

REPORT OF THE DIRECTORS

The Board of Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31st December 2002 to the shareholders.

Shareholders' Meeting

During the year, the Company had strictly complied with the relevant laws, regulations and the requirements of the Articles of Association of the Company. An annual general meeting and two extraordinary general meetings were held, the details of which are as follows:

1. On 3rd June 2002, the 2001 Annual General Meeting of the Company was held. The meeting was presided by Mr. Tang Min Wei, Chairman. The Annual Report for 2001 and the profit distribution proposal of the Company were considered and approved at the meeting.
2. On 12th July 2002, the first extraordinary general meeting of the Company in 2002 was held. The resignation of Mr. Chiu Chi Cheong, Clifton as Independent Non-executive Director and Chairman of the Audit Committee of the Company was approved, and Mr. Wang Xiang Fei was elected as Independent Non-executive Director of the Company at the meeting.
3. On 3rd December 2002, the second extraordinary general meeting of the Company in 2002 was held (please refer to the section headed "Asset Reorganization" on page 25 of the Annual Report for details).

Board of Directors' Meeting

In accordance with the provisions of the Articles of Association of the Company, the current Board of Directors consists of five executive directors and two independent non-executive directors. All members of the Board of Directors had diligently carried out their duties in accordance with laws and implemented the resolutions passed at shareholders' meeting in a proactive manner.

During the year, the Board of Directors had convened three meetings:

1. On 9th April 2002, the fifth meeting of the second Board of Directors of the Company was held at which the annual report, the results announcement, the audited accounts, the auditors' report, the profit distribution proposal for 2001 and the resolutions to be proposed at the annual general meeting were considered and approved.
2. On 12th July 2002, the sixth meeting of the second Board of Directors of the Company was held at which Mr. Wang Xiang Fei, a newly appointed Independent Non-executive Director, was appointed as Chairman of the Audit Committee.
3. On 22nd August 2002, the seventh meeting of the second Board of Directors of the Company was held at which the Company's 2002 interim results and interim report were considered and approved.

Audit Committee

The Audit Committee was set up on 19th April 2000 consisting of two independent non-executive directors. Two audit committee meetings were held during the year:

1. On 8th April 2002, the third meeting of the first audit committee was held at which various matters, including the Company's 2001 annual report, internal control report, connected transactions for 2001 and the assessment of the auditors' work for 2001 were considered and approved.
2. On 21st August 2002, the fourth meeting of the first audit committee was held at which various matters, including the Company's 2002 interim accounts, interim report and connected transactions were considered and approved.

REPORT OF THE DIRECTORS (CONTINUED)

Principal Business

The principal business of the Company is the manufacture and sale of steel products such as medium-gauge steel plates, steel sections and wire rods. As over 90% of the turnover and operating profits of the Group are derived from the business of steel products and its by-products, no segment information for businesses is presented.

All the Group's sales and operations were carried out in the PRC, therefore, no geographical segment information is presented.

Results and Appropriations

Results and appropriations of the Group for the year ended 31 December 2002 prepared in accordance with the accounting principles generally accepted in Hong Kong are set out in the consolidated profit and loss account on page 45 of the Annual Report.

The Company has not declared any interim dividends for 2002.

In 2002, in view of the difficult market conditions and such unfavourable factors as the shortened operation period due to the overhaul to its major production equipment, the Group had adjusted its strategies on a timely basis and reinforced its sales force in an endeavouring attempt to reduce consumption and production cost and fully utilize the productivity of its facilities. As a result, production volume had increased, efficiency was improved and product quality was enhanced through exploring potential resources. Besides, the Group had actively developed products with high added-value. The operating results continued to maintain growth trend. Profit for the year amounted to Rmb286,062,000. Accordingly, the Board of Directors of the Company has proposed a final dividend of Rmb0.08 per share, totalling Rmb85,116,000, for 2002.

Financial Summary

A summary of the results and the assets and liabilities of the Group for the past five years are set out on page 8 of the Annual Report.

Share Capital and Shareholders

The structure of the Company's share capital as at 31st December 2002 was as follows:

Share type	Number of shares with par value of Rmb1 each <i>(in thousand shares)</i>	Percentage to the Company's total issued share capital <i>(%)</i>
Unlisted State-owned shares	650,000	61.09
H shares listed in Hong Kong	413,944	38.91
Total	1,063,944	100.00

During the year, the Company did not issue any equity securities and there were no changes in the share capital structure.

REPORT OF THE DIRECTORS (CONTINUED)

H Share Information:

Details of the issue of the Company's H shares listed in Hong Kong since the establishment of the Company on 12th August 1997 are as follows:

Pursuant to initial public offering:

Date of Issue:	15th October 1997
Place of listing:	Hong Kong
Issue price:	HK\$1.71
Number of shares issued:	410,000,000 shares
Date of listing:	17th October 1997

Pursuant to over-allotment option

Date of Issue:	6th November 1997
Place of listing:	Hong Kong
Issue price:	HK\$1.71
Number of shares issued:	3,944,000 shares
Date of listing:	10th November 1997

Number of H shares approved for listing: 413,944,000 shares

During the year:	
Highest trading price	HK\$1.29 per share
Lowest trading price	HK\$0.62 per share
Closing price on the last trading day	HK\$0.83 per share
Total transaction volume	1,448,266,900 shares

Number of shareholders

At 31st December 2002, the Company's total number of shareholders was 513, which included one shareholder of State-owned shares and 512 shareholders of H shares.

Top five shareholders

At 31st December 2002, the register of substantial shareholders maintained under Section 16(1) of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") showed that the Company had been notified of the following interests in the Company's issued share capital:

Name of shareholder	Class of shares held	Number of shares held <i>(in thousand shares)</i>	Percentage to total issued share capital <i>(%)</i>
Chongqing Iron & Steel Company (Group) Limited	State-owned share	650,000	61.09
HKSCC Nominees Limited	H share	402,966	37.87
Hiladara Investment Limited	H share	5,498	0.52
HSBC Nominees (Hong Kong) Limited	H share	410	0.0039
Wong Wan Yui	H share	300	0.0028

REPORT OF THE DIRECTORS (CONTINUED)

Purchase, Sale or Redemption of the Company's Securities

As at 31st December 2002, the Company has not redeemed any of its issued securities, neither the Company nor its subsidiary has purchased, or sold any of the Company's securities.

Pre-emptive Rights

There is no provision for pre-emptive rights under PRC Laws and the Company's Articles of Association.

Use of Proceeds from the New Issue

The proceeds raised from the insurance of H shares of the Company in 1997 have been fully utilised at the end of 31st December 2000.

Directors and Supervisors

Directors and supervisors of the Company who held offices during the year ended 31st December 2002 are as follows:

Directors:

Executive Directors

Mr. Tang Min Wei	<i>Chairman</i>
Mr. Chen Shan	
Mr. Pan Xiang Yu	
Mr. Dong Rong Hua	
Ms. Zeng Chao Bi	

Independent Non-executive Directors

Mr. Chiu Chi Cheong, Clifton	(resigned on 12th July 2002)
Mr. Wang Xiang Fei	(appointed on 12th July 2002)
Mr. Wu Zhong Fu	

Supervisors:

Mr. Zhu Jian Pai	<i>Chairman of the Supervisory Committee</i>
Ms. Liu Xiu Ying	
Mr. Huang You He	
Mr. Su Quan Lin	
Ms. Yuan Xue Bin	

Pursuant to Articles 93 and 121 of the Articles of Association of the Company, the term of directors and supervisors shall be three years commencing from the date of appointment or re-appointment, and may be re-appointed to serve consecutive terms.

REPORT OF THE DIRECTORS (CONTINUED)

Change of Directors, Supervisors and Senior Management

On 12th July 2002, Mr. Chiu Chi Cheong, Clifton resigned as Independent Non-executive Director of the Company and Chairman of the Audit Committee of the Company. On the same date, Mr. Wang Xiang Fei was elected as Independent Non-executive Director of the Company at the first extraordinary general meeting in 2002. Mr. Wang Xiang Fei was elected as Chairman of the Audit Committee at the sixth meeting of the second Board of Directors of the Company.

Directors' and Supervisors' Service Contracts

Except for Ms. Yuan Xue Bin, who has entered into a three-year service contract with the Company which will expire on 8th June 2004, all other directors and supervisors of the Company have entered into service contracts with the Company which will expire on 11th August 2003. Either parties may terminate the service contract by serving three months notice.

Directors' and Supervisors' Interests

At 31st December 2002, the interests of the directors and supervisors in the shares of Hengda, as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

Name	Number of shares held under personal interests
Pan Xiang Yu	1,600
Chen Shan	800
Yuan Xue Bing	800

Save as disclosed above, none of the directors, supervisors or their associates had any interest in the shares of the Company or its associated corporations at 31st December 2002.

For the year ended 31st December 2002, none of the directors or supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

No contracts of significance in relation to the Company's business to which the Company, its subsidiary, its fellow subsidiaries or its holding company was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted during the year 2002.

At no time during the year 2002 was the Company, its subsidiary, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS (CONTINUED)

Material Contracts with the Holding Company

1. Service and supply agreement

Under the service and supply agreement dated 29th September 1997, the Holding Company has agreed to supply or to procure its subsidiaries (the Holding Company and its subsidiaries excluding the Group are hereinafter collectively referred to as the “Holding Company Group”) to supply certain equipment and materials and to provide certain welfare and support services to the Group; and the Company has agreed to supply or to procure its subsidiary to supply certain materials and to provide certain services including the supply of water, electricity and gas to the Holding Company Group. The agreement is effective from 29th September 1997 for a term of 10 years. The consideration payable for these services is based, if applicable, on market prices or government-regulated prices, as provided for in the agreement.

2. Land leasing agreements

Under the lease agreements dated 14th August 1997 and 13th August 1997, each as amended by a supplementary agreement dated 29th September 1997, the Company and Hengda lease land on which the Group's plants are located from the Holding Company for a term of 50 years from 14th August 1997 and 13th August 1997 respectively. For the years 1998 to 2000, the total rental is Rmb11,994,000 per annum. Thereafter, the rent will be adjusted not more than once every three years by agreement between the Group and the Holding Company subject to a maximum increment of 10% of the latest applicable rental amount.

On 12th January 2001, the Company and Hengda respectively entered into supplementary agreements with the Holding Company in respect of the adjustment on the rental for the lease of land. The rental for the lease of land by the Group from the Holding Company was increased at a 10% increment based on the latest applicable rental amount. The annual rental amount paid by the Group will be approximately Rmb13,200,000 for the years 2001 to 2003.

On 8th December 2002, the Company and the Holding Company entered into the Lease Agreement to rent the land with an area of 216,430 square metres, which is currently occupied by Henda, for a term of 45 years. The rental is Rmb1,028,475 per annum and such rental may be adjusted after 1st January 2004 and for at least every three years after the last rental adjustment. Any adjustment made shall not exceed 10% of the then rental payable by the Company. Waiver from strict compliance with the disclosure requirements of the Listing Rules has been granted by the Stock Exchange in respect of the lease agreement, and the Company made an announcement on newspapers in Hong Kong on 12th December 2002.

REPORT OF THE DIRECTORS (CONTINUED)

Connected Transactions

1. Details of the related party transactions entered into by the Group during the year ended 31st December 2002 are set out in note 27 to the Accounts on pages 69 to 72. Such transactions also constituted connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").
2. The connected transactions discloseable according to Chapter 14 of the Listing Rules are set out below:
 - (1) Connected transactions that have been granted waivers

Connected transactions between the Group and the Holding Company Group described in paragraphs (2), (4) to (9) on pages 76 to 80 of the Prospectus and page 21 of this Annual Report (the "Transactions") have been waived by the Stock Exchange from strict compliance with the provisions of Chapter 14 of the Listing Rules, provided that the conditions as set out in the letters from the Stock Exchange dated 28th November 1997 and 24th December 2002 (details of which are set out in paragraph (3) headed "Land leasing agreements" above) are fulfilled.

The independent non-executive directors of the Company have reviewed the Transactions during the year and have confirmed that:

- (a) the Transactions have been entered into in the ordinary course of business of the Group;
 - (b) the Transactions have been entered into on normal business terms (i.e. terms determined with reference to transactions of a similar nature or entered into by similar companies in the PRC) or, where there was no available comparisons, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
 - (c) the Transactions were entered into: (1) in accordance with the terms of the agreements that governed the Transactions, or (2) where there was no such agreement, on terms no less favourable than those available to third parties;
 - (d) the Transactions were in compliance with the conditions of the relevant waivers granted.
- (2) Pledge of Shares by the Holding Company

On 18th January 1999, the Company published an agreement in respect of the pledge by the Holding Company of 650,000,000 shares of Rmb1 each in the Company (the "Pledged Shares") to a bank in the PRC (the "Bank") on 13th October 1998 by way of security for repayment obligations of the Company in respect of loans up to a maximum principal amount of Rmb650,000,000 extended to the Company by the Bank during the period from 12th October 1998 to 12th October 2003. The Pledged Shares represent the Holding Company's entire stake in the Company and represent 61.09% of the issued share capital of the Company.

The above pledge had been released on 31st December 2002. The Company has pledged the land rented from Holding Company and certain properties owned by the Company as security for the aforesaid loans. As of the date hereof, such pledge has not been released.

REPORT OF THE DIRECTORS (CONTINUED)

Designated Deposits and Overdue Time Deposits

As at 31st December 2002, the Company had not placed any designated deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the period.

Pledge of Assets and Contingent Liabilities

The Company has pledged certain of its fixed assets as security for bank loans. As at 31st December 2002, the net book value of the Company's pledged fixed assets amounted to Rmb407,866,000 (31st December 2001: Rmb321,689,000).

As at 31st December 2002, the Company had no contingent liabilities.

Foreign Exchange Risk

During the year, the Group had no foreign currency borrowings or deposits. Accordingly, there was no foreign exchange risk for the Group.

Material Litigation

During the year, the Group had not involved in any significant litigation or arbitration.

Significant Events

1. On 26th January 2002, the line extension renovation project of continuous casting machine for steel plates slab of the Company's No. 1 steel smelting plant had been completed and commenced production. The project will enhance production capacity and quality of steel billets.
2. On 7th February 2002, the Company's Board of Directors approved by written resolution the acting of the Company as a promoter in respect of "the investment in 廈門船舶重工股份有限公司 (Xiamen Vessel Heavy Industry Co., Ltd.)" by way of debenture in the sum of Rmb5,000,000.
3. On 30th March 2002, the high-speed wire rods plant finished goods warehouse extension project was completed and put into operation. The project will resolve the production and storage problems of the plant in order to pave the way for achieving its production targets as soon as possible.
4. On 9th April 2002, the Company's Board of Directors approved by three written resolutions the "provisions for impairment of fixed assets which have been left idle and construction-in-progress", "the suspension of operation of 280 rolling machines at the steel section plant" and "the use of the relevant assets and the disposal of the former No. 6 Plant which was not being used". Such resolutions approved to make provisions of Rmb38,067,968 and Rmb1,603,832 for impairment of fixed assets which have been left idle and construction-in-progress respectively as at 31st December 2001. The suspension of operation of the 280 rolling machines at the steel section plant commencing from 1st April 2002 and renovation of the relevant plant, machinery and facilities for construction of wire rod production lines was approved. The use of the former No. 6 Plant (net asset value of which amounted to Rmb29,600,000) as a refining venue of Henda was approved by the Holding Company.

REPORT OF THE DIRECTORS (CONTINUED)

Significant Events (CONTINUED)

5. On 9th April 2002, the Company's Board of Directors approved by written resolution "the division of the Company's iron smelting plant into an iron smelting plant and a sintering plant", and authorized the general manager to organize the formation of new management teams for the two plants.
6. On 25th April 2002, the Company's Board of Directors approved by a written resolution "the acquisition of properties from Chongqing Iron & Steel (Group) Company Limited" with an area of 4,202.93 square metres at a consideration of Rmb2,621,910. The Company announced the same on newspapers in Hong Kong on 26th April 2002.
7. On 9th May 2002, the Company's power plant, No.3 and No.4 blast furnace purified recycled water projects were completed and put into operation. The project will improve the rate of recycled water, reduce energy and material consumption and step up safety measures.
8. On 25th September 2002, the electricity supply renovation project of the electrical transformer of No.2 power plant was completed and put into operation. The project refined the structure of the Company's grid, enhanced the technological level of its grid facilities and the capacity of electricity generation.
9. On 15th December 2002, the trial run of heat co-generation for the steel rods production line project of the Company's steel section plant was successful. The production line will improve the situation of producing steel rods for numerous customers of the Company in an attempt to attain specialization and economies of scale.
10. On 30th December 2002, the Company's Board of Directors approved "the 2003 production and operation plan", which clearly laid down the Company's production and operation targets for 2003.

Asset Reorganization

On 30th September 2002, the Company's Board of Directors approved by written resolution the acquisition of all the assets and liabilities of Hengda and the sale of the 230,900,000 shares in Hengda by the Company to the Holding Company, and authorized any one director to execute the relevant agreement and to handle any other matters in relation thereto. Messrs. Wang Xiang Fei and Wu Zhong Fu had been appointed to form an independent board committee. It was resolved that an extraordinary general meeting be held on 3rd December 2002 for the purpose of voting in respect of the businesses relating to the asset reorganization.

In September 2002, 重慶百君律師事務所 and Richards Butler were appointed as the legal advisers in the PRC and Hong Kong respectively. Chongqing Kanghua CPAs and Greater China Appraisal Limited were appointed as the assets valuers in the PRC and Hong Kong respectively, and Masterlink Securities (H.K.) Corp. Ltd. was appointed as the independent financial adviser of the Company.

On 9th October 2002, the Company and the Holding Company entered into the Asset Transfer Agreement and the Share Transfer Agreement, and the Company announced the same on newspapers in Hong Kong on 15th October 2002.

REPORT OF THE DIRECTORS (CONTINUED)

Asset Reorganization (CONTINUED)

On 16th October 2002, the Company made an announcement regarding the convening of an extraordinary general meeting of the Company to be held on 3rd December 2002 for the purpose of voting in respect of the businesses relating to the asset reorganization.

An extraordinary general meeting of the Company was held on 3rd December 2002, at which the Asset Transfer Agreement, the Share Transfer Agreement and all the relevant matters were approved, and the Company had made an announcement in relation thereto.

On 8th December 2002, as part of the asset reorganization, the Company and the Holding Company entered into the agreement for lease of the land currently occupied by Hengda and owned by the Holding Company. The Company had made an announcement in relation thereto.

On 23rd December 2002, the Economic Commission of Chongqing City issued the Document Yu Jing Qi Zhi [2002] No.39 approving the asset reorganization of Hengda.

On 26th December 2002, the transfer of shares, assets and liabilities between the Company, the Holding Company and Hengda had been completed.

The formalities in relation to changes of business registrations are in progress.

Upon completion of the asset reorganization, the steel smelting business of Hengda will be entirely transferred to the Company and Hengda will cease to be its subsidiary.

Issuance of A Shares

In order to increase the sources of funding, expand the shareholders' bases in the PRC and to meet the needs for its future investment plans and development, the Company is actively in preparation for issuance of A shares in the PRC.

Subsidiary Company

Details of the Group's subsidiary company are set out on page 60 of the Annual Report.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Fixed Assets

Details of the movements in fixed assets of the Company during the year are set out on page 59 of the Annual Report.

REPORT OF THE DIRECTORS (CONTINUED)

Reserves

Movements in the reserves of the Company during the year are set out on pages 64 to 65 of the Annual Report.

Bank Loans and Other Loans

Details of the Company's bank and other loans are set out on pages 63, 65 and 66 of the Annual Report.

Interest Capitalisation

The amount of interest capitalised by the Group during the year is set out on page 57 of the Annual Report.

Staff Retirement and Benefits Scheme

Details of the Group's staff retirement and benefits scheme are set out on page 53 of the Annual Report.

Sale of Staff Quarters

For the year ended 31st December 2002, the Group had not sold any quarters to its employees, nor had it incurred any expenses as a result of the Holding Company's sale of quarters to the Group's employees.

Financial Arrangement of Housing Policy Reform

According to the document CZ [2000] No. 295 issued by the Ministry of Finance of the PRC on 6th September 2000 "Notice on the issues of the accounting treatment with respect to the reform on enterprises' staff housing system", all state-owned enterprises other than those in the financial services industry should stop the physical allocation of staff quarters and implement the staff housing welfare fund system. These enterprises are also required to pay a one-off housing subsidy in cash to those staff who joined the work force prior to 31st December 1998 and have yet to receive physical allocation of staff quarters. The document required provincial and municipal governments to take responsibility for setting out the detailed regulations with respect to the timing and procedures for the implementation of the policy as required by the above document.

Prior to the establishment of the Group, the Holding Company had changed its housing scheme and implemented the housing welfare fund system in accordance with the requirements as stipulated in the document YZGF [1994] No. 05 issued by the Housing Policy Reform Leadership Committee of the Chongqing Finance Bureau in 1994. The Holding Company and its staff each contributes to the staff housing welfare fund based on a percentage of the staff salaries. The staff housing welfare fund is owned by the staff and administered by the Housing Fund Administrative Committee in Chongqing. After the Restructuring in 1997, the Group has been making contributions to the staff housing welfare fund in accordance with the above mentioned document.

REPORT OF THE DIRECTORS (CONTINUED)

Financial Arrangement of Housing Policy Reform (CONTINUED)

As at the date of this report, the Chongqing Finance Bureau has not yet issued any detailed arrangements and regulations for the implementation of the policy as required by the above document CZ [2000] No. 295. In the event that the Chongqing Finance Bureau implements the document CZ [2000] No. 295 mentioned above, the Company estimates that the housing subsidy in connection with those employees who joined the Company prior to 31st December 1998 and have yet to receive physical allocation of staff quarters to be approximately Rmb6 million. The Holding Company has undertaken to assume the liabilities that may arise as mentioned above, and will directly pay the relevant housing subsidy to those qualified employees.

In view of the above, the Company has not provided for any housing subsidy in the accounts for the year ended 31st December 2002.

Human Resources and Staff Remunerations

As at 31st December 2002, the Group had 11,785 employees, down 646 employees from last year, including 10,036 production operators, 942 technical staff and 807 management staff.

During the year, the staff cost of the Group amounted to Rmb398,989,000 (2001: Rmb324,047,000), representing a year-on-year increase of 23.13%.

During the year, the Group focused on development of new technology by adopting various measures and means and had trained 7,112 staff, representing 57.21% of total staff.

Major Customers and Suppliers

The Group's sales to the five largest customers together account for less than 30% of the Group's gross sales amount.

The percentage of the Group's purchases attributable to major suppliers is as follows:

Percentage of purchases attributable to the Group's largest supplier	8.62%
Percentage of purchases attributable to the Group's five largest suppliers	23.57%

The Group's five largest suppliers include a fellow subsidiary.

Except for the above, none of the Group's directors, supervisors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the above major suppliers.

REPORT OF THE DIRECTORS (CONTINUED)

Policy of Enterprise Income Tax

- (a) No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong for the year (2001: nil).
- (b) In accordance with an approval document issued by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 7th December 1998 and the tax registration certificate received by the Company on 31st August 1999, the Company's status has been changed to that of the joint stock company with foreign investment. In accordance with Article 8 of the Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises, enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ended 31st December 2002 is the Company's third profitable year after the change; accordingly, income tax has been provided at 50% of the income tax rate (i.e. 12%) on its estimated taxable profits for the year (2001: nil).

No income tax has been provided for Hengda, a subsidiary of the Company, as it has no taxable profits for the 11 months ended 30th November 2002, the effective date of the sale of the shares in Hengda (2001: Rmb1,538,000).

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

In accordance with the approval letters (DDKGSB [2003] No. 4 and No.5) issued by State Tax Bureau in Dadukou District, Chongqing, with respect to the application for income tax reduction lodged by the Company relating to the purchase of domestically manufactured equipment in 2000 and 2001, the total tax reduction that the Company is entitled amounted to Rmb62,549,000. As the Company was exempted from income tax for 2000 and 2001, Rmb43,384,000 of the above tax deductible amount can be utilised to offset the Company's current year's income tax liability. The remaining balance of the deductible amount of Rmb19,165,000 can be carried forward for deductions up to 2007.

Code of Best Practice

For the year ended 31st December 2002, the Group had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who have already completed their term of appointment. The Board of Directors will submit a resolution to re-appoint PricewaterhouseCoopers as auditors of the Company for 2003 at the forthcoming Annual General Meeting.

By Order of the Board
Tang Min Wei
Chairman

Chongqing, PRC
27th February 2003