

CONDENSED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited	
		Six months ended 30th June	
	Note	2004	2003
		<i>Rmb'000</i>	<i>Rmb'000</i>
TURNOVER	2	4,289,239	2,610,018
COST OF SALES		(3,550,822)	(2,009,002)
GROSS PROFIT		738,417	601,016
OTHER REVENUES		14,517	4,930
DISTRIBUTION COSTS		(67,905)	(64,327)
ADMINISTRATIVE EXPENSES		(102,295)	(85,401)
OTHER OPERATING EXPENSES		(5,773)	(38,171)
OPERATING PROFIT	3	576,961	418,047
FINANCE COSTS		(40,573)	(29,524)
PROFIT BEFORE TAXATION		536,388	388,523
TAXATION	5	(40,389)	11,390
PROFIT FOR THE PERIOD		495,999	399,913
EARNINGS PER SHARE	7	Rmb0.466	Rmb0.376

CONDENSED BALANCE SHEET

AS AT 30TH JUNE 2004

		Unaudited	Audited
	<i>Note</i>	30th June	31st December
		2004	2003
		<i>Rmb'000</i>	<i>Rmb'000</i>
FIXED ASSETS	8	3,479,813	3,277,732
INVESTMENT SECURITY		5,000	5,000
DEFERRED TAX ASSETS	14	10,757	10,757
CURRENT ASSETS			
Inventories		1,287,594	892,759
Trade and other receivables	9	680,856	378,834
Bank balances and cash		871,240	1,346,583
		2,839,690	2,618,176

CONDENSED BALANCE SHEET (CONTINUED)

AS AT 30TH JUNE 2004

	Note	Unaudited 30th June 2004 Rmb'000	Audited 31st December 2003 Rmb'000
CURRENT LIABILITIES			
Trade and other payables	10	1,305,212	1,232,816
Income tax payable		42,559	2,170
Short-term bank loans	11	473,500	495,900
Current portion of long-term liabilities	12	496,000	277,000
		2,317,271	2,007,886
NET CURRENT ASSETS			
		522,419	610,290
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,017,989	3,903,779
Financed by:			
SHARE CAPITAL	13	1,063,944	1,063,944
RESERVES		755,082	755,082
RETAINED PROFITS		1,677,963	1,181,964
PROPOSED DIVIDEND		—	212,789
SHAREHOLDERS' FUNDS			
LONG-TERM LIABILITIES	12	521,000	690,000
		4,017,989	3,903,779

Tang Min Wei
Director

Tu De Ling
Director

CONDENSED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited	
	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	65,985	600,740
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(312,340)	(277,969)
NET CASH (OUTFLOW)/INFLOW FROM FINANCE ACTIVITIES	(228,988)	426,070
(DECREASE) / INCREASE IN BANK BALANCES AND CASH	(475,343)	748,841
BANK BALANCES AND CASH AT 1ST JANUARY	1,346,583	393,056
BANK BALANCES AND CASH AT 30TH JUNE	871,240	1,141,897

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

Unaudited

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

CONDENSED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited						
	Share capital	Share premium	Capital surplus	Statutory common reserve	Statutory provident fund	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1st January 2004	1,063,944	276,208	216,071	175,202	87,601	1,394,753	3,213,779
Profit for the period	—	—	—	—	—	495,999	495,999
2003 final dividend paid	—	—	—	—	—	(212,789)	(212,789)
At 30th June 2004	1,063,944	276,208	216,071	175,202	87,601	1,677,963	3,496,989

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31st December 2003.

2. TURNOVER AND SEGMENT INFORMATION

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

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sale of steel products	4,064,794	2,406,265
Other sales	224,445	203,753
	<hr/> 4,289,239	2,610,018

NOTES TO CONDENSED INTERIM ACCOUNTS

2. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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

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

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Charging		
Depreciation of fixed assets	107,790	111,051
Impairment of fixed assets	—	25,729
Staff costs (including directors' emoluments) (note 4)	254,984	232,940
Operating leases of land and buildings	6,600	7,992
Loss on disposal of fixed assets	1,287	9,711

NOTES TO CONDENSED INTERIM ACCOUNTS

4. STAFF COSTS

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Wages and salaries	171,517	168,803
Retirement benefit costs		
— defined contribution plans	34,304	32,156
Other social welfare expenses	49,163	31,981
	254,984	232,940

5. TAXATION

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

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current taxation		
— PRC income tax provision	40,389	32,890
— Reduction in income tax arising from the purchase of domestic equipment	—	(32,890)
PRC income tax	40,389	—
Deferred taxation	—	(11,390)
Taxation charge / (credit)	40,389	(11,390)

NOTES TO CONDENSED INTERIM ACCOUNTS

5. TAXATION (CONTINUED)

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

	Six months ended 30th June	
	2004	2003
	Rmb'000	Rmb'000
Profit before taxation	536,388	388,523
Calculated at a taxation rate of 7.5% (2003: 7.5%) (note (b))	40,229	29,139
Recognition of previously unrecognised temporary differences	—	(7,670)
Taxable income not recognised as income for accounting purpose	—	668
Expenses not deductible for taxation purposes	160	—
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	—	(637)
Reduction in income tax reduction arising from the purchase of domestic equipment (note (c))	—	(32,890)
Taxation charge / (credit)	40,389	(11,390)

NOTES TO CONDENSED INTERIM ACCOUNTS

5. TAXATION (CONTINUED)

- (a) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the six months ended 30th June 2004 (2003: nil).
- (b) As a production enterprise with foreign investment established at the riverside of Yangtse River, the Company was originally entitled to a preferential income tax rate of 24% in accordance with “The Notice issued by the State Tax Bureau on Taxation Policy Concerning Foreign Invested Enterprises for Further Opening of Frontier, Coastal, Inland and Riverside Cities” (Guo Shui Fa [1992] No. 218). In April 2003, the Company obtained approvals ([Yu Guo Shui Han [2003] No. 57] and [Da Dukou Guo Shui Han [2003] No. 8]) issued by the relevant tax authorities under which the preferential income tax treatment for enterprises in the western development region is granted to the Company. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and the income tax rate is reduced to 15% for the period from 2001 to 2010.

NOTES TO CONDENSED INTERIM ACCOUNTS

5. TAXATION (CONTINUED)

In addition, in accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to a joint stock limited company with foreign investment. In accordance with Article 8 of the "Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises", enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ending 31st December 2004 is the Company's fifth profitable year after the change; income tax has been provided at 50% of the income tax rate (i.e. 7.5%) on its estimated taxable income for the six months ended 30th June 2004 (2003: 7.5%).

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

NOTES TO CONDENSED INTERIM ACCOUNTS

5. TAXATION (CONTINUED)

In accordance with the approval letters (DDKGSH [2003] No. 4 and No. 5 and [2004] No. 2) issued by State Tax Bureau in Dadukou District, Chongqing, with respect to the application for income tax reduction lodged by the Company relating to the purchase of domestic manufactured equipment in 2000, 2001 and 2002, the total tax reduction that the Company is entitled to amounted to Rmb102,790,000. The Company was exempted from income tax for 2000 and 2001, Rmb27,115,000 of the above tax deductible amount was utilised to offset the Company's income tax liability for 2002, Rmb75,675,000 of the remaining tax deductible amount was utilised to offset the Company's income tax liability for 2003.

6. DIVIDENDS

The directors do not recommend the payment of interim dividend for the six months ended 30th June 2004 (2003: nil).

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of Rmb495,999,000 (2003: Rmb399,913,000) and the 1,063,944,000 (2003: 1,063,944,000) shares in issue during the period.

NOTES TO CONDENSED INTERIM ACCOUNTS

8. FIXED ASSETS

	<i>Rmb'000</i>
Net book value at 1st January 2004	3,277,732
Additions	320,775
Disposals	(10,904)
Depreciation charge (note 3)	(107,790)
	<hr/>
Net book value at 30th June 2004	3,479,813
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As at 30th June 2004, the net book value of fixed assets of the Company pledged as security for the Company's bank loans amounted to Rmb357,199,000 (31st December 2003: Rmb368,014,000).

As at 30th June 2004, accumulated interest expense capitalised in fixed assets amounted to Rmb28,953,000 (31st December 2003: Rmb28,349,000).

NOTES TO CONDENSED INTERIM ACCOUNTS

9. TRADE AND OTHER RECEIVABLES

	30th June	31st December
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables (note (a))	332,638	213,834
Amounts due from fellow subsidiaries (note (b))	72,050	57,865
Prepayments and deposits	232,458	78,534
Other receivables	43,710	28,601
	<hr/> 680,856	378,834

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

NOTES TO CONDENSED INTERIM ACCOUNTS

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (a) The ageing analysis of trade receivables as at 30th June 2004 is analysed as follows:

	30th June 2004 Rmb'000	31st December 2003 Rmb'000
Within 3 months	272,245	180,356
Between 3 months and 1 year	60,393	30,307
Between 1 and 2 years	—	2,234
Between 2 and 3 years	—	937
	<hr/> 332,638 <hr/>	213,834

NOTES TO CONDENSED INTERIM ACCOUNTS

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (b) The analysis of amounts due from fellow subsidiaries as at 30th June 2004 is as follows:

	30th June	31st December
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Amounts due from		
fellow subsidiaries	74,760	60,575
Provision for doubtful debts	(2,710)	(2,710)
	<hr/>	<hr/>
Amounts due from		
fellow subsidiaries - net	72,050	57,865
	<hr/>	<hr/>

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

NOTES TO CONDENSED INTERIM ACCOUNTS

10. TRADE AND OTHER PAYABLES

	30th June	31st December
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade payables (note (a))	647,848	523,367
Advances from customers	425,542	363,621
Amounts due to Holding Company and fellow subsidiaries (note (b))	16,495	58,226
Other payables	130,587	151,228
Value added tax and sundry taxes payable	84,740	136,374
	1,305,212	1,232,816

NOTES TO CONDENSED INTERIM ACCOUNTS

10. TRADE AND OTHER PAYABLES (CONTINUED)

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

	30th June	31st December
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Within 6 months	383,349	251,050
Between 6 months and 1 year	243,015	250,993
Between 1 and 2 years	1,344	2,031
Between 2 and 3 years	1,799	1,699
Over 3 years	18,341	17,594
	<hr/> 647,848	523,367

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

NOTES TO CONDENSED INTERIM ACCOUNTS

11. SHORT-TERM BANK LOANS

	30th June	31st December
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 16)	162,600	86,000
Unsecured bank loans	310,900	409,900
	473,500	495,900

12. LONG-TERM LIABILITIES

	30th June	31st December
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Secured bank loans (notes 8 and 16)	390,000	340,000
Unsecured bank loans	627,000	627,000
	1,017,000	967,000
Less: Amounts due within one year included under current liabilities		
— Bank loans	(496,000)	(277,000)
	521,000	690,000

NOTES TO CONDENSED INTERIM ACCOUNTS

12. LONG-TERM LIABILITIES (CONTINUED)

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

	30th June	31st December
	2004	2003
	Rmb'000	Rmb'000
Within one year	496,000	277,000
In the second year	521,000	360,000
In the third to fifth years inclusive	—	330,000
	1,017,000	967,000

13. SHARE CAPITAL

	30th June	31st December
	2004	2003
	Rmb'000	Rmb'000
Registered, issued and paid up capital		
650,000,000 state-owned shares		
of Rmb1 each	650,000	650,000
413,944,000 H shares of Rmb1 each	413,944	413,944
	1,063,944	1,063,944

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

NOTES TO CONDENSED INTERIM ACCOUNTS

14. DEFERRED TAXATION

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

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

	30th June	31st December
	2004	2003
	Rmb'000	<i>Rmb'000</i>
At the beginning of the period/year	10,757	—
Deferred taxation credited to profit and loss account	—	10,757
	<hr/>	<hr/>
At the end of the period/year	10,757	10,757
	<hr/>	<hr/>

NOTES TO CONDENSED INTERIM ACCOUNTS

14. DEFERRED TAXATION (CONTINUED)

The components of deferred tax assets are as follows:

	Provisions	Impairment of assets	Other	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
As at 1st January 2004				
and 30th June 2004	1,559	4,111	5,087	10,757

15. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

At 30th June 2004, the Company had capital commitments in respect of construction and purchase of fixed assets as follows:

	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Contracted but not provided for	676,404	364,779
Authorised but not contracted for	449,132	167,142
	1,125,536	531,921

NOTES TO CONDENSED INTERIM ACCOUNTS

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Operating lease commitments

At 30th June 2004, the Company had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th June 2004 Rmb'000	31st December 2003 Rmb'000
Within one year	13,546	13,893
In the second to fifth years	52,788	52,792
After the fifth year	502,433	509,030
	568,767	575,715

Included in the above operating lease commitments are commitments of the Company in respect of the land under operating lease agreements with the Holding Company expired in approximately 44 years. At 30th June 2004, the Company had future aggregate minimum lease payments under such operating leases amounting to Rmb568,399,000 (31st December 2003: Rmb574,995,000).

NOTES TO CONDENSED INTERIM ACCOUNTS

15. COMMITMENTS AND CONTINGENCIES *(CONTINUED)*

(c) Contingent liabilities

At 30th June 2004, the Company had no contingent liabilities (31st December 2003: nil).

16. RELATED PARTY TRANSACTIONS

In 1998, the Holding Company pledged 650,000,000 State-owned shares of the Company to a bank as security for facilities made available to the Company by the bank up to a maximum amount of Rmb650,000,000 during the period from 12th October 1998 to 12th October 2003. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's State-owned shares by the Holding Company's land and certain fixed assets of the Company. The maximum credit facility amount under the new arrangement is Rmb407,420,000. As at 30th June 2004, these facilities were utilised to the extent of short-term and long-term loans of Rmb162,600,000 (31st December 2003: Rmb86,000,000), and Rmb10,000,000 (31st December 2003: Rmb20,000,000) and Rmb205,000,000 (31st December 2003: Rmb145,000,000) respectively.

In addition to the above, the Company's short-term and long-term loans at 30th June 2004 amounting to Rmb307,900,000 (31st December 2003: Rmb409,900,000) and Rmb595,000,000 (31st December 2003: Rmb595,000,000) respectively were guaranteed by the Holding Company.

NOTES TO CONDENSED INTERIM ACCOUNTS

16. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended 30th June	
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Income		
Sales to fellow subsidiaries (note (a))	455,895	322,568
Fees received for supporting services (note (b))	893	534
Expenditure		
Fees paid for supporting services (note (c))	74,292	121,607
Purchase of raw materials and spare parts (note (d))	450,190	362,030
Purchase of fixed assets (note (e))	101,457	7,127
Rental for land leases (note (f))	6,600	6,600
Rental for office premises (note (g))	—	1,110
Social welfare expenses paid through the Holding Company to schemes administrated by the municipal government (note (h))	4,665	4,111
Staff welfare expenses and retirement benefit contribution paid to defined contribution schemes administered by the Holding Company	32,600	33,755

NOTES TO CONDENSED INTERIM ACCOUNTS

16. RELATED PARTY TRANSACTIONS *(CONTINUED)*

- (a) Sales to fellow subsidiaries were made at prices determined by reference to those charged to and contracted with other third party customers of the Company.
- (b) Fees received for supporting services mainly represent fees charged to the Holding Company and fellow subsidiaries for internal railway transportation services at prices determined by reference to those charged to and contracted with other third party customers of the Company.
- (c) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation and transportation services provided by the Holding Company and fellow subsidiaries. These services were charged at prices determined by reference to market prices.
- (d) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.

NOTES TO CONDENSED INTERIM ACCOUNTS

16. RELATED PARTY TRANSACTIONS *(CONTINUED)*

- (e) Purchase of fixed assets was made at prices determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (f) Rental expenses for land leases to the Holding Company are in accordance with the lease agreements entered into between the Company and the Holding Company.
- (g) Rental expenses for office premises to the Holding Company were determined by reference to transactions of similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.
- (h) For social welfare expenses which were paid through the Holding Company, no handling fee was charged by the Holding Company.