# Notes on the accounts

*(Prepared in accordance with International Accounting Standards)*
*(Expressed in Renminbi)*

## 1 PRINCIPAL ACTIVITIES

The Company's principal activities are the production and sales of cold rolled sheets, wire rods, thick plates, large section steel products and steel billets. The Company was established in the People's Republic of China (the "PRC") on 8th May, 1997 as a joint stock limited company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance and basis of preparation of the accounts

The Company's accounts have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC"), interpretations issued by the Standing Interpretations Committee of the IASC and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company also prepares a set of accounts which complies with the PRC accounting rules and regulations. A reconciliation of the Company's results and the shareholders' funds under International Accounting Standards ("IAS") and the PRC accounting rules and regulations is presented in Note 30.

The Company's accounts are prepared on the historical cost basis except for the carrying amount of certain property, plant and equipment. The accounting policies have been consistently applied by the Company and, except for the changes in accounting policy (refer note 10), are consistent with those used in the previous year.

**(b) Property, plant and equipment**

(i) Property, plant and equipment are stated at cost or valuation (refer note 11) less accumulated depreciation (refer below) and impairment losses (refer accounting policy n). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

(ii) Gains and losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.

(iii) Depreciation and amortisation

Land use rights are amortised on a straight-line basis over the respective periods of the grants.

Depreciation is provided to write off the cost or valuation where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

| | **Up to 30th June 2000** | **From 1st July 2000 onwards** |
|---|---|---|
| Buildings | 13 to 50 years | 12 to 42 years |
| Plant, machinery and equipment | 6 to 23 years | 6 to 21 years |
| Transportation vehicles and other related equipment | 4 to 16 years | 4 to 15 years |

Effective from 1st July 2000, the Company revised its estimates of the useful lives of certain property, plant and equipment. These changes were made, after taking into account of commercial and technological obsolescence as well as normal wear and tear, to better reflect the estimated periods during which such assets will remain in service.

The change had the effect of increasing depreciation expense by Rmb42,610,000 and decreasing profit after taxation by Rmb28,549,000 for the period from 1st July 2000 to 31st December 2000. The change is expected to increase depreciation expense of Rmb85,220,000 and decrease the profit after taxation of Rmb57,097,000 in each subsequent year until the relevant assets are fully depreciated or disposed of.

**(c) Construction in progress**

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer accounting policy n). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges and exchange differences on other designated financial instruments (refer accounting policy r), during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

**(d) Inventories**

Inventories, other than spare parts and tools, are carried at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

**(e) Cash equivalents**

Cash equivalents consist of time deposits with an initial term of less than three months.

**(f) Trade receivables**

Trade receivables are stated at cost less impairment losses (refer accounting policy n).

### (g) Convertible debentures

Convertible debentures that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with both liability and equity components.

The liability component of the convertible debentures is calculated as the present value of the future interest and principal payments, discounted at a market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated net of unamortised transaction costs and amortised discounts on convertible debentures (see below).

The equity component is calculated as the excess of the issue proceeds over the liability component.

Transactions costs incurred on issuance of the convertible debentures are allocated to the component parts in proportion to the allocation of proceeds.

The discounts on the convertible debentures, being the amount classified as equity as referred to above, are set off against the liability component and are amortised as an interest expense on an effective interest rate method until conversion or maturity.

The transactions costs allocated to the liability component are amortised as an interest expense on an effective interest rate method until conversion or maturity.

On conversion, the liability component, the accrued interest forfeited together with the relevant portion of the equity component constitute the consideration for the shares being issued.

### (h) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### (i) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

### (j) Net financing income/costs

Net financing income/costs comprise interest payable on borrowings, interest receivable on bank deposits, foreign exchange gains and losses and other costs in connection with borrowings.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Borrowing costs are expensed as incurred as part of the net financing income/costs, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

### (k) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

### (l) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Company's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research costs and development costs are therefore recognised as expenses in the period in which they are incurred.

### (m) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(n) Impairment**

The carrying amounts of the Company's assets, other than inventories (refer accounting policy d) and deferred tax assets (refer accounting policy m), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(o) Retirement benefits**

Contributions to defined contribution pension scheme are recognised as an expense in the income statement as incurred. Further information is set out in Note 25.

### (p) Dividends

Dividends are recognised as a liability in the period which they are declared.

### (q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date.

Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (refer accounting policy c).

### (r) Hedge of firm commitments and forecasted transactions

Gains and losses on financial instruments used to hedge a firm commitment or a forecasted transaction are deferred until the transactions occur. Where the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gains or losses are included in the initial measurement of the asset or liability. Otherwise the cumulative gains or losses are recognised in the income statement when the hedged firm commitment or forecasted transaction affects the net profit or loss.

### (s) Related parties

For the purpose of these accounts, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice visa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individual or entities.

## 3 TURNOVER

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

A geographical analysis of turnover is as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Domestic - PRC | 9,203,484 | 6,673,807 |
| Export | | |
| South Korea | 73,652 | 159,511 |
| Japan | 143,956 | 12,927 |
| United States | 334,781 | 23,679 |
| Hong Kong | - | 10,606 |
| Others | 11,727 | 27,466 |
| | 9,767,600 | 6,907,996 |

The Company is subject to assessment of VAT on the sale of its products pursuant to the relevant tax rules and regulations in the PRC. VAT is levied at the rate of 17% on the invoiced value of goods sold. VAT paid by the Company on its purchases is recoverable out of VAT collected from its customers on sales. Further, the Company is also subject to sales surtaxes, representing Educational and City Construction and Maintenance surcharges which are levied based on 4% and 7% respectively of the net VAT liability.

## 4 OTHER OPERATING INCOME

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Packaging materials income | 6,604 | 8,035 |
| Income from sales of scrap materials | 16,205 | 7,919 |
| Others | 590 | 2,279 |
| | 23,399 | 18,233 |

## 5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| (a) Net financing income: | | |
| Interest and other borrowing costs on convertible debentures | 35,367 | - |
| Amount capitalised as construction in progress* | (35,367) | - |
| Net interest expenses | - | - |
| Interest income | (40,150) | (38,071) |
| Net foreign exchange loss | - | 218 |
| Others | 472 | 553 |
| | (39,678) | (37,300) |

* The borrowing costs have been capitalised at an average rate of 4.25% per annum for construction in progress.

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| (b) Other items: | | |
| Cost of raw materials | 7,098,732 | 5,163,680 |
| Depreciation | 337,446 | 222,607 |
| Repairs and maintenance | 214,701 | 150,332 |
| Research and development costs | 4,477 | 2,873 |
| Salaries and wages | 137,189 | 77,092 |
| Contributions to defined contribution scheme | 27,763 | 12,000 |
| Auditors' remuneration | 3,427 | 3,000 |

## 6 TAXATION

### (a) Taxation in the income statement represents:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Provision for PRC income tax for the year | 262,673 | 130,032 |
| Deferred taxation (note 6(c)) | 809 | 2,050 |
| | 263,482 | 132,082 |

The provision for PRC income tax is calculated at 33% (1999: 33%) of the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations in the PRC.

The reconciliation of income taxes calculated at the Company's applicable tax rate with income expense for the year is as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Profit before taxation in the income statement | 754,877 | 427,503 |
| Tax at the applicable tax rate of 33% | 249,109 | 141,076 |
| Non-deductible items | 14,373 | 9,029 |
| Additional allowable items approved by the Tax Bureau | - | (18,023) |
| | 263,482 | 132,082 |

### (b) Taxation in the balance sheet represents:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Provision for PRC income tax for the year | 262,673 | 130,032 |
| Balance of PRC income tax provision relating to prior year | 17,958 | 1,478 |
| Payments made during the year | (239,659) | (113,552) |
| Tax payable | 40,972 | 17,958 |

**(c) Deferred taxation represents:**

(i) The movements during the year are as follows:

| | **2000** | 1999 (restated) |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Balance as at 1st January restated | 38,071 | 40,121 |
| Recognised in the income statement (note 6(a)) | (809) | (2,050) |
| Relating to convertible debentures recognised directly in equity (note 21) | (7,374) | - |
| Balance as at 31st December | 29,888 | 38,071 |

(ii) Deferred tax assets and liabilities are attributable to the following items:

| | **2000** | 1999 (restated) |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Intangible assets under PRC accounting rules and regulations | 37,262 | 38,071 |
| Discount on convertible debentures under IAS | (5,686) | - |
| Additional borrowing costs capitalised into construction in progress under IAS | (1,688) | - |
| Net deferred tax assets | 29,888 | 38,071 |

Deferred tax assets and deferred tax liabilities are related to income taxes levied by the same taxation authority on the Company.

**(d) The Company did not earn income subject to overseas income tax and therefore no provision has been made for overseas profits tax.**

## 7 DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

### (a) Directors' remuneration:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Fees | 83 | 51 |
| Salaries and other emoluments | 289 | 71 |
| Discretionary bonuses | 344 | 154 |
| Retirement scheme contributions | 74 | 39 |
| | 790 | 315 |

Included in the directors' remuneration were fees of Rmb63,000 (1999: Rmb31,400) payable to independent non-executive directors during the year.

The remuneration of the directors are within the band of HK$0-HK$1,000,000.

The five highest paid individuals of the Company in 2000 and 1999 were all directors whose emoluments are disclosed in above.

### (b) Supervisors' remuneration:

Supervisors' remuneration paid during the year amounted to Rmb223,000 (1999: Rmb103,000).

## 8 DIVIDENDS

| | **2000** | 1999 |
|---|---|---|
| | | (restated) |
| | ***Rmb'000*** | *Rmb'000* |
| Dividends | - | 75,270 |

A final dividend of Rmb3 cents per share in respect of the financial year 1998 was declared and paid during 1999.

After the balance sheet date, a final dividend of Rmb9 cents per share (1999: Nil) in respect of the financial year 2000 was proposed. The total proposed dividend of Rmb262,615,000 has not been provided for.

## 9 EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb491,395,000 (1999: Rmb295,421,000) and a weighted average number of shares outstanding during the year of 2,619,232,000 (1999: 2,509,000,000) calculated as follows:

| Weighted average number of shares<br>(In thousands of shares) | **2000** | 1999 |
|---|---|---|
| Issued shares at 1 January | 2,509,000 | 2,509,000 |
| Effect of conversion of convertible debentures | 110,232 | - |
| Weighted average number of shares at 31st December | 2,619,232 | 2,509,000 |

### b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb491,395,000 (1999: Rmb295,421,000) and a weighted average number of shares (diluted) outstanding during the year of 2,654,742,000 (1999: 2,509,000,000) calculated as follows:

| Weighted average number of shares (diluted)<br>(In thousands of shares) | **2000** | 1999 |
|---|---|---|
| Weighted average number of shares at 31st December | 2,619,232 | 2,509,000 |
| Effect of conversion of remaining convertible debentures | 35,510 | - |
| Weighted average number of shares (diluted) at 31st December | 2,654,742 | 2,509,000 |

The conversion of remaining convertible debentures will not affect the profit attributable to shareholders as the interest incurred was capitalised as construction in progress.

## 10 CHANGES IN ACCOUNTING POLICY

In 2000, the Company adopted IAS 10 Events After the Balance Sheet Date (revised 1999) and IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The adoption of IAS 10 has resulted in the Company recognising dividends as a liability in the period in which they are declared. In previous years, dividends were recognised in the period to which they related. This change has been accounted for retrospectively by restating comparatives and adjusting the opening balance of retained earnings at 1 January 1999.

The adoption of IAS 37 has resulted in the Company reversing the provision for major overhaul which did not meet the recognition criteria as stated in IAS 37. In previous years, estimated cost of major overhaul was accrued on a straight line basis over the estimated major overhaul cycle. This change has been accounted for retrospectively by restating comparatives and adjusting the opening balance of retained earnings at 1st January 1999.

The changes in accounting policy, had the following impact to 2000 and 1999:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Opening retained earnings as previously reported | 621,745 | 384,576 |
| Impact of adopting IAS 10 | - | 75,270 |
| Impact of adopting IAS 37 | 38,810 | 38,810 |
| Restated balance | 660,555 | 498,656 |

No effect to profit attributable to shareholders for 1999.

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Land use rights | Buildings | Plant, machinery and equipment | Transportation vehicles and other related equipment | Total |
|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Cost or valuation: | | | | | |
| At 1st January 2000 | 270,653 | 703,924 | 2,126,794 | 186,584 | 3,287,955 |
| Additions | 35,195 | 164,718 | 121,571 | 12,441 | 333,925 |
| Transfer from construction in progress (note 12) | 48,065 | 1,313 | 917,006 | 7,541 | 973,925 |
| Disposals | - | - | (311) | (484) | (795) |
| At 31st December 2000 | 353,913 | 869,955 | 3,165,060 | 206,082 | 4,595,010 |
| Representing: | | | | | |
| Cost | 127,113 | 198,631 | 1,438,144 | 33,928 | 1,797,816 |
| Valuation | 226,800 | 671,324 | 1,726,916 | 172,154 | 2,797,194 |
| | 353,913 | 869,955 | 3,165,060 | 206,082 | 4,595,010 |
| Aggregate amortisation and depreciation: | | | | | |
| At 1st January 2000 | 14,047 | 50,907 | 476,543 | 82,527 | 624,024 |
| Charge for the year | 7,255 | 20,070 | 247,299 | 62,822 | 337,446 |
| Written back on disposals | - | - | (30) | (372) | (402) |
| At 31st December 2000 | 21,302 | 70,977 | 723,812 | 144,977 | 961,068 |
| Net book value: | | | | | |
| At 31st December 2000 | 332,611 | 798,978 | 2,441,248 | 61,105 | 3,633,942 |
| At 31st December 1999 | 256,606 | 653,017 | 1,650,251 | 104,057 | 2,663,931 |

All of the Company's buildings are located in the PRC. Pursuant to the approval documents issued by the State Land Administration Bureau, the Company was formally granted the rights to use the land on which the Company's buildings are erected with remaining periods of 46.5 years.

By virtue of a document dated 31st March 1997 issued by the State-owned Assets Administration Bureau, the value of the property, plant and equipment which were taken over by the Company from its ultimate holding company, Anshan Iron & Steel Group Complex ("Angang Holding"), as at 31st December 1996 was determined at Rmb2,848,221,000. The amount was based on a valuation, as required by the relevant PRC rules and regulations, carried out on the property, plant and equipment as at 31st December 1996 by Zhongping Assets Appraisals Office, a firm of valuers registered in the PRC, on a depreciated replacement cost basis. The injected assets were reflected in the accounts on this basis.

## 12 CONSTRUCTION IN PROGRESS

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Balance at 1st January | 1,182,367 | 382,971 |
| Additions | 692,597 | 925,217 |
| | 1,874,964 | 1,308,188 |
| Transfer to property, plant and equipment (note 11) | (973,925) | (125,821) |
| Balance at 31st December | 901,039 | 1,182,367 |

## 13 INVENTORIES

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Raw materials | 183,287 | 114,455 |
| Work in progress | 105,429 | 65,206 |
| Finished goods | 138,720 | 37,682 |
| Spare parts, tools and ancillary materials | 339,793 | 337,873 |
| | 767,229 | 555,216 |
| Inventories stated at net realisable value | 164,852 | 180,188 |

## 14 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY

### (a) Amount due from ultimate holding company:

| | Note | **2000** | 1999 |
|---|---|---|---|
| | | ***Rmb'000*** | *Rmb'000* |
| Export trade receivables | (i) | 139,998 | 137,307 |
| Advances for purchases of raw materials | (ii) | 125,721 | 752,018 |
| | | 265,719 | 889,325 |

(i) Export trade receivables under letter of credit arrangement represent export sales arranged by Angang Holding as an export agent for the Company.

(ii) Angang Holding, the major supplier of raw materials of the Company, operates a cash sales policy for sales of raw materials to its customers. Under this policy, Angang Holding requests customers to pay in advance prior to delivery of goods. Advances for purchases of raw materials represent prepayment made by the Company at 31st December 2000 under this policy.

(b) According to the agreement entered into with Angang Holding, distribution payable to the Company's previous owner, Angang Holding, prior to its listing is being reclassified as amount due to ultimate holding company as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Portion classified as current liabilities | 120,000 | 120,000 |
| Portion classified as non-current liabilities | 120,000 | 240,000 |
| | 240,000 | 360,000 |

The amount as at 31st December 2000 is unsecured, interest free and is repayable within a period of two years from 1st January 2001 with a minimum annual repayment amount of Rmb120,000,000.

## 15 TRADE RECEIVABLES

Sales are generally on a cash basis. Subject to negotiation, credit is only available for certain major customers with well-established trading records.

The ageing analysis of the trade receivables is as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Less than 3 months | 161,030 | 86,043 |
| More than 3 months but less than 12 months | 1,128 | - |
| | 162,158 | 86,043 |

## 16 DEPOSITS WITH BANKS

| | 2000 | 1999 |
|---|---|---|
| | Rmb'000 | Rmb'000 |
| Deposits with banks | 1,112,026 | 167,932 |
| Less: Deposits with banks with an initial term of less than three months (note 17) | (454,821) | (167,932) |
| | 657,205 | - |

## 17 CASH AND CASH EQUIVALENTS

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Bank balances | 1,172,418 | 827,883 |
| Add: Deposits with banks with an initial term of less than three months (note 16) | 454,821 | 167,932 |
| 1,627,239 | 995,815 | |

## 18 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Due on demand | 194,454 | 40,490 |
| Due within three months | 49,213 | 16,562 |
| | 243,667 | 57,052 |

## 19 CONVERTIBLE DEBENTURES

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Convertible debentures | 133,240 | - |

| | 2000 | 1999 |
|---|---|---|
| | Rmb'000 | Rmb'000 |
| Proceeds from issue of 15,000,000 convertible debentures of Rmb100 each | 1,500,000 | - |
| Transaction costs | (19,548) | - |
| Net proceeds | 1,480,452 | - |
| Amounts classified as equity (note 21) | (184,540) | - |
| Conversion into A shares (note 20) | (1,187,320) | - |
| Redemptions of convertible debentures | (15) | - |
| Transaction costs amortised | 2,068 | - |
| Discount on convertible debentures amortised | 22,595 | - |
| Carrying amount of liability at 31st December | 133,240 | - |

The amount of the convertible debentures initially recognised in equity is net of attributable transaction costs of Rmb2,437,000 (Rmb244,000 at 31st December 2000).

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 (the "Stock Exchange") and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14th September 2000 to 13th March 2005 into A shares with a par value of Rmb1 each of the Company ("A Shares") at a conversion price of Rmb3.3 per share. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 454,545,455 A shares.

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

The Company may redeem in whole or in part the Debentures from 14th March 2001 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days.

The Debenture holder may require the Company to redeem all or part of the Debentures half a year before the maturity date from 14th September 2004 to 13th March 2005 if the closing price of the A shares on the Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

## 20 SHARE CAPITAL

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Issued and fully paid: | | |
| 1,319,000,000 State legal person shares of Rmb1 each | 1,319,000 | 1,319,000 |
| 708,943,331 (1999:300,000,000) A shares of Rmb1 each | 708,943 | 300,000 |
| 890,000,000 H shares of Rmb1 each | 890,000 | 890,000 |
| | 2,917,943 | 2,509,000 |

During the year, 408,943,331 A shares were issued on the conversion of convertible debentures with total carrying values of Rmb1,362,623,000 made up as follows:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Liability component (note 19) | 1,187,320 | - |
| Equity component (note 21) | 166,028 | - |
| Accrued interest forfeited | 9,275 | - |
| | 1,362,623 | - |

The balance of Rmb953,679,669 was credited to share premium account.
All the state legal person, "A" and "H" shares rank pari passu in all material respects.

## 21 RESERVES

| | **Share premium** | **Statutory surplus reserve** | **Statutory public welfare fund** | **Convertible debenture reserve** | **Retained earnings** (restated) | **Total** (restated) |
|---|---|---|---|---|---|---|
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| At 1st January 1999 | 1,999,939 | 63,447 | 63,447 | - | 498,656 | 2,625,489 |
| Net profit for the year | - | - | - | - | 295,421 | 295,421 |
| Transfers for the year | - | 29,126 | 29,126 | - | (58,252) | - |
| Dividends | - | - | - | - | (75,270) | (75,270) |
| At 31st December 1999 | 1,999,939 | 92,573 | 92,573 | - | 660,555 | 2,845,640 |
| At 1st January 2000 | 1,999,939 | 92,573 | 92,573 | - | 660,555 | 2,845,640 |
| Net profit for the year | - | - | - | - | 491,395 | 491,395 |
| Proposed transfers for the year | - | 48,975 | 48,975 | - | (97,950) | - |
| Convertible debentures issued (note 19) | - | - | - | 184,540 | - | 184,540 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Shares issued upon conversion of convertible debentures (note 20) | 953,680 | - | - | (166,028) | - | 787,652 |
| Deferred tax recognised (note 6(c)) | - | - | - | (7,374) | - | (7,374) |
| At 31st December 2000 | 2,953,619 | 141,548 | 141,548 | 11,138 | 1,054,000 | 4,301,853 |

Under the PRC Company Law and the Company's Articles of Association, the Company's net profit after taxation as reported in the accounts prepared in accordance with the PRC accounting rules and regulations can only be distributed as dividends after allowance has been made for:

(i) making up cumulative prior years' losses, if any;

(ii) allocations to the statutory surplus reserve fund of at least 10% of the net profit after taxation, as determined under the PRC accounting rules and regulations until the fund aggregates to 50% of the Company's registered capital;

(iii) allocations of 5% to 10% of the net profit after taxation, as determined under the PRC accounting rules and regulations, to the Company's statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

(iv) allocations to the discretionary surplus reserve subject to approval by the shareholders.

Convertible debentures reserve comprises the value of the option granted to debenture holders to convert their convertible debentures into A shares of the Company (refer note 19).

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC accounting rules and regulations and the amount determined under IAS. As at 31st December 2000, the reserve available for distribution was Rmb976,831,000 (1999: Rmb585,032,000). Final dividend of Rmb262,615,000 (1999: nil) in respect of the financial year 2000 was proposed after the balance sheet date.

## 22 NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of profit from ordinary activities before taxation to cash generated from operations

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Profit from ordinary activities before taxation | 754,877 | 427,503 |
| Interest income | (40,150) | (38,071) |
| Depreciation | 337,446 | 222,607 |
| Stock provision | 21,000 | 10,852 |
| (Reversal of)/bad debt provision | (660) | 681 |
| Loss on disposals of fixed assets | 131 | 3,663 |
| Increase in inventories | (233,013) | (104,104) |
| Increase in bills receivable | (856,434) | (67,456) |
| Increase in trade receivables | (76,094) | (86,043) |
| (Increase)/decrease in prepayments, deposits and other receivables | (91,574) | 32,954 |
| Increase in bills payable | 149,359 | 204,588 |
| Increase in trade payables | 186,615 | 19,690 |
| Increase in other payables | 354,780 | 201,943 |
| Decrease/(increase) in amount due from ultimate holding company | 623,606 | (204,157) |
| Cash generated from operations | 1,129,889 | 624,650 |

**(b) Analysis of changes in financing during the year**

| | Loan from ultimate holding company | Convertible debentures | Total |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| At 1st January 1999 | 480,000 | - | 480,000 |
| Repayment made during the year | (120,000) | - | (120,000) |
| At 31st December 1999 | 360,000 | - | 360,000 |
| At 1st January 2000 | 360,000 | - | 360,000 |
| Net proceeds from issue of convertible debentures | - | 1,480,452 | 1,480,452 |
| Redemption of convertible debentures | - | (15) | (15) |
| Repayment made during the year | (120,000) | - | (120,000) |
| At 31st December 2000 | 240,000 | 1,480,437 | 1,720,437 |

## 23 COMMITMENTS

As at 31st December 2000, the Company had the following capital commitments:

| | **2000** | 1999 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Authorised and contracted for | 279,179 | 435,957 |
| Authorised but not contracted for | 1,646,313 | 2,046,515 |
| | 1,925,492 | 2,482,472 |

## 24 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Company and Angang Holding, its ultimate holding company and its business undertakings during the year.

**(a) Recurring business transactions**

Recurring business transactions which the Company conducts with Angang Holding and its business undertakings in the normal course of business are as follows:

| | Note | **2000** *Rmb'000* | 1999 *Rmb'000* |
|---|---|---|---|
| Sales of finished goods | (i) | 823,188 | 354,775 |
| Sub-contracting | (ii) | 419,813 | - |
| Return of scrap materials | (iii) | 200,020 | 75,370 |
| Purchases of | | | |
| - raw materials | (iv) | 6,855,139 | 5,234,383 |
| - ancillary materials and spare parts | (v) | - | 36,462 |
| Fees paid for welfare and other support services | (vi) | 77,664 | 101,305 |
| Utility supplies | (vii) | 231,425 | 115,997 |
| Technology licence fee | (viii) | 7,506 | 8,480 |

*Notes:*

(i) The Company sold finished products to certain business undertakings of Angang Holding for their own consumption at average prices charged to independent customers for preceding month. Included in the above are sales of pipe billet totalling Rmb652,412,000 (1999: Rmb264,598,000) to Angang Holding during the year.

(ii) The Company processed molten iron into molten steel on behalf of Angang Holding from April 2000. The Company received a sub-contracting fee, which is based on the actual processing cost incurred by the Company with a profit margin of 5 per cent.

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

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

(v) The Company purchased from Angang Holding ancillary materials in the form of steel products and spare parts based on either the average prices of such materials charged by Angang Holding to independent customers, the market price or the applicable State price. The Company did not purchase any ancillary materials and spare parts from Angang Holding in 2000.

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

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

(viii) The Company entered into a technology licence agreement with Angang Holding under which Angang Holding has licensed to the Company patents relating to the production of products of the Company in return for an annual licence fee.

The Directors of the Company are of the opinion that the above transactions with related parties were entered into:

- in the ordinary and usual course of its business;

- either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

- either in accordance with the terms of the agreement governing each such transaction or on terms no less favourable than terms available to third parties

and this has been confirmed by the independent non-executive directors.

Angang Holding set up a non-wholly owned subsidiary, Angang New Steel and Iron Company Limited ("ANSI"), on 28th December 2000. ANSI consists of 24 plants, which were transferred from Angang Holding. ANSI commenced its operations from 1st January 2001. All the plants that supply raw materials and utilities services to the Company now belong to ANSI. The Company now sells its finished products to ANSI instead of Angang Holding.

**(b) Acquisition of new converter furnaces**

On 1st April 2000, the Company acquired the new converter furnaces, land and related assets from Angang Holding at a consideration of Rmb409,000,000. The acquisition was approved by the independent shareholders of the Company at the Extraordinary General Meeting on 30th March 2000.

**(c) Issuance of convertible debentures**

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

## 25 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Company participates in an employee pension scheme pursuant to the relevant regulations prescribed by Anshan City and the Liaoning Provincial Government in accordance with the guideline of the PRC Government. All the employees of the Company are entitled to receive, on retirement, pension payments from this scheme. Under the scheme, the Company was required to make contributions calculated based on 25.5 % of the aggregate monthly salaries of all employees of the Company.

## 26 FINANCIAL INSTRUMENTS

Financial assets of the Company include cash, deposits with banks, bills receivable, trade and other receivables and amount due from ultimate holding company. Financial liabilities of the Company include bills payable, trade and other payables, convertible debentures and amount due to ultimate holding company. The Company does not hold or issue financial instruments for trading purposes.

**(a) Interest rate risk**

The interest rates and terms of redemption of convertible debentures of the Company are disclosed in Note 19.

**(b) Credit risk**

Deposits with banks

Substantial amounts of the Company's cash balances are deposited with PRC financial institutions.

Bill receivables

Bill receivables are all issued by PRC financial institutions.

Trade and other receivables

The Company adopts a cash sales policy which requires most of the customers to pay in full before delivery of products. Over 60% of the trade receivables are due from a railway company which generally settles the balances within 3 months.

Amount due from ultimate holding company

Balances arising from trading transactions with Angang Holding included in amount due from ultimate holding company are unsecured, non-interest bearing and are disclosed in Note 14.

**(c) Foreign currency risk**

The Company does not have a significant foreign currency risk exposure arising from its sales and raw materials purchases for production as these transactions are mainly carried out in Renminbi, with the exception of a small portion export sales conducted in foreign currencies. The Company incurs foreign currency risks on commitments to purchase plant and equipment in currencies other than Renminbi. The Company uses foreign currency deposits to hedge such foreign currency risks. The foreign exchange gains arising on translation of the deposits designated for hedging forecasted transactions as at 31st December 2000 amounted to Rmb28,142,000 (1999: losses of Rmb24,064,000).

### (d) Fair value

The fair values of cash, deposits with banks, bills receivable, trade and other receivables, trade and other payables and balances arising from trading transactions with Angang Holding included in amount due from ultimate holding company under current assets are not materially different from their carrying amounts.

Convertible debentures - the fair value is estimated as Rmb192,303,000 based on the listed market price.

Due to the related party nature it is not practical to estimate the fair value of the amount due to ultimate holding company.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## 27 POST BALANCE SHEET EVENT

On 8th February 2001, the Company signed a preliminary joint venture agreement with Thyssen Krupp Stahl AG to engage in the production of galvanized steel. A production line will be constructed in Dalian. Each party will contribute US$30,000,000. The preliminary joint venture agreement was submitted to the Foreign Economics and Trade Commission for approval.

## 28 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policy for declared dividend in order to comply with IAS 10 (revised 1999) and also for provision for major overhaul in order to comply with IAS 37, details of which are set out in Note 10. Certain other comparatives have been reclassified to conform with the current year's presentation.

## 29 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31st December 2000 to be Angang Holding, incorporated in the PRC.

## 30 DIFFERENCES BETWEEN ACCOUNTS PREPARED IN ACCORDANCE WITH IAS AND PRC ACCOUNTING RULES AND REGULATIONS

| | Note | **2000** | 1999 restated |
|---|---|---|---|
| | | **Rmb'000** | Rmb'000 |
| Profit attributable to shareholders under IAS | | 491,395 | 295,421 |
| Adjustments: | | | |
| Stock provision | (ii) | - | (3,756) |
| Amortisation of intangible assets | (iii) | (2,455) | (2,454) |
| Deferred tax charge | (v) | 809 | 2,050 |
| Profit attributable to shareholders under PRC Accounting Rules and Regulations | | 489,749 | 291,261 |
| Shareholders' funds under IAS | | 7,219,796 | 5,354,640 |
| Adjustments: | | | |
| Dividends proposed | (i) | (262,615) | - |
| Intangible assets, net | (iii) | 112,915 | 115,370 |
| Difference in treatment on convertible debentures | (iv) | | |
| - Discount on convertible debentures | | (17,232) | - |
| - Additional borrowing costs capitalised | | (5,115) | - |
| Deferred tax assets | (v) | (29,888) | (38,071) |
| Shareholders' funds under PRC Accounting Rules and Regulations | | 7,017,861 | 5,431,939 |

*Notes:*

(i) According to IAS 10, dividends should be recognised as a liability in the period in which they are declared. However, in the PRC accounts, the dividends are recognised in the period to which the dividends relate.

(ii) In 1998, stocks were stated at cost in the PRC accounts but were stated at the lower of cost and the net realisable value in the IAS accounts. From 1999 onwards, stocks have been stated at the lower of cost and the net realisable value for both the IAS and PRC accounts. The amount represents the adjustment made in the PRC accounts in this regard.

(iii) The intangible assets were acquired on the formation of the Company in 1997 from Angang Holding as a result of the reorganisation of Angang Holding. The intangible assets were set off against the shareholders' funds as incurred under IAS.

(iv) The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IAS and PRC accounts.

(v) Deferred tax is provided on the IAS adjustments at the tax rate of 33%.