NOTES TO THE ACCOUNTS

For the year ended 31st December 2002

1 ORGANISATION

Chongqing Iron and Steel Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 12th August 1997 as part of the restructuring ("Restructuring") of a State-owned enterprise known as Chongqing Iron and Steel Company (Group) Limited (the "Holding Company"). Pursuant to the Restructuring, the principal iron and steel business undertakings and one of the subsidiaries, Chongqing Hengda Steel Industrial Co., Ltd. ("Hengda"), of the Holding Company were taken over by the Company, whereupon the Company issued 650,000,000 State-owned shares of Rmb1 each to the Holding Company. The Company and its subsidiary are hereinafter collectively referred to as the "Group".

During the year, the Group carried out a restructuring for Hengda. On 9th October 2002 (the "Signing Date"), the Company entered into an asset transfer agreement (the "Asset Transfer Agreement") with Hengda. In accordance with the Asset Transfer Agreement and supplementary agreements, the Company acquired all of Hengda's assets and liabilities for a consideration of Rmb428,988,000. This purchase price was determined based on Hengda's net asset value as at 31st July 2002 (the "Valuation Date") as reported in its accounts prepared under the PRC accounting regulations ("Hengda's PRC accounts"). A valuation of Hengda's assets and liabilities as at the Valuation Date was also performed by an independent professional valuer, Chongqing Kanghua Certified Public Accountants. The result of the valuation is not materially different from Hengda's net asset value as at the Valuation Date as reported in Hengda's PRC accounts.

On the Signing Date, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with the Holding Company under which the Company transferred its entire equity interest of 230,900,000 shares in Hengda (representing 69.51% of Hengda's total share capital) to the Holding Company. The share transfer price is Rmb298,190,000 which was determined based on the net asset value as at the Valuation Date as reported in Hengda's PRC accounts (i.e. 69.51% of Hengda's net asset value as at the Valuation Date).

In accordance with the supplementary agreements, the effective date of the above Asset Transfer Agreement and Share Transfer Agreement is 30th November 2002 (the "Transaction Date"). The operating results of Hengda prior to the Transaction Date were attributable to its original shareholders.

The above transactions have been approved by the shareholders' meetings of the Company and Hengda and the relevant government authorities prior to 31st December 2002.

Following the disposal of its investment in Hengda, the Company did not have any subsidiary at 31st December 2002.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

2 BASIS OF PREPARATION

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

During the year, the Company disposed of its entire share interests in its subsidiary, Hengda (note 1). As at 31st December 2002, the Company did not have investment in subsidiary and no consolidated balance sheet is presented. For the sake of simplicity, the consolidated statement of changes in equity for the year ended 31st December 2002 is not presented as it is not materially different from the Company's statement of changes in equity for the year ended 31st December 2002.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	"Presentation of financial statements"
SSAP 15 (revised)	"Cash flow statements"
SSAP 34 (revised)	"Employee benefits"

The adoption of these new standards did not have material impact on the accounts.

3 PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary made up to 31st December. A subsidiary is an entity in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of the subsidiary disposed of during the year are included in the consolidated profit and loss accounts up to the effective date of disposal. The gain or loss on disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets.

All significant intra-group transactions and balances have been eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of the subsidiary.

In the Company's balance sheet, investment in subsidiary is stated at cost less provision for impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(b) Capitalisation of fixed assets

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

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

(c) Fixed assets and depreciation

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

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

Buildings	40-45 years
Plant and machinery	15-22 years
Transportation vehicles and equipment	8 years

No depreciation is provided in respect of construction in progress.

Repairs and maintenance expenses are charged to the profit and loss account as incurred. Improvements are capitalised and depreciated over their expected useful lives to the Group. The cost of relining of blast furnaces is amortised using the straight-line method over their estimated repairing cycles ranging from 8 to 10 years.

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

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

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(d) Investment security

Investment security represents equity interest in a non-listed company over which the Company has no control or significant influence, and is stated at cost less provision for impairment loss. The carrying amount of the investment security is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of the security will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account.

(e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line method over the lease terms.

(f) Inventories

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

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

(g) Accounts receivable

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

(h) Provisions

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

(i) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(j) Translation of foreign currencies

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

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

(k) Contingent liabilities and contingent assets

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

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

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

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

(l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Transportation service income is recognised when related services are rendered. Operating lease rental income is recognised on a straight-line basis.

(m) Retirement benefit costs

The Group contributes, through the Holding Company, to a defined contribution scheme established by the Chongqing Municipal Government. The Holding Company has undertaken to assume retirement benefits obligations in excess of the annual contributions to retirement benefit plans made by the Group through the Holding Company. Contributions to the retirement benefit scheme are charged to the profit and loss account as incurred.

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

3 PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(n) Borrowing costs

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

(o) Segment reporting

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

4 TURNOVER AND OTHER REVENUES

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

	2002 Rmb'000	2001 Rmb'000
Turnover		
Steel plates	1,872,327	1,694,774
Steel sections	750,268	724,426
Wire rods	491,441	315,191
Steel billets	721,913	666,868
Others	346,481	358,770
	4,182,430	3,760,029
Other revenues		
Sale of by-products	6,774	3,781
Transportation services	3,099	4,316
Rental	981	913
	10,854	9,010
Total revenues	4,193,284	3,769,039

No business segment information is presented as over 90% of the Group's turnover and operating profit are earned from the sale of steel and its by-products.

No geographical segment information is presented as all of the Group's turnover and operating profit are earned within the PRC and all assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

5 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 Rmb'000	2001 Rmb'000
Crediting		
Net exchange gain	108	37
Gain on disposal of fixed assets	—	3,351
Charging		
Depreciation of fixed assets	160,954	156,970
Staff costs (including directors' remuneration) (note 6)	398,989	324,047
Operating leases of land and buildings	15,667	15,116
Provision for doubtful debts	32,421	32,290
Provision for obsolete inventories	10,000	26,688
Impairment of fixed assets (included in other operating expenses)	4,516	39,671
Auditors' remuneration	2,670	2,670
Amortisation of relining cost of blast furnaces	25,600	10,829
Loss on disposal of fixed assets	10,332	-

6 STAFF COSTS (INCLUDED DIRECTORS' REMUNERATION)

	2002 Rmb'000	2001 Rmb'000
Salaries	278,670	222,070
Retirement benefit costs	64,254	56,086
Other social welfare costs	56,065	45,891
	398,989	324,047

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

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

(a) Directors' and supervisors' emoluments

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

	2002 Rmb'000	2001 Rmb'000
Fees	80	70
Other emoluments:		
Basic salaries, housing allowances and other allowances	127	95
Bonuses	529	399
Pension	55	47
	791	611

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

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

Emoluments band	Number of directors and supervisors 2002	 2001
Nil - Rmb1,000,000	12	12

(b) Five highest paid individuals

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

8 NET FINANCE COSTS

	2002 Rmb'000	2001 Rmb'000
Interest expense on bank loans	66,177	62,616
Less: Amount capitalised in construction in progress	—	(70)
	66,177	62,546
Less: Interest income on bank balances	(2,186)	(3,849)
	63,991	58,697

9 TAXATION

	Note	2002 Rmb'000	2001 Rmb'000
PRC income tax provision	(b)	43,384	1,538
Income tax reduction arising from purchase of domestic equipment	(c)	(43,384)	—
PRC income tax		—	1,538

(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 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).

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

9 TAXATION *(CONTINUED)*

(c) In 2000 and 2001, the Company 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 (DDKGSH [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.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDRES

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb357,794,000 (2001: Rmb222,830,000).

11 DIVIDENDS

	2002 Rmb'000	2001 Rmb'000
Final, proposed, of Rmb0.08 (2001: Rmb0.03) per share	85,116	31,918

At a meeting held on 27th February 2003 the directors proposed a final dividend of Rmb0.08 per share for the year ended 31st December 2002. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

12 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb286,062,000 (2001: Rmb207,271,000) and the 1,063,944,000 (2001: 1,063,944,000) shares in issue during the year.

13 FIXED ASSETS

	Buildings Rmb'000	Plant and machinery Rmb'000	Transportation vehicles and equipment Rmb'000	Construction In progress Rmb'000	Total Rmb'000
Cost					
At 1st January 2002	956,904	1,458,140	15,159	234,037	2,664,240
Additions	5,122	41,552	4,346	230,124	281,144
Acquisition from Hengda	653,744	1,434,845	11,098	23,108	2,122,795
Transfer upon completion	64,035	270,499	962	(335,496)	—
Disposals	(24,957)	(84,427)	(1,019)	—	(110,403)
At 31st December 2002	1,654,848	3,120,609	30,546	151,773	4,957,776
Accumulated depreciation and impairment					
At 1st January 2002	138,349	309,140	6,516	1,604	455,609
Depreciation	33,630	97,995	2,848	—	134,473
Acquisition from Hengda	492,678	1,156,841	10,057	—	1,659,576
Impairment	537	3,868	111	—	4,516
Disposals	(12,544)	(84,057)	(1,017)	—	(97,618)
At 31st December 2002	652,650	1,483,787	18,515	1,604	2,156,556
Net book value					
At 31st December 2002	1,002,198	1,636,822	12,031	150,169	2,801,220
At 31st December 2001	818,555	1,149,000	8,643	232,433	2,208,631

(a) As at 31st December 2002, the net book value of fixed assets pledged as security for the Company's bank loans amounted to Rmb407,866,000 (2001: Rmb321,689,000) (notes 20(a), and 23(a)(i) and (ii)).

(b) As at 31st December 2002, accumulated interest expense capitalised in fixed assets amounted to Rmb27,933,000 (2001: Rmb27,933,000).

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

14 INVESTMENT IN A SUBSIDIARY

	2002 Rmb'000	2001 Rmb'000
Unlisted investment, at cost	—	242,986
Amount due from a subsidiary	—	60,164
	—	303,150

During the year, the Company disposed of its entire equity interest in its subsidiary, Hengda (note 1).

As at 31 December 2002, the Company had no investment in subsidiary.

The amount due from the subsidiary as at 31 December 2001 was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the Company's disposed subsidiary were as follows:

Name	Place of establishment/ operation	Principal activities	Particulars of issued share capital	Type of company	Interest held
Chongqing Hengda Steel Industrial Co., Ltd.	Chongqing, the PRC	Steel smelting	332,180,000 shares of Rmb1 each	Joint stock limited liability company	69.51%

15 OTHER ASSETS

Other assets represent relining cost of blast furnaces, less amortisation.

	2002 Rmb'000	2001 Rmb'000
Net book value at 1st January	134,038	64,605
Additions during the year	58,017	80,262
Less: Amortisation for the year	(25,600)	(10,829)
Net book value at 31st December	166,455	134,038

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

16 INVENTORIES

	2002 Rmb'000	2001 Rmb'000
Raw materials	560,086	351,284
Work in progress	149,565	159,245
Finished goods	68,642	84,556
Spare parts and consumables	99,607	90,128
	877,900	685,213

As at 31st December 2002, the carrying amount of inventories that are carried at net realisable value amounted to Rmb95,984,000 (2001: Rmb88,917,000).

17 TRADE AND OTHER RECEIVABLES

	2002 Rmb'000	2001 Rmb'000
Trade receivables (note (a))	267,825	253,157
Amounts due from fellow subsidiaries (note (b))	56,268	118,370
Prepayments and deposits	32,314	41,403
Other receivables	24,136	12,095
	380,543	425,025

(a) The Company normally requires advanced payments from new customers before delivery. For existing customers, the Company normally offers a 3-month credit period. The ageing analysis of trade receivables as at 31st December 2002 is as follows:

	2002 Rmb'000	2001 Rmb'000
Within 3 months	189,781	155,731
Between 3 months and 1 year	68,334	85,381
Between 1 and 2 years	4,668	6,200
Between 2 and 3 years	5,042	5,845
	267,825	253,157

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

17 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(b) The analysis of amounts due from fellow subsidiaries as at 31st December 2002 is as follows:

	2002 Rmb'000	2001 Rmb'000
Amounts due from fellow subsidiaries	93,579	118,370
Provision for doubtful debts	(37,311)	—
Amounts due from fellow subsidiaries, net	56,268	118,370

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

18 PLEDGED BANK DEPOSIT

A bank deposit of Rmb3,000,000 (2001: Rmb3,000,000) has been pledged to secure the Company's bank loans (note 23 (a)).

19 TRADE AND OTHER PAYABLES

	2002 Rmb'000	2001 Rmb'000
Trade payables (note (a))	821,832	708,114
Advances from customers	153,383	62,697
Amounts due to Holding Company and fellow subsidiaries (note (b))	73,783	1,513
Other payables	115,939	63,795
Value added tax and sundry taxes payable	105,908	111,262
	1,270,845	947,381

(a) The ageing analysis of trade payables as at 31st December 2002 is as follows:

	2002 Rmb'000	2001 Rmb'000
Within 6 months	543,140	432,811
Between 6 months and 1 year	252,159	227,232
Between 1 and 2 years	8,939	3,772
Between 2 and 3 years	2,270	2,840
Over 3 years	15,324	41,459
	821,832	708,114

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

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

20 SHORT-TERM BANK LOANS

	2002 Rmb'000	2001 Rmb'000
Secured bank loans (note (a))	197,330	210,730
Unsecured bank loans (note (b))	398,570	355,470
	595,900	566,200

(a) The secured bank loans outstanding were originally secured by a pledge of the Company's State-owned shares owned by the Holding Company. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's state-owned shares by the Company's fixed assets (with net book value of Rmb104,728,500 as at 31st December 2002) and the Holding Company's land. As at the date of these accounts being approved, the related revised contracts are under process. (note 27(a)).

(b) Included in the unsecured bank loans outstanding at 31st December 2002 are loans totalling Rmb395,170,000 (2001: Rmb302,270,000) guaranteed by the Holding Company (note 27(a)).

21 SHARE CAPITAL

	2002 Rmb'000	2001 Rmb'000
Registered, issued and paid up capital		
650,000,000 State-owned shares of Rmb1 each	650,000	650,000
413,944,000 H shares of Rmb1 each	413,944	413,944
	1,063,944	1,063,944

The Stated-owned and H shares rank pari passu in all respects.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

22 RESERVES

	Reserves					
	Share premium Rmb'000	Capital surplus Rmb'000	Statutory common reserve Rmb'000	Statutory provident fund Rmb'000	Total Rmb'000	Retained earnings Rmb'000
At 1st January 2001	276,208	207,830	28,364	14,182	526,584	206,299
Profit attributable to shareholders	—	—	—	—	—	222,830
2000 final dividend paid	—	—	—	—	—	(31,918)
Transfer to reserves (notes (a) and (b))	—	—	20,307	10,154	30,461	(30,461)
At 31st December 2001	276,208	207,830	48,671	24,336	557,045	366,750
Representing:						
2001 final dividend proposed (note 11)						31,918
Other						334,832
Retained earnings at 31st December 2001						366,750
At 1st January 200	276,208	207,830	48,671	24,336	557,045	366,750
Profit attributable to shareholders	—	—	—	—	—	357,794
2001 final dividend paid	—	—	—	—	—	(31,918)
Transfer to reserves (notes (a) and (b))	—	—	28,978	14,489	43,467	(43,467)
At 31st December 2002	276,208	207,830	77,649	38,825	600,512	649,159
Representing:						
2002 final dividend proposed (note 11)						85,116
Other						564,043
Retained earnings at 31st December 2002						649,159

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

22 RESERVES *(CONTINUED)*

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

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

In 2002, the directors recommended the transfer of 10% (2001: 10%) of the net profit for the year ended 31st December 2002 as determined under PRC accounting regulations to the statutory common reserve.

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

In 2002, the directors recommended the transfer of 5% (2001: 5%) of the net profit for the year ended 31st December 2002 as determined under PRC accounting regulations to the statutory provident fund.

23 LONG-TERM LIABILITIES

	2002 Rmb'000	2001 Rmb'000
Secured bank loans (note (a)	343,000	318,000
Unsecured bank loans (note (b))	83,630	120,000
	426,630	438,000
Amount due to Holding Company (note (d))	18,646	139,045
	445,276	577,045
Less: Amounts due within one year included under current liabilities		
— Bank loans	(150,300)	(75,000)
— Amount due to Holding Company	(18,646)	(99,284)
	(168,946)	(174,284)
	276,330	402,761

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

23 LONG-TERM LIABILITIES *(CONTINUED)*

(a) (i) The secured bank loans of Rmb165,000,000 (2001: Rmb125,000,000) were originally secured by a pledge of the Company's State-owned shares owned by the Holding Company. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's State-owned shares by the Company's fixed assets (with net book value of Rmb104,728,500 as at 31st December 2002) and the Holding Company's land. As at the date of these accounts being approved, the related revised contracts are under process (note 27(a)).

(ii) The loans of Rmb175,000,000 (2001: Rmb190,000,000) are secured by the Company's fixed assets with net book value of RMB303,137,500 as at 31st December 2002 (note 13 (a));

(iii) The loans of Rmb3,000,000 (2001: Rmb3,000,000) are secured by a bank deposit of Rmb3,000,000 (note 18).

Interestes are charged at rates ranging from 5.841% to 6.534% (2001:5.940% to 6.534%) per annum on the above loans.

(b) Included in the unsecured bank loans are loans of Rmb70,000,000 (2001:Rmb70,000,000) guaranteed by the Holding Company (note (27(a)).

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

	2002 Rmb'000	2001 Rmb'000
Within one year	150,300	75,000
In the second year	275,000	108,000
In the third to fifth years inclusive	1,330	255,000
	426,630	438,000

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

24 DEFERRED TAXATION

As at 31st December 2002, the unrecognised potential deferred taxation asset of the Company in respect of timing differences relating to provisions amounted to Rmb53,798,000 (2001: Rmb43,562,000) respectively.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 Rmb'000	2001 Rmb'000
Profit before taxation	285,758	212,112
Depreciation	160,954	156,970
Amortisation of relining cost of blast furnaces	25,600	10,829
Provision for doubtful debts	32,421	32,290
Impairment of fixed assets	4,516	39,671
Loss/(gain) on disposal of fixed assets	10,332	(3,351)
Operating profit before working capital changes	519,581	448,521
Increase in inventories	(138,223)	(74,856)
(Increase)/decrease in trade and other receivables	(44,320)	129,219
Increase in trade and other payables	249,178	71,655
Interest income	(2,186)	(3,849)
Interest expense	66,177	62,546
Net cash inflow generated from operations	650,207	633,236

(b) Analysis of changes in financing

	Bank loans Rmb'000	Amount due to Holding Company Rmb'000	Pledged bank deposit Rmb'000	Total Rmb'000
At 1st January 2001	987,200	202,784	—	1,189,984
Net cash inflows/(outflows) from financing	17,000	(63,739)	(3,000)	(49,739)
At 31st December 2001	1,004,200	139,045	(3,000)	1,140,245
At 1st January 2002	1,004,200	139,045	(3,000)	1,140,245
Net cash inflows/(outflows) from financing	18,330	(120,399)	—	(102,069)
At 31st December 2002	1,022,530	18,646	(3,000)	1,038,176

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

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

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

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

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

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

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

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

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

26 COMMITMENTS

(a) Capital commitments for fixed assets

	2002 Rmb'000	2001 Rmb'000
Contracted but not provided for	98,611	78,757
Authorised but not contracted for	—	21,070
	98,611	99,827

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

26 COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments

At 31st December 2002, the future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2002 Rmb'000	2001 Rmb'000
Within one year	14,695	13,894
In the second to fifth year inclusive	52,772	48,660
After the fifth year	522,223	493,696
	589,690	556,250

Included in the above operating lease commitments are commitments of the Company in respect of the land under operating lease agreements with the Holding Company expiring in approximately 50 years commencing from August 1997. At 31st December 2002, the Company had future aggregate minimum lease payments under such operating leases amounting to Rmb542,356,000 (2001: Rmb554,521,000) .

In addition, included in the above operating lease commitments is a commitment relating to an operating lease agreement entered into by the Company and the Holding Company in respect of the land previously leased by Hengda. Following the restructuring of Hengda as disclosed in note 1, the operating lease agreement between Hengda and the Holding Company was terminated, the Company entered into a lease agreement with the Holding Company with respect to that piece of land on 8th December 2002. The operating lease agreement will expire in 45 years commencing from 8th December 2002. At 31st December 2002, the Company's future aggregate minimum lease payments under this operating lease amounted to Rmb45,832,000.

27 RELATED PARTY TRANSACTIONS

(a) In 1998, the Holding Company pledged 650,000,000 State-owned shares of the Company to a bank as security for facilities made available to the Group by the bank up to a maximum amount of Rmb650,000,000 during the period from 12th October 1998 to 12th October 2003. In December 2002, the Holding Company, the Company and the bank reached an agreement to replace the pledge of the Company's State-owned shares by the Holding Company's land and certain fixed assets of the Company. The maximum facility amount under the new security arrangement is Rmb407,420,000. As at the date of these accounts being approved, the related revised contracts are under process. As at 31st December 2002, these facilities were ultilised to the extent of short-term and long-term loans of Rmb197,330,000 (2001: Rmb210,730,000) (note 20(a)) and Rmb165,000,000 (2001: Rmb125,000,000) (note 23(a)) respectively.

In addition to the above, the Company's short-term and long-term loans at 31st December 2002 amounting to Rmb395,170,000 (2001: Rmb302,270,000) (note 20(b)) and Rmb70,000,000 (2001: Rmb70,000,000) (note 23(b)) respectively were guaranteed by the Holding Company.

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

27 RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) During the year, the Company acquired all of the assets and liabilities of Hengda for a consideration of Rmb428,988,000. At the same time, the Company disposed of its entire equity interest of 230,900,000 shares in Hengda (representing 69.51% of Hengda's total share capital) to the Holding Company at Rmb298,190,000. The considerations of these two transactions were determined based on Hengda's net asset value of Rmb428,988,000 as at 31st July 2002 as reported in Hengda's PRC accounts (note 1). The amount receivable from the Holding Company as a result of the share transfer was utilised to offset against part of the consideration of Rmb428,988,000 payable to Hengda for the Company's acquisition of Hengda's assets and liabilities (note 25(c)).

Hengda's assets and liabilities acquired by the Company are analysed as follows:

	Rmb'000
Assets	
Fixed assets	463,219
Inventories	41,591
Receivables	4,225
Cash	67
Total assets	509,102
Liabilities	
Payables	78,576
Tax payable	1,538
Total liabilities	80,114
Net asset value	428,988

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31st December 2002

27 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	2002 Rmb'000	2001 Rmb'000
Income		
Sales to fellow subsidiaries (note (i))	669,187	742,577
Fees received for supporting services (note (ii))	998	874
Expenditures		
Fees paid for supporting services (note (iii))	150,261	46,043
Purchase of raw materials and spare parts (note (iv))	592,217	645,836
Purchase of fixed assets (note (v))	47,149	106,820
Purchase of buildings (note (vi))	2,622	—
Rental for land leases (note (vii))	13,389	13,193
Rental for office premises (note (viii))	2,278	555
Retirement benefit costs paid through the Holding Company (note (ix))	64,254	56,086
Social welfare expenses paid through the Holding Company (note (ix))	56,065	45,891

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

(ii) Fees received for supporting services mainly represent fees charged to the Holding Company and fellow subsidiaries for internal railway transportation services at prices determined by reference to those charged to and contracted with other third party customers of the Group.

(iii) Fees paid for supporting services mainly represent fees charged for environmental, maintenance, technical, installation, transportation and import agency services provided by the Holding Company and fellow subsidiaries. These services were charged at prices determined by reference to market prices.

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

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

(vi) The consideration for purchase of buildings was determined by reference to the prevailing market value as at 31st December 2001 and an independent valuation.

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

NOTES TO THE ACCOUNTS *(CONTINUED)*

For the year ended 31st December 2002

27 RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

(ix) Retirement benefit costs and social welfare expenses were paid through the Holding Company. No handling fee was charged by the Holding Company.

28 POST BALANCE SHEET DATE EVENT

On 27th February 2003, the board of directors approved the Company's application to issue Renminbi common shares (A shares) to the public. The resolution is subject to the shareholders' approval in the upcoming annual general meeting.

29 ULTIMATE HOLDING COMPANY

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

30 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 27th February 2003.