,000,000 (at 31 December 2002: Rmb1,463,000,000). These bank loans are guaranteed by Angang Holding, details of which are set out in Note 26.

40. RELATED PARTY TRANSACTIONS (continued)

(c) Details of related party transactions (continued):

(x) Construction service

Subsidiaries of Angang Holding constructed the production line for ANSC-TKS at similar terms and pricing policies on providing such construction service to independent parties. The cost for related construction service provided during the first half year of 2003 amounted to Rmb13,676,000 (2002: Nil) in which Rmb6,838,000 (2002: Nil) had been included in the consolidated financial statements of the Group.

(xi) Acquisition of land use rights and titles of related buildings

On 14 January 2003, the Company entered into a Transfer Agreement with Angang Holding under which the Company agreed to acquire from Angang Holding the land use rights of a piece of land situated in the PRC and the titles to the buildings on which are erected. The total consideration for the acquisition amounted to Rmb150,915,000. The Company made announcement on 15 January 2003 regarding this transaction. The amount had been fully paid up as of 21 February 2003.

(xii) Equity interest in ANSC-TKS

The Company pledged its 50% equity interest in ANSC-TKS to Bank of China to secure the performance of the obligations of ANSC-TKS under the loan agreement.

Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the syndicated loan or finance the operations. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

41. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Anzhenfa [1998] No.28 issued by Anshan City Government, the required contribution from the Company to the retirement benefits scheme is 25.5% of the aggregate monthly salaries of all employees of the Company.

Pursuant to the "Notice Concerning the Implementation of the Measures on Improving the Basic Old-Age Pension Scheme for Workers of Enterprises in City and Town in Liaoning Province (Trial Implementation)" (Dalaoxianzi [2001] No.73) issued by Dalian Labour Bureau, ANSC-TKS is required to contribute 19% of the total salary to the retirement benefit scheme.

42. COMMITMENTS

(a) Capital commitments

	The Group		The Company	
	At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
	Rmb'000	*Rmb'000* (audited)	*Rmb'000*	*Rmb'000* (audited)
Contracted for				
- Construction projects of production lines	474,753	771,467	410,574	662,353
- Technology transfer fee	16,220	20,780	—	—
Authorised but not contracted for				
- Improvement projects of production lines	1,131,777	2,396,003	1,131,777	2,396,003
-Construction projects of production lines	154,857	239,626	—	—
	1,777,607	3,427,876	1,542,351	3,058,356

42. COMMITMENTS (continued)

(b) Other commitments

Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the syndicated loan or finance the operations. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

43. COMPARATIVE FIGURES

In order to facilitate comparison, certain comparative figures have been reclassified.

DETAILS OF THE PROVISION FOR IMPAIRMENT LOSSES OF ASSETS (UNAUDITED)

For the six months ended 30 June 2003

		The Group/The Company			
		Balance at the beginning of the period	**Provision for the period**	**Written back during the period**	**Balance at the end of the period**
		Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
1.	Bad debt provision	160	—	44	116
	Including: Other receivables	160	—	44	116
2.	Provision for diminution in value of inventories	54,282	16,000	—	70,282
	Including: Spare parts of inventories	54,282	16,000	—	70,282

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") and PRC Accounting Rules and Regulations

		The Group	
		Six months ended 30 June 2003	**Six months ended 30 June 2002**
	Note	*Rmb'000*	*Rmb'000*
Profit attributable to shareholders under IFRS		620,352	194,630
Adjustments:			
Pre-operating expenses	(i)	10,539	2,108
Revaluation of land use rights	(ii)	(2,268)	(2,268)
Amortisation of lease prepayments	(iii)	226	—
General borrowing costs capitalised	(iv)	(8,326)	(5,377)
Receipt of donation	(v)	(76)	—
Deferred tax charge	(vii)	(57)	1,827
Profit attributable to shareholders under PRC Accounting Rules and Regulations		620,390	190,920

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") and PRC Accounting Rules and Regulations (continued)

		The Group	
		At 30 June 2003	**At 31 December 2002**
	Note	*Rmb'000*	*Rmb'000*
Shareholders' funds under IFRS		8,000,571	7,674,255
Adjustments:			
Pre-operating expenses	(i)	17,494	6,955
Revaluation of land use rights	(ii)	201,852	204,120
Amortisation of lease prepayments	(iii)	414	188
General borrowing costs capitalised	(iv)	(16,251)	(7,925)
Convertible debentures	(vi)		
– Discount on convertible debentures		(360)	(592)
– Additional borrowing costs capitalised		(7,063)	(6,935)
Deferred tax	(vii)	(64,709)	(64,618)
Shareholders' funds under PRC Accounting Rules and Regulations		8,131,948	7,805,448

C. Differences between Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") and PRC Accounting Rules and Regulations (continued)

Notes:

(i) *Pre-operating expenses are expensed when incurred under IFRS. However, in the financial statements prepared under PRC Accounting Rules and Regulations, pre-operating expenses are capitalised before the commencement of operation and will be written off when the enterprise commences operation.*

(ii) *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 net of deferred tax asset was reversed from shareholders' equity. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.*

(iii) *Land use rights are amortised on a straight-line basis over the respective periods of rights from the date of grant under IFRS. Under the PRC Accounting Rules and Regulations, land use rights are amortised when the construction work on the related land has been completed.*

(iv) *Under IFRS, general borrowing costs are capitalised by applying a capitalisation rate to the expenditures on the qualifying assets. Under the PRC Accounting Rules and Regulations, general borrowing costs are charged to the income statement when incurred.*

(v) *Under IFRS, the receipt of donation is recognised as other income in the income statement. Under the PRC Accounting Rules and Regulations, receipt of donation is accounted for as a movement in capital reserve.*

(vi) *The amounts represent the different treatments on transaction costs and discount on convertible debentures between the financial statements prepared in accordance with IFRS and PRC Accounting Rules and Regulations.*

(vii) *Deferred tax is provided on the IFRS adjustments at the tax rate of 33%.*