

Notes on the Accounts

For the year ended 31st December, 2000

(Prepared under PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi)

1. STATUS OF THE COMPANY

Angang New Steel Company Limited (the "Company") was established as a joint stock limited company in accordance with the Company Law of the People's Republic of China ("PRC"). The Company was established on 8th May, 1997 as part of the restructuring of Anshan Iron & Steel Group Complex ("Angang Holding"). The Company issued H shares on 22nd July, 1997, and the H shares were listed on The Stock Exchange of Hong Kong Limited on 24th July, 1997; the Company also issued A shares on 16th November, 1997 and the A shares were listed on the Shenzhen Stock Exchange on 25th December, 1997. Pursuant to the reorganisation the Company took over the business of the Wire Rod Plant, the Thick Plate Plant and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding.

Angang Holding is one of the largest iron and steel comprehensive production companies in China. According to the Division Agreement which took effect from 1st January, 1997, Angang Holding transferred, with effect from 1st January, 1997, the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as its contribution to the Company.

The Company obtained the Business Enterprise License issued by the Liaoning Provincial Administration for Industry and Commerce Bureau on 8th May, 1997.

On 1st July, 1999, the Company acquired certain production and related assets of the Large Section Plant from Angang Holding in cash.

The Company purchased three new converter furnaces from Angang Holding on 1st April, 2000 in cash. The new converter furnaces and the self-constructed continuous casting facilities by the Company become the main assembly line facilities of the Steel Smelting Plant of the Company.

The principal activities of the Company are the production and sale of steel billets, wire rods, thick plates, cold rolled sheets and large section steel.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts are as follows:

(a) Accounting regulations

The significant accounting policies adopted in the preparation of the accounts conform with the Accounting Standards for Business Enterprises and the Accounting System for PRC Joint Stock Companies issued by the Ministry of Finance of the PRC and other relevant regulations.

(b) Accounting period

The Company's accounting period is from 1st January to 31st December.

(c) Accounting principles

The Company's accounts have been prepared on an accruals basis. The assets of the Company are stated at historical cost.

(d) Reporting currency

The Company's books of accounts are in Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the transaction dates in which the transactions take place. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except that the gains and losses directly relating to the purchase or construction of fixed assets before they are put in use are capitalised as part of the costs of the fixed assets, are dealt with in the income statement.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and consist of time deposits with an initial term of less than three months.

(g) Provision for bad debts

Provision for bad debts is estimated by the Company's management by reference to the aging analysis and collectibility of trade receivables and other receivables at the balance sheet date.

(h) Inventories

Inventories include raw materials, work in progress, finished goods and spare parts.

Inventories are stated at cost. The Company adopts the weighted average method upon issuance of inventories. Inventories are stated at the lower of cost and net realisable value at the balance sheet date. Low value consumables are charged to the income statement as and when incurred. Packaging materials are charged to the income statement by reference to the actual consumption.

Inventory provision is provided at the difference between cost of each inventory item and its net realisable value.

(i) Fixed assets and depreciation

Fixed assets include buildings, plant and machinery, and transportation equipment with an estimated useful life over one year, together with other non-operating equipment with a unit cost over Rmb2,000 and useful life over one year.

All direct and indirect costs relating to the acquisition or construction of plant, building, machinery and equipment, including interest costs and foreign exchange gains or losses on related borrowing during the construction period, are capitalised as fixed assets.

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. The estimated useful lives of fixed assets are as follows:

Up to
30th June, 2000 **From**
1st July, 2000

Buildings and plants	13 to 50 years	12 to 42 years
Machinery and equipment	6 to 23 years	6 to 21 years
Others	4 to 16 years	4 to 15 years

Effective from 1st July, 2000, the directors revised its estimates of the useful lives of certain fixed assets. These changes are made, after taking into account technological advancement, 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 year from 1st July, 2000 to 31st December, 2000.

Fixed assets impairment is provided based on the difference between net book value of each item of fixed assets and its recoverable amount at the end of the year.

(j) Construction in progress

Construction in progress is stated at cost. Cost includes construction cost, purchase cost and the related interest expenses, as well as exchange gains and losses incurred during the period of construction, installation and testing.

A plant is considered to be commissioned and transferred to fixed assets when it is put into its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets and amortisation

Intangible assets are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their anticipated useful lives.

(l) Convertible debenture

Convertible debentures are stated at par value. Interest expense is capitalised as the cost of corresponding construction in progress.

Upon conversion, the carrying value of the debentures including the accrued interest forfeited are credited to the share capital and capital surplus accounts.

(m) Sales

Sales are recognised when the related risks and rewards of the ownership of goods have been transferred to customers. This occurs when the goods are delivered, payments are received or the documents supporting the rights to receive consideration are obtained.

(n) 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 versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individual or entities.

(o) Accounting treatment for income tax

The Company's income tax is provided on an accruals basis.

(p) Taxation

The taxes applicable to the Company are value added tax, income tax, city construction and maintenance tax, stamp duty, directional fixed assets investment tax, and vehicle duty etc..

- VAT

The VAT rate applicable to the Company is 17%.

- Business tax and surcharges

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

- Income tax

The income tax rate applicable to the Company is 33%.

(q) Repairs and maintenance expenses

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

(r) Research and development costs

Both research and development costs are charged to the income statement as and when they are incurred.

(s) Retirement benefits

Retirement benefits are charged to the income statement as and when they are incurred.

(t) Appropriation of profit

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company makes allocations to the statutory surplus reserve fund of at least 10% of the net profit after taxation, until the fund aggregates to 50% of the Company's registered capital; and allocations of 5% to 10% of the net profit after taxation, 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.

3. CASH AT BANK AND IN HAND

	31st December, 31st December,						
						2000	1999
	DM'000	USD'000	HKD'000	Euro'000	Pounds Sterling'000	Rmb'000	Rmb'000
Exchange rate	3.9398	8.2781	1.0606	7.7056	12.2802		
Cash in hand	-	-	-	-	-	3	1
Cash at bank in Renminbi	-	-	-	-	-	1,664,075	405,434
Cash at bank in							
Hong Kong dollars	-	-	272,137	-	-	288,628	301,029
Cash at bank in USD Dollars	-	1,305	-	-	-	10,805	3,108
Cash at bank in							
Deutschemark	43,802	-	-	-	-	172,573	286,243
Cash at bank in Euro	-	-	-	17,416	-	134,203	-
Cash at bank in							
Pounds Sterling	-	-	-	-	1,153	14,157	-
Total						2,284,444	995,815

The increase in cash at bank and in hand of the Company as at 31st December, 2000 compared with that as at 31st December, 1999 is mainly attributable to the surplus funding from the issuance of A shares convertible debentures on 15th March, 2000 before investing into projects and an increase in sales during the year.

4. TRADE RECEIVABLES

	31st December, 2000		Provision for bad debts Rmb'000	31st December, 1999		Provision for bad debts Rmb'000
	Rmb'000	Percentage		Rmb'000	Percentage	
Within one year	162,158	100%	-	86,043	100%	-

The Company's balance of trade receivables as at 31st December, 2000 comprises mainly Rmb 103,543,000 for the sale of steel rails due from China Railway Materials Shenyang Co., Rmb 26,607,000 for the sale of steel rails due from China Railway Construction (Shenyang) Corporation Northeast Office, and sales proceeds of Rmb 32,008,000 due from other enterprises. All of these amounts are aged within one year.

The five largest debtors are as follows:

Name of Debtors	Amount Rmb'000	Period	Nature
China Railway Materials Shenyang Co.	103,543	Dec, 2000	Sales of goods
China Railway Construction (Shenyang) Corporation Northeast Office	26,607	Dec, 2000	Sales of goods
Dalian Jinzhou Heavy Machine Factory	422	June, 2000	Sales of goods
Heilongjiang Materials Trade Centre	376	June, 2000	Sales of goods
Hubei Yichang Qingyun Hydroelectricity Affiliated Company		330	March, 2000
			Sales of goods
	131,278		

No balance is due from a shareholder who holds 5% or more of the Company's shares.

5. OTHER RECEIVABLES

Other receivables mainly include exported tax refunds, time deposit interest, transportation expenses receivable, advances to employees and other receivables.

The aging analysis of other receivables is as follows:

	31st December, 2000 Percentage Rmb'000	Percentage	Provision for bad debts Rmb'000	31st December, 1999 Rmb'000
Within one year	102,918 86%	97%	-	6,945
Between one and two years	2,169 12%	2%	-	948
Between two and three years	922 -	1%	-	-
Over three years	21 2%	-	21	161
Total	106,030 100%	100%	21	8,054

No balance is due from a shareholder who holds 5% or more of the Company's shares.

In respect of such receivables, the five largest debtors are as follows:

Name of Debtors	Amount Rmb'000	Period	Nature
Anshan State Tax Bureau	84,422	2000	Export tax refund
CITIC Industrial Bank, Shenyang Branch	4,064	2000	Interest on time deposit
Bank of China, Anshan Branch The Industry and Commercial	1,973	2000	Interest on time deposit
Bank of China, Anshan Branch The Industry and Commercial	1,434	2000	Interest on time deposit
Bank of China, International Department	1,397	2000	Interest on time deposit
	93,290		

6. PROVISION FOR BAD DEBTS

The Company's management considered that no provision for bad debts in respect of trade receivables as at 31st December, 2000 was necessary as all of these amounts were aged not more than one year. The provision for bad debts in respect of other receivables amounted to Rmb21,000 as at 31st December, 2000. Since the Company's management considered that these amounts could be recovered in the near future, the provision for bad debt was lower than 5% of the outstanding balances.

7. BILLS RECEIVABLE

As at 31st December, 2000, the Company has outstanding bills receivable of Rmb1,323,298,000 issued by banks, which are due during the period from January to June 2001. All bills receivable are not secured or discounted, of which the bills receivable due from Angang Holding amounted to Rmb342,928,000.

8. PREPAYMENTS

		31st December, 2000 Rmb'000	31st December, 1999 Rmb'000
	Remarks		
Prepayment for spare parts		10,450	6,482
Amount due from and prepaid to related Companies			
- Export trade receivables	i	139,998	137,307
- Advance payments for purchase of raw materials and ancillary materials	ii	125,721	752,018
Sub-total		265,719	889,325
Total		276,169	895,807

i Export trade receivables represent export sales arranged by Angang Group International Trade Corporation as an agent for the Company.

ii Angang Holding, the major supplier of raw materials to the Company, operates a cash sales policy for sales of raw materials and ancillary materials to its customers.

- iii The amounts due from and prepaid to related companies are aged less than one year. The maturity dates of the bills issued range from two to six months from the balance sheet date.

The aging analysis of the prepayment for spare parts is as follows:

	31st December, 2000 Rmb'000	Percentage	31st December, 1999 Rmb'000	Percentage
Within one year	9,435	90%	4,654	72%
Between one and two years	249	3%	1,062	16%
Between two and three years	-	-	14	-
Over three years	766	7%	752	12%
Total	10,450	100%	6,482	100%

The five largest balances of prepayments are as follows:

Name of Debtors	Amount Rmb'000	Period	Nature
Angang Holding	265,719	2000	Prepayment for materials and export receivables
Fushun Special Steel Co., Inc. (Group)	2,469	2000	Prepayment for materials
Xian Metallurgy and Mechanism Factory	2,053	2000	Prepayment for ancillary materials
Anshan Yoashi Electromagnetism Equipment Co., Ltd	1,800	2000	Prepayment for materials equipment
Tying Strip Company Baosteel Group International Corporation	912	2000	Prepayment for materials
	272,953		

Angang Holding holds more than 5% of the Company's shares.

9. INVENTORIES AND INVENTORY PROVISION

	31st December, 2000 Rmb'000	Inventory Provision Rmb'000	31st December, 1999 Rmb'000	Inventory Provision Rmb'000
Raw materials	183,287	-	114,455	-
Work in progress	105,429	-	65,206	-
Finished goods	138,720	-	37,682	-
Spare parts	417,713	77,920	394,793	56,920
Total	845,149	77,920	612,136	56,920

10. DEFERRED EXPENSES

	Opening balance Rmb'000	Additions for the year Rmb'000	Amortisation for the year Rmb'000	Closing balance Rmb'000
Heating expenses	2,462	5,002	4,442	3,022
Real estate tax	-	3,105	3,105	-
Publication expenses	92	71	163	-
Total	2,554	8,178	7,710	3,022

11. FIXED ASSETS

	Buildings & plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:				
At 1st January, 2000	1,085,396	2,803,273	357,993	4,246,662
Additions	164,718	121,571	12,441	298,730
Transferred from construction in progress	1,313	917,006	7,541	925,860
Disposals	-	(311)	(484)	(795)
At 31st December, 2000	1,251,427	3,841,539	377,491	5,470,457
Accumulated depreciation:				
At 1st January, 2000	391,613	1,193,788	253,936	1,839,337
Charge for the year	46,174	221,195	62,822	330,191
Written back on disposals	-	(30)	(372)	(402)
At 31st December, 2000	437,787	1,414,953	316,386	2,169,126
Net book value:				
At 31st December, 2000	813,640	2,426,586	61,105	3,301,331
At 31st December, 1999	693,783	1,609,485	104,057	2,407,325

12. CONSTRUCTION IN PROGRESS

	Balance at 1st January, 2000 Rmb'000	Additions during the year Rmb'000	Transferred to fixed assets during the year Rmb'000	Balance at 31st December, 2000 Rmb'000	Source of funds	Project progress
Upgrade of New Steel Smelting Plant	827,064	295,646	(896,060)	226,650	Equity finance	73.2%
Production line of galvanised steel strips and sheets	525	406	-	931	Equity finance	0.1%
Combined pickling and continuous rolling line	291,010	348,624	-	639,634	Equity finance	85.9%
Upgrade of the Cold Rolling Plant	152	(152)	-	-	Equity and debt finance	-
Technology renovation	15,551	15,405	(14,914)	16,042	Operating funds	77.9%
Equipment transformation	-	27,553	(14,886)	12,667	Operating funds	98%
	1,134,302	687,482	(925,860)	895,924		

13. INTANGIBLE ASSETS

Intangible assets include land use rights, electricity use rights and water use rights which are stated at the revalued amount. These assets are amortised on a straight-line basis over their useful lives commencing from the date of acquisition.

The movement of intangible assets during the year is as follows:

	Valuation	Balance at 1st January, 2000 Rmb'000	Additions during the year Rmb'000	Amortisation for the year Rmb'000	Balance at 31st December, 2000 Rmb'000	Remaining period of amortisation
Land use rights	354,178	304,671	35,195	(7,255)	332,611	46.5 years
Water and electricity use rights	122,734	115,370	-	(2,455)	112,915	47 years
Total	476,912	420,041	35,195	(9,710)	445,526	

The acquisition of land use right for the Steel Smelting Plant has led to the increase of land use rights during the year.

14. **BILLS PAYABLE**

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Bills payable	718,794	569,435

The Company has used bills to settle part of its trade payables. At 31st December, 2000, the Company has outstanding bills payable of Rmb 718,794,000 issued by banks which are due during the period from January to June 2001.

Apart from the amount due to the Angang Holding, no balance is due to a shareholder who holds 5% or more of the Company's shares.

15. **TRADE PAYABLES**

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Trade payables	243,667	57,052

The increase in the Company's trade payables as at 31st December, 2000 of Rmb 186,615,000 compared with that as at 31st December, 1999 is mainly attributable to the purchase of raw materials and spare parts for the Steel Smelting Plant which was set up on 1st April, 2000.

No balance is due to a shareholder who holds 5% or more of the Company's shares.

16. TAXES PAYABLE

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Value added tax	94,860	19,319
Income tax	40,972	17,958
City Construction and Maintenance tax	4,074	4,723
Directional fixed assets investment tax	-	76
Deed tax	4,248	-
Others	2	59
	144,156	42,135

Increase in the Company's tax payable as at 31st December, 2000 of Rmb102,021,000 compared with that as at 31st December, 1999 is mainly attributable to the increase in value added tax resulting from the increase in sales in 2000 and the increase in income tax payable.

17. OTHER PAYABLES

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Other payables	176,357	101,830

The increase in the Company's other payables as at 31st December, 2000 of Rmb 74,527,000 compared with that as at 31st December, 1999 is mainly attributable to the increase in the transportation fees payable to Lingshan Railway Bureau and the increase in steel frame deposits.

No balance was due to a shareholder who holds 5% or more of the Company's shares.

18 Loan

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Long-term loan		
Appropriation to Angang Holding	240,000	360,000
Less: current portion of long-term loan	120,000	120,000
	120,000	240,000

As at 31st December, 1996, the appropriation to Angang Holding amounted to Rmb 600,000,000. According to the agreement entered into with Angang Holding, such amount was being classified as a long-term loan from Angang Holding and repayable with a minimum annual amount of Rmb 120,000,000 commencing from 1st January, 1998. This long-term loan is interest free.

19 CONVERTIBLE DEBENTURES

	31st December, 2000 <i>Rmb'000</i>	31st December, 1999 <i>Rmb'000</i>
Convertible Debentures	151,901	-

On 15th March, 2000, the Company issued A share convertible debentures (the "Debentures") amounting to Rmb1,500,000,000 with a maturity of 5 years at an interest rate of 1.2% per annum. Interest accrues from 14th March, 2000 and the Debentures mature on 13th March, 2005. The debentures can be convertible from 14th September, 2000 to 13th March, 2005. By 31st December, 2000, 408,943,000 A shares were issued on the conversion of convertible debentures with a carrying amount of Rmb1,349,531,000 and Rmb9,257,000 accrued interest expenses forfeited, increasing capital surplus by Rmb949,845,000.

20. SHARE CAPITAL

		Opening balance	Increase/ (decrease)	Closing balance
A. Unlisted shares				
1. Promoter shares				
Of which: State-owned shares		-	-	-
Domestic legal person owned shares		1,319,000,000	-	1,319,000,000
Foreign legal person owned shares		-	-	-
Others		-	-	-
2. Subscribed legal person shares		-	-	-
3. Internal employees' shares		-	-	-
4. Preference shares or others		-	-	-
Sub-total	1,319,000,000	-	1,319,000,000	
B. Listed shares				
1. Renminbi ordinary shares		300,000,000	408,943,331	708,943,331
2. Domestic-listed foreign invested shares		-	-	-
3. Overseas-listed foreign invested shares		890,000,000	-	890,000,000
4. Others	-	-	-	-
Sub-total		1,190,000,000	408,943,331	1,598,943,331
C. Total number of shares		2,509,000,000	408,943,331	2,917,943,331

By 31st December, 2000, 408,943,331 A shares have been issued upon the conversion of convertible debentures. The Company will apply for registration concerning any relevant share capital change.

21. CAPITAL SURPLUS

	Opening balance Rmb'000	Increase during the year Rmb'000	Decrease during the year Rmb'000	Closing balance Rmb'000
Net assets conversion	709,817	-	-	709,817
Proceeds from issuing H shares net of expenses	594,722	-	-	594,722
Proceeds from issuing A shares net of expenses	848,222	-	-	848,222
Conversion of convertible debenture	-	949,845	-	949,845
	2,152,761	949,845	-	3,102,606

By 31st December, 2000, the conversion of convertible debentures into A shares has led to the increase of capital surplus by Rmb949,845,000.

22. SURPLUS RESERVES

	Opening balance Rmb'000	Increase during the year Rmb'000	Decrease during the year Rmb'000	Closing balance Rmb'000
Statutory surplus reserve	92,573	48,975	-	141,548
Statutory public welfare fund	92,573	48,975	-	141,548
Total	185,146	97,950	-	283,096

In accordance with the PRC Company Law and Article 147 of the Company's Articles of Association, 10% of the Company's net profit after taxation is allocated to the statutory surplus reserve fund, until the fund aggregates to 50% of the Company's registered capital; and 5% to 10% to the statutory public welfare fund.

23. RETAINED PROFITS

	As at 31st December, 2000 Rmb'000	As at 31st December, 1999 Rmb'000
Retained profits brought forward	585,032	352,023
Add: profit for the year	489,749	291,261
Less: appropriation of profit	(97,950)	(58,252)
Dividends payable	(262,615)	-
Retained profits carried forward	714,216	585,032

On 20th March, 2001, the directors have resolved to propose a final dividend of Rmb0.09 per share which is subject to the approval at the forthcoming Annual General Meeting.

24. INCOME FROM PRINCIPAL OPERATIONS

	1st January, to 31st December, 2000 Rmb'000	1st January, to 31 December, 1999 Rmb'000
Wire rods	1,753,228	1,697,383
Thick plates	1,891,045	1,568,832
Cold rolled sheets	3,432,080	2,779,263
Large sections steel products	2,174,803	877,664
Steel billets	541,994	-
	9,793,150	6,923,142

25. BUSINESS TAX AND SURCHARGES

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Business tax and surcharges	25,550	15,146

Increase in business tax and surcharges for 2000 is mainly due to the increase in purchases and sales during the year which has led to an increase in VAT payables. Business tax and surcharges are provided for based on the net VAT payables.

26. OTHER OPERATING PROFIT

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Packaging material profits	6,604	8,035
Income from sales of scrap materials	16,205	7,919
Others	427	63
Total	23,236	16,017

27. OPERATING EXPENSES

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Operating expenses	168,158	119,066

The increase in the Company's operating expenses for 2000 is mainly due to the increase in sales which has led to an increase in transportation fees, packaging fees and agent fees.

28. ADMINISTRATIVE EXPENSES

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Administrative expenses	149,093	86,538

The increase in the Company's administrative expenses for 2000 is mainly due to the addition of the Large Section Plant on 1st July, 1999 and the Steel Smelting Plant on 1st April, 2000. This has led to an increase in salaries and wages, welfare and land-use rights amortisation, and other related expenses.

29 FINANCIAL INCOME

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Interest income:	40,150	38,071
Less: interest expenses	-	-
Exchange gain	-	1
Exchange loss	-	(219)
Others	(472)	(553)
Total	39,678	37,300

30. NON-OPERATING INCOME

	1st January, to 31st December, 2000 <i>Rmb'000</i>	1st January, to 31st December, 1999 <i>Rmb'000</i>
Penalties on breach of contracts	152	384
Others	11	1,832
Total	163	2,216

31. NON-OPERATING EXPENSES

	1st January, to 31st December, 2000 Rmb'000	1st January, to 31st December, 1999 Rmb'000
Penalties and fines	3,183	1,140
Loss on disposal of fixed assets	142	3,663
Others	1,382	26
Total	4,707	4,829

32. RELATED PARTY TRANSACTIONS

Related party with controlling interest:

Name of Enterprises	Registered address representative	Principal activities	Relation to the Company	Economic nature	Legal
Anshan Iron and Steel Group Complex ("Angang Holding")	Tie Xi District Liu Jie Anshan, Liaoning Province	Production and sales of steel and metal products, steel filament tubes, and metal structures		Holding	State- owned

The registered paid-in capital of Angang Holding as at 31st December, 2000 is Rmb10,794,160,000.

Related party transactions with Angang Holding:

(a) Recurring business transactions

	1st January to 31st December, 2000 Rmb'000	1st January to 31st December, 1999 Rmb'000
Sales (excluding business tax and surcharge)	823,188	354,775
Subcontracting fee (excluding business tax and surcharge)	419,813	-
Sales of scrap materials (excluding business tax and surcharge)	200,020	75,370
Purchase		
- Raw materials	6,855,139	5,234,383
- Ancillary materials and spare parts	-	36,462
Staff welfare and other services	77,664	101,305
Supply of fuel and power	231,425	115,997
Technology licence fee	7,506	8,480
- Sales		

The Company sold steel products to certain business undertakings of Angang Holding. The selling prices were not lower than the average prices charged to independent customers for preceding month.

- Sub-contracting fee

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.

- Sales of scrap materials

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

- Purchase of raw materials

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 for preceding month and the average sales prices quoted to the Company by five independent suppliers for large quantities.

- Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from Angang Holding based on the average prices of such materials charged by Angang Holding to independent customers, market prices or applicable State prices.

The Company did not purchase any ancillary materials and spare parts from Angang Holding in 2000.

- Staff welfare and other services

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; heating supply for employees' accommodation; newspapers, telephone, fax and other media communication services and staff training either at the applicable State prices, market prices or at cost.

- Supply of fuel and utilities

The Company purchased industrial water, recycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, compressed air and steam from Angang Holding at cost.

- Technology licence fee

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

Angang Holding, together with China Huarong Assets Management Company and China Xinda Assets Management Company, set up a 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 operation from 1st January, 2001. ANSI is controlled by Angang Holding. 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 to Angang Holding.

(b) Non-recurring business transactions

- Acquisition of new converter furnaces, land and related assets

Pursuant to the Option Agreement date 6th July 1998 with Angang Holding and the approval from the shareholders of the Company at the Extraordinary General Meeting on 30th March 2000, the Company acquired the new converter furnaces, land and related assets from Angang Holding at a consideration of Rmb409,000,000 on 1st April 2000.

- Issuance of convertible debentures

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

33. 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 PRC Government's guidelines. 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.

34. CAPITAL COMMITMENTS

The capital commitments of the Company at 31st December, 2000 were as follows:

	Authorised but not contracted for Rmb'000	Contracted but not provided for Rmb'000	Total Rmb'000
Continuous casting	400,200	1,800	402,000
Combined rolling line	59,670	38,830	98,500
Galvanized steel line	1,182,210	230,860	1,413,070
Other facilities	4,233	7,689	11,922
Total	1,646,313	279,179	1,925,492

35. CONTINGENT LIABILITY

The Company did not have any contingent liabilities as at 31st December, 2000.

36. POST BALANCE SHEET EVENT

The Company signed a preliminary joint venture agreement with Thyssen Krupp Stahl AG to produce galvanized steel on 8th February, 2001. The production line is planned to be located in Dalian. Each party will contribute US\$30,000,000. The proposed joint venture is subject to the approval by the Foreign Economic and Trade Commission.

37. ADJUSTMENTS ON THE NET PROFIT AND SHAREHOLDERS' FUNDS IN ACCORDANCE WITH IAS

The Company's accounts have been prepared in accordance with "Accounting Standards for Business Enterprises", "Accounting System for PRC Joint Stock Companies" and other relevant regulations. There are certain areas which are materially different from the Company's accounts prepared under IAS. Effects arising from these differences on net profit and the shareholders' funds for the year ended 31st December, 2000 are set out below:

Profit attributable to shareholders Net assets

	1st January to 31st December, 2000 Rmb'000	1st January to 31st December, 1999 Rmb'000	At 31st December, 2000 Rmb'000	At 31st December, 1999 Rmb'000
Per accounts prepared under PRC Accounting Rules and Regulations	489,749	291,261	7,017,861	5,431,939
Dividend proposed	-	-	262,615	-
Inventory provision	-	3,756	-	-
Intangible assets and the related amortisation	2,455	2,454	(112,915)	(115,370)
IAS accounting treatment on convertible debentures				
- Discount on convertible debenture	-	-	17,232	-
- Additional borrowing costs capitalised	-	-	5,115	-
Deferred tax	(809)	(2,050)	29,888	38,071
Per accounts prepared under IAS	491,395	295,421	7,219,796	5,354,640

Note: The comparative figures have been adjusted to reflect the retrospective effect of the adoption of IAS 10 Events after the Balance Sheet Date (revised 1999) and IAS 37 Provisions, Contingent liabilities and Contingent Assets.