1 ORGANISATION

Chongqing Iron and Steel Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") in August 1997 as part of the restructuring ("Restructuring") of a state-owned enterprise known as Chongqing Iron and Steel Company (Group) Limited (the "Holding Company"). Pursuant to the Restructuring, the principal iron and steel business undertakings and one of the subsidiaries, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), of the Holding Company were taken over by the Company, whereupon the Company issued 650,000,000 state-owned shares of Rmb1 each to the Holding Company. The Company and its subsidiary are hereinafter collectively referred to as the "Group".

In December 2002, the Company acquired all assets and liabilities of Hengda, the former subsidiary of the Company. At the same time, the Company disposed of its entire interest in Hengda to its Holding Company. Following the disposal of Hengda, the Company does not have any subsidiary.

The Company's business operations have not changed with the disposal of Hengda, as the Company has assumed the businesses of Hengda. For comparative purpose, the Group's consolidated profit and loss account and consolidated cash flow statement for the year ended 31st December 2002 have been presented as comparative of these annual accounts.

2 BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Company adopted Statement of Standard Accounting Practice ("SSAP") 35 "Government Grants and Disclosure of Government Assistance" and SSAP 12 "Income Taxes" (Revised) issued by the HKSA which are effective for accounting periods commencing on or after 1st July 2002 and 1st January 2003, respectively. The adoption of these new/revised SSAPs has no material effect on the Company's financial results for the year ended 31st December 2003 and prior years.

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of buildings, plant and machinery including borrowing costs arising from funds borrowed to finance the acquisition or construction of fixed assets during the construction period and prior to the commissioning date are capitalised as fixed assets.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis, notwithstanding any delays in the issue of the relevant commissioning certificates by the appropriate PRC authorities.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss.

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on the straight-line method, after taking into account their estimated residual values. The estimated useful lives of fixed assets are as follows:

Buildings	40-45 years
Plant and machinery	8-22 years
Transportation vehicles and equipment	8 years

No depreciation is provided in respect of construction in progress.

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working conduction to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives of the Company.

Repairs and maintenance expenses are charged to the profit and loss account as incurred. Improvements are capitalised and depreciated over their expected useful lives to the Company.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Fixed assets and depreciation *(continued)*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(c) Investment security

Investment security represents equity interest in a non-listed company over which the Company has no control or significant influence, and is stated at cost less provision for impairment loss. The carrying amount of the investment security is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of the security will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persists for the foreseeable future.

(d) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payment made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Inventories

Inventories comprise raw materials, work in progress, finished goods, and spare parts and consumables. Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost, calculated using the weighted average method, comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Spare parts and consumables are stated at cost less provision for obsolescence.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(g) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 (Revised) represents a change in accounting policy, but has no material effect on the Company's financial results for the year ended 31st December 2003 and prior years.

(i) Translation of foreign currencies

The Company maintains its books and records in Renminbi ("Rmb").

Transactions in foreign currencies are translated into Rmb at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Rmb at rates of exchange quoted by the People's Bank of China at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

A contingent asset is not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Transportation service income is recognised when related services are rendered.

Operating lease rental income is recognised on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Retirement benefit costs

The Company's employees participate in defined contribution retirement schemes organised by the municipal government and the Holding Company whereby the Company is required to make monthly contributions to the plans at certain percentages of the employees' salaries. The municipal government and the Holding Company have respectively undertaken to assume the retirement benefit obligation of all existing and future retired employees' payable under the relevant plans. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Contributions to the retirement benefit schemes are charged to the profit and loss account as incurred.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Segment reporting

In accordance with the Company's internal financial reporting, the Company has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4 TURNOVER AND OTHER REVENUES

The Company is principally engaged in the manufacture and sale of steel products. Revenues recognised during the year are summarised as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Turnover		
Steel plates	**2,795,956**	1,872,327
Steel sections	**1,132,379**	750,268
Wire rods	**520,685**	491,441
Steel billets	**716,323**	721,913
Other	**443,966**	346,481
	5,609,309	4,182,430
Other revenues		
Sale of by-products	**8,823**	6,774
Transportation services	**2,836**	3,099
Rental	**1,035**	981
	12,694	10,854
Interest income	**7,443**	2,186
Total revenues	**5,629,446**	4,195,470

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 PRC and all assets of the Company are located in the PRC, which is considered as one geographic location with similar risks and returns.

5 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 Rmb'000	2002 Rmb'000
Crediting		
Write back of provision for doubtful debts	**35,875**	—
Net exchange gain	**74**	108
Charging		
Staff costs (included directors' remuneration) (note 6)	**489,705**	398,989
Depreciation of fixed assets	**219,896**	186,554
Loss on disposal of fixed assets	**35,481**	10,332
Impairment of fixed assets (included in other operating expenses)	**31,499**	4,516
Operating leases of land and buildings	**15,234**	15,667
Provision for obsolete inventories	**10,780**	10,000
Auditors' remuneration	**2,650**	2,670
Provision for doubtful debts	**—**	32,421

6 STAFF COST (INCLUDED DIRECTORS' REMUNERATION)

	2003 Rmb'000	2002 Rmb'000
Salaries	**341,083**	278,670
Retirement benefit costs-defined contribution plans	**74,665**	64,254
Other social welfare costs	**73,957**	56,065
	489,705	398,989

7 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments paid to directors and supervisors of the Company during the year are as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Fees	**120**	80
Other emoluments:		
Basic salaries, housing allowances and other allowances	**148**	127
Bonuses	**778**	529
Pension	**72**	55
	1,118	791

Directors' fees disclosed above are all paid to independent non-executive directors.

The emoluments of the directors and supervisors fell within the following band:

Emoluments band	Number of directors and supervisors **2003**	2002
Nil - Rmb1,000,000	**14**	12

No directors and supervisors waived their emoluments in respect of the year ended 31st December 2003 (2002: nil)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for both years were also directors and supervisors and their emoluments are reflected in the analysis presented above.

8 NET FINANCE COSTS

	2003	2002
	Rmb'000	*Rmb'000*
Interest expense on bank loans	**75,015**	66,177
Less: Amount capitalised in construction in progress	**(416)**	—
	74,599	66,177
Less: Interest income on bank balances	**(7,443)**	(2,186)
	67,156	63,991

The capitalisation rate applied to funds borrowed is 5.49% per annum.

9 TAXATION

	Note	**2003**	2002
		Rmb'000	*Rmb'000*
Current taxation			
— PRC income tax provision	(b)	**77,174**	27,115
— Reduction in income tax arising from the purchase of domestic equipment	(c)	**(75,675)**	(27,115)
PRC income tax		**1,499**	—
Deferred taxation (note 13)		**(10,757)**	—
Taxation credit		**(9,258)**	—

9 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:

	2003	2002
	Rmb'000	*Rmb'000*
Profit before taxation	**967,781**	285,758
Calculated at a taxation rate of 7.5% (2002: 7.5%) (note (b))	**72,584**	21,432
Unrecognised temporary differences	**—**	8,453
Utilization of previously unrecognised temporary differences	**(7,670)**	—
Effect of different tax rates applied for the periods in which the temporary differences are expected to reverse	**1,503**	(2,770)
Reduction in income tax reduction arising from the purchase of domestic equipment (note (c))	**(75,675)**	(27,115)
Taxation credit	**(9,258)**	—

(a) No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the year (2002: nil).

9 TAXATION *(continued)*

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

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

(c) In 2000, 2001 and 2002, the Company purchased certain domestic manufactured equipments. In accordance with Cai Shui Zi [2000] No. 49 "The Notice concerning the Reduction in Corporate Income Tax for Purchase of Domestic Manufactured Equipments 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 domestic manufactured equipments could be utilised to reduce the Company's corporate income tax.

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 equipments 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 has been utilised to offset the Company's income tax liability for 2003.

10 DIVIDENDS

	2003	2002
	Rmb'000	*Rmb'000*
Final, proposed, of Rmb0.20 (2002: Rmb0.08) per share	**212,789**	85,116

At a meeting held on 11th March 2004 the directors proposed a final dividend of Rmb0.20 per share for the year ended 31st December 2003. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb977,039,000 (2002: Rmb286,062,000) and the 1,063,944,000 (2002: 1,063,944,000) shares in issue during the year.

No diluted earnings per share is presented as there was no potential dilutive shares outstanding as of 31st December 2003 (2002: nil).

12 FIXED ASSETS

	Buildings Rmb'000	Plant and machinery Rmb'000	Transportation vehicles and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost					
At 1st January 2003	1,654,848	3,348,483	30,546	151,773	5,185,650
Reclassification adjustment	46,090	(46,090)	—	—	—
Additions	17,454	14,566	4,266	571,890	608,176
Transfer upon completion	9,925	353,619	2,022	(365,566)	—
Disposals	(20,984)	(135,429)	(2,219)	—	(158,632)
At 31st December 2003	1,707,333	3,535,149	34,615	358,097	5,635,194
Accumulated depreciation and impairment					
At 1st January 2003	652,650	1,545,206	18,515	1,604	2,217,975
Reclassification adjustment	5,015	(5,015)	—	—	—
Depreciation	51,089	164,963	3,844	—	219,896
Impairment	7,804	23,695	—	—	31,499
Disposals	(6,965)	(103,682)	(1,261)	—	(111,908)
At 31st December 2003	709,593	1,625,167	21,098	1,604	2,357,462
Net book value					
At 31st December 2003	997,740	1,909,982	13,517	356,493	3,277,732
At 31st December 2002	1,002,198	1,803,277	12,031	150,169	2,967,675

(a) As at 31st December 2003, the net book value of fixed assets pledged as security for the Company's bank loans amounted to Rmb368,014,000 (2002: Rmb407,866,000) (note 17(a) and note 20(a)(i) and (ii)).

(b) As at 31st December 2003, accumulated interest expense capitalised in fixed assets amounted to Rmb28,349,000 (2002: Rmb27,933,000).

13 DEFERRED TAXATION

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

	2003	2002
	Rmb'000	*Rmb'000*
At 1st January	**—**	—
Credited to profit and loss account (note 9)	**10,757**	—
At 31st December	**10,757**	—

The components of deferred tax assets are as follows:

	Provisions	**Impairment of assets**	**Other**	**Total**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1st January 2003	—	—	—	—
Credited to profit and loss account	1,559	4,111	5,087	10,757
At 31st December 2003	1,559	4,111	5,087	10,757

14 INVENTORIES

	2003	2002
	Rmb'000	*Rmb'000*
Raw materials	**572,935**	560,086
Work in progress	**105,166**	149,565
Finished goods	**115,943**	68,642
Spare parts and consumables	**98,715**	99,607
	892,759	877,900

As at 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to Rmb81,275,000 (2002: Rmb95,984,000).

15 TRADE AND OTHER RECEIVABLES

	2003	2002
	Rmb'000	*Rmb'000*
Trade receivables (note (a))	**213,834**	267,825
Amounts due from fellow subsidiaries (note (b))	**57,865**	56,268
Prepayments and deposits	**78,534**	32,314
Other receivables	**28,601**	24,136
	378,834	380,543

15 TRADE AND OTHER RECEIVABLES *(continued)*

(a) The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a 3-month credit period. The ageing analysis of trade receivables as at 31st December 2003 is as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Within 3 months	**180,356**	189,781
Between 3 months and 1 year	**30,307**	68,334
Between 1 and 2 years	**2,234**	4,668
Between 2 and 3 years	**937**	5,042
	213,834	267,825

(b) The analysis of amounts due from fellow subsidiaries as at 31st December 2003 is as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Amounts due from fellow subsidiaries	**60,575**	93,579
Provision for doubtful debts	**(2,710)**	(37,311)
Amounts due from fellow subsidiaries - net	**57,865**	56,268

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

16 TRADE AND OTHER PAYABLES

	2003	2002
	Rmb'000	*Rmb'000*
Trade payables (note (a))	**523,367**	821,832
Advances from customers	**363,621**	153,383
Amounts due to Holding Company and fellow subsidiaries (note (b))	**58,226**	73,783
Other payables	**151,228**	115,939
Value added tax and sundry taxes payable	**136,374**	105,908
	1,232,816	1,270,845

(a) The ageing analysis of trade payables as at 31st December 2003 is as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Within 6 months	**251,050**	543,140
Between 6 months and 1 year	**250,993**	252,159
Between 1 and 2 years	**2,031**	8,939
Between 2 and 3 years	**1,699**	2,270
Over 3 years	**17,594**	15,324
	523,367	821,832

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

17 SHORT-TERM BANK LOANS

	2003	2002
	Rmb'000	*Rmb'000*
Secured bank loans (note (a))	**86,000**	197,330
Unsecured bank loans (note (b))	**409,900**	398,570
	495,900	595,900

(a) The secured bank loans outstanding were originally secured by a pledge of the Company's State-owned shares owned by the Holding Company. 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 Company's fixed assets with net book value of Rmb101,080,000 as at 31st December 2003 (note 12(a)) and the Holding Company's land (note 23(a)).

(b) Included in the unsecured bank loans outstanding at 31st December 2003 are loans totalling Rmb409,900,000 (2002: Rmb395,170,000) guaranteed by the Holding Company (note 23(a)).

Interests are charged at rates ranging from 5.49% to 6.34% (2002: 5.84% to 6.53%) per annum on the above loans.

18 SHARE CAPITAL

	2003	2002
	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.

19 RESERVES

	Reserve					
	Share premium	Capital surplus	Statutory common reserve	Statutory provident fund	Total	Retained earnings
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January 2002	276,208	207,830	48,671	24,336	557,045	366,750
Profit attributable to shareholders	—	—	—	—	—	357,794
2001 final dividend paid	—	—	—	—	—	(31,918)
Transfer to reserves (notes (a) and (b))	—	—	28,978	14,489	43,467	(43,467)
At 31st December 2002	276,208	207,830	77,649	38,825	600,512	649,159
Representing:						
2002 final dividend proposed (note 10)						85,116
Other						564,043
Retained earnings at 31st December 2002						649,159
At 1st January 2003	276,208	207,830	77,649	38,825	600,512	649,159
Profit attributable to shareholders	—	—	—	—	—	977,039
2002 final dividend paid	—	—	—	—	—	(85,116)
Donation received from fellow subsidiaries	—	8,241	—	—	8,241	—
Transfer to reserves (notes (a) and (b))	—	—	97,553	48,776	146,329	(146,329)
At 31st December 2003	276,208	216,071	175,202	87,601	755,082	1,394,753
Representing:						
2003 final dividend proposed (note 10)						212,789
Other						1,181,964
Retained earnings at 31st December 2003						1,394,753

19 RESERVES *(continued)*

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit as stated in the accounts prepared under PRC accounting regulations to the statutory common reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividend to shareholders.

The statutory common reserve shall only be used to make up losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve into share capital and issue bonus shares to existing shareholders in proportion to their existing shareholdings or increase the nominal value of each share. After converting the Company's statutory common reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

In 2003, the directors recommended the transfer of 10% (2002: 10%) of the net profit for the year ended 31st December 2003 as determined under PRC accounting regulations to the statutory common reserve.

(b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit as stated in the accounts prepared under PRC accounting regulations to the statutory provident fund. The transfer to this fund must be made before the distribution of dividend to shareholders. This fund shall only be used for the collective welfare of employees.

In 2003, the directors recommended the transfer of 5% (2002: 5%) of the net profit for the year ended 31st December 2003 as determined under PRC accounting regulations to the statutory provident fund.

20 LONG-TERM LIABILITIES

	2003	2002
	Rmb'000	*Rmb'000*
Secured bank loans (note (a))	**340,000**	343,000
Unsecured bank loans (note (b))	**627,000**	83,630
	967,000	426,630
Amount due to Holding Company (note (c))	**—**	18,646
	967,000	445,276
Less: Amounts due within one year included under current liabilities		
— Bank loans	**(277,000)**	(150,300)
— Amount due to Holding Company	**—**	(18,646)
	(277,000)	(168,946)
	690,000	276,330

Note

(a) (i) Secured bank loans of Rmb20,000,000 (2002: Rmb165,000,000) were originally secured by a pledge of the Company's state-owned shares owned by the Holding Company. 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 Company's fixed assets with net book value of Rmb101,080,000 as at 31st December 2003 (note 12(a)) and the Holding Company's land (note 23(a)). As at the date of these accounts being approved, the related revised contracts are under process.

Secured bank loans of Rmb145,000,000 are secured by the above fixed assets and the Holding Company's land.

20 LONG-TERM LIABILITIES *(continued)*

(ii) The loans of Rmb175,000,000 (2002: Rmb175,000,000) are secured by the Company's fixed assets with net book value of Rmb266,934,000 as at 31st December 2003 (note 12 (a));

(iii) The Company's bank loans secured by a bank deposit of Rmb3,000,000 pledged as at 31st December 2002 was repaid in October 2003.

Interests are charged at rates ranging from 5.49% to 6.34% (2002: 5.84% to 6.53%) per annum on the above loans.

(b) Included in the unsecured bank loans are loans of Rmb595,000,000 (2002: Rmb70,000,000) guaranteed by the Holding Company (note 23(a)).

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

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

	2003	2002
	Rmb'000	*Rmb'000*
Within one year	**277,000**	150,300
In the second year	**360,000**	275,000
In the third to fifth years inclusive	**330,000**	1,330
	967,000	426,630

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations

	2003	2002
	Rmb'000	*Rmb'000*
Profit before taxation	**967,781**	285,758
Depreciation	**219,896**	186,554
(Write back)/provision for doubtful debts	**(35,875)**	32,421
Provision for obsolete inventories	**10,780**	10,000
Impairment of fixed assets	**31,499**	4,516
Loss on disposal of fixed assets	**35,481**	10,332
Operating profit before working capital changes	**1,229,562**	529,581
Increase in inventories	**(25,593)**	(148,223)
Decrease/(increase)in trade and other receivables	**37,583**	(44,320)
(Decrease)/increase in trade and other payables	**(10,189)**	249,178
Interest income	**(7,443)**	(2,186)
Interest expense	**74,599**	66,177
Net cash inflow generated from operations	**1,298,519**	650,207

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing

	Bank loans	Amount due to Holding Company	Pledged bank deposit	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1st January 2002	1,004,200	139,045	(3,000)	1,140,245
Net cash inflows/(outflows) from financing	18,330	(120,399)	—	(102,069)
At 31st December 2002	1,022,530	18,646	(3,000)	1,038,176
At 1st January 2003	1,022,530	18,646	(3,000)	1,038,176
Net cash inflows/(outflows) from financing	440,370	(18,646)	3,000	424,724
At 31st December 2003	1,462,900	—	—	1,462,900

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of assets and liabilities of a subsidiary and disposal of subsidiary

In 2002, the Company acquired all assets and liabilities of its subsidiary, Hengda, for Rmb428,988,000, and disposed of its entire equity interest in Hengda (i.e. 69.51% of Hengda's issued share capital) to the Holding Company for Rmb298,190,000. In accordance with the relevant asset and share transfer agreements, the purchase consideration of Rmb428,988,000 for Hengda's assets and liabilities are to be settled as follows:

(1) pay off the amount of Rmb298,190,000 due from the Holding Company arising from the sale of the Company's shares in Hengda to the Holding Company;

(2) offset an amount of Rmb18,000,000 due from a fellow subsidiary;

(3) cash payment of Rmb10,000,000 and notes receivable endorsed of Rmb39,000,000;

(4) the remaining balance of Rmb63,798,000 is to be recorded as a payable to Hengda and settled in the future year.

The net cash outflow for the acquisition of Hengda's assets and liabilities and the disposal of Hengda amounted to Rmb10,000,000 in 2002, analysed as follows:

	Rmb'000
Amounts payable to Hengda for acquisition of its assets and liabilities	428,988
Less: Amount offset by amount due from the Holding Company for sale of Hengda's shares	(298,190)
Amount offset by amount due from a fellow subsidiary	(18,000)
Notes receivable endorsed	(39,000)
Amount due to Hengda	(63,798)
Cash outflow for the acquisition of Hengda's assets and liabilities and disposal of Hengda in 2002	10,000

In 2003, the Company paid all the remaining amount due to Hengda of Rmb63,798,000.

22 COMMITMENTS

(a) Capital commitments for fixed assets

	2003	2002
	Rmb'000	*Rmb'000*
Contracted but not provided for	**364,779**	98,611
Authorised but not contracted for	**167,142**	—
	531,921	98,611

(b) Operating lease commitments

At 31st December 2003, the future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2003	2002
	Rmb'000	*Rmb'000*
Within one year	**13,893**	14,695
In the second to fifth year inclusive	**52,792**	52,772
After the fifth year	**509,030**	522,223
	575,715	589,690

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 expiring in approximately 44 years. At 31st December 2003, the Company had future aggregate minimum lease payments under such operating leases amounting to Rmb574,995,000 (2002: Rmb588,188,000).

23 RELATED PARTY TRANSACTIONS

(a) 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 Group 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 facility amount under the new security arrangement is Rmb407,420,000. As at 31st December 2003, these facilities were ultilised to the extent of short-term and long-term loans of Rmb86,000,000 (2002: Rmb197,330,000) (note 17(a)) and Rmb20,000,000 (2002: Rmb165,000,000), and Rmb145,000,000 (2002: nil) (note 20(a)) respectively.

In addition to the above, the Company's short-term and long-term loans at 31st December 2003 amounting to Rmb409,900,000 (2002: Rmb395,170,000) (note 17(b)) and Rmb595,000,000 (2002: Rmb70,000,000) (note 20(b)) respectively were guaranteed by the Holding Company.

23 RELATED PARTY TRANSACTIONS *(continued)*

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

	2003	2002
	Rmb'000	*Rmb'000*
Income		
Sales to fellow subsidiaries (note (i))	**660,510**	669,187
Fees received for supporting services (note (ii))	**1,377**	998
Expenditure		
Fees paid for supporting services (note (iii))	**303,313**	150,261
Purchase of raw materials and spare parts (note (iv))	**691,718**	592,217
Purchase of fixed assets (note (v))	**67,780**	49,771
Rental for land leases (note (vi))	**12,998**	13,389
Rental for office premises (note (vii))	**2,236**	2,278
Social welfare expenses and retirement benefit contribution paid through the Holding Company to schemes administrated by the municipal government (note (viii))	**9,491**	53,791
Staff welfare expenses and retirement benefit contribution paid to defined contribution schemes administrated by the Holding Company	**84,332**	66,528
Donation received from fellow subsidiaries	**8,909**	—

23 RELATED PARTY TRANSACTIONS *(continued)*

(b) (i) Sales to fellow subsidiaries were made at prices determined by reference to those charged to and contracted with other third party customers of the Group.

(ii) 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 Group.

(iii) 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.

(iv) Purchase of raw materials and spare parts was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.

(v) Purchase of fixed assets was made at prices determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.

(vi) Rental expenses payable to the Holding Company are in accordance with the lease agreements entered into between the Group and the Holding Company.

(vii) Rental expenses for office premises were determined by reference to transactions of a similar nature contracted with other third party customers of the Holding Company and fellow subsidiaries.

(viii) For social welfare expenses and retirement benefit contribution which were paid through the Holding Company, no handling fee was charged by the Holding Company.

24 POST BALANCE SHEET DATE EVENT

On 11th March 2004, the board of directors approved the Company's application to issue Renminbi common shares (A shares) to the public. The resolution is subject to the shareholders' approval in the upcoming annual general meeting.

25 ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company is Chongqing Iron and Steel Company (Group) Limited, a corporation established in the PRC.

26 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 11th March 2004.