

UNAUDITED CONDENSED INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

CONDENSED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		Unaudited	
		Six months ended 30th June	
		2003	2002
	Note	Rmb'000	Rmb'000
TURNOVER	2	2,610,018	1,814,817
COST OF SALES		(2,009,002)	(1,581,885)
GROSS PROFIT		601,016	232,932
OTHER REVENUES		4,930	3,981
DISTRIBUTION COSTS		(64,327)	(53,279)
ADMINISTRATIVE EXPENSES		(85,401)	(56,132)
OTHER OPERATING EXPENSES		(38,171)	(3,613)
OPERATING PROFIT	3	418,047	123,889
FINANCE COSTS		(29,524)	(32,049)
PROFIT BEFORE TAXATION		388,523	91,840
TAXATION	5	11,390	(12,776)
PROFIT AFTER TAXATION		399,913	79,064
MINORITY INTERESTS		—	3,674
PROFIT FOR THE PERIOD		<u>399,913</u>	<u>82,738</u>
EARNINGS PER SHARE	7	<u>Rmb0.376</u>	<u>Rmb0.078</u>

CONDENSED BALANCE SHEET

AS AT 30TH JUNE 2003 AND 31ST DECEMBER 2002

		Unaudited	Audited
		30th June	31st December
		2003	2002
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
FIXED ASSETS	8	3,081,116	2,967,675
INVESTMENT SECURITY		5,000	5,000
DEFERRED TAXATION	14	11,390	—
CURRENT ASSETS			
Inventories		770,983	877,900
Trade and other receivables	9	403,543	380,543
Pledged bank deposit		3,000	3,000
Bank balances and cash		1,141,897	393,056
		<u>2,319,423</u>	<u>1,654,499</u>
CURRENT LIABILITIES			
Trade and other payables	10	1,207,771	1,270,845
Income tax payable		—	1,538
Short-term bank loans	11	655,900	595,900
Current portion of long-term liabilities	12	191,275	168,946
		<u>2,054,946</u>	<u>2,037,229</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>264,477</u>	<u>(382,730)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,361,983</u>	<u>2,589,945</u>
Financed by:			
SHARE CAPITAL	13	1,063,944	1,063,944
RESERVES		608,753	600,512
RETAINED PROFITS			
Proposed dividend		—	85,116
Other		963,956	564,043
SHAREHOLDERS' FUNDS		<u>2,636,653</u>	<u>2,313,615</u>
LONG-TERM LIABILITIES	12	725,330	276,330
		<u>3,361,983</u>	<u>2,589,945</u>

Tang Min Wei
Director

Yuan Jin Fu
Director

CONDENSED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	600,740	209,830
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(277,969)	(180,953)
NET CASH INFLOW/(OUTFLOW) FROM FINANCE ACTIVITIES	<u>426,070</u>	<u>(102,685)</u>
INCREASE/(DECREASE) IN BANK BALANCES AND CASH	748,841	(73,808)
BANK BALANCES AND CASH AT 1ST JANAURY	<u>393,056</u>	<u>319,374</u>
BANK BALANCES AND CASH AT 30TH JUNE	<u><u>1,141,897</u></u>	<u><u>245,566</u></u>

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited Reserves						
	Share capital	Share premium	Capital surplus	Statutory common reserve	Statutory provident fund	Retained profits	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January 2002	1,063,944	276,208	275,874	48,671	24,336	376,109	2,065,142
Profit for the period	—	—	—	—	—	82,738	82,738
2001 final dividend paid	—	—	—	—	—	(31,918)	(31,918)
At 30th June 2002	<u>1,063,944</u>	<u>276,208</u>	<u>275,874</u>	<u>48,671</u>	<u>24,336</u>	<u>426,929</u>	<u>2,115,962</u>

	Unaudited Reserves						
	Share capital	Share premium	Capital surplus	Statutory common reserve	Statutory provident fund	Retained profits	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January 2003	1,063,944	276,208	207,830	77,649	38,825	649,159	2,313,615
Profit for the period	—	—	—	—	—	399,913	399,913
Donation received from fellow subsidiary for the period	—	—	8,241	—	—	—	8,241
2002 final dividend paid	—	—	—	—	—	(85,116)	(85,116)
At 30th June 2003	<u>1,063,944</u>	<u>276,208</u>	<u>216,071</u>	<u>77,649</u>	<u>38,825</u>	<u>963,956</u>	<u>2,636,653</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31st December 2002.

In December 2002, the Company acquired all assets and liabilities of Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), the former subsidiary of the Company. At the same time, the Company disposed of its entire interest in Hengda to its holding company, Chongqing Iron Steel Company (Group) Limited (the "Holding Company"). Following the disposal of Hengda, the Company does not have any subsidiary. As the Company has assumed the businesses of Hengda, the Company's business operations have not changed after the disposal of Hengda. For comparative purpose, the condensed consolidated profit and loss account, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity for the six months ended 30th June 2002 have been presented as comparatives of these condensed interim accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Company has adopted of SSAP 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003. The adoption of these new SSAPs has no material effect on the Company's financial results for the six months ended 30th June 2003 and prior periods/years.

2. TURNOVER AND SEGMENT INFORMATION

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

	Six months ended 30th June	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sale of steel products	2,406,265	1,655,632
Other sales	203,753	159,185
	<u>2,610,018</u>	<u>1,814,817</u>

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

No geographical segment information is presented as all of the Company's turnover and operating profit are earned within the People's Republic of China ("PRC") and all of the Company's assets are located in the PRC, which is considered as one geographic location with similar risks and returns.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Crediting		
Reversal of provision for doubtful debts	<u>—</u>	<u>5,579</u>
Charging		
Depreciation of fixed assets	111,051	88,671
Impairment of fixed assets	25,729	—
Staff costs (including directors' emoluments) (note 4)	232,940	174,070
Operating leases of land and buildings	7,992	7,921
Loss on disposal of fixed assets	<u>9,711</u>	<u>131</u>

4. STAFF COSTS

	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Wages and salaries	168,803	119,419
Retirement benefit costs		
— defined contribution plans	32,156	27,145
Other social welfare expenses	<u>31,981</u>	<u>27,506</u>
	<u>232,940</u>	<u>174,070</u>

5. TAXATION

The amount of taxation charged to the profit and loss account represents:

	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Current taxation		
- PRC income tax provision	32,890	12,776
- Reduction in income tax arising from the purchase of domestic equipment	<u>(32,890)</u>	<u>—</u>
PRC income tax	—	12,776
Deferred taxation (note 14)	<u>(11,390)</u>	<u>—</u>
Taxation (credit)/charge	<u><u>(11,390)</u></u>	<u><u>12,776</u></u>

5. TAXATION (continued)

The taxation on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the Company as follows:

	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Profit before taxation	<u>388,523</u>	<u>91,840</u>
Calculated at a taxation rate of 7.5% (2002: 12%) (note (b))	29,139	11,021
Recognition of previously unrecognised temporary differences	(7,670)	—
Taxable income not recognised as income for accounting purpose	668	—
Expenses not deductible for taxation purpose	—	1,755
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	(637)	—
Reduction in income tax reduction arising from the purchase of domestic equipment (note (c))	<u>(32,890)</u>	<u>—</u>
Taxation charge	<u>(11,390)</u>	<u>12,776</u>

- (a) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the six months ended 30th June 2003 (2002: nil).

5. TAXATION (continued)

- (b) As a production enterprise with foreign investment established at the riverside of Yangtse River, the Company was originally entitled to a preferential income tax rate of 24% in accordance with "The Notice issued by the State Tax Bureau on Taxation Policy Concerning Foreign Invested Enterprises for Further Opening of Frontier, Coastal, Inland and Riverside Cities" (Guo Shui Fa [1992] No. 218). In April 2003, the Company obtained approvals ([Yu Guo Shui Han [2003] No. 57] and [Da Dukou Guo Shui Han [2003] No. 8]) issued by the relevant tax authorities under which the preferential income tax treatment for enterprises in the western development region is granted to the Company. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and the income tax rate is reduced to 15% for the period from 2001 to 2010.

In addition, in accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to a joint stock limited company with foreign investment. In accordance with Article 8 of the "Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises", enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ending 31st December 2003 is the Company's fourth profitable year after the change; income tax has been provided at 50% of the income tax rate (i.e. 7.5%) on its estimated taxable income for the six months ended 30th June 2003 (2002: 12%).

5. TAXATION (continued)

- (c) In 2000 and 2001, the Company purchased certain domestically manufactured equipment. In accordance with Cai Shui Zi [2000] No. 49 "The Notice concerning the Reduction in Corporate Income Tax for Purchase of Domestically Manufactured Equipment by Enterprises with Foreign Investment and Foreign Enterprises" issued by the Ministry of Finance and State Tax Bureau, part of the purchase costs of the domestically manufactured equipment could be utilised to reduce the Company's corporate income tax.

In accordance with the approval letters (DDKGSH [2003] No. 4 and No. 5) issued by State Tax Bureau in Dadukou District, Chongqing, on 13th February 2003 with respect to the application for income tax reduction lodged by the Company relating to the purchase of domestically manufactured equipment in 2000 and 2001, the total tax reduction that the Company is entitled to amounted to Rmb62,549,300. The Company was exempted from income tax for 2000 and 2001, Rmb27,115,000 of the above tax deductible amount was utilised to offset the Company's income tax liability for 2002, Rmb32,890,000 of the above tax deductible amount can be utilised to offset the Company's income tax liability for the period ended 30th June 2003. The remaining balance of the deductible amount of Rmb2,544,300 can be carried forward for deductions up to 2007.

6. DIVIDENDS

The directors do not recommend the payment of interim dividend for the six months ended 30th June 2003 (2002: nil).

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of Rmb399,913,000 (2002: Rmb82,738,000) and the 1,063,944,000 (2002: 1,063,944,000) shares in issue during the period.

8. FIXED ASSETS

	<i>Rmb'000</i>
Net book value at 1st January 2003	2,967,675
Additions	266,532
Disposals	(16,311)
Depreciation charge (note 3)	(111,051)
Impairment charge (note 3)	(25,729)
	<hr/>
Net book value at 30th June 2003	<u>3,081,116</u>

As at 30th June 2003, the net book value of fixed assets of the Company pledged as security for the Company's bank loans amounted to Rmb378,829,000 (31st December 2002: Rmb407,866,000).

As at 30th June 2003, accumulated interest expense capitalised in fixed assets amounted to Rmb27,933,000 (31st December 2002: Rmb27,933,000).

9. TRADE AND OTHER RECEIVABLES

	30th June	31st December
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables (note (a))	270,208	267,825
Amounts due from fellow subsidiaries (note (b))	87,166	56,268
Prepayments and deposits	30,876	32,314
Other receivables	15,293	24,136
	<hr/>	<hr/>
	<u>403,543</u>	<u>380,543</u>

9. TRADE AND OTHER RECEIVABLES (continued)

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

The ageing analysis of trade receivables as at 30th June 2003 is analysed as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 3 months	211,290	189,781
Between 3 months and 1 year	54,321	68,334
Between 1 and 2 years	4,515	4,668
Between 2 and 3 years	82	5,042
	<u>270,208</u>	<u>267,825</u>

- (b) The analysis of amounts due from fellow subsidiaries as at 30th June 2003 is as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Amounts due from fellow subsidiaries	124,477	93,579
Provision for doubtful debts	<u>(37,311)</u>	<u>(37,311)</u>
Amounts due from fellow subsidiaries - net	<u>87,166</u>	<u>56,268</u>

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

10. TRADE AND OTHER PAYABLES

	30th June	31st December
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade payables (note (a))	666,495	821,832
Advances from customers	251,770	153,383
Amounts due to Holding Company and fellow subsidiaries (note (b))	61,668	73,783
Other payables	112,563	115,939
Value added tax and sundry taxes payable	115,275	105,908
	<u>1,207,771</u>	<u>1,270,845</u>

(a) The ageing analysis of trade payables as at 30th June 2003 is analysed as follows:

	30th June	31st December
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 6 months	387,093	543,140
Between 6 months and 1 year	253,167	252,159
Between 1 and 2 years	3,487	8,939
Between 2 and 3 years	5,494	2,270
Over 3 years	17,254	15,324
	<u>666,495</u>	<u>821,832</u>

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

11. SHORT-TERM BANK LOANS

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 16)	175,730	197,330
Unsecured bank loans	480,170	398,570
	<u>655,900</u>	<u>595,900</u>

12. LONG-TERM LIABILITIES

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 16)	343,000	343,000
Unsecured bank loans	562,630	83,630
	<u>905,630</u>	<u>426,630</u>
Amount due to Holding Company	10,975	18,646
	<u>916,605</u>	<u>445,276</u>
Less: Amounts due within one year included under current liabilities		
- Bank loans	(180,300)	(150,300)
- Amount due to Holding Company	(10,975)	(18,646)
	<u>(191,275)</u>	<u>(168,946)</u>
	<u>725,330</u>	<u>276,330</u>

12. LONG-TERM LIABILITIES (CONTINUED)

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

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	180,300	150,300
In the second year	395,330	275,000
In the third to fifth years inclusive	330,000	1,330
	<u>905,630</u>	<u>426,630</u>

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

13. SHARE CAPITAL

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and paid up capital		
650,000,000 State-owned shares of Rmb1 each	650,000	650,000
413,944,000 H shares of Rmb1 each	413,944	413,944
	<u>1,063,944</u>	<u>1,063,944</u>

The State-owned and H shares rank pari passu in all respects.

14. DEFERRED TAXATION

Deferred taxation is provided in full under the liability method on temporary differences using the tax rates that are expected to apply to the period when the deferred tax asset is realised or the deferred tax liability is settled, based on tax rates that have been enacted by the balance sheet date.

The movement of the deferred tax assets account is as follows:

	<i>Rmb'000</i>
At the beginning of the period	—
Deferred taxation credited to profit and loss account (note 5)	<u>11,390</u>
At the end of the period	<u><u>11,390</u></u>

The components of deferred tax assets are as follows:

	Provisions	Impairment of assets	Others	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1st January 2003	—	—	—	—
Credited to profit and loss account	<u>5,613</u>	<u>3,245</u>	<u>2,532</u>	<u>11,390</u>
At 30th June 2003	<u><u>5,613</u></u>	<u><u>3,245</u></u>	<u><u>2,532</u></u>	<u><u>11,390</u></u>



15. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

At 30th June 2003, the Company had capital commitments in respect of construction and purchase of fixed assets as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for	202,168	98,611
Authorised but not contracted for	316,339	—
	<u>518,507</u>	<u>98,611</u>

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Operating lease commitments

At 30th June 2003, the Company had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	14,699	14,695
In the second to fifth years	52,772	52,772
After the fifth year	515,626	522,223
	<u>583,097</u>	<u>589,690</u>

Included in the above operating lease commitments are commitments of the Company in respect of the land under operating lease agreements with the Holding Company. At 30th June 2003, the Company had future aggregate minimum lease payments under such operating leases amounting to Rmb581,592,000 (31st December 2002: Rmb588,188,000).

(c) Contingent liabilities

At 30th June 2003, the Company had no contingent liabilities (31st December 2002: nil).

16. RELATED PARTY TRANSACTIONS

In 1998, the Holding Company pledged 650,000,000 State-owned shares of the Company to a bank as security for facilities made available to the Company by the bank up to a maximum amount of Rmb650,000,000 during the period from 12th October 1998 to 12th October 2003. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's State-owned shares by the Holding Company's land and certain fixed assets of the Company. The maximum credit facility amount under the new arrangement is Rmb407,420,000. As at the date of these accounts being approved, the related revised contracts are under process. As at 30th June 2003, these facilities were utilised to the extent of short-term and long-term loans of Rmb175,730,000 (31st December 2002: Rmb197,330,000) and Rmb165,000,000 (31st December 2002: Rmb165,000,000) respectively.

In addition to the above, the Company's short-term and long-term loans at 30th June 2003 amounting to Rmb478,170,000 (31st December 2002: Rmb395,170,000) and Rmb549,000,000 (31st December 2002: Rmb70,000,000) respectively were guaranteed by the Holding Company.

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

16. RELATED PARTY TRANSACTIONS (CONTINUED)

	Six months ended 30th June	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Income		
Sales to fellow subsidiaries (note (a))	322,568	360,081
Fees received for supporting services (note (b))	534	462
Expenditure		
Fees paid for supporting services (note (c))	121,607	24,191
Purchase of raw materials and spare parts (note (d))	362,030	283,541
Purchase of fixed assets (note (e))	7,127	32,192
Rental for land leases (note (f))	6,600	6,600
Rental for office premises (note (g))	1,110	1,151
Retirement benefits costs paid through the Holding Company (note (h))	12,175	27,145
Social welfare expenses paid through the Holding Company (note (h))	<u>25,691</u>	<u>27,506</u>

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

16. RELATED PARTY TRANSACTIONS (CONTINUED)

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