

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 2004

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2004	2003
		Rmb'000	Rmb'000
Turnover	3	9,883,321	6,947,111
Cost of sales		<u>(8,476,186)</u>	<u>(5,735,614)</u>
Gross profit		1,407,135	1,211,497
Other operating income/(loss)		39,986	(44,213)
Distribution and other operating expenses		(171,116)	(97,378)
Administrative expenses		<u>(146,893)</u>	<u>(141,885)</u>
Profit from operations		1,129,112	928,021
Net financing (costs)/income		(45,378)	5,720
Income from associate		<u>65</u>	<u>—</u>
Profit from ordinary activities before taxation	4	1,083,799	933,741
Income tax expense	5	<u>(368,072)</u>	<u>(313,389)</u>
Profit attributable to shareholders		<u><u>715,727</u></u>	<u><u>620,352</u></u>
Earnings per share	7		
Basic		<u>Rmb 0.242</u>	<u>Rmb 0.210</u>
Diluted		<u>Rmb 0.241</u>	<u>Rmb 0.209</u>

The notes on pages 32 to 40 form part of the interim financial report.

Consolidated balance sheet at 30 June 2004 (unaudited)*(Expressed in Renminbi)*

	At 30 June 2004	At 31 December 2003
<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
Non-current assets		
Property, plant and equipment	7,058,059	6,456,682
Intangible assets	23,626	12,819
Construction in progress	232,430	1,122,923
Lease prepayments	295,366	298,176
Investment in associate	14,471	14,406
Other investments	10,500	—
Deferred tax assets	55,743	65,450
	7,690,195	7,970,456
Current assets		
Inventories	2,252,831	1,440,283
Amount due from ultimate holding company	550	—
Amounts due from fellow subsidiaries	147,480	487,550
Trade receivables	8 1,677,922	2,182,561
Prepayments, deposits and other receivables	234,198	134,781
Income tax recoverable	—	23,067
Deposits with banks	890,000	290,000
Cash and cash equivalents	833,280	2,316,976
	6,036,261	6,875,218
Current liabilities		
Short-term bank loans	670,267	420,267
Trade payables	9 406,560	1,454,056
Income tax payable	224,640	—
Amount due to ultimate holding company	—	881
Amounts due to fellow subsidiaries	314,327	812,505
Other payables	1,324,036	1,444,578
Convertible debentures	3,742	—
	2,943,572	4,132,287
Net current assets	3,092,689	2,742,931
Total assets less current liabilities carried forward	10,782,884	10,713,387

Consolidated balance sheet at 30 June 2004 (unaudited) (continued)*(Expressed in Renminbi)*

		At 30 June 2004	At 31 December 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
Total assets less current liabilities brought forward		10,782,884	10,713,387
		-----	-----
Non-current liabilities			
Convertible debentures		—	5,269
Bank loans		1,842,733	1,892,733
		-----	-----
		1,842,733	1,898,002
		-----	-----
NET ASSETS		<u>8,940,151</u>	<u>8,815,385</u>
SHAREHOLDERS' FUNDS			
Share capital	10	2,962,848	2,962,309
Share premium		3,057,105	3,055,920
Reserves	11	618,921	619,043
Retained profits		2,301,277	2,178,113
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		<u>8,940,151</u>	<u>8,815,385</u>

Approved and authorised for issue by the Board of Directors on 10 August 2004.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 32 to 40 form part of the interim financial report.

Consolidated statement of changes in equity (unaudited)

for the six months ended 30 June 2004

(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 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		<u>2,961,577</u>	<u>3,054,324</u>	<u>332,691</u>	<u>1,651,979</u>	<u>8,000,571</u>
At 1 January 2004		2,962,309	3,055,920	619,043	2,178,113	8,815,385
Net profit for the period		—	—	—	715,727	715,727
Shares issued upon conversion of convertible debentures		539	1,185	(136)	—	1,588
Final dividend - 2003	6	—	—	—	(592,563)	(592,563)
Deferred tax released upon conversion of convertible debentures		—	—	14	—	14
At 30 June 2004		<u>2,962,848</u>	<u>3,057,105</u>	<u>618,921</u>	<u>2,301,277</u>	<u>8,940,151</u>

The notes on pages 32 to 40 form part of the interim financial report.

Consolidated condensed cash flow statement (unaudited)

for the six months ended 30 June 2004

(Expressed in Renminbi)

	Six months ended 30 June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash flows from operating activities	(231,101)	502,532
Cash flows from investing activities	(860,511)	(776,983)
Cash flows from financing activities	(392,804)	252,514
Net decrease in cash and cash equivalents	(1,484,416)	(21,937)
Cash and cash equivalents at 1 January	2,316,976	1,702,051
Effect of exchange rate fluctuations on cash held	720	(104)
Cash and cash equivalents at 30 June	<u>833,280</u>	<u>1,680,010</u>

The notes on pages 32 to 40 form part of the interim financial report.

Notes on the interim financial report (unaudited)

for the six months ended 30 June 2004

1. Basis of preparation

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

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

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 April 2004.

The 2003 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 2003 annual financial statements.

2 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(a) Business segments

The Group’s revenue and operating profits are almost entirely attributable to the production and sale of steel products. Accordingly, no business segmental analysis is provided.

2 Segment reporting *(continued)*

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. All of the Group's assets are in the People's Republic of China ("PRC").

	Six months ended 30 June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Revenue from external customers		
PRC	8,632,053	6,751,656
Other countries	1,251,268	195,455
	<u>9,883,321</u>	<u>6,947,111</u>

3 Turnover

Turnover represents the aggregate net invoiced value of goods sold, after allowances for goods returned, trade discounts, value added tax and sales surtaxes. All of the Group's operations are conducted in the PRC.

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest and other borrowing costs	74,213	54,050
Less: amount capitalised as construction in progress	<u>(16,211)</u>	<u>(53,128)</u>
Net interest expense	58,002	922
Interest income	(12,045)	(7,746)
Depreciation #	372,282	263,003
Loss on disposals of property, plant and equipment	—	60,114
(Write-back)/write-down of inventories #	(7,823)	16,000
Cost of inventories #	<u>8,476,186</u>	<u>5,735,614</u>

Cost of inventories includes Rmb244,890,000 (2003: Rmb200,192,000) relating to depreciation and write-back 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	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current tax expense - PRC income tax	358,351	313,446
Deferred taxation	9,721	(57)
	<u>368,072</u>	<u>313,389</u>

The provision for PRC income tax is calculated at 33% (2003: 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 Rmb20 cents per share totalling Rmb592,563,000 in respect of the financial year 2003 was approved during the period (financial year 2002: Rmb10 cents per share totalling Rmb296,149,000).

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: 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 Rmb715,727,000 (2003: Rmb620,352,000) and a weighted average number of shares in issue during the period of 2,962,638,667 shares (2003: 2,961,028,820 shares).

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb715,727,000 (2003: Rmb620,352,000) and a weighted average number of shares of 2,963,899,723 shares (2003: 2,963,560,833 shares) after adjusting for the effects of conversion of remaining convertible debentures.

8 Trade receivables

	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Accounts receivable	129,967	84,749
Bills receivable	1,547,955	2,097,812
	<u>1,677,922</u>	<u>2,182,561</u>

The ageing analysis of trade receivables is as follows:

	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Less than 3 months	1,157,346	1,721,799
More than 3 months but less than 12 months	520,576	460,762
	<u>1,677,922</u>	<u>2,182,561</u>

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 made available to certain major customers with well-established trading records.

9 Trade payables

	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Accounts payable	196,704	194,462
Bills payable	209,856	1,259,594
	<u>406,560</u>	<u>1,454,056</u>

9 Trade payables (continued)

The ageing analysis of trade payables is as follows:

	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Due on demand	180,395	160,853
Due within 3 months	125,384	749,191
Due after 3 months but within 6 months	100,781	544,012
	<u>406,560</u>	<u>1,454,056</u>

10 Share capital

	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
753,847,565 (2003: 753,308,652) A shares of Rmb1 each	753,848	753,309
890,000,000 H shares of Rmb1 each	890,000	890,000
	<u>2,962,848</u>	<u>2,962,309</u>

During the period, 538,913 (financial year 2003: 1,434,973) A shares were issued upon the conversion of convertible debentures with total carrying value of Rmb1,724,000 (financial year 2003: Rmb4,603,000).

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) The Group had capital commitments outstanding at 30 June 2004 not provided for in the financial statements as follows:

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000 (audited)
Authorised and contracted for:		
— Construction projects of production lines	191,547	263,112
— Technology transfer fee	15,353	15,845
— Acquisition of land use rights, plant and buildings	62,206	—
Authorised but not contracted for:		
— Improvement projects of production lines	963,820	1,370,185
	<u>1,232,926</u>	<u>1,649,142</u>

- (b) In October 2002, ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS"), the jointly controlled entity of the Company, entered into a long-term loan facility of Rmb1,080,000,000 (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 Rmb1,013,152,000 as of 30 June 2004 (at 31 December 2003: Rmb972,862,000).

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

The drawdown of the Syndicated Loan at 30 June 2004 amounted to Rmb600,000,000 (at 31 December 2003: Rmb500,000,000).

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 galvanizing plant, repay the Syndicated Loan or finance the operations. The commitment is confined to US\$8,000,000 and will be reduced to US\$4,000,000 after the tenth repayment date.

13 Related party transactions

The following is a summary of significant transactions carried out during the period between the Group, Angang Shenyang Steel Product Processing and Distribution Company Limited (“Angang Shenyang”; its associate) and Anshan Iron & Steel Group Complex (“Angang Holding”; its ultimate holding company) and its business undertakings (“Angang Group”), including Angang New Steel and Iron Company (“ANSI”) and Angang Finance Company (“AFC”).

(a) Significant transactions

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

	Note	Six months ended 30 June	
		2004	2003
		Rmb'000	Rmb'000
Sales of finished goods	(a)	1,214,287	611,913
Return of scrap materials	(a)	183,965	109,789
Purchases of			
— raw materials	(b)	7,583,771	4,433,743
— ancillary materials and spare parts	(c)	49,481	46,839
Utility supplies	(d)	175,391	171,745
Fees paid for welfare and other support services	(e)	79,451	110,339
Interest received	(f)	2,267	—
Processing fee	(g)	32,649	—
		<u> </u>	<u> </u>

Notes:

- (a) The Company sold finished products and scrap materials to ANSI, Angang Shenyang and other fellow subsidiaries for their own consumption at average prices charged to independent customers for the preceding month. Included in the above are sales of pipe billets totalling Rmb650,613,000 (2003: Rmb310,822,000) to ANSI during the period.
- (b) The Company purchased its principal raw materials, from ANSI at prices no higher than the lowest selling prices charged by ANSI to independent customers for the preceding month and the average selling 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, Angang Shenyang and Angang Group in the normal course of business are as follows: *(continued)*

Notes: (continued)

- (c) *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.*
- (d) *The Company purchased from ANSI utilities in the form of industrial water, recycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.*
- (e) *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 repairs, 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.*
- (f) *The Company placed deposit with AFC and received interest on a time apportioned basis by reference to the principal outstanding and the rate offered by the People's Bank of China. As at 30 June 2004, the deposit placed with AFC amounted to Rmb323,840,000 (2003: Nil), which represented the maximum balance during the period.*
- (g) *The Company provided material processing services to Angang Group based on the average prices charged to independent customers for similar services.*
- (ii) Certain fellow subsidiaries were engaged to construct the production line of the jointly controlled entity under similar terms for third parties. Total construction costs of Rmb1,222,000 (2003: Rmb13,676,000) were incurred by the jointly controlled entity during the period.

(b) Amounts due from/to ultimate holding company

Amounts due from/to ultimate holding company mainly represent reimbursements of expenses paid on behalf of the ultimate holding company and fees payable for support services respectively.

The amounts due from/to ultimate holding company are unsecured, interest-free and have no fixed terms of repayment.

13 Related party transactions *(continued)*

(c) 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.

(d) Convertible debentures

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

(e) Bank loans

As at 30 June 2004, certain bank loans amounted to Rmb2,163,000,000 (at 31 December 2003: Rmb2,063,000,000) were guaranteed by Angang Holding.

(f) 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 galvanizing plant, repay the Syndicated Loan or finance the operations. The commitment is confined to US\$8,000,000 and will be reduced to US\$4,000,000 after the tenth repayment date.

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

Consolidated Balance Sheet (unaudited)

At 30 June 2004

Assets		At June 30 2004	At December 31 2003
	Note	Rmb'000	Rmb'000 (audited)
Current assets			
Cash at banks and in hand	6	1,723,280	2,606,976
Bills receivable	7	1,547,955	2,097,812
Trade receivables	8	426,584	84,749
Other receivables	9	58,795	18,996
Prepayments	10	244,482	593,967
Inventories	11	2,252,831	1,440,283
Deferred expenses		823	184
		<u>6,254,750</u>	<u>6,842,967</u>
Total current assets		---	---
Long-term equity investments	12	24,971	14,406
		---	---
Fixed assets			
Fixed assets, at cost	13	10,849,914	9,848,116
Less: Accumulated depreciation		(3,634,894)	(3,261,582)
		<u>7,215,020</u>	<u>6,586,534</u>
Net book value of fixed assets		7,215,020	6,586,534
Construction in progress	14	349,084	1,206,658
		<u>7,564,104</u>	<u>7,793,192</u>
Total fixed assets		---	---
Intangible assets and other assets			
Intangible assets	15	333,441	334,995
Long-term deferred expenses	16	—	26,310
		<u>333,441</u>	<u>361,305</u>
Total intangible assets and other assets		333,441	361,305
Total assets		<u><u>14,177,266</u></u>	<u><u>15,011,870</u></u>

Consolidated Balance Sheet (unaudited) (continued)

At 30 June 2004

Liabilities and shareholders' funds		At June 30 2004	At December 31 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Current liabilities			
Short-term loans	17	50,000	—
Bills payable	18	209,856	1,259,594
Trade payables	19	272,427	246,669
Receipts in advance	20	1,469,605	1,735,563
Accrued payroll	21	73,136	61,181
Staff welfare payable	22	19,506	15,763
Taxes payable	3(d)	203,068	8,642
Accrued expenses		15,939	—
Other payables	23	343,435	417,586
Current portion of long-term liabilities	24	624,238	420,267
		<u>3,281,210</u>	<u>4,165,265</u>
Long-term liabilities			
Long-term loans	25	1,842,733	1,892,733
Convertible debentures	26	—	5,604
		<u>1,842,733</u>	<u>1,898,337</u>
Total liabilities		<u>5,123,943</u>	<u>6,063,602</u>

Consolidated Balance Sheet (unaudited) (continued)

At 30 June 2004

Liabilities and shareholders' funds		At June 30 2004	At December 31 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Shareholders' funds			
Share capital	27	2,962,848	2,962,309
Capital reserve	28	3,084,742	3,083,648
Surplus reserve (including statutory public welfare fund of Rmb385,297,000; 2003: Rmb385,297,000)	29	770,594	770,594
Undistributed profits (including dividend declared after the balance sheet date of RmbNil; 2003: Rmb592,462,000)	30	2,235,139	2,131,717
		<u>9,053,323</u>	<u>8,948,268</u>
Total shareholders' funds		<u>9,053,323</u>	<u>8,948,268</u>
		<u>14,177,266</u>	<u>15,011,870</u>
Total liabilities and shareholders' funds		<u>14,177,266</u>	<u>15,011,870</u>

These financial statements have been approved by the board of directors on 10 August 2004.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Balance Sheet (unaudited)

At 30 June 2004

Assets		At June 30 2004	At December 31 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Current assets			
Cash at banks and in hand	6	1,692,698	2,580,613
Bills receivable	7	1,547,955	2,097,812
Trade receivables	8	426,584	84,749
Other receivables	9	39,519	13,883
Prepayments	10	238,413	593,962
Inventories	11	2,125,186	1,406,410
		<hr/>	<hr/>
Total current assets		6,070,355	6,777,429
		- - - - -	- - - - -
Long-term equity investments	12	254,276	266,718
		- - - - -	- - - - -
Fixed assets			
Fixed assets, at cost	13	10,356,539	9,838,222
Less: Accumulated depreciation		(3,623,766)	(3,260,751)
		<hr/>	<hr/>
Net book value of fixed assets		6,732,773	6,577,471
Construction in progress	14	321,667	703,121
		<hr/>	<hr/>
Total fixed assets		7,054,440	7,280,592
		- - - - -	- - - - -
Intangible assets			
Intangible assets	15	309,815	313,802
		<hr/>	<hr/>
Total intangible assets		309,815	313,802
		- - - - -	- - - - -
Total assets		<u>13,688,886</u>	<u>14,638,541</u>

Balance Sheet (unaudited) (continued)

At 30 June 2004

Liabilities and shareholders' funds		At June 30 2004	At December 31 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Current liabilities			
Bills payable	18	209,856	1,259,594
Trade payables	19	265,955	246,669
Receipts in advance	20	1,456,858	1,736,125
Accrued payroll	21	73,136	61,181
Staff welfare payable	22	19,506	15,763
Taxes payable	3(d)	216,074	11,095
Accrued expenses		12,400	—
Other payables	23	214,807	291,242
Current portion of long-term liabilities	24	603,971	400,000
		<hr/>	<hr/>
Total current liabilities		3,072,563	4,021,669
		- - - - -	- - - - -
Long-term liabilities			
Long-term loans	25	1,563,000	1,663,000
Convertible debentures	26	—	5,604
		<hr/>	<hr/>
Total long-term liabilities		1,563,000	1,668,604
		= = = = =	= = = = =
Total liabilities		4,635,563	5,690,273
		- - - - -	- - - - -

Balance Sheet (unaudited) (continued)

At 30 June 2004

Liabilities and shareholders' funds		At June 30 2004	At December 31 2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Shareholders' funds			
Share capital	27	2,962,848	2,962,309
Capital reserve	28	3,084,742	3,083,648
Surplus reserve			
(including statutory public welfare fund of Rmb385,297,000; 2003: Rmb385,297,000)	29	770,594	770,594
Undistributed profits			
(including dividend declared after the balance sheet date of RmbNil; 2003: Rmb592,462,000)	30	2,235,139	2,131,717
Total shareholders' funds		<u>9,053,323</u>	<u>8,948,268</u>
Total liabilities and shareholders' funds		<u>13,688,886</u>	<u>14,638,541</u>

These financial statements have been approved by the board of directors on 10 August 2004.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement (unaudited)

For the six months ended 30 June 2004

		Six months ended 30 June	
		2004	2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Income from principal operations	31	9,889,855	6,973,390
Less: Cost of sales	32	8,484,009	5,719,614
Business tax and surcharges	33	6,534	26,279
Profit from principal operations		1,399,312	1,227,497
Add: Other operating profit	34	40,049	16,152
Less: Operating expenses		170,538	96,556
Administrative expenses		167,216	151,109
Financial expenses	35	47,273	1,706
Operating profit		1,054,334	994,278
Add: Investment income	36	65	—
Non-operating income		18	589
Less: Non-operating expenses	37	81	61,031
Total profit		1,054,336	933,836
Less: Income tax expense		358,351	313,446
Net profit		<u>695,985</u>	<u>620,390</u>

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement (unaudited) (continued)

For the six months ended 30 June 2004

	Note	Six months ended 30 June	
		2004	2003
		Rmb'000	Rmb'000
Net profit		695,985	620,390
Add: Undistributed profits at the beginning of the period		2,131,717	985,716
Prior year adjustment		—	296,087
Distributable profits		2,827,702	1,902,193
Less: Transfer to statutory surplus reserve	29	—	—
Transfer to statutory public welfare fund	29	—	—
Profits distributable to shareholders		2,827,702	1,902,193
Less: Transfer to discretionary surplus reserve		—	—
Dividends	30	592,563	296,149
Undistributed profits		2,235,139	1,606,044

Additional information:

Items	Six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
1. Proceeds from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase (or decrease) in total profits due to the changes in accounting policy	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimate	—	(39,392)
5. Losses (or gains) arising from debt restructuring	—	—
6. Others	—	—

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement (unaudited)

For the six months ended 30 June 2004

		Six months ended 30 June	
		2004	2003
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Income from principal operations	31	9,856,630	6,973,390
Less: Cost of sales	32	8,462,469	5,719,614
Business tax and surcharges	33	6,534	26,279
Profit from principal operations		1,387,627	1,227,497
Add: Other operating profit	34	39,239	16,152
Less: Operating expenses		168,363	96,556
Administrative expenses		129,400	151,109
Financial expenses	35	43,127	1,706
Operating profit		1,085,976	994,278
Add: Investment losses	36	(31,577)	—
Non-operating income		18	589
Less: Non-operating expenses	37	81	61,031
Total profit		1,054,336	933,836
Less: Income tax expense		358,351	313,446
Net profit		695,985	620,390

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement (unaudited) (continued)

For the six months ended 30 June 2004

	Note	Six months ended 30 June	
		2004	2003
		Rmb'000	Rmb'000
Net profit		695,985	620,390
Add: Undistributed profits at the beginning of the period		2,131,717	985,716
Prior year adjustment		—	296,087
Distributable profits		2,827,702	1,902,193
Less: Transfer to statutory surplus reserve	29	—	—
Transfer to statutory public welfare fund	29	—	—
Profits distributable to shareholders		2,827,702	1,902,193
Less: Transfer to discretionary surplus reserve		—	—
Dividends	30	592,563	296,149
Undistributed profits		2,235,139	1,606,044

Additional information:

Items	Six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
1. Proceeds from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase (or decrease) in total profits due to the changes in accounting policy	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimate	—	(39,392)
5. Losses (or gains) arising from debt restructuring	—	—
6. Others	—	—

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Cash Flow Statement (unaudited)

For the six months ended 30 June 2004

	<i>Notes to the cash flow statement</i>	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
Cash flows from operating activities:			
Cash received from sales of goods		11,211,202	11,285,290
Refund of taxes		176,368	176,368
Cash received in relation to other operating activities		92	—
		<u>11,387,662</u>	<u>11,461,658</u>
Sub-total of cash inflows		11,387,662	11,461,658
Cash paid for goods		10,953,994	10,928,873
Cash paid to and on behalf of employees		155,448	154,110
Taxes paid		399,708	399,350
Cash paid relating to other operating activities		52,937	49,247
		<u>11,562,087</u>	<u>11,531,580</u>
Sub-total of cash outflows		11,562,087	11,531,580
Net cash outflow from operating activities	(a)	<u>(174,425)</u>	<u>(69,922)</u>
Cash flows from investing activities:			
Net proceeds from disposal of fixed assets		477	477
Cash received relating to other investing activities		77,523	12,004
		<u>78,000</u>	<u>12,481</u>
Sub-total of cash inflows		78,000	12,481

Cash Flow Statement (unaudited) (continued)

For the six months ended 30 June 2004

	<i>Notes to the cash flow statement</i>	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		308,849	268,546
Cash paid for acquisition of investments		10,500	10,500
Cash paid relating to other investing activities		9,204	—
Sub-total of cash outflows		<u>328,553</u>	<u>279,046</u>
Net cash outflow from investing activities		<u>(250,553)</u>	<u>(266,565)</u>
Cash flows from financing activities:			
Cash received from loans		300,000	200,000
Sub-total of cash inflows		<u>300,000</u>	<u>200,000</u>
Cash repayments of loans		100,000	100,000
Cash paid for dividends or interest expense		659,197	651,579
Cash paid relating to other financing activities		241	241
Sub-total of cash outflows		<u>759,438</u>	<u>751,820</u>
Net cash outflow from financing activities		<u>(459,438)</u>	<u>(551,820)</u>
Effect of exchange rate fluctuations on cash		<u>720</u>	<u>392</u>
Net decrease in cash and cash equivalents	(c)	<u>(883,696)</u>	<u>(887,915)</u>

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Cash Flow Statement (unaudited) (continued)

For the six months ended 30 June 2004

Notes to the cash flow statement	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
(a) Reconciliation of net profit to cash flows from operating activities:		
Net profit	695,985	695,985
Add: Bad debt provision	—	—
Write-back of provision for inventories	(7,823)	(7,823)
Depreciation of fixed assets	373,212	363,233
Amortisation of intangible assets	4,375	3,987
Amortisation of long-term deferred expenses	28,419	—
Increase in deferred expenses	(251)	—
Increase in accrued expenses	15,939	12,400
Financial expenses	47,273	43,127
Investment (income)/losses	(65)	31,577
Decrease in inventories	(756,908)	(671,234)
Increase in operating receivables	552,221	557,995
Decrease in operating payables	(1,126,802)	(1,099,169)
Net cash outflow from operating activities	<u>(174,425)</u>	<u>(69,922)</u>
(b) Non-cash transactions of investing and financing activities:		
Conversion of convertible debentures into capital	<u>1,633</u>	<u>1,633</u>
(c) Net decrease in cash and cash equivalents:		
Cash at the end of the period	1,723,280	1,692,698
Less: Cash at the beginning of the period	2,606,976	2,580,613
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	<u>(883,696)</u>	<u>(887,915)</u>

The accompanying notes on pages 54 to 100 form an integral part of these financial statements.

Notes on the Financial Statements (unaudited)

For the six months ended 30 June 2004

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 Tigai sheng [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, sales, 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.

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.

1. Status of the Company (*continued*)

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.

On 17 March 2003, the Company entered into an agreement with Angang International Trading (Group) Company (“AITG”) and Angang New Steel and Iron Company Limited (“ANSI”) to set up Angang Shenyang Steel Product Processing And Distribution Company Limited (“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.

The principal activities of the Company and ANSC-TKS (collectively referred to as the “Group”) are the production and sale of steel billets, wire rods, thick plates, cold rolled sheets, large section steel and hot dip galvanized steel.

On 9 March 2004, the Company entered into an agreement with China Metallurgical Construction (Group) Company, Wuhan Iron and Steel (Group) Company, State-owned Asset Operation Limited (Qingshan District, Wuhan City) and Shenzhen International Trust and Investment Company Limited to set up Zhongye Nanfang Engineering Technology Company Limited (“Zhongye Nanfang”). The business registration of Zhongye Nanfang was completed on 12 March 2004. The principal activities of Zhongye Nanfang include engineering consultancy services, research and development.

The Company holds 7% interest in Zhongye Nanfang, whose registered capital amounted to Rmb100,000,000.

2. Significant accounting policies

The significant accounting policies adopted by 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 accounting year of the Group is from 1 January to 31 December.

(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.

The consolidated financial statements include the financial statements of the Company and its jointly controlled entity.

For the jointly controlled entity which the Company has joint control with other investors under contractual agreement, the Company consolidates its assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to its percentage of holding of equity interest in this entity in the consolidated financial statements.

(c) Accounting basis and pricing principle

The financial statements of the Group have been prepared on an accrual basis, with the historical cost method as the pricing principle, unless otherwise stated.

(d) Reporting currency

The reporting currency of the Group is Renminbi.

2. Significant accounting policies (*continued*)

(e) Translation of foreign currencies

Foreign currency transactions 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. Except as stated below, exchange gains and losses on foreign currency transactions are dealt with as the gains and losses of the current period.

Exchange gains and losses directly relating to the purchase or construction of fixed assets before they are ready for their intended use (including exchange gains and losses arising from loans used to finance the construction of fixed assets) are capitalised as part of the cost of the fixed assets.

During the construction period, exchange gains and losses are included in long-term deferred expenses and are included in the income statement in the month the related assets are ready for their intended use.

(f) Cash equivalents

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

(g) Bad debt provision

Trade receivables showing signs of uncollectibility are identified individually and bad debt provision is then made based on the probability of being uncollectible. In respect of other trade receivables, bad debt provision is made with reference to the ageing analysis and the management's estimate based on past experience.

Bad debt provision for other receivables is determined based on their specific nature and the corresponding collectibility.

2. Significant accounting policies (*continued*)

(h) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost of inventories includes all costs of purchase, costs of conversion and other costs. Inventories are stated at the cost of purchase computed using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity. Except spare parts and consumables, inventory provision is provided at the difference between the cost of individual inventory item and its net realisable value. Spare parts and consumables are provided on the management's assessment on factors such as the present conditions and consumption. Net realisable value is determined according to the estimated selling price in the normal course of business less the estimated costs to completion and the estimated selling costs and related taxes necessary to make the sale.

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(i) Long-term equity investments

Long-term equity investments are stated at the lower of the carrying amount and the recoverable amount. A provision for impairment loss is made when the recoverable amount is lower than the carrying amount.

Long-term equity 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.

Upon disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying value of the investments is recognised in the income statement.

2. Significant accounting policies (*continued*)

(j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (refer to Note 2(n)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs, which include foreign exchange differences on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Depreciation is provided over the estimated useful life of each asset on a straight-line basis. The respective estimated useful lives and estimated rate of residual values adopted for fixed assets are as follows:

	Depreciation life	Rate of residual value
Buildings and plants	10 to 40 years	3%
Machinery and equipment	5 to 20 years	3%
Land use rights	50 years	0%
Other fixed assets	4 to 15 years	3%

(k) Intangible assets

Intangible assets are carried in the balance sheet at cost less accumulated amortisation and impairment losses (refer to Note 2(n)). Amortisation is provided on a straight-line basis over the estimated useful lives of five or ten years, the contracted beneficial period of 12 years as specified in the related agreement or the grant period of 50 years as stipulated by law.

(l) Convertible debentures

Convertible debentures are carried at par value. Interest expense is accrued annually which is capitalised as the cost of respective construction in progress. Upon the completion of the construction in progress, the relevant interest expense is charged directly to financial expenses of the same period.

Upon conversion, the carrying value of the debentures and the accrued interest is credited to the share capital and capital reserve.

2. Significant accounting policies (*continued*)

(m) Pre-operating expenses

Except for the acquisition and construction of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

(n) Impairment of long-term equity investments, fixed assets, construction in progress, intangible assets and other assets

The carrying amounts of the Group's assets, other than trade receivables and inventories (refer to Notes 2(g), 2(h)), are reviewed regularly to determine whether the recoverable amounts have declined below the carrying value. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the estimated net selling price and the estimated value in use. In determining the value in use, estimated future cash flows to be generated by these assets are discounted to their present value. The provision for impairment loss is recognised as an expense in the income statement of the current period.

If there is any indication that an impairment loss recognised for an asset in prior years may no longer exist or if there has been a change in the estimates used to determine the recoverable amount, which reduces the impairment loss, the provision for impairment loss is reversed. The reversed amount is credited to the income statement of the same period.

(o) Income tax

Income tax is recognised when payable under the tax payable method. Income tax for the year is provided at the applicable tax rate on taxable income.

(p) 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 buyers. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, 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.

(q) Repairs and maintenance expenses

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

2. Significant accounting policies (*continued*)

(r) Research and development costs

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

(s) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement as incurred.

(t) Dividend distribution

Cash dividends are included in the income statement and profit appropriate statement when declared. The cash dividends proposed after the balance sheet date but before the issuance of the financial statements are presented separately in the shareholders' funds in the balance sheet.

(u) Retirement benefits

Contributions to defined contribution pension scheme are recognised as an expense in the income statement as incurred. Further details are set out in Note 39.

(v) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

3. Taxation

(a) Tax relating to sales of goods applicable to the Group includes value added tax (“VAT”). The VAT rate is 17%.

(b) **Income tax**

The income tax rate applicable to the Company is 33% (2003: 33%).

Pursuant to the Income Tax Regulation for Foreign Investment Enterprises, the jointly controlled entity of the Company, ANSC-TKS, commencing from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years.

(c) **Others**

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

(d) **Taxes payable**

The Group

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> (audited)
VAT payable	(50,227)	28,997
Income tax payable	224,640	(23,067)
Others	28,655	2,712
Total	<u>203,068</u>	<u>8,642</u>

The Company

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> (audited)
VAT payable	(37,221)	31,450
Income tax payable	224,640	(23,067)
Others	28,655	2,712
Total	<u>216,074</u>	<u>11,095</u>

4. Jointly controlled entity and associate

As at 30 June 2004, particulars of the jointly controlled entity are set out below:

Name of invested company	Registered capital	Percentage of equity held by the Company	Initial cost of investment	Principal activities
ANSC-TKS	US\$60,000,000	50%	US\$30,000,000	Production and sale of rolled hot dip galvanised steel products

As at 30 June 2004, particulars of the associate are set out below:

Name of invested company	Registered capital	Percentage of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang	Rmb48,000,000	30%	Rmb14,400,000	Processing, sale, storage and distribution of steel products

5. Segment reporting

The Group's products are entirely steel products. Accordingly, no business segmental analysis is provided. Its products are mainly sold domestically in the PRC, except for some of them are for export sales.

6. Cash at banks and in hand

The Group

	At 30 June 2004			At 31 December 2003		
	Original	Exchange	Rmb/Rmb	Original	Exchange	Rmb/Rmb
	currency	rate	equivalents	currency	rate	equivalents
	'000		Rmb'000	'000		Rmb'000
						(audited)
Cash in hand						
Renminbi			8			8
Euro	1	10.04	10	—	10.34	2
Cash at banks						
Renminbi			813,397			2,066,879
HK Dollars	12,038	1.06	12,774	18,844	1.07	20,082
US Dollars	4	8.28	37	799	8.28	6,613
Euro	683	10.04	6,855	2,236	10.34	23,114
Pounds Sterling	13	15.10	199	19	14.68	278
Deposit with banks Renminbi			890,000			490,000
			<u>1,723,280</u>			<u>2,606,976</u>

The Company

	At 30 June 2004			At 31 December 2003		
	Original	Exchange	Rmb/Rmb	Original	Exchange	Rmb/Rmb
	currency	rate	equivalents	currency	rate	equivalents
	'000		Rmb'000	'000		Rmb'000
						(audited)
Cash in hand						
Renminbi			8			8
Cash at banks						
Renminbi			784,208			2,041,910
HK Dollars	12,038	1.06	12,774	18,844	1.07	20,082
US Dollars	4	8.28	34	670	8.28	5,548
Euro	545	10.04	5,475	2,204	10.34	22,787
Pound Sterling	13	15.10	199	19	14.68	278
Deposit with banks Renminbi			890,000			490,000
			<u>1,692,698</u>			<u>2,580,613</u>

6. Cash at banks and in hand *(continued)*

The balance of cash at banks and in hand of the Group as at 30 June 2004 has decreased by Rmb883,696,000 as compared with the end of the previous year. The decrease is mainly due to the payment of 2003 final dividend of Rmb592,563,000 and increase in cash settlement for raw material purchase as a result of improvement in sales proceeds and cashflow position during the first half of 2004.

7. Bills receivable

All bills receivable held by the Group represent bills of acceptance issued by banks which have not been pledged.

The decrease in the period-end balance of bills receivable of the Group as compared with the end of the previous year is mainly due to increase in the proportion of cash sales in 2004 as compared with previous 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/Company At 30 June 2004		The Group/Company At 31 December 2003	
	Rmb'000	%	Rmb'000 <i>(audited)</i>	%
Within one year	426,584	100	84,749	100
Less: Bad debt provision	—	—	—	—
	<u>426,584</u>	<u>100</u>	<u>84,749</u>	<u>100</u>

The increase in balance of trade receivables as at 30 June 2004 as compared with the end of the previous year is mainly due to the significant increase in export sales during the period. Export sales usually do not demand prepayments. For the six months ended 30 June 2004, export sales amounted to Rmb1,251,268,000 (As at 30 June 2003: Rmb195,455,000).

8. Trade receivables (continued)

The management considers that no provision for bad debt in respect of trade receivables as at 30 June 2004 is necessary as all of these amounts are due with one year and it is expected that the amounts can be fully recovered.

The trade receivables of the Group/Company as at 30 June 2004 are as follows:

Name of the debtor	Particulars	Amount <i>Rmb'000</i>	Percentage of
			total trade receivables %
Angang International Trade Co.	Sales of goods	296,617	70
China Railway Materials Shenyang Co.	Sales of goods	111,284	26
Shenyang Railway Authority Material Distribution Centre, Research & Development Department	Sales of goods	11,011	2
China Railway Materials Northeast Co.	Sales of goods	6,759	2
Shenyang Railway Authority Material Trading (Main Factory) Co.	Sales of goods	913	—
		<u>426,584</u>	<u>100</u>

As at 30 June 2004, the total trade receivables of the Group's/Company's five largest debtors are as follows:

	The Group/Company At 30 June 2004	The Group/Company At 31 December 2003 <i>(audited)</i>
Amount (Rmb'000)	426,584	84,749
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

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Angang Holding	550	—
Subsidiaries of Angang Holding	887	200
Others	57,361	18,799
Less: Bad debt provision	(3)	(3)
	<u>58,795</u>	<u>18,996</u>

The Company

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Angang Holding	550	—
Subsidiaries of Angang Holding	887	200
Others	38,085	13,686
Less: Bad debt provision	(3)	(3)
	<u>39,519</u>	<u>13,883</u>

9. Other receivables (continued)

Ageing analyses of other receivables are as follows:

The Group

	At 30 June 2004		At 31 December 2003	
	Rmb'000	%	Rmb'000 (audited)	%
Within one year	58,229	99	18,430	97
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
Over three years	569	1	569	3
	<u>58,798</u>	<u>100</u>	<u>18,999</u>	<u>100</u>
Less: Bad debt provision over three years	(3)	—	(3)	—
	<u>58,795</u>	<u>100</u>	<u>18,996</u>	<u>100</u>

The Company

	At 30 June 2004		At 31 December 2003	
	Rmb'000	%	Rmb'000 (audited)	%
Within one year	38,953	99	13,317	96
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
Over three years	569	1	569	4
	<u>39,522</u>	<u>100</u>	<u>13,886</u>	<u>100</u>
Less: Bad debt provision over three years	(3)	—	(3)	—
	<u>39,519</u>	<u>100</u>	<u>13,883</u>	<u>100</u>

Bad debt provision	The Group/Company At 30 June 2004	The Group/Company At 31 December 2003
	Rmb'000	Rmb'000 (audited)
Balance at the beginning of the period/ year	3	160
Add: Provision for the period	—	—
Less: Write-back for the period	—	157
Balance at the end of the period/year	<u>3</u>	<u>3</u>

9. Other receivables (*continued*)

As at 30 June 2004, the management considers that most of the other receivables can be recovered in full as they have the ability to repay the debts, hence, the level of bad debt provision is less than 5%.

The five largest debtors of other receivables of the Group as at 30 June 2004 are as follows:

The Group

Name of the debtor	Particulars	Amount <i>Rmb'000</i>	Percentage of other receivables %
China Securities Depository & Clearing Corp. Ltd.	Dividend related IIT	28,004	48
Cockerill Mechanical Industries S.A.	Contract compensation	15,317	26
The People's Insurance Company Of China, Anshan Branch	Insurance compensation	2,523	4
The Industrial and Commercial Bank of China, Anshan Branch	Interest receivable	1,115	2
ANSC-TKS	Pre-operating expenses	1,023	2
		<u>47,982</u>	<u>82</u>

As at 30 June 2004, the total other receivables of the Group's five largest debtors are as follows:

	At 30 June 2004	At 31 December 2003 <i>(audited)</i>
Amount (Rmb'000)	47,982	11,879
Percentage of total other receivables	82%	63%

9. Other receivables (continued)

The five largest debtors of other receivables of the Company as at 30 June 2004 are as follows:

The Company

Name of the debtor	Particulars	Amount Rmb'000	Percentage of
			total other receivables %
China Securities Depository & Clearing Corp. Ltd.	IIT relating to dividend	28,004	71
ANSC-TKS	Pre-operating expenses paid on behalf of ANSC-TKS	2,045	5
The Industrial and Commercial Bank of China, Anshan Branch	Interest receivable	1,115	3
Angang Group Financial Co. Ltd.	Interest receivable	686	2
Bank of China, Anshan Branch	Interest receivable	632	1
		32,482	82
		32,482	82

As at 30 June 2004, the total other receivables of the Company's five largest debtors are as follows:

	At 30 June 2004	At 31 December 2003 (audited)
Amount (Rmb'000)	32,482	10,902
Percentage of total other receivables	82%	79%

The increase in other receivables as at 30 June 2004 as compared with the end of the previous year is mainly due to the payment of IIT relating to dividend amounted to Rmb28,004,000 to Shenzhen Stock Exchange; and compensation receivable by ANSC-TKS in respect of damages resulted from the unsatisfactory fulfilment of the production line design contract made by Cockerill Mechanical Industries S.A. amounted to approximately Rmb15,317,000.

During the period, the Group had no individually significant write-off or write-back of other receivables which had been fully or substantially provided for in prior years.

Among the balance of other receivables, Angang Holdings holds 5% of the Company's shares.

10. Prepayments

The Group

	At 30 June 2004		At 31 December 2003	
	<i>Rmb'000</i>	%	<i>Rmb'000</i> <i>(audited)</i>	%
Within one year	244,482	100	593,967	100
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
	<u>244,482</u>	<u>100</u>	<u>593,967</u>	<u>100</u>

The Company

	At 30 June 2004		At 31 December 2003	
	<i>Rmb'000</i>	%	<i>Rmb'000</i> <i>(audited)</i>	%
Within one year	238,413	100	593,962	100
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
	<u>238,413</u>	<u>100</u>	<u>593,962</u>	<u>100</u>

10. Prepayments (continued)**The Group**

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
ANSI	208,757	543,545
Subsidiaries of Angang Holding	351	—
	<u>209,108</u>	<u>543,545</u>
Others	35,374	50,422
	<u>244,482</u>	<u>593,967</u>

The Company

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
ANSI	208,757	543,545
Angang Holding and its subsidiaries	351	—
	<u>209,108</u>	<u>543,545</u>
Others	29,305	50,417
	<u>238,413</u>	<u>593,962</u>

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 At 30 June 2004 Rmb'000	The Company At 30 June 2004 Rmb'000	The Group At 31 December 2003 Rmb'000 (audited)	The Group At 31 December 2003 Rmb'000 (audited)
At cost				
Raw materials	372,659	352,745	252,877	242,186
Work in progress	236,698	236,698	166,244	166,244
Finished goods	948,419	859,910	455,217	444,190
Spare parts and consumables	750,828	731,606	629,541	617,386
Sub-total	<u>2,308,604</u>	<u>2,180,959</u>	<u>1,503,879</u>	<u>1,470,006</u>
Less: Provision for diminution in value				
- Finished goods	(7,307)	(7,307)	(15,130)	(15,130)
- Spare parts	(48,466)	(48,466)	(48,466)	(48,466)
Total	<u>2,252,831</u>	<u>2,125,186</u>	<u>1,440,283</u>	<u>1,406,410</u>

Provision for stock	The Group/Company At 30 June 2004 Rmb'000	The Group/Company At 31 December 2003 Rmb'000 (audited)
Balance at the beginning of the period/year	63,596	54,282
Add: Provision for the period/year	—	15,130
Less: Write-back for the period/year	<u>7,823</u>	<u>5,816</u>
Balance at the end of the period/year	<u>55,773</u>	<u>63,596</u>

All the above inventories are purchased or manufactured by the Group.

	The Group At 30 June 2004 Rmb'000	The Company At 30 June 2004 Rmb'000	The Group/Company At 30 June 2003 Rmb'000
Cost of inventories recognised as cost of sales	<u>8,484,009</u>	<u>8,462,469</u>	<u>5,719,614</u>

11. Inventories (continued)

The net realisable value of inventories of which provision had been made amounted to Rmb17,836,000 (2003: Rmb36,391,000).

The increase in the balance of inventories as at 30 June 2004 as compared with the end of the previous year is mainly due to the significant increase in finished goods in transit, as a result of the Company's efforts in expanding its export sales. It is also attributable to the increase in the purchase price of raw materials and the increase in production capacity during the six months ended 30 June 2004.

12. Long-term equity investments

	Balance at the beginning of the period <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Amortisation <i>Rmb'000</i>	Balance at the end of the period <i>Rmb'000</i>
Investment in associate	14,406	65	—	14,471
Less: Provision for diminution in value	—	—	—	—
Sub-total	14,406	65	—	14,471
Other long-term equity investment	—	10,500	—	10,500
The Group				
Total	14,406	10,565	—	24,971
Investment in jointly controlled entity	252,312	—	23,007	229,305
Less: Provision for diminution in value	—	—	—	—
Sub-total	252,312	—	23,007	229,305
The Company				
Total	266,718	10,565	23,007	254,276

12. Long-term equity investments (continued)

As at 30 June 2004, the Group/Company's other equity investment is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment Rmb'000	Closing balance at the end of the period Rmb'000
Zhongye Nanfang	7%	30 years	10,500	10,500

As at 30 June 2004, the Company's total investment represents 3% (2003: 3%) of the Company's net asset value.

13. Fixed assets

The Group	Land use rights Rmb'000	Buildings and plant Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:					
Balance at the beginning of the period	164,987	2,446,533	6,607,756	628,840	9,848,116
Additions	—	—	—	2,685	2,685
Transferred from construction in progress (Note 14)	22,619	128,066	788,775	60,348	999,808
Disposals	—	—	—	(695)	(695)
Balance at the end of the period	187,606	2,574,599	7,396,531	691,178	10,849,914
Accumulated depreciation:					
Balance at the beginning of the period	210	642,453	2,222,533	396,386	3,261,582
Charge for the period	1,682	49,505	303,989	18,354	373,530
Written back on disposal	—	—	—	(218)	(218)
Balance at the end of the period	1,892	691,958	2,526,522	414,522	3,634,894
Net book value:					
Balance at the end of the period	185,714	1,882,641	4,870,009	276,656	7,215,020
Balance at the beginning of the period	164,777	1,804,080	4,385,223	232,454	6,586,534

13. Fixed assets (continued)

The Company	Land use rights <i>Rmb'000</i>	Buildings and plant <i>Rmb'000</i>	Machinery and equipment <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:					
Balance at the beginning of the period	164,987	2,442,681	6,607,252	623,302	9,838,222
Additions	—	—	—	—	—
Transferred from construction in progress (Note 14)	272	34,491	432,919	51,330	519,012
Disposals	—	—	—	(695)	(695)
Balance at the end of the period	<u>165,259</u>	<u>2,477,172</u>	<u>7,040,171</u>	<u>673,937</u>	<u>10,356,539</u>
Accumulated depreciation:					
Balance at the beginning of the period	210	642,439	2,222,530	395,572	3,260,751
Charge for the period	1,568	48,377	295,938	17,350	363,233
Written back on disposal	—	—	—	(218)	(218)
Balance at the end of the period	<u>1,778</u>	<u>690,816</u>	<u>2,518,468</u>	<u>412,704</u>	<u>3,623,766</u>
Net book value:					
Balance at the end of the period	<u>163,481</u>	<u>1,786,356</u>	<u>4,521,703</u>	<u>261,233</u>	<u>6,732,773</u>
Balance at the beginning of the period	<u>164,777</u>	<u>1,800,242</u>	<u>4,384,722</u>	<u>227,730</u>	<u>6,577,471</u>

As at 30 June 2004, the net book value of fully depreciated fixed assets of the Group which are still in use amounted to Rmb26,927,000 (2003: Rmb19,574,000).

Part of the fixed assets are pledged by the Group as collaterals for the Syndicated Loan. Details of which are set out in Note 25.

14. Construction in progress

	Amount		Including: Capitalisation of interest charges	
	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
Cost				
Balance at the beginning of the period	1,206,658	703,121	71,145	61,855
Additions	248,408	190,178	15,152	11,183
Transfer to fixed assets (Note 13)	999,808	519,012	68,810	55,551
Other transfers	106,174	52,620	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at the end of the period	<u>349,084</u>	<u>321,667</u>	<u>17,487</u>	<u>17,487</u>
Less: Provision for diminution in value				
Balance at the beginning of the period	—	—		
Additions	—	—		
Deductions	—	—		
Written off	—	—		
	<u> </u>	<u> </u>		
Balance at the end of the period	<u>—</u>	<u>—</u>		
Net book value				
Balance at the end of the period	<u>349,084</u>	<u>321,667</u>		
Balance at the beginning of the period	<u>1,206,658</u>	<u>703,121</u>		

The capitalisation rate used to determine the borrowing costs to be capitalised was 5.56% (2003: 5.52%).

14. Construction in progress (continued)

As at 30 June 2004, the projects under construction of the Group/Company are as follows:

Project	Balance at		Transferred to fixed assets	Other transfers	Balance at 30 June 2004	Percentage of budget	Source of fund	Interest charges capitalised during the period
	Budget	2004						
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000			Rmb'000
				(Note 13)				
Upgrade of cold rolling production lines	3,820,193	604,379	166,907	493,667	51,178	226,441	77% Equity finance and bank loans	11,183
Upgrade of continuous casting and rolling mill, and all-purposes rolling mill	597,752	472	2,280	2,752	—	—	100% Equity finance and operating fund	—
Upgrade of the heavy plate rolling line	398,100	55,972	547	—	1,442	55,077	100% Operating fund and bank loans	—
Technology renovation	326,640	42,298	20,444	22,593	—	40,149	13% Operating fund	—
Total for the Company	5,142,685	703,121	190,178	519,012	52,620	321,667		11,183
Dalian galvanised steel production line	538,670	503,537	58,230	480,796	53,554	27,417	99% Operating fund and bank loans	3,969
Total for the Group	5,681,355	1,206,658	248,408	999,808	106,174	349,084		15,152

Part of the construction in progress are pledged by the Group as collaterals for the Syndicated Loan. Details of which are set out in Note 25.

15. Intangible assets

The Group	Land use rights <i>Rmb'000</i>	Software <i>Rmb'000</i>	Industrial technology <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost				
Balance at the beginning of the period	354,200	11,131	12,819	378,150
Additions	—	3,190	—	3,190
Deductions	—	—	—	—
Balance at the end of the period	<u>354,200</u>	<u>14,321</u>	<u>12,819</u>	<u>381,340</u>
Less: Accumulated amortisation				
Balance at the beginning of the period	42,926	229	—	43,155
Additions	3,553	1,059	132	4,744
Deductions	—	—	—	—
Balance at the end of the period	<u>46,479</u>	<u>1,288</u>	<u>132</u>	<u>47,899</u>
Less: Provision for diminution in value				
Balance at the beginning of the period	—	—	—	—
Additions	—	—	—	—
Deductions	—	—	—	—
Balance at the end of the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net book value				
Balance at the end of the period	<u>307,721</u>	<u>13,033</u>	<u>12,687</u>	<u>333,441</u>
Balance at the beginning of the period	<u>311,274</u>	<u>10,902</u>	<u>12,819</u>	<u>334,995</u>

15. Intangible assets (continued)

The Company	Land use rights <i>Rmb'000</i>	Software <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost			
Balance at the beginning of the period	354,200	2,601	356,801
Additions	—	—	—
Deductions	—	—	—
	<hr/>	<hr/>	<hr/>
Balance at the end of the period	354,200	2,601	356,801
	<hr/>	<hr/>	<hr/>
Less: Accumulated amortisation			
Balance at the beginning of the period	42,926	73	42,999
Additions	3,553	434	3,987
Deductions	—	—	—
	<hr/>	<hr/>	<hr/>
Balance at the end of the period	46,479	507	46,986
	<hr/>	<hr/>	<hr/>
Less: Provision for diminution in value			
Balance at the beginning of the period	—	—	—
Additions	—	—	—
Deductions	—	—	—
	<hr/>	<hr/>	<hr/>
Balance at the end of the period	—	—	—
	<hr/>	<hr/>	<hr/>
Net book value			
Balance at the end of the period	307,721	2,094	309,815
	<hr/>	<hr/>	<hr/>
Balance at the beginning of the period	311,274	2,528	313,802
	<hr/>	<hr/>	<hr/>

15. Intangible assets (continued)

Land use rights include capital contribution made by Angang Holding of Rmb226,800,000 and an amount of Rmb127,400,000 acquired by the Company. Land use rights are amortised over a remaining period of 43.5 years. Software is amortised on a straight-line based over its expected useful life of 5 or 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 of industrial technology is calculated on a straight-line basis over its remaining useful life commencing from the date when it was put into use.

16. Long-term deferred expenses

	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
Cost		
Balance at the beginning of the period	26,310	—
Additions	2,109	—
Deductions	28,419	—
	<u> </u>	<u> </u>
Balance at the end of the period	<u> </u>	<u> </u>

Long-term deferred expenses represent pre-operating expenses incurred by ANSC-TKS. ANSC-TKS commenced business operations in April 2004 and therefore all pre-operating expenses were charged to the income statement prior to 30 June 2004.

17. Short-term loans

The Group	At 30 June 2004			At 31 December 2003		
	Principal <i>Rmb'000</i>	Interest rate (p.a.)	Credit/secured/ guaranteed/ pledged	Principal <i>Rmb'000</i> <i>(audited)</i>	Interest rate (p.a.)	Credit/secured/ guaranteed/ pledged
Bank loans	<u>50,000</u>	5.31%	credit	<u>—</u>		
The Company	At 30 June 2004			At 31 December 2003		
	Principal <i>Rmb'000</i>	Interest rate (p.a.)	Credit/secured/ guaranteed/ pledged	Principal <i>Rmb'000</i> <i>(audited)</i>	Interest rate (p.a.)	Credit/secured/ guaranteed/ pledged
Bank loans	<u>—</u>			<u>—</u>		

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

18. Bills payable

The decrease in bills payable is mainly due to the increase in cash purchases made by the Group during the first half of 2004. Bills payable of the Group primarily represent the bank accepted bills for the purchase of raw materials and spare parts with the repayment terms within six months.

The Group's/Company's five largest bills payable as at 30 June 2004 are as follows:

Name of creditor	Particulars	Amount <i>Rmb'000</i>	Percentage of total bills payable %
Xingtai Machinery & Mill Roll (Group) Corporation	Purchase goods	13,950	7
Anshan Hui Feng Grass- product Factory	Purchase goods	7,560	4
Angang International Trade Co., Dalian Branch	Purchase goods	7,018	3
Angang International Trade Co., Ba Yu Quan Branch	Purchase goods	5,800	3
Angang Min Qi Cold Rolling Welfare Factory	Purchase goods	5,080	2
		<u>39,408</u>	<u>19</u>

As at 30 June 2004 the total bills payable of the Group's/Company's five largest creditors are as follows:

	At 30 June 2004	At 31 December 2003 <i>(audited)</i>
Amount (Rmb'000)	39,408	1,028,047
Percentage of total bills payable	19%	82%

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

19. Trade payables

As at 30 June 2004, the balance of trade payables of the Group includes Rmb61,277,000 due to ANSI for the purchase of raw materials and Rmb14,446,000 due to the subsidiaries of Angang Holding for the purchase of raw materials and for maintenance services.

None of the trade payables of the Group as at 30 June 2004 are 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.

20. Receipts in advance

As at 30 June 2004, the decrease in balance of receipts in advance of the Group as compared with the end of the previous year is mainly due to the increase in orders received from steel processing companies. The settlement of these sales are made upon delivery of goods.

As at 30 June 2004, the balance of receipts in advance of the Group includes Rmb441,261,000 and Rmb49,584,000 received from AITG and the subsidiaries of Angang Holding, respectively, for the purchase of steel products.

None of the receipts in advance of the Group as at 30 June 2004 were aged over 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.

21. Accrued payroll

The Group's salary comprises of basic salary and performance-linked salary. The increase in the Group's profit for the six months ended 30 June 2004 led to an increase in performance-linked salary, which in turn led to an increase in accrued payroll. The accrued payroll balance at 30 June 2004 includes an amount of Rmb45,000,000 in relation to the performance-linked salary which is payable in the second half of 2004.

22. Staff welfare payable

During the period, the increase in staff cost led to the corresponding increase in staff welfare payable as at 30 June 2004 as compared with the end of the previous year.

23. Other payables**The Group**

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Construction costs	279,346	368,143
Freight charges and insurance charges	19,403	14,272
Deposits for steel shelves	28,302	17,094
Employee social security expenses	2,288	4,510
Tax withheld	321	1,687
Staff education fund	5,751	5,346
Education surcharge	—	1,259
Incentive payable	1,640	2,097
Others	6,384	3,178
	<u>343,435</u>	<u>417,586</u>

The Company

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Construction costs	153,253	242,792
Freight charges and insurance charges	19,403	14,272
Deposits for steel shelves	28,302	17,094
Employee social security expenses	2,288	4,510
Tax withheld	321	1,687
Staff education fund	5,751	5,346
Education surcharge	—	1,259
Incentive payable	1,640	2,097
Others	3,849	2,185
	<u>214,807</u>	<u>291,242</u>

As at 30 June 2004, the balance of other receivables of the Group includes Rmb106,889,000 due to AITG and the subsidiaries of Angang Holding for construction and other services.

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

None of the other payables of the Company as at 30 June 2004 are aged over three years.

24. Current portion of long-term liabilities

	The Group At 30 June 2004 <i>Rmb'000</i>	The Company At 30 June 2004 <i>Rmb'000</i>	The Group At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>	The Company At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Bank loans	620,267	600,000	420,267	400,000
Convertible debenture	3,971	3,971	—	—
	<u>624,238</u>	<u>603,971</u>	<u>420,267</u>	<u>400,000</u>

Details of bank loans are set out in Note 25. As at 30 June 2004, the convertible debentures will expire within one year, details of which are set out in Note 26.

25. Loans

	The Group At 30 June 2004 <i>Rmb'000</i>	The Company At 30 June 2004 <i>Rmb'000</i>	The Group At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>	The Company At 31 December 2003 <i>Rmb'000</i> <i>(audited)</i>
Current portion of long-term debts	620,267	600,000	420,267	400,000
Long-term debts	1,842,733	1,563,000	1,892,733	1,663,000
	<u>2,463,000</u>	<u>2,163,000</u>	<u>2,313,000</u>	<u>2,063,000</u>

25. Loans (continued)

The interest rates and terms of repayment for current portion of long-term loans are as follows:

The Group

Bank	Period (Note 1)	Interest rate (p.a.) (Note 2)	Secured/ guaranteed	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000 (audited)
Industrial and Commercial Bank of China	Due in 2004	5.49%	Guaranteed	200,000	300,000
Bank of China	Due in 2004	5.49%	Guaranteed	100,000	100,000
Bank of China	Due in 2005	5.49%	Guaranteed	300,000	—
Bank of China	Due in 2004	5.76%	Secured	20,267	20,267
				<u>620,267</u>	<u>420,267</u>

The Company

Bank	Period (Note 1)	Interest rate (p.a.) (Note 2)	Secured/ guaranteed	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000 (audited)
Industrial and Commercial Bank of China	Due in 2004	5.49%	Guaranteed	200,000	300,000
Bank of China	Due in 2004	5.49%	Guaranteed	100,000	100,000
Bank of China	Due in 2005	5.49%	Guaranteed	300,000	—
				<u>600,000</u>	<u>400,000</u>

25. Loans (continued)

The interest rates and terms of repayment for long-term bank loans are as follows:

The Group

Bank	Period (Note 1)	Interest rate (p.a.) (Note 2)	Secured/ guaranteed	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000 (audited)
Industrial and Commercial Bank of China	Due in 2005	5.49%	Guaranteed	63,000	63,000
Bank of China	Due in 2005	5.49%	Guaranteed	700,000	1,000,000
Bank of China	Due in 2006	5.49%	Guaranteed	600,000	600,000
Bank of China	Due in 2007	5.49%	Guaranteed	200,000	—
Bank of China	Due in 2005 to 2014	5.76%	Secured	279,733	229,733
				<u>1,842,733</u>	<u>1,892,733</u>

The Company

Bank	Period (Note 1)	Interest rate (p.a.) (Note 2)	Secured/ guaranteed	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000 (audited)
Industrial and Commercial Bank of China	Due in 2005	5.49%	Guaranteed	63,000	63,000
Bank of China	Due in 2005	5.49%	Guaranteed	700,000	1,000,000
Bank of China	Due in 2006	5.49%	Guaranteed	600,000	600,000
Bank of China	Due in 2007	5.49%	Guaranteed	200,000	—
				<u>1,563,000</u>	<u>1,663,000</u>

25. Loans (continued)

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

In October 2002, ANSC-TKS entered into a loan agreement (“loan agreement”) in respect of a syndicated loan totalling Rmb1,080,000,000 (“Syndicated Loan”) 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 plant, machinery and equipment with a carrying value of Rmb988,482,000 (2003: Rmb1,015,752,000) as at 30 June 2004 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.

As at 30 June 2004, ANSC-TKS has drawn down Rmb600,000,000 (2003: Rmb500,000,000) 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 2005 and 20 December 2014.

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

26. Convertible debentures

On 15 March 2000, the Company issued convertible debentures (the “Debentures”) amounting to Rmb1,500,000,000. The Debentures are listed on the Shenzhen Stock Exchange and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14 September 2000 to 13 March 2005 into A shares with a par value of Rmb1 each of the Company at a conversion rate of Rmb 3.3 per share. On 22 June 2001, the conversion rate was revised to Rmb 3.21 per share. On 4 July 2002, the conversion rate was revised to Rmb 3.13 per share. The conversion rate has been further revised to Rmb 3.03 per share since 11 June 2003. The exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,108,652 A shares. As the conversion period for the Debentures will end on 13 March 2005, therefore, the outstanding Debentures will expire within one year as at 30 June 2004.

The Debentures bear interest at a rate of 1.2% per annum which is payable on 14 March each year.

As of 30 June 2004, 453,847,565 A shares were converted from the Debentures of the Company at a conversion price of Rmb1,496,179,000. 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 Rmb1,052,560,000. A cash payment of Rmb22,000 was made for the odd lot convertible debentures.

27. Share capital

	The Company	
	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
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		
753,308,652 (2003: 751,873,679) Renminbi ordinary shares ("A shares") of Rmb1 each issued at the beginning of the period/year	753,309	751,874
Additional issue of 538,913 (2003: 1,434,973) A shares upon the conversion of convertible debentures	539	1,435
753,847,565 (2003: 753,308,652) A shares of Rmb1 each issued at the end of the period/year	753,848	753,309
890,000,000 overseas-listed foreign invested shares of Rmb1 each ("H share")	890,000	890,000
	<u>1,643,848</u>	<u>1,643,309</u>
	<u>2,962,848</u>	<u>2,962,309</u>

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

28. Capital reserve

	The Company		
	At 1 January 2004	Increase	At 30 June 2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(audited)</i>		
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	1,051,466	1,094	1,052,560
Write-off of trade payables	2,078	—	2,078
Receipt of fixed asset donation	76	—	76
	<u>3,083,648</u>	<u>1,094</u>	<u>3,084,742</u>

29. Surplus reserves

	The Group/Company		
	At 1 January 2004	Profits distribution	At 30 June 2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(audited)</i>		
Statutory surplus reserve	385,297	—	385,297
Statutory public welfare fund	385,297	—	385,297
	<u>770,594</u>	<u>—</u>	<u>770,594</u>

According to the requirement set out in rule 147 of the Company Law, the Company makes allocation of 10% of the net profit after taxation of the Company 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 is allocated to the Statutory public welfare fund.

30. Undistributed profits

	The Group/Company	
	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000 (audited)</i>
Undistributed profits at the beginning of the period/year	2,131,717	1,281,803
Add: Profit for the period/year	695,985	1,432,579
Less: Transfer to surplus reserves	—	(286,516)
Dividends	(592,563)	(296,087)
Balance of dividends	—	(62)
	<u>2,235,139</u>	<u>2,131,717</u>
Undistributed profits at the end of the period/year	<u>2,235,139</u>	<u>2,131,717</u>

Pursuant to a resolution passed at the Director's meeting on 15 June 2004, the Directors proposed a cash dividend of Rmb0.2 per share (2002: Rmb0.1 per share) totalling Rmb592,563,000 (2002: Rmb296,149,000) to ordinary share shareholders.

31. Income from principal operations

	The Group	The Company	The Group/ Company
	Six months ended 30 June 2004	Six months ended 30 June 2004	Six months ended 30 June 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Wire rods	1,094,077	1,094,077	569,969
Thick plates	2,127,826	2,127,826	1,764,050
Cold rolled sheets	3,703,045	3,748,315	3,088,482
Large section products	1,908,342	1,908,342	1,344,963
Galvanized steel	758,232	679,737	—
Steel billets	298,333	298,333	205,926
	<u>9,889,855</u>	<u>9,856,630</u>	<u>6,973,390</u>

31. Income from principal operations (continued)

Total sales to the five largest customers were Rmb5,993,933,000 (2003: Rmb1,548,518,000) which accounted for 61% (2003: 22%) of the total sales income of the Group for the period ended 30 June 2004.

There is an increase in the sales income of the Group for the six months ended 30 June 2004 as compared with the previous period. It is mainly due to the increase in sales volume and the improvement in sales mix. During the six months of 2004, the Group has expanded the foreign markets, resulting in significant increase in export sales. As at 30 June 2004, export sales totalled 322,884 tonnes (2003: 88,414 tonnes).

	The Group Six months ended 30 June 2004 Rmb'000	The Company Six months ended 30 June 2004 Rmb'000	The Group/ Company Six months ended 30 June 2003 Rmb'000
Domestic sales	8,638,587	8,605,362	6,777,935
Export sales	1,251,268	1,251,268	195,455
	<u>9,889,855</u>	<u>9,856,630</u>	<u>6,973,390</u>

32. Cost of sales

	The Group Six months ended 30 June 2004 Rmb'000	The Company Six months ended 30 June 2004 Rmb'000	The Group/ Company Six months ended 30 June 2003 Rmb'000
Wire rods	848,638	848,638	500,062
Thick plates	1,498,835	1,498,835	1,279,438
Cold rolled sheets	3,489,509	3,534,780	2,633,511
Large section steel products	1,665,955	1,665,955	1,096,858
Galvanized steel	697,083	630,272	—
Steel billets	283,989	283,989	209,745
	<u>8,484,009</u>	<u>8,462,469</u>	<u>5,719,614</u>

32. Cost of sales (continued)

The cost of sales of the Group represents the costs incurred for the sales of steel products. During the six months ended 30 June 2004, as the raw material prices have increased and there was growth in sales volume, cost of sales has increased significantly.

33. Business taxes and surcharges

		The Group/ Company Six months ended 30 June 2004 <i>Rmb'000</i>	The Group/ Company Six months ended 30 June 2003 <i>Rmb'000</i>
City construction and maintenance taxes	7% of VAT payable	4,158	16,723
Education surcharge and local education surcharge	3% and 1% of VAT payable	<u>2,376</u>	<u>9,556</u>
		<u>6,534</u>	<u>26,279</u>

34. Other operating profit

	The Group Six months ended 30 June 2004 <i>Rmb'000</i>	The Company Six months ended 30 June 2004 <i>Rmb'000</i>	The Group/ Company Six months ended 30 June 2003 <i>Rmb'000</i>
Profit from sales of packaging materials	1,220	1,220	3,251
Profit from sales of scrap materials	38,279	37,469	12,831
Others	<u>550</u>	<u>550</u>	<u>70</u>
	<u>40,049</u>	<u>39,239</u>	<u>16,152</u>

35. Financial expenses

	The Group Six months ended 30 June 2004 <i>Rmb'000</i>	The Company Six months ended 30 June 2004 <i>Rmb'000</i>	The Group Six months ended 30 June 2003 <i>Rmb'000</i>	The Company Six months ended 30 June 2003 <i>Rmb'000</i>
Interest and other borrowing costs	74,151	65,603	53,128	50,122
Less: Amount capitalised as construction in progress	15,152	11,183	44,801	41,795
Net interest expenses	58,999	54,420	8,327	8,327
Net exchange (gain)/loss	(774)	(392)	227	227
Less: Amount capitalised as construction in progress	(616)	(616)	80	80
Net exchange (gain)/loss	(158)	224	147	147
Interest income	(11,821)	(11,758)	(7,620)	(7,620)
Bank charges	253	241	852	852
	<u>47,273</u>	<u>43,127</u>	<u>1,706</u>	<u>1,706</u>

The major reason for the increase in interest income is due to increase in average bank balances and term deposits.

36. Investment income/(loss)

	The Group Six months ended 30 June 2004 <i>Rmb'000</i>	The Company Six months ended 30 June 2004 <i>Rmb'000</i>	The Group/ Company Six months ended 30 June 2003 <i>Rmb'000</i>
Loss from long-term equity investment in jointly controlled entity — Accounted under equity method	—	(31,642)	—
Income from long-term equity investment in associate — Accounted under equity method	65	65	—
	<u>65</u>	<u>(31,577)</u>	<u>—</u>

Investment income of the Group does not have severe restrictions that significantly impair its ability to transfer funds to the investors.

37. Non-operating expenses

	The Group/ Company Six months ended 30 June 2004 <i>Rmb'000</i>	The Group/ Company Six months ended 30 June 2003 <i>Rmb'000</i>
Loss on disposal of fixed assets	—	60,114
Others	81	917
	<u>81</u>	<u>61,031</u>

38. Related parties and related party transactions

(a) Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relationship with the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan Liaoning Province structures	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 as at 30 June 2004 was Rmb10,794,160,000. It held 44.52% 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 27 "Share Capital".

(b) Related parties without controlling interest:

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

38. Related parties and related party transactions *(continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI:

	Six months ended 30 June 2004 <i>Rmb'000</i>	Six months ended 30 June 2003 <i>Rmb'000</i>
Sales (excluding business taxes and surcharges)	1,214,287	611,913
Sales of scrap materials (excluding business taxes and surcharges)	183,965	109,789
Purchases		
— Raw materials	7,583,771	4,433,743
— Ancillary materials and spare parts	49,481	46,839
Supply of fuel and power	175,391	171,745
Staff welfare and other services	79,451	110,339
Interest received	2,267	—
Processing fee	32,649	—

(i) Sales and sales of scrap materials

The Company sold steel products and scrap materials 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. As at 30 June 2004, included in the above are sales of pipe billets totalling Rmb650,613,000 (For the six months ended 2003: Rmb310,822,000).

(ii) 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.

38. Related parties and related party transactions *(continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI: *(continued)*

(iii) 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.

(iv) 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, limited to a maximum increment of 5% from the relevant cost charged in the previous year.

(v) Staff welfare and other services

The subsidiaries of Angang Holding provide 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.

(vi) Guarantee of debentures

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

(vii) Guarantee of loans

As at 30 June 2004, total amount of loans obtained by the Company from The Industrial and Commercial Bank of China and The Bank of China amounted to Rmb2,163,000,000 (2003: Rmb2,063,000,000). These bank loans are guaranteed by Angang Holding, details of which are set out in Note 25.

38. Related parties and related party transactions (continued)**(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI: (continued)****(viii) Interest received**

Angang Holding provided financial services in the form of deposit taking and settlement services to the Company. Angang Holding will not charge any fee for the settlement services. The maximum amount of deposits will be Rmb1,000,000,000 and interests will be based on the rate offered by the People's Bank of China. For the period ended 30 June 2004, the deposits amounted to Rmb323,840,000. The interests payable on the deposits made by the Company by Angang Finance Company amounted to Rmb2,267,000 for the period ended 30 June 2004.

(ix) Material processing services

The Company provided material processing services to Angang Group based on the average prices charged to independent customers for similar services.

(d) Details of related party transactions between the Company and Angang Holding with ANSC-TKS:**(i) Equity interest of the Company 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 entered into with Thyssen on 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\$8,000,000 and will be reduced to US\$4,000,000 after the tenth repayment date.

(ii) Provision of construction service by Angang Holding and its subsidiaries to ANSC-TKS

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 in 2004 amounted to Rmb1,222,000 (For the six months ended 30 June 2003: Rmb13,676,000) in which Rmb611,000 (For the six months ended 30 June 2003: Rmb6,838,000) had been included in the consolidated financial statement of the Group based on the proportionate consolidation method.

38. Related parties and related party transactions (*continued*)

(e) Amounts due from/to Angang Holding, its subsidiaries and ANSI

The amounts of related party balances of the Group are summarised as follows:

The Group

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Trade receivables	296,617	—
Prepayments	209,108	543,545
Other receivables	1,437	200
Trade payables	(75,723)	(52,207)
Receipts in advance	(490,845)	(656,011)
Other payables	(106,889)	(161,364)

The amounts of related party balances of the Company are summarised as follows:

The Company

	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i> <i>(audited)</i>
Trade receivables	296,617	—
Prepayments	209,108	543,545
Other receivables	1,437	200
Trade payables	(75,723)	(52,207)
Receipts in advance	(490,845)	(656,011)
Other payables	(104,944)	(159,305)

39. 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.

40. Commitments

(a) Capital commitments

At 30 June 2004, the Group/Company had the following capital commitments:

	At 30 June 2004		At 31 December 2003	
	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>	The Group <i>Rmb'000</i> <i>(audited)</i>	The Company <i>Rmb'000</i> <i>(audited)</i>
Contracted for				
— Construction projects of production lines	191,547	184,947	263,112	112,943
— Technology transfer fee	15,353	—	15,845	—
— Acquisition of land use rights, plant and buildings	62,206	62,206	—	—
Authorised but not contracted for				
— Improvement projects of production lines	963,820	963,820	1,370,185	1,338,526
	<u>1,232,926</u>	<u>1,210,973</u>	<u>1,649,142</u>	<u>1,451,469</u>

(b) Other commitments

Pursuant to the funding supporting agreement with Thyssen 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 operation.

Details of the Provision for Impairment Losses of Assets (unaudited)

For the six months ended 30 June 2004

	Balance at the beginning of the period <i>Rmb'000</i>	The Group/Company		Balance at the end of the period <i>Rmb'000</i>
		Provision for the period <i>Rmb'000</i>	Written back during the period <i>Rmb'000</i>	
1. Bad debt provision	3	—	—	3
Including: Other receivables	3	—	—	3
2. Provision for diminution				
in value of inventories	63,596	—	(7,823)	55,773
Including: Spare parts	48,466	—	—	48,466
Finished goods	15,130	—	(7,823)	7,307

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	
		2004	2003
Note		Rmb'000	Rmb'000
	Profit attributable to shareholders under IFRS	715,727	620,352
	Adjustments:		
	Pre-operating expenses (ii)	(26,310)	10,539
	Revaluation of land use rights (iii)	(2,268)	(2,268)
	Amortisation of lease prepayments (iv)	112	226
	General borrowing costs capitalised (v)	(997)	(8,326)
	Receipt of donation (vi)	—	(76)
	Deferred tax charge (vii)	9,721	(57)
	Profit attributable to shareholders under PRC Accounting Rules and Regulations	<u>695,985</u>	<u>620,390</u>
		The Group	
		At 30 June	At 31 December
		2004	2003
Note		Rmb'000	Rmb'000
	Shareholders' funds under IFRS	8,940,151	8,815,385
	Adjustments:		
	Convertible debentures (i)		
	— Discount on convertible debentures	(80)	(185)
	— Additional borrowing costs capitalised	(7,217)	(7,157)
	Pre-operating expenses (ii)	—	26,310
	Revaluation of land use rights (iii)	197,316	199,584
	Amortisation of lease prepayments (iv)	751	639
	General borrowing costs capitalised (v)	(21,855)	(20,858)
	Deferred tax (vii)	(55,743)	(65,450)
	Shareholders' funds under PRC Accounting Rules and Regulations	<u>9,053,323</u>	<u>8,948,268</u>

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

Notes:

- (i) *The amounts represent the different treatment on transaction costs and discount on convertible debentures between IFRS and the PRC Accounting Rules and Regulations.*
- (ii) *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.*
- (iii) *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.*
- (iv) *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.*
- (v) *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.*
- (vi) *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.*
- (vii) *Deferred tax is provided on the IFRS adjustments at the tax rate of 33%.*

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Original of the half year report of the Company signed by the chairman;
2. Financial statements of the Company signed by the Legal Representative, Chief Accountant and Head of the Accounting Department of the Company;
3. Originals of all the announcements released by the Company in the China Securities Journal and the Securities Times in the period;
4. Original of the Articles of Association; and
5. Interim report of the Company submitted to the Stock Exchange.

The above documents are available for inspection at the secretarial office of the Board of Directors, Angang New Steel Company Limited situated at No. 396 Nan Zhong Hua Lu, Tie Dong District, Anshan City, Liaoning Province.

Board of Directors

Angang New Steel Company Limited

10 August 2004

Existing directors of the Company;

Mr. Liu Jie

Mr. Yang Hua

Mr. Cai Denglou

Mr. Yao Lin

Mr. Li Zhongwu

Ms. Zhang Lifen

Mr. Fu Jihui

Mr. Fu Wei

Mr. Yu Wanyuan

Mr. Wang Linsen

Mr. Yao Weiting

Mr. Liu Yongze

Mr. Francis Li Chak Yan