REPORT OF THE INTERNATIONAL AUDITORS

To the Shareholders of
Angang New Steel Company Limited

(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 48 to 78 which have been prepared in accordance with International Accounting Standards.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with International Accounting Standards adopted by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, China
25 March 2002

INCOME STATEMENT

for the year ended 31 December 2001

(Prepared in accordance with International Accounting Standards)

(Expressed in Renminbi)

	Note	**2001**	2000
		Rmb'000	*Rmb'000*
Turnover	4	**9,465,247**	9,767,600
Cost of sales		**(8,426,475)**	(8,753,842)
Gross profit		**1,038,772**	1,013,758
Other operating income	5	**25,505**	23,399
Distribution and other operating expenses		**(158,670)**	(168,158)
Administrative expenses		**(232,641)**	(153,800)
Profit from operations		**672,966**	715,199
Net financing income	6(a)	**25,858**	39,678
Profit from ordinary activities before taxation	6(b)	**698,824**	754,877
Income tax expense	7(a)	**(332,343)**	(263,482)
Profit attributable to shareholders		**366,481**	491,395
Proposed transfer to reserves	22		
Statutory surplus reserve		**(41,032)**	(48,975)
Statutory public welfare fund		**(41,032)**	(48,975)
		284,417	393,445
Dividends	9(b)	**(265,490)**	—
Retained profit for the year		**18,927**	393,445
Earnings per share	10		
— Basic		**Rmb 0.124**	Rmb 0.188
— Diluted		**Rmb 0.124**	Rmb 0.185

The notes on pages 53 to 78 form part of these financial statements.

BALANCE SHEET

at 31 December 2001

(Prepared in accordance with International Accounting Standards)

(Expressed in Renminbi)

	Note	**2001**	2000
		Rmb'000	*Rmb'000*
Non-current assets			
Property, plant and equipment	11	**4,341,207**	3,633,942
Construction in progress	12	**1,082,644**	901,039
Deferred tax assets	7(c)	**—**	29,888
		5,423,851	4,564,869
Current assets			
Inventories	13	**904,213**	767,229
Amount due from a fellow subsidiary	14	**399,668**	—
Amount due from ultimate holding company	14	**—**	265,719
Trade receivables	15	**2,569,147**	1,485,456
Prepayments, deposits and other receivables		**186,329**	119,481
Deposits with banks	16	**50,000**	657,205
Cash and cash equivalents	17	**711,229**	1,627,239
		4,820,586	4,922,329
Current liabilities			
Trade payables	18	**1,397,474**	962,461
Income tax payable	7(b)	**126,861**	40,972
Amount due to ultimate holding company	14	**167,977**	120,000
Other payables		**688,339**	890,729
		2,380,651	2,014,162
Net current assets		**2,439,935**	2,908,167
Total assets less current liabilities carried forward		**7,863,786**	7,473,036

The notes on pages 53 to 78 form part of these financial statements.

	Note	**2001**	2000
		Rmb'000	*Rmb'000*
Total assets less current liabilities brought forward		**7,863,786**	7,473,036
Non-current liabilities			
Convertible debentures	19	**17,529**	133,240
Bank loans	20	**400,000**	—
Amount due to ultimate holding company	14	**—**	120,000
Deferred tax liabilities	7(c)	**2,715**	—
		420,244	253,240
NET ASSETS		**7,443,542**	7,219,796
SHAREHOLDERS' FUNDS			
Share capital	21	**2,957,935**	2,917,943
Reserves	22	**4,485,607**	4,301,853
		7,443,542	7,219,796

Approved and authorised for issue by the board of directors on 25 March 2002

Li Zhongwu	**Fu Jihui**
Director	*Director*

The notes on pages 53 to 78 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2001

(Prepared in accordance with International Accounting Standards)

(Expressed in Renminbi)

	Share capital (Note 21)	Share premium (Note 22)	Statutory surplus reserve (Note 22)	Statutory public welfare fund (Note 22)	Convertible debenture reserve (Note 22)	Hedging Reserve (Notes 22 & 23)	Retained earnings (Note 22)	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
2000								
At 1 January 2000	2,509,000	1,999,939	92,573	92,573	—	—	660,555	5,354,640
Net profit for the year	—	—	—	—	—	—	491,395	491,395
Transfers for the year	—	—	48,975	48,975	—	—	(97,950)	—
Convertible debentures issued	—	—	—	—	184,540	—	—	184,540
Shares issued upon conversion of convertible debentures	408,943	953,680	—	—	(166,028)	—	—	1,196,595
Deferred tax recognised	—	—	—	—	(7,374)	—	—	(7,374)
At 31 December 2000	2,917,943	2,953,619	141,548	141,548	11,138	—	1,054,000	7,219,796
2001								
At 1 January 2001	2,917,943	2,953,619	141,548	141,548	11,138	—	1,054,000	7,219,796
Net profit for the year	—	—	—	—	—	—	366,481	366,481
Proposed transfer for the year	—	—	41,032	41,032	—	—	(82,064)	—
Net exchange difference on hedged transactions recognised	—	—	—	—	—	(6,816)	—	(6,816)
Net exchange difference capitalised as the cost of construction in progress	—	—	—	—	—	6,816	—	6,816
Shares issued upon conversion of convertible debentures	39,992	92,480	—	—	(14,376)	—	—	118,096
Dividends approved in respect of the previous year	—	—	—	—	—	—	(265,490)	(265,490)
Deferred tax released upon the conversion of convertible debenture	—	—	—	—	4,659	—	—	4,659
At 31 December 2001	2,957,935	3,046,099	182,580	182,580	1,421	—	1,072,927	7,443,542

The notes on pages 53 to 78 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2001

(Prepared in accordance with International Accounting Standards)

(Expressed in Renminbi)

	Note	**2001**	2000
		Rmb'000	Rmb'000
Operating activities			
Cash flows from operations	24(a)	**(87,170)**	1,129,889
Interest received		**48,649**	29,291
Interest paid		**(11,366)**	—
Income tax paid		**(209,192)**	(239,659)
Cash flows from operating activities		**(259,079)**	919,521
Investing activities			
Capital expenditure		**(1,280,777)**	(991,591)
Proceeds from disposal of property, plant and equipment		**1,946**	262
Maturity of /(increase in) fixed deposits maturing over 3 months		**607,205**	(657,205)
Cash flows from investing activities		**(671,626)**	(1,648,534)
Financing activities			
Dividends paid		**(265,490)**	—
Repayment of loan from ultimate holding company	24(b)	**(120,000)**	(120,000)
Proceeds of bank loans	24(b)	**500,000**	—
Repayment of bank loans	24(b)	**(100,000)**	—
Net proceeds from issue of convertible debentures		**—**	1,480,452
Redemption of convertible debentures		**(5)**	(15)
Cash flows from financing activities		**14,505**	1,360,437
Net (decrease)/increase in cash and cash equivalents		**(916,200)**	631,424
Cash and cash equivalents at 1 January		**1,627,239**	995,815
Effect of exchange rate fluctuations on cash held		**190**	—
Cash and cash equivalents at 31 December	17	**711,229**	1,627,239

The notes on pages 53 to 78 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Prepared in accordance with International Accounting Standards)

(Expressed in Renminbi)

1 Background of the Company

The Company was established in the People's Republic of China (the "PRC") on 8 May 1997 as a joint stock limited company. 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.

2 Significant accounting policies

(a) Statement of compliance and basis of preparation

(i) Statement of compliance

The Company's financial statements have been prepared in accordance with International Accounting Standards ("IAS") adopted by the International Accounting Standards Board ("IASB"), interpretations issued by the Standing Interpretations Committee of the IASB and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Company's results and the shareholders' funds under IAS and the PRC Accounting Rules and Regulations is presented on page 79.

(ii) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost 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 23), 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 o). 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 or 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.

2 Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(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:

Buildings	12 to 42 years
Plant, machinery and equipment	6 to 21 years
Transportation vehicles and other related equipment	4 to 15 years

(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 o). 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 s), 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 and other receivables

Trade and other receivables are stated at cost less impairment losses (refer accounting policy o).

2 Significant accounting policies (continued)

(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 component.

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 unamortised 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 expenses 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 and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non- occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(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.

2 Significant accounting policies (continued)

(j) Trade and other payables

Trade and other payables are stated at their cost.

(k) Net financing income/costs

Net financing income/costs comprise interest payable on borrowings, interest receivable on bank deposits, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (refer accounting policy s).

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.

(l) Repairs and maintenance expenses

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

(m) 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.

(n) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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, providing for 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Significant accounting policies (continued)

(o) Impairment

The carrying amounts of the Company's assets, other than inventories (refer accounting policy d), and deferred tax assets (refer accounting policy n), 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. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable 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. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(p) 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 27.

(q) Dividends

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

(r) 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).

2 Significant accounting policies (continued)

(s) Hedge of firm commitments and forecasted transactions

Where a financial instrument is designated as a hedge of the variability in cash flows of a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

(t) Related parties

For the purpose of these financial statements, 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 other entities.

3 Segment reporting

The Company's profits are almost entirely attributable to the production and sales of steel products in the PRC. Accordingly, no segmental analysis is provided.

4 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:

	2001	2000
	Rmb'000	*Rmb'000*
Domestic — PRC	**9,189,346**	9,203,484
Export		
South Korea	**81,560**	73,652
Japan	**5,163**	143,956
United States	**132,890**	334,781
Taiwan	**44,036**	—
Others	**12,252**	11,727
	9,465,247	9,767,600

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.

5 Other operating income

	2001	2000
	Rmb'000	*Rmb'000*
Packaging materials income	**7,214**	6,604
Income from sales of scrap materials	**18,213**	16,205
Others	**78**	590
	25,505	23,399

6 Profit from ordinary activities before taxation

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

		2001	2000
		Rmb'000	*Rmb'000*
(a)	Net financing income:		
	Interest and other borrowing costs	**23,135**	35,367
	Less: amount capitalised as construction in progress*	**(12,680)**	(35,367)
	Net interest expenses	**10,455**	—
	Net exchange difference	**20,892**	28,142
	Less: amount capitalised as construction in progress	**(21,082)**	(28,142)
	Net exchange gain	**(190)**	—
	Interest income	**(37,790)**	(40,150)
	Bank charges	**1,667**	472
		(25,858)	(39,678)

* The borrowing costs have been capitalised at an average rate of 5.58% (2000: 4.25%) per annum for construction in progress.

		2001	2000
		Rmb'000	*Rmb'000*
(b)	Other items:		
	Cost of raw materials	**6,982,978**	7,098,732
	Personnel costs		
	Salaries and wages	**155,521**	137,189
	Contributions to defined contribution scheme	**47,796**	27,763
	Total personnel costs	**203,317**	164,952
	Auditors' remuneration	**3,544**	3,427
	Depreciation and amortisation	**347,075**	337,446
	Repairs and maintenance	**157,188**	214,701
	Research and development costs	**7,954**	4,477
	Loss on disposal of property, plant and equipment	**30,960**	131

7 Income tax

(a) Income tax expense in the income statement

	2001	2000
	Rmb'000	*Rmb'000*
Current tax expense		
Current year	**270,876**	262,673
Under provided in prior years	**24,205**	—
	295,081	262,673
Deferred tax expense		
Originating and reversal of temporary differences (note 7 (c))	**37,262**	809
Total income tax expense in income statement	**332,343**	263,482

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

	2001	2000
	Rmb'000	*Rmb'000*
Profit before taxation	**698,824**	754,877
Income tax using the PRC income tax rate	**230,612**	249,109
Deferred tax assets written off	**37,262**	—
Under provided in prior years	**24,205**	—
Non-deductible expenses	**40,264**	14,373
	332,343	263,482

The provision for PRC income tax is calculated at 33% (2000: 33%) of the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations in the PRC.

(b) Income tax in the balance sheet

	2001	2000
	Rmb'000	*Rmb'000*
Provision for PRC income tax during the year	**295,081**	262,673
Balance of PRC income tax provision relating to prior year	**40,972**	17,958
Payments made during the year	**(209,192)**	(239,659)
Tax payable	**126,861**	40,972

7 Income tax (continued)

(c) Deferred taxation

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

	2001	2000
	Rmb'000	*Rmb'000*
Balance as at 1 January	**29,888**	38,071
Written off in the income statement (note 7(a))	**(37,262)**	(809)
Relating to convertible debentures released from /(recognised) directly in equity (note 22)	**4,659**	(7,374)
Balance as at 31 December	**(2,715)**	29,888

Pursuant to the requirement under the PRC "Accounting Regulations for Business Enterprises", which became effective from 1 January 2001, the water and electricity use rights, which were capitalised as intangible assets with a total carrying value of Rmb112,915,000 as at 31 December 2000 would have to be retrospectively de-recognised in the financial statements prepared under the PRC Accounting Rules and Regulations and the related tax benefits would no longer exist. Under such circumstances, the related deferred tax assets of Rmb37,262,000 as at 31 December 2000 were written off in these financial statements.

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

	2001	2000
	Rmb'000	*Rmb'000*
Intangible assets under PRC Accounting Rules and Regulations	**—**	37,262
Discount on convertible debentures under IAS	**(553)**	(5,686)
Additional borrowing costs capitalised into construction in progress under IAS	**(2,162)**	(1,688)
Net deferred tax (liabilities)/assets	**(2,715)**	29,888

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

(d) Overseas income tax

The Company did not earn income subject to overseas income tax and therefore no provision has been made for overseas income tax.

8 Directors' and supervisors' remuneration and individuals with highest emoluments

Directors' and supervisors' remuneration:

	2001	2000
	Rmb'000	*Rmb'000*
Fees	**83**	83
Salaries and other emoluments	**1,140**	339
Discretionary bonuses	**—**	504
Retirement scheme contributions	**348**	87
	1,571	1,013

Included in the directors' and supervisors' remuneration were fees of Rmb63,000 (2000: Rmb63,000) payable to independent non-executive directors during the year.

The remuneration of the directors and supervisors is within the following band:

		2001	2000
Hong Kong dollars	**Rmb equivalent**	**Number of directors and supervisors**	
0 — HK$1,000,000	0 — Rmb1,060,000	**16**	22

The five highest paid individuals of the Company in 2001 and 2000 were all executive directors whose emoluments are disclosed above.

9 Dividends

(a) Dividends attributable to the year

	2001	2000
	Rmb'000	*Rmb'000*
Final dividends proposed after the balance sheet date of Rmb 8 cents per share (2000: Rmb9 cents per share)	**236,635**	262,615

The final dividends proposed after the balance sheet date has not been recognised as a liability at the relevant balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001	2000
	Rmb'000	*Rmb'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb9 cents per share (2000: nil)	**265,490**	—

In respect of the dividends attributable to the year ended 31 December 2000, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of shares which were issued upon the conversion of convertible debentures before the closing date of the register of members.

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb366,481,000 (2000: Rmb491,395,000) and a weighted average number of shares outstanding during the year of 2,946,646,000 (2000:Rmb2,619,232,000) calculated as follows:

Weighted average number of shares
(In thousands of shares)

	2001	2000
Issued shares at 1 January	**2,917,943**	2,509,000
Effect of conversion of convertible debentures	**28,703**	110,232
Weighted average number of shares at 31 December	**2,946,646**	2,619,232

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb366,481,000 (2000: Rmb491,395,000) and a weighted average number of shares of 2,952,629,000 (2000: 2,654,742,000) after the adjustment with regard to the effects of conversion of remaining convertible debentures as follows:

Weighted average number of shares (diluted)
(In thousands of shares)

	2001	2000
Weighted average number of shares at 31 December	**2,946,646**	2,619,232
Effect of conversion of remaining convertible debentures	**5,983**	35,510
Weighted average number of shares (diluted) at 31 December	**2,952,629**	2,654,742

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

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 1 January 2001	353,913	869,955	3,165,060	206,082	4,595,010
Additions	287	—	—	563	850
Transfer from construction in progress (note 12)	—	7,965	1,060,648	17,783	1,086,396
Disposals	—	—	(102,221)	(4)	(102,225)
At 31 December 2001	354,200	877,920	4,123,487	224,424	5,580,031
Representing:					
Cost	127,400	206,596	2,474,651	52,270	2,860,917
Valuation	226,800	671,324	1,648,836	172,154	2,719,114
	354,200	877,920	4,123,487	224,424	5,580,031
Accumulated depreciation:					
At 1 January 2001	21,302	70,977	723,812	144,977	961,068
Charge for the year	7,126	42,356	269,271	28,322	347,075
Written back on disposal	—	—	(69,315)	(4)	(69,319)
At 31 December 2001	28,428	113,333	923,768	173,295	1,238,824
Net book value:					
At 31 December 2001	325,772	764,587	3,199,719	51,129	4,341,207
At 31 December 2000	332,611	798,978	2,441,248	61,105	3,633,942

11 Property, plant and equipment (continued)

(a) All of the Company's buildings are located in the PRC.

(b) The land use rights of the Company are in respect of land located in the PRC with remaining periods of 45.5 years.

(c) The Company was established in the PRC on 8 May 1997 as a joint stock limited company as part of the restructuring of Anshan Iron & Steel Group Complex ("Angang Holding"). The principal business undertaking of Angang Holding together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 31 December 1996 by an independent valuer registered in the PRC. The injected assets and liabilities were reflected in the financial statements on this basis.

12 Construction in progress

	2001	2000
	Rmb'000	*Rmb'000*
Balance at 1 January	**901,039**	1,182,367
Additions	**1,268,001**	692,597
	2,169,040	1,874,964
Transfer to property, plant and equipment (note 11)	**(1,086,396)**	(973,925)
Balance at 31 December	**1,082,644**	901,039

	2001	2000
	Rmb'000	*Rmb'000*
Upgrade of existing production plants	**984,378**	29,640
Construction of new steel smelting plant	**48,678**	226,650
Combined pickling and continuous rolling line	**49,588**	644,749
Balance at 31 December	**1,082,644**	901,039

13 Inventories

	2001	2000
	Rmb'000	*Rmb'000*
Raw materials	**122,362**	183,287
Work in progress	**91,098**	105,429
Finished goods	**209,464**	138,720
Spare parts, tools and ancillary materials	**481,289**	339,793
	904,213	767,229
Inventories stated at net realisable value	**152,324**	164,852

14 Amounts due from/(to) a fellow subsidiary and the ultimate holding company

		Amount due from/(to) a fellow subsidiary		Amount due from/(to) ultimate holding company	
		2001	2000	**2001**	2000
	Note	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trading balance:					
Export sales	(i)	**(229,506)**	—	**—**	139,998
Advances paid for purchases of raw materials	(ii)	**629,174**	—	**—**	125,721
Fee for other services	(iii)	**—**	—	**(47,977)**	—
		399,668	—	**(47,977)**	265,719
Distribution payable:	(iv)	**—**	—	**(120,000)**	(240,000)
		399,668	—	**(167,977)**	25,719
Classified as:					
Current assets		**399,668**	—	**—**	265,719
Current liabilities		**—**	—	**(167,977)**	(120,000)
Non-current liabilities		**—**	—	**—**	(120,000)
		399,668	—	**(167,977)**	25,719

Pursuant to the supplemental agreement entered with Angang Holding (see note 26) on 14 November 2001, raw materials and certain services previously provided by Angang Holding were provided by Angang New Steel and Iron Company Limited ("ANSI") with effect from 1 January 2001.

(i) The balance at 31 December 2001 represents the advances received from ANSI in respect of export sales, while the balance in 2000 represents receivables from Angang Holding on export sales.

(ii) ANSI operates a cash sales policy for sales of raw materials to their customers. Under this policy, ANSI requests customers to pay in advance prior to delivery of goods. Advances for purchases of raw materials represent prepayment made by the Company at 31 December 2001 under this policy.

(iii) Other services mainly include transportation and product quality control services provided by Angang Holding to the Company.

(iv) According to the agreement entered into with Angang Holding, distribution payable to Angang Holding in connection with the accumulated profits prior to listing of the Company is being reclassified as amount due to ultimate holding company. The distribution payable to the ultimate holding company as at 31 December 2001 are unsecured, interest free and repayable before 31 December 2002.

15 Trade receivables

The Company requests customers to pay cash or bills in full prior to delivery of goods. Subject to negotiation, credit term of three months is only available for certain major customers with well-established trading records.

	2001	2000
	Rmb'000	*Rmb'000*
Debtors	**145,798**	162,158
Bills receivable	**2,423,349**	1,323,298
	2,569,147	1,485,456

The ageing analysis of trade receivables is as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Less than 3 months	**1,617,264**	935,361
More than 3 months but less than 12 months	**951,883**	550,095
	2,569,147	1,485,456

16 Deposits with banks

	2001	2000
	Rmb'000	*Rmb'000*
Deposits with banks	**202,088**	1,112,026
Less: Deposits with banks with an initial term of less than three months (note 17)	**(152,088)**	(454,821)
	50,000	657,205

17 Cash and cash equivalents

	2001	2000
	Rmb'000	*Rmb'000*
Bank balances	**559,141**	1,172,418
Add: Deposits with banks with an initial term of less than three months (note 16)	**152,088**	454,821
Cash and cash equivalents	**711,229**	1,627,239

18 Trade payables

	2001	2000
	Rmb'000	*Rmb'000*
Creditors	**219,882**	243,667
Bills payable	**1,177,592**	718,794
	1,397,474	962,461

The ageing analysis of trade payables is as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Due on demand	**188,514**	194,454
Due within three months	**533,512**	341,803
Due after three months but within six months	**675,448**	426,204
	1,397,474	962,461

19 Convertible debentures

	2001	2000
	Rmb'000	*Rmb'000*
Convertible debentures	**17,529**	133,240

	2001	2000
	Rmb'000	*Rmb'000*
Carrying amount of liability at 1 January	**133,240**	—
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 22)	—	(184,540)
Conversion into A shares (note 21)	**(117,140)**	(1,187,320)
Redemptions of convertible debentures	**(5)**	(15)
Transaction costs amortised	**120**	2,068
Discount on convertible debentures amortised	**1,314**	22,595
Carrying amount of liability at 31 December	**17,529**	133,240

The amount of the convertible debentures initially recognised in equity is net of attributable transaction costs of Rmb2,437,000 (Rmb31,000 at 31 December 2001; Rmb244,000 at 31 December 2000).

19 Convertible debentures (continued)

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 14 September 2000 to 13 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. Since 22 June 2001, the conversion price has been revised to Rmb3.21 per share. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 454,918,327 A shares.

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

The Company may redeem in whole or in part the Debentures from 14 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 14 September 2004 to 13 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 Bank loans

All bank loans are fixed rate Renminbi loans bearing interest ranging from 5.94% to 6.03% per annum. These bank loans are guaranteed by Angang Holding and are repayable after two years but within 5 years on maturity.

21 Share capital

	2001	2000
	Rmb'000	*Rmb'000*
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	**1,319,000**	1,319,000
748,935,149 (2000: 708,943,331) A shares of Rmb1 each	**748,935**	708,943
890,000,000 H shares of Rmb1 each	**890,000**	890,000
	2,957,935	2,917,943

During the year, 39,991,818 (2000: 408,943,331) A shares were issued on the conversion of convertible debentures with total carrying values of Rmb132,472,000 (2000: Rmb1,362,623,000) made up as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Liability component (note 19)	**117,140**	1,187,320
Equity component (note 22)	**14,376**	166,028
Accrued interest forfeited	**956**	9,275
	132,472	1,362,623

The balance of Rmb92,480,000 (2000: Rmb953,680,000) was credited to share premium account.

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

22 Reserves

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Convertible debenture reserve	Hedging reserve	Retained earnings	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
2000							
At 1 January 2000	1,999,939	92,573	92,573	—	—	660,555	2,845,640
Net profit for the year	—	—	—	—	—	491,395	491,395
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 21)	953,680	—	—	(166,028)	—	—	787,652
Deferred tax recognised (note 7(c))	—	—	—	(7,374)	—	—	(7,374)
At 31 December 2000	2,953,619	141,548	141,548	11,138	—	1,054,000	4,301,853
2001							
At 1 January 2001	2,953,619	141,548	141,548	11,138	—	1,054,000	4,301,853
Net profit for the year	—	—	—	—	—	366,481	366,481
Proposed transfers for the year	—	41,032	41,032	—	—	(82,064)	—
Net exchange difference on hedged transactions recognised (note 23)	—	—	—	—	(6,816)	—	(6,816)
Net exchange difference capitalised as the cost of construction in progress (note 23)	—	—	—	—	6,816	—	6,816
Shares issued upon conversion of convertible debentures (note 21)	92,480	—	—	(14,376)	—	—	78,104
Dividend approved in respect of the previous year (note 9)	—	—	—	—	—	(265,490)	(265,490)
Deferred tax released upon conversion of convertible debentures (note 7(c))	—	—	—	4,659	—	—	4,659
At 31 December 2001	3,046,099	182,580	182,580	1,421	—	1,072,927	4,485,607

22 Reserves (continued)

Under the PRC Company Law and the Company's Articles of Association, the Company's net profit after taxation as reported in the financial statements 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).

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred.

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 31 December 2001, the reserve available for distribution was Rmb1,042,838,000 (2000: Rmb986,649,000 (restated)). Final dividend of Rmb236,635,000 (2000: Rmb262,615,000) in respect of the financial year 2001 was proposed after the balance sheet date.

23 Changes in accounting policy

In the current financial year the Company adopted IAS 39 (revised 2000) *Financial Instruments: Recognition and Measurement.* According to IAS 39, retrospective application is not permitted. Please refer to accounting policy 2(s) for the revised accounting policy on the hedging of firm commitments and forecasted transactions.

24 Notes to the cash flow statement

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

	2001	2000
	Rmb'000	*Rmb'000*
Profit from ordinary activities before taxation	**698,824**	754,877
Interest income	**(37,790)**	(40,150)
Interest expenses	**10,455**	—
Depreciation	**347,075**	337,446
Provision of inventories	**—**	21,000
Accrual/(reversal) of bad debt provision	**35**	(660)
Loss on disposal of fixed assets	**30,960**	131
Foreign exchange difference	**(190)**	—
Increase in inventories	**(136,984)**	(233,013)
Increase in bills receivable	**(1,100,051)**	(856,434)
Decrease/(increase) in trade receivables	**16,360**	(76,094)
Increase in prepayments, deposits and other receivables	**(77,742)**	(91,574)
Increase in bills payable	**458,798**	149,359
(Decrease)/increase in trade payables	**(23,785)**	186,615
(Decrease)/increase in other payables	**(187,163)**	354,780
Increase in amount due from a fellow subsidiary	**(399,668)**	—
Decrease in amount due from ultimate holding company	**313,696**	623,606
Cash flows from operations	**(87,170)**	1,129,889

(b) Analysis of changes in financing during the year

	Loan from ultimate holding company	**Bank loans**	**Total**
	Rmb'000	*Rmb'000*	*Rmb'000*
2000			
At 1 January 2000	360,000	—	360,000
Repayment during the year	(120,000)	—	(120,000)
At 31 December 2000	240,000	—	240,000
2001			
At 1 January 2001	240,000	—	240,000
Proceeds of bank loans	—	500,000	500,000
Repayment during the year	(120,000)	(100,000)	(220,000)
At 31 December 2001	120,000	400,000	520,000

25 Capital commitments

The Company had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Authorised and contracted for		
Construction projects of production lines	**949,681**	279,179
Authorised but not contracted for		
Investment in joint venture (note 29)	**248,040**	—
Improvement projects of production lines	**3,484,120**	1,646,313
	4,681,841	1,925,492

26 Related party transactions

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

Angang Holding set up a non-wholly owned subsidiary, ANSI, on 28 December 2000. ANSI consists of 24 plants, which were transferred from Angang Holding. ANSI commenced its operations from 1 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.

(a) Recurring business transactions

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

	Note	**2001**	2000
		Rmb'000	*Rmb'000*
Sales of finished goods	(i)	**808,403**	823,188
Sub- contracting	(ii)	**71,249**	419,813
Return of scrap materials	(iii)	**226,577**	200,020
Purchases of			
— raw materials	(iv)	**6,392,129**	6,855,139
— ancillary materials and spare parts	(v)	**63,739**	—
Utility supplies	(vi)	**272,417**	231,425
Fees paid for welfare and other support services	(vii)	**84,981**	77,664
Technology licence fee	(viii)	**—**	7,506

26 Related party transactions (continued)

(a) Recurring business transactions (continued)

Notes:

(i) The Company sold finished products to ANSI for their own consumption at average prices charged to independent customers for preceding month. Included in the above are sales of pipe billet totalling Rmb647,932,000 (2000: Rmb652,412,000) to ANSI during the year.

(ii) The Company processed molten iron into molten steel on behalf of ANSI. 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 ANSI for production and returned scrap materials to ANSI at average prices charged to independent customers.

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

(v) The Company purchased from ANSI ancillary materials in the form of steel products and spare parts based on the average prices of such materials charged by ANSI to independent customers.

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

(vii) 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.

(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 for the three years ended 31 December 2000.

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 (a) on normal commercial terms; or (b) on terms no less favourable than those available from/to independent third parties; or where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, 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 where there is no such agreement, on terms no less favourable than terms available from/to third parties.

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

26 Related party transactions (continued)

(b) Convertible debentures

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

(c) Bank loans

All bank loans of the Company (note 20) are guaranteed by Angang Holding.

27 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 guidelines of the PRC Government. All the employees of the Company are entitled to receive, on retirement, pension payments from this scheme. The Company has no other material obligation for payment of retirement benefits beyond the contributions which are calculated based on 30.5 % (2000: 25.5%) of the aggregate monthly salaries of all employees of the Company.

28 Financial instruments

Financial assets of the Company include cash, deposits with banks, bills receivable, debtors, other receivables and amounts due from ultimate holding company and a fellow subsidiary. 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 of convertible debentures and bank loans are disclosed in notes 19 and 20 respectively.

(b) Credit risk

Deposits with banks

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

Bills receivable

Bills receivable are all issued by PRC financial institutions.

Trade and other receivables

The Company requests most of its customers to pay cash or bills in full prior to delivery of goods. Over 66% (2000:60%) of the debtors are due from a railway company which generally settles the balances within 3 months.

Amounts due from ultimate holding company and fellow subsidiary

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

28 Financial instruments (continued)

(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 losses arising on translation of the deposits designated for hedging forecasted transactions for the year ended 31 December 2001 amounted to Rmb21,082,000 (2000: losses of Rmb28,142,000).

(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 and ANSI included in amount due from ultimate holding company and fellow subsidiary under current assets are not materially different from their carrying amounts.

Convertible debentures - the fair value is estimated as Rmb22,736,000 (2000: Rmb192,303,000) by reference to the market value.

Due to the related party nature it is not practical to estimate the fair value of the distribution payable to the 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.

29 Post balance sheet event

On 9 January 2002, the Company entered into a joint venture agreement, and a technology transfer agreement with Thyssen Krupp Stahl AG to engage in the production of galvanised steel. The establishment of the joint venture has been approved by the National Planning Commission and the Ministry of Foreign Trade and Economic Cooperation of the PRC. The business licence of the joint venture has been obtained on 8 February 2002. Pursuant to the joint venture agreement, the Company is committed to inject US$30,000,000 to the joint venture as registered capital, of which US$4,500,000 has been injected on 20 March 2002.

30 Ultimate holding company

The Directors consider the ultimate holding company at 31 December 2001 to be Angang Holding, incorporated in the PRC.

Differences between financial statements prepared in accordance with International Accounting Standards ("IAS") and PRC Accounting Rules and Regulations

	Note	**2001**	2000
		Rmb'000	*Rmb'000*
			(restated)
Profit attributable to shareholders under IAS		**366,481**	491,395
Adjustment:			
Deferred tax charge	(i)	**37,262**	809
Profit attributable to shareholders under PRC Accounting Rules and Regulations		**403,743**	492,204
Shareholders' funds under IAS		**7,443,542**	7,219,796
Adjustments:			
Dividends	(ii)	**(236,635)**	(262,615)
Convertible debentures	(iii)		
— Discount on convertible debentures		**(1,676)**	(17,232)
— Additional borrowing costs capitalised		**(6,549)**	(5,115)
Deferred tax liabilities	(iv)	**2,715**	(29,888)
Shareholders' funds under PRC Accounting Rules and Regulations		**7,201,397**	6,904,946

Notes:

(i) Pursuant to the requirement under the PRC "Accounting Regulations for Business Enterprises", which became effective from 1 January 2001, the water and electricity use rights, which were capitalised as intangible assets with a total carrying value of Rmb112,915,000 as at 31 December 2000 would have to be retrospectively de-recognised in the financial statements prepared under the PRC Accounting Rules and Regulations ("PRC financial statements") and the related tax benefits would no longer exist. Under such circumstances, the related deferred tax assets of Rmb37,262,000 as at 31 December 2000 were written off in the IAS financial statements.

(ii) According to IAS 10, dividends should be recognised as a liability in the period in which they are declared or approved. However, in the PRC financial statements, the dividends are recognised in the period to which the dividends relate.

(iii) The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IAS and PRC financial statements.

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

FIVE YEAR SUMMARY

A Prepared in accordance with PRC Accounting Rules and Regulations

	2001	2000	1999	1998	1997
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
		(restated)	*(restated)*	*(restated)*	*(restated)*
Principal operating revenue	**9,490,523**	9,793,150	6,923,142	5,692,330	5,727,146
Net profit	**403,743**	492,204	293,716	126,230	513,153
Total assets	**10,237,888**	9,452,195	6,855,970	6,264,354	6,183,954
Total liabilities	**(3,036,491)**	(2,547,249)	(1,539,401)	(1,241,501)	(1,212,061)
Net assets	**7,201,397**	6,904,946	5,316,569	5,022,853	4,971,893

B Prepared in accordance with International Accounting Standards

	2001	2000	1999	1998	1997
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Turnover	**9,465,247**	9,767,600	6,907,996	5,681,410	5,707,590
Profit attributable to shareholders	**366,481**	491,395	295,421	157,437	512,516
Non-current assets	**5,423,851**	4,564,869	3,884,369	2,896,172	2,779,050
Current assets	**4,820,586**	4,922,329	3,009,672	3,404,548	3,410,064
Current liabilities	**(2,380,651)**	(2,014,162)	(1,299,401)	(806,231)	(651,774)
Net current assets	**2,439,935**	2,908,167	1,710,271	2,598,317	2,758,290
Total assets less current liabilities	**7,863,786**	7,473,036	5,594,640	5,494,489	5,537,340
Non-current liabilities	**(420,244)**	(253,240)	(240,000)	(360,000)	(480,000)
Net assets	**7,443,542**	7,219,796	5,354,640	5,134,489	5,057,340

Notes:

(i) Under the PRC Accounting Rules and Regulations, dividends are recognised as a liability in the period to which they relate. Under IAS, dividends are recognised in the period in which they are declared or approved.

(2) The comparative figures have been adjusted to reflect the retrospective effect of the adoption of PRC "Accounting Regulations for Business Enterprises" on intangible assets.

AUDITORS' REPORT

To the shareholders of Angang New Steel Company Limited ("the Company"):

We accepted the appointment and have audited the Company's balance sheet as of 31 December 2001, the income statement and profit appropriation statement and the cash flow statement for the year then ended. These financial statements are the responsibility of the Company. Our responsibility is to express an audit opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Independent Auditing Standards for Chinese Certified Public Accountants issued by the Ministry of Finance of the People's Republic of China. In the course of our audit, we considered the circumstances of the Company and carried out such audit procedures, including an examination of the accounting records on a test basis, as we deemed necessary.

In our opinion, the above-mentioned financial statements comply with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Company as of 31 December 2001, and the results of operations and cash flows of the Company for the year then ended, and the accounting policies have been consistently applied.

KPMG Peat Marwick Huazhen

Certified Public Accountants
Registered in the People's Republic of China

Zhao Qi

Wu Wei

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China World Tower 2
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No.1, Jian Guo Men Wai Avenue
Beijing, The People's Republic of China
Post Code: 100004

25 March 2002

BALANCE SHEET

At 31 December 2001

(Prepared under PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi)

	Note	**2001**	2000
Current assets			
Cash at banks and in hand	4	**761,229**	2,284,444
Bills receivable	5	**2,423,349**	1,323,298
Trade receivables	6	**145,798**	162,158
Other receivables	7	**175,285**	106,009
Prepayments	8	**407,468**	276,169
Inventories	9	**904,213**	767,229
Deferred expenses	10	**3,244**	3,022
Total current assets		**4,820,586**	4,922,329
Fixed assets			
Fixed assets, at cost or valuation	11	**6,455,191**	5,470,457
Less: Accumulated depreciation	11	**(2,439,756)**	(2,169,126)
Net book value of fixed assets		**4,015,435**	3,301,331
Construction in progress	12	**1,076,095**	895,924
Total fixed assets		**5,091,530**	4,197,255
Intangible assets	13	**325,772**	332,611
Total assets		**10,237,888**	9,452,195

The accompanying notes form an integral part of the financial statements.

Liabilities and shareholders' funds

	Note	**2001**	2000
Current liabilities			
Bills payable	14	**1,177,592**	718,794
Trade payables	15	**267,859**	243,667
Receipts in advance	16	**480,296**	581,308
Accrued payroll	17	**40,733**	23,364
Staff welfare payable		**4,292**	5,087
Dividends payable	18	**236,635**	262,615
Taxes payable	19	**177,812**	144,156
Other payables	20	**107,884**	173,281
Accrued expenses		**4,000**	3,076
Current portion of long-term liabilities	21	**120,000**	120,000
Total current liabilities		**2,617,103**	2,275,348
Long-term liabilities			
Long-term loans	21	**400,000**	120,000
Convertible debentures	22	**19,388**	151,901
Total liabilities		**3,036,491**	2,547,249
Shareholders' funds			
Share capital	23	**2,957,935**	2,917,943
Capital reserve	24	**3,072,099**	2,979,873
Surplus reserve	25	**365,160**	283,096
(including:			
statutory public welfare fund)	25	**182,580**	141,548
Undistributed profits	26	**806,203**	724,034
Total shareholders' funds		**7,201,397**	6,904,946
Total liabilities and shareholders' funds		**10,237,888**	9,452,195

Liu Jie	**Ma Lianyong**
Chairman	*Financial Controller*

Approved by the board of directors on 25 March 2002.

The accompanying notes form an integral part of the financial statements.

INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

For the year ended 31 December 2001

(Prepared under PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi)

	Note	**2001**	2000
Income from principal operations	27	**9,490,523**	9,793,150
Less: Cost of sales		**8,430,929**	8,732,842
Business tax and surcharges	28	**25,276**	25,550
Profit from principal operations		**1,034,318**	1,034,758
Add: Other operating profit	29	**25,431**	23,236
Less: Operating expenses		**158,670**	168,158
Administrative expenses		**194,730**	170,093
Add: Financial income	30	**25,858**	39,678
Operating profit		**732,207**	759,421
Add: Non-operating income		**74**	163
Less: Non-operating expenses		**33,457**	4,707
Total profit		**698,824**	754,877
Less: Income tax expense		**295,081**	262,673
Net profit		**403,743**	492,204
A. Net profit		**403,743**	492,204
Add: Undistributed profits at the beginning of the year		**724,034**	592,395
B. Distributable profits		**1,127,777**	1,084,599
Less: Transfer to statutory surplus reserve fund	25	**41,032**	48,975
Transfer to statutory public welfare fund	25	**41,032**	48,975
C. Profits distributable to shareholders		**1,045,713**	986,649
Less: Transfer to discretionary surplus reserve		**—**	—
Dividends	18	**239,510**	262,615
D. Undistributed profits		**806,203**	724,034

Additional information:

Increase in profits due to the changes in accounting policy	3	**—**	2,455

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2001

(Prepared under PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi)

	Notes to the cash flow statement	2001
Cash flows from operating activities		
Cash received from sales of goods		8,535,322
Sub-total of cash inflows		8,535,322
Cash paid for goods		(7,878,515)
Cash paid to and on behalf of employees		(160,312)
Taxes paid		(301,903)
Cash paid in relation to other operating activities		(490,954)
Sub-total of cash outflows		(8,831,684)
Net cash outflow arising from operating activities	(a)	(296,362)
Cash flows from investing activities		
Maturity of fixed deposits		607,205
Proceeds from disposal of fixed assets, intangible assets and other assets		1,946
Cash from interest received		38,194
Sub-total of cash inflows		647,345
Cash paid for acquisition of fixed assets		(563)
Cash paid for construction in progress, intangible assets and other assets		(1,280,214)
Sub-total of cash outflows		(1,280,777)
Net cash outflow from investing activities		(633,432)
Cash flows from financing activities		
Proceeds from loans		500,000
Sub-total of cash inflows		500,000
Repayments of loans		(220,000)
Cash paid for dividends or interest payment		(266,406)
Sub-total of cash outflows		(486,406)
Net cash inflow from financing activities		13,594
Effect of exchange rate fluctuations on cash held		190
Net decrease in cash and cash equivalents	(c)	(916,010)

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT (SUPPLEMENTARY INFORMATION)

For the year ended 31 December 2001

(Prepared under PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi)

			2001
(a)	Reconciliation of net profit to cash flows from operations:		
	Net profit		**403,743**
	Add:	Bad debt provision	**35**
		Inventories provision	**(4,454)**
		Depreciation of fixed assets	**339,949**
		Loss on disposals of fixed assets	**30,960**
		Amortisation of intangible assets	**7,126**
		Increase in inventories	**(132,530)**
		Financial income	**(27,525)**
		Increase in operating receivables	**(1,247,408)**
		Increase in operating payables	**333,742**
	Net cash flow from operating activities		**(296,362)**
(b)	Non-cash transactions of financing activities:		
	Conversion of debt to capital		**131,261**
(c)	Decrease in cash and cash equivalents:		
	Cash at the end of the year		**559,141**
	Less:	Cash at the beginning of the year	**(1,172,418)**
	Add:	Cash equivalents at the end of the year	**152,088**
	Less:	Cash equivalents at the beginning of the year	**(454,821)**
	Net decrease in cash and cash equivalents		**(916,010)**

The accompanying notes form an integral part of the financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(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 8 May 1997 as part of the restructuring of Anshan Iron & Steel Group Complex ("Angang Holding"). The Company issued H shares on 22 July 1997, and the H shares were listed on The Stock Exchange of Hong Kong Limited on 24 July 1997; the Company also issued A shares on 16 November 1997 and the A shares were listed on the Shenzhen Stock Exchange on 25 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 iron and steel comprehensive production companies in the PRC. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred, the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as its contribution to the Company.

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

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

The Company purchased three converter furnaces from Angang Holding on 1 April 2000 in cash. The new converter furnaces and the self-constructed continuous casting facilities of the Company became the main production 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 financial statements conform with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC.

The effects on the adoption of the PRC Accounting Regulations for Business Enterprises, which became effective from 1 January 2001, to the financial situation and operating results of the Company for the year ended 31 December 2001 are set out in Note 3.

(a) Accounting period

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

(b) Accounting basis and pricing principle

The Company's financial statements have been prepared on an accrual basis, with historical cost method as the pricing principle.

2. Significant accounting policies (continued)

(c) Reporting currency & translation of foreign currencies

The reporting currency of the Company is Renminbi.

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. 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 transactions are dealt with in the income statement, 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.

(d) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into 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.

(e) Bad debt provision

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

(f) Inventories

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

Inventories are stated at the cost of purchase computed using the weighted average method and are carried at the lower of cost and net realisable value at the end of the period. In the case of work in progress and finished goods, direct labour and an appropriate proportion of manufacturing overheads are also included.

Inventory provision is provided at the difference between cost of individual inventory item and its net realisable value. Net realisable value is determined according to the estimated selling price subsequent to the balance sheet date in the ordinary course of business or management's estimation based on the prevailing market conditions.

Low value consumables are charged to the income statement as and when incurred. Packaging materials are charged to the income statement with reference to the actual consumption.

2. Significant accounting policies (continued)

(g) Fixed assets

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

Fixed assets are stated at cost or valuation less accumulated depreciation and impairment (refer accounting policy j).

The cost of an fixed asset comprises its purchase price, import custom, transportation cost, insurance and other relevant expenses, as well as any attributable costs of bringing the asset to working condition for its intended use.

Expenditure incurred on expansion and improvement is capitalised only when it increases the future economic benefits embodied in the relevant fixed assets. All other expenditure is charged to the income statement in the period in which it is incurred.

Gains or losses arising from the disposal of fixed assets 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 disposal.

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:

Buildings and plants	12-42 years
Machinery and equipment	6-21 years
Others	4-15 years

(h) Construction in progress

Construction in progress is stated at cost less impairment (refer accounting policy j). Cost comprises direct cost of construction and purchase cost, as well as the related interest charges and foreign exchange gains and losses incurred during the period of construction, installation and testing.

Plants or machinery equipments are transferred to fixed assets when they have reached the working condition for their intended use.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets and amortisation

Intangible assets are stated at cost or valuation less impairment (refer accounting policy j). Amortisation is provided on a straight-line basis during the beneficial period or the specified useful life of the assets.

2. Significant accounting policies (continued)

(j) Impairment

The carrying amounts of the Company's assets, other than inventories (refer accounting policy f) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows, the recoverable amount is determined for the minimum cash-generating unit to which the asset belongs.

— Reversals of impairment

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

Impairment 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. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(k) Convertible debentures

Convertible debentures are stated at par value. Interest expense is capitalised as the cost of corresponding construction in progress. Upon the completion of the construction in progress, the interest expense is charged directly to financial expenses of the same period.

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

(l) Revenue recognition

Sales revenue is recognised when the goods are delivered, services are rendered, and payments are received or the documents supporting the rights to receive consideration are obtained, which represent the related risks and rewards of the ownership of goods have been transferred to customers.

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the applicable rates.

2. Significant accounting policies (continued)

(m) Related parties

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 other entities.

(n) Accounting treatment for income tax

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

(o) Taxation

The taxes applicable to the Company are value added tax ("VAT"), income tax, city construction and maintenance tax, stamp duty, directional fixed assets investment tax, and vehicle duty, et cetera.

— 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 local education surcharge, which are computed based on 7%, 3% and 1% of net VAT payable, respectively.

— Income tax

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

(p) Repairs and maintenance expenses

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

(q) Research and development costs

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

(r) Retirement benefits

Retirement benefits are charged to the income statement as and when they are incurred. Relevant details are set out in Note 32.

(s) Appropriation of profit

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company makes allocations of 10% of the profit after taxation to the statutory surplus reserve fund and allocation of 5% to 10% of the profit after taxation to the statutory public welfare fund.

The appropriation to discretionary surplus reserve is subject to shareholders' approval.

2. Significant accounting policies (continued)

(t) Finance expenses

Finance expenses on loans specially for the purchase or construction of fixed assets, which are incurred before the relevant asset is ready for its intended use, are charged to the cost of the fixed asset when they are incurred. Finance charges which are incurred after the relevant asset is ready for its intended use are charged directly to finance expenses.

3. Changes in accounting policy

When the Company was established on 8 May 1997, Angang Holding transferred to the Company water and electricity use rights of an original value of Rmb122,733,000. Amortisation of the above rights is provided on a straight line basis over the use period of 50 years. As at 31 December 2000, the carrying value of the water and electricity use rights was Rmb112,915,000. Management have conducted a review on whether the aforesaid water and electricity use rights may continue to be treated as intangible assets under "Intangible Assets" of the Accounting Regulations for Business Enterprises which became effective on 1 January 2001 and determined that it should not be treated as intangible asset. Retrospective adjustments have been made accordingly.

The effects of the changes in accounting policy during 2000 and 2001 are as follows:

	31 December 2001 ***Rmb'000***	31 December 2000 *Rmb'000*
Undistributed profits at the beginning of the period		
Balance as previously reported	**714,216**	585,032
Adjustment on the amortisation of water and electricity use rights	**9,818**	7,363
Balance after retrospective adjustments	**724,034**	592,395

	31 December 2001 ***Rmb'000***	31 December 2000 *Rmb'000*
Capital reserve		
Balance at the beginning of the period as previously reported	**3,102,606**	2,152,761
Written off of water and electricity use rights	**(122,733)**	(122,733)
Balance after retrospective adjustments	**2,979,873**	2,030,028

3. Changes in accounting policy (continued)

	2001	2000
	Rmb'000	*Rmb'000*
Profit for the year		
Balance as previously reported	**403,743**	489,749
Adjustment on the amortisation of water and electricity use rights	**—**	2,455
Balance after retrospective adjustments	**403,743**	492,204

4. Cash at banks and in hand

	Original currency '000	**Exchange rates**	**31 December 2001 equivalent to Rmb'000**	31 December 2000 equivalent to Rmb'000
Cash in hand				
Renminbi			**4**	3
Cash at banks				
Renminbi			**197,453**	1,664,075
Hong Kong Dollar	**190,078**	**1.06**	**201,597**	288,628
US Dollar	**302**	**8.28**	**2,500**	10,805
Deutsche Marks	**22**	**3.75**	**82**	172,573
Euro	**47,151**	**7.33**	**345,428**	134,203
Pounds Sterling	**1,180**	**12.00**	**14,165**	14,157
			761,229	2,284,444

The balance of the cash at banks and in hand of the Company as at 31 December 2001 has decreased by Rmb1,523,215,000 as compared with the end of the previous year. The amount decreased is mainly utilised for construction in progress.

5. Bills receivable

As at 31 December 2001, the Company has outstanding bills receivable of Rmb2,423,349,000 issued by banks. All bills receivable are not secured or discounted.

Due to the increasing use of bills by customers for settlement of accounts, there is a significant increase in the balance of bills receivable of the Company as compared with last year.

Among the balance of bills receivable, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

6. Trade receivables

	31 December 2001 *Rmb'000*	**Percentage**	31 December 2000 *Rmb'000*	Percentage
Within one year	**145,798**	**100%**	162,158	100%
Less: Bad debt provision	**—**		—	
	145,798		162,158	

The management of the Company considers that no provision for bad debt in respect of trade receivables as at 31 December 2001 is necessary as all of these amounts are due within one year and it is expected that the amounts can be fully recovered.

As at 31 December 2001, the trade receivables of the Company were as follows:

Name of the debtor	Amount *Rmb'000*	Period	Nature
China Railway Materials Shenyang Co.	97,564	2001	Sales of goods
China Railway Construction (Shenyang) Corporation Northeast Office	16,992	2001	Sales of goods
Shanghai Magnetically Levitated Transportation Development Co. Ltd.	31,242	2001	Sales of goods
	145,798		

Among the balance of trade receivables, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

7. Other receivables

	31 December 2001 *Rmb'000*	**Percentage**	31 December 2000 *Rmb'000*	Percentage
Within one year	**173,498**	**99%**	102,918	97%
Between one and two years	**1,674**	**1%**	2,169	2%
Between two and three years	**113**	**—**	922	1%
Over three years	**56**	**—**	21	—
	175,341	**100%**	106,030	100%
Less: Bad debt provision				
Over three years	**(56)**		(21)	
Other receivables, net	**175,285**		106,009	

Bad debt provision of Rmb56,000 has been provided for other receivables. Management considers that most of the other receivables can be recovered in the near future, and debtors have the ability to repay the debts. Hence, the level of bad debt provision is less than 5%.

7. Other receivables (continued)

As at 31 December 2001, the five largest debtors were as follows:

Name of the debtor	**Amount** *Rmb'000*	**Period**	**Nature**
ANSC-TKG Galvanizing Co. Ltd.	86,980	2001	Equipment cost refund
Anshan State Tax Bureau	74,686	2001	Export tax refund
China Railway Materials Shenyang Co.	2,361	2001	Reimbursement of freight
China Life Insurance Co. (Anshan Branch)	1,061	2001	Insurance premium refund
The Industry and Commercial Bank of China	952	2001	Interest on time deposit

The significant increase in other receivables as compared with 2000 is mainly due to the payment of Rmb86,980,000 made in respect of the establishment of ANSC-TKG Galvanizing Co. Ltd..

Among the balance of other receivables, no balance is due from a shareholder who holds more than 5% (including 5%) of the Company's shares.

8. Prepayments

	Note	**31 December 2001** ***Rmb'000***	31 December 2000 *Rmb'000*
Spare parts		**7,800**	10,450
Amount due from and prepaid to Angang Holding	(i)	**—**	265,719
Amount due from and prepaid to Angang New Steel and Iron Company Limited ("ANSI")	(i), (ii)	**399,668**	—
		407,468	276,169

i. Angang Holding and ANSI, the major suppliers of raw materials to the Company, operate a cash sales policy for sales of raw materials and ancillary materials to its customers.

ii. The amounts due from and prepaid to Angang Holding and ANSI are aged less than one year.

8. Prepayments (continued)

The ageing analysis of the prepayments for spare parts is as follows:

	31 December 2001 *Rmb'000*	**Percentage**	31 December 2000 *Rmb'000*	Percentage
Within one year	**7,372**	**95%**	9,435	90%
Between one and two years	**410**	**5%**	249	3%
Between two and three years	**18**	**—**	—	—
Over three years	**—**	**—**	766	7%
	7,800	**100%**	10,450	100%

Prepayments for spare parts aged over one year are mainly due to long implementation period of certain spare parts purchasing contracts and therefore the final payment of the contract has not been made.

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

9. Inventories

	31 December 2001 *Rmb'000*	**Percentage**	31 December 2000 *Rmb'000*	Percentage
Raw materials	**122,362**	**13%**	183,287	22%
Work in progress	**91,098**	**9%**	105,429	12%
Finished goods	**209,464**	**21%**	138,720	16%
Spare parts	**554,755**	**57%**	417,713	50%
	977,679	**100%**	845,149	100%
Less: Provision for diminution in value of inventories				
Spare parts	**(73,466)**		(77,920)	
	904,213		767,229	

Net realisable value of the spare parts which impairment had been made amounts to Rmb152,324,000. 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.

10. Deferred expenses

	1 January 2001 *Rmb'000*	Additions *Rmb'000*	Amortisation *Rmb'000*	**31 December 2001** ***Rmb'000***
Heating expenses	3,022	3,729	(3,507)	**3,244**
Real estate tax	—	7,047	(7,047)	**—**
	3,022	10,776	(10,554)	**3,244**

Heating expenses are amortised equally over each month of the beneficial period from November 2001 to March 2002.

11. Fixed Assets

	Building and plants *Rmb'000*	**Machinery and equipment** *Rmb'000*	**Others** *Rmb'000*	**Total** *Rmb'000*
Cost or valuation:				
At 1 January 2001	1,251,427	3,841,539	377,491	5,470,457
Additions	—	—	563	563
Transferred from construction in progress (Note 12)	111,916	956,697	17,783	1,086,396
Disposals	(642)	(101,579)	(4)	(102,225)
31 December 2001	1,362,701	4,696,657	395,833	6,455,191
Accumulated depreciation:				
At 1 January 2001	437,787	1,414,953	316,386	2,169,126
Charge for the year	47,543	264,085	28,321	339,949
Written back on disposal	(371)	(68,944)	(4)	(69,319)
31 December 2001	484,959	1,610,094	344,703	2,439,756
Net book value:				
31 December 2001	877,742	3,086,563	51,130	4,015,435
31 December 2000	813,640	2,426,586	61,105	3,301,331

12. Construction in progress

Construction in progress includes expenses incurred for buildings, plants, machineries and equipments which have not yet put into operation.

As at 31 December 2001, projects which were still under construction were as follows:

Project	Budget	1 January 2001	Additions	Transferred to fixed assets	**31 December 2001**	Source of fund	Project progress
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000 (Note 11)*	***Rmb'000***		
Upgrade of new steel smelting plant	2,400,000	226,650	45,541	(223,513)	**48,678**	Equity finance	96%
Combined pickling and continuous rolling line	700,000	639,634	5,800	(602,395)	**43,039**	Equity finance	93%
Upgrade of the cold rolling plant	1,950,000	—	641,175	(32,960)	**608,215**	Equity finance	31%
Technology renovation	162,038	16,973	112,658	(27,036)	**102,595**	Operating fund and bank loans	80%
Equipment transformation	32,800	12,667	13,521	(14,051)	**12,137**	Operating fund	80%
Upgrade of large section plant	689,000	—	382,181	(186,441)	**195,740**	Operating fund	55%
Upgrade of thick plate plant and main power supply unit	200,000	—	65,691	—	**65,691**	Operating fund	33%
		895,924	1,266,567	(1,086,396)	**1,076,095**		

As at 31 December 2001, the balance in respect of the upgrade of the Cold Rolling Plant and technology renovation included capitalised borrowing costs of Rmb691,000 and Rmb10,048,000 respectively. Construction in progress were capitalised at a rate of 4.88% during the year.

13. Intangible assets

Type	Cost or valuation	1 January 2001	Additions	Amortisation	**31 December 2001**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	***Rmb'000***
Land use rights	354,200	332,611	287	(7,126)	**325,772**
Water and electricity use rights (Note)	122,733	—	—	—	**—**
	476,933	332,611	287	(7,126)	**325,772**

Land use rights include contribution of Rmb226,800,000 made by Angang Holding and the amount of Rmb127,400,000 acquired by the Company. Land use rights are amortised over a remaining period of 45.5 years.

Note: Retrospective adjustments of water and electricity use rights are set out in Note 3.

14. Bills payable

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Bills payable	**1,177,592**	718,794

The Company has used bills to settle part of its trade payables. As at 31 December 2001, the Company had outstanding bills payable of Rmb1,177,592,000 issued by banks.

Among the balance of bills payable, no balance is due to a shareholder who holds more than 5% (including 5%) of the Company's shares.

15. Trade payables

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Trade payables	**267,859**	243,667

Trade payables of the Company include Rmb47,977,000 payable to Angang Holding in respect of the staff welfare facilities and the other services provided by Angang Holding to the Company.

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

16. Receipts in advance

Among the balance of receipts in advance, no balance is due to a shareholder who holds more than 5% (including 5%) of the Company's shares.

As at 31 December 2001, all the receipts in advance of the Company were aged within one year.

17. Accrued payroll

Accrued payroll of the Company mainly comprises the basic salary as well as the performance-based remuneration of the staff.

18. Dividends payable

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Proposed dividends of Rmb 8 cents per share (Rmb 9 cents per share for 2000)	**236,635**	262,615

19. Taxes payable

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
VAT	**48,298**	94,860
Income tax	**126,861**	40,972
City construction and maintenance tax	**2,652**	4,074
Deed tax	**—**	4,248
Others	**1**	2
	177,812	144,156

20. Other payables

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Other payables	**107,884**	173,281

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

21. Loans

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Long-term loans		
Long-term bank loans	**400,000**	—
Appropriation to Angang Holding	**120,000**	240,000
Less: Long-term liabilities due within one year	**120,000**	120,000
	400,000	120,000

As at 31 December 1996, the appropriation to Angang Holding amounted to Rmb600,000,000. 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 Rmb120,000,000 commencing from 1 January 1998. This long-term loan is interest free.

As at 31 December 2001, the Company obtained loans of Rmb300,000,000 and Rmb100,000,000 from the Industry and Commercial Bank of China and the Bank of China respectively. These bank loans bear an interest of 5.94% and 6.03% per annum respectively and are repayable within 5 years. They are mainly used for the technology renovation project and are guaranteed by Angang Holding.

22. Convertible debentures

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Payable on A share convertible debentures	**19,388**	151,901

On 15 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 14 March 2000 and the Debentures will be matured on 13 March 2005. The Debentures can be convertible from 14 September 2000 to 13 March 2005. By 31 December 2001, 448,935,000 A shares were issued on the conversion of convertible debentures with a carrying amount of Rmb1,480,794,000 and accrued interest expenses of Rmb10,232,000, increasing capital surplus by Rmb1,042,071,000.

23. Share capital

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Unlisted shares		
1,319,000,000 State-owned legal person shares	**1,319,000**	1,319,000
Listed shares		
Renminbi ordinary shares ("A share")		
708,943,331 shares issued as at 1 January (2000: 300,000,000 shares)	**708,943**	300,000
Additional issue of 39,991,818 shares upon the conversion of convertible debentures (2000: 408,943,000 shares)	**39,992**	408,943
Issued as at 31 December 748,935,149 shares (2000: 708,943,331 shares)	**748,935**	708,943
Overseas-listed foreign invested shares 890,000,000 shares	**890,000**	890,000
	1,638,935	1,598,943
	2,957,935	2,917,943

As at 31 December 2001, 448,935,149 A shares were issued upon the conversion of convertible debentures. The Company will apply for registration concerning the relevant change in share capital.

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

24. Capital reserve

	1 January 2001 *Rmb'000*	Increase *Rmb'000*	**31 December 2001** ***Rmb'000***
Net asset conversion	709,817	—	**709,817**
Intangible assets			
— Written off of water and electricity use rights (Note)	(122,733)	—	**(122,733)**
Proceeds from the issuance of H shares, net of expenses	594,722	—	**594,722**
Proceeds from the issuance of A shares, net of expenses	848,222	—	**848,222**
Conversion of A share convertible debentures	949,845	92,226	**1,042,071**
	2,979,873	92,226	**3,072,099**

Note: Retrospective adjustments of water and electricity use rights are set out in Note 3.

25. Surplus reserve

	1 January 2001 *Rmb'000*	Increase *Rmb'000*	**31 December 2001** ***Rmb'000***
Statutory surplus reserve fund	141,548	41,032	**182,580**
Statutory public welfare fund	141,548	41,032	**182,580**
	283,096	82,064	**365,160**

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% of the Company's net profit after taxation is allocated to the statutory public welfare fund.

26. Undistributed profits

	31 December 2001	31 December 2000
	Rmb'000	*Rmb'000*
Balance of undistributed profits at the beginning of the year (Note)	**724,034**	592,395
Add: Profit for the year	**403,743**	492,204
Less: Transfer to surplus reserves	**(82,064)**	(97,950)
Dividends	**(236,635)**	(262,615)
Balance of dividends in respect of the year 2000	**(2,875)**	—
Undistributed profits at the end of the year	**806,203**	724,034

Note: Details on the restatement of undistributed profit at the beginning of the year are set out in Note 3.

Proposed dividends in respect of the financial year 2000 and the actual amount of dividends paid are Rmb262,615,000 and Rmb265,490,000 respectively.

Additional dividends in respect of the financial year 2000 are distributed to the holders of A shares which were issued upon the conversion of convertible debentures before the closing date of the register of members.

27. Income from principal operations

	2001	2000
	Rmb'000	*Rmb'000*
Wire rods	**1,690,819**	1,753,228
Thick plates	**2,426,689**	1,891,045
Cold rolled sheets	**3,086,572**	3,432,080
Large section steel products	**2,168,317**	2,174,803
Steel billets	**118,126**	541,994
	9,490,523	9,793,150

The total sales of the Company to the five largest customers amounted to Rmb3,360,000,000 representing 35% of the total sales income of the Company.

28. Business tax and surcharges

	2001	2000
	Rmb'000	*Rmb'000*
City construction and maintenance tax	**16,085**	16,259
Education surcharge	**9,191**	9,291
	25,276	25,550

29. Other operating profit

	2001	2000
	Rmb'000	*Rmb'000*
Packaging material profits	**7,214**	6,604
Income from sales of scrap materials	**18,213**	16,205
Others	**4**	427
	25,431	23,236

30. Financial income

	2001	2000
	Rmb'000	*Rmb'000*
Interest and finance charges	**(21,701)**	(30,252)
Less: interest capitalised as construction in progress	**11,246**	30,252
Net interest expenses	**(10,455)**	—
Net exchange difference	**(20,892)**	(28,142)
Less: exchange loss capitalised as construction in progress	**21,082**	28,142
Net exchange gain	**190**	—
Interest income	**37,790**	40,150
Bank charges	**(1,667)**	(472)
	25,858	39,678

The decrease in the financial income in respect of the financial year 2001 is mainly due to the utilisation of funds on various projects which result in a decrease in the amount of time deposits and the related interest income.

31. Related party transactions

Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relation with the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan, Liaoning Province	Production and sales of steel and metal products, steel filament tubes, and metal structures	Holding company	State-owned	Liu Jie

The registered paid-in capital of Angang Holding as at 31 December 2001 was Rmb10,794,160,000. It held 44.59% of the total share capital of the Company. There is no change in the registered capital of Angang Holding during the year. The changes in percentage of shares held by Angang Holding are detailed in Note 23 "Share Capital".

Related party without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary of Angang Holding

On 28 December 2000, Angang Holding, together with China Huarong Assets Management Company Limited and China Xinda Assets Management Company, set up a subsidiary, ANSI. ANSI consists of 24 plants, which were transferred from Angang Holding. ANSI commenced its operation on 1 January 2001. All the raw materials and utilities services, except the staff welfare service, other services and technology licence service, are now provided by ANSI instead of Angang Holding. The Company now sells its finished products to ANSI instead of to Angang Holding.

Angang Holding and the Company signed a Supplemental Supply of Materials and Services Agreement ("the Supplemental Agreement") on 14 November 2001 to revise certain terms as stipulated in the Supply of Materials and Services Agreement ("the Existing Agreement"), signed on 8 May 1997 and revised on 20 March 1999 by Angang Holding and the Company. Pursuant to the Supplemental Agreement, raw materials, fuel and utilities previously provided by Angang Holding are now provided by ANSI, and finished goods sold previously to Angang Holding are now sold to ANSI. There are no major differences on the pricing policies of the related products and services between that as stipulated in the Supplemental Agreement and that of the original agreement. The Supplemental Agreement became effective from 1 January 2001.

31. Related party transactions (continued)

Related party transactions with Angang Holding and ANSI:

	2001	2000
	Rmb'000	*Rmb'000*
Sales (excluding business tax and surcharges)	**808,403**	823,188
Subcontracting fee (excluding business tax and surcharges)	**71,249**	419,813
Sales of scrap materials (excluding business tax and surcharges)	**226,577**	200,020
Purchase		
— Raw materials	**6,392,129**	6,855,139
— Ancillary materials and spare parts	**63,739**	—
Supply of fuel and power	**272,417**	231,425
Staff welfare and other services	**84,981**	77,664
Technology transfer	**—**	7,506

— Sales

The Company sold steel products to ANSI. The selling prices were not lower than the average prices charged to independent customers for the preceding month.

— Subcontract

The Company processed molten iron into molten steel on behalf of ANSI. 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 sold scrap materials to ANSI at average prices charged to independent customers by the Company.

— Purchase of raw materials

The Company purchased its principal raw materials from ANSI, at prices no higher than the lowest sales prices of the preceding month charged by ANSI to independent customers and the average sales prices quoted to the Company by five independent suppliers for large quantities.

— Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from ANSI, the price of which were based on the average prices of such materials charged by ANSI to independent customers.

31. Related party transactions (continued)

— Supply of fuel and utilities

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

— Staff welfare and other services

Angang Holding provides staff welfare and other services to the Company, which include: railway and road transportation services; agency services for the purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul services; design and engineering services, product quality testing and analysis; heating supply for employees' accommodation; newspaper, telephone, fax and other media communication services and staff training. These services are charged either at the applicable State prices, market prices or at cost by Angang Holding.

— Technology licence fee

The Company entered into a technology licence agreement with Angang Holding in 1997 under which Angang Holding licensed patents relating to the production of products to the Company in return for an annual licence fee. No technology licence fee was incurred during the current year as the agreement was expired in 2000.

— Amounts due from or prepaid to Angang Holding and ANSI

Details regarding the amounts due from or prepaid to Angang Holding and ANSI are set out in Note 8 and Note 15 respectively.

— Loan from Angang Holding

As at 31 December 2001, the outstanding loan from Angang Holding amounted to Rmb120,000,000. Relevant details are set out in Note 21.

— Guarantee of debentures

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

— Guarantee of loans

As at 31 December 2001, total amount of loans obtained by the Company from The Industry and Commercial Bank of China and the Bank of China amounted to Rmb400,000,000. These bank loans are guaranteed by Angang Holding.

32. Retirement benefits and other staff benefits

According to the decision of the working conference of Liaoning Provincial Government on 17 August 2000, with effect from 1 January 2001, the required contribution from the Company to the retirement benefits scheme has been increased from 25.5% to 30.5% of the aggregate monthly salaries of all employee of the Company.

33. Capital commitments

Capital commitments of the Company as at 31 December 2001 were as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Contracted but not provided for		
Purchase of fixed assets and amount used for construction in progress	**949,681**	279,179
Authorised but not contracted for		
Investment in joint venture (Note)	**248,040**	—
Improvement projects of production lines	**3,484,120**	1,646,313
	4,681,841	1,925,492

Note: details are set out in Note 35.

34. Contingent liabilities

The Company did not have any contingent liabilities as at 31 December 2001.

35. Post balance sheet event

On 9 January 2002, the Company entered into a joint venture agreement, articles of association of the joint venture and a technology transfer agreement with Thyssen Krupp Stahl AG to engage in the production of galvanised steel. Pursuant to the joint venture agreement, the Company is committed to inject US$30,000,000 to the joint venture as registered capital. The establishment of the joint venture has been approved by the Ministry of Foreign Trade and Economic Cooperation of the PRC. The business registration of the joint venture was completed on 8 February 2002.

Pursuant to the joint venture agreement, the Company injected US$4,500,000 (equivalent to Rmb37,248,000) to the joint venture as initial registered capital on 20 March 2002.