Auditors' Report

KPMG

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

We accepted the appointment and have audited the Company's consolidated balance sheet and balance sheet as of 31 December 2002, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and 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. In the course of our audit, we considered the circumstances of the Company and its jointly controlled entity 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 and present fairly, in all material respects, the consolidated financial position and financial position of the Company as of 31 December 2002, and the consolidated results of operations and results of operations, consolidated cash flow and cash flow of the Company for the year then ended, and the accounting policies have been consistently applied.

KPMG Huazhen

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

Zhao Qi

Wu Wei

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31 March 2003

Balance Sheets

At 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Assets	Note	The Group 2002	The Company 2002	The Company 2001
Current assets				
Cash at banks and in hand	5	**1,702,051**	**1,675,586**	761,229
Bills receivable	6	**1,719,474**	**1,719,474**	2,423,349
Trade receivables	7	**92,060**	**92,060**	145,798
Other receivables	8	**94,200**	**56,235**	175,285
Prepayments	9	**676,208**	**676,208**	407,468
Inventories	10	**1,217,049**	**1,217,049**	904,213
Deferred expenses	11	**4,534**	**4,321**	3,244
Total current assets		**5,505,576**	**5,440,933**	4,820,586
Long-term investments	12	**—**	**248,305**	—
Fixed assets				
Fixed assets, at cost or valuation	13	**7,071,140**	**7,068,914**	6,455,191
Less: Accumulated depreciation		**(2,840,975)**	**(2,840,761)**	(2,439,756)
Net book value of fixed assets		**4,230,165**	**4,228,153**	4,015,435
Construction in progress	14	**2,358,791**	**2,094,732**	1,076,095
Total fixed assets		**6,588,956**	**6,322,885**	5,091,530
Intangible assets and other assets				
Intangible assets	15	**323,863**	**318,666**	325,772
Long-term deferred expenses	16	**6,955**	**—**	—
Total intangible assets and other assets		**330,818**	**318,666**	325,772
Total assets		**12,425,350**	**12,330,789**	10,237,888

Balance Sheets *(Continued)*

At 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Liabilities and shareholders' funds	*Note*	The Group 2002	The Company 2002	The Company 2001
Current liabilities				
Short-term loans	17	**65,000**	**—**	—
Bills payable	18	**1,525,791**	**1,525,791**	1,177,592
Trade payables	19	**298,724**	**298,724**	267,859
Receipts in advance	20	**995,222**	**995,222**	480,296
Accrued payroll		**38,753**	**38,599**	40,733
Staff welfare payable		**7,795**	**7,795**	4,292
Dividends payable	21	**296,087**	**296,087**	236,635
Taxes payable	22	**95,309**	**95,253**	177,812
Other payables	23	**120,187**	**90,836**	111,884
Current portion of long-term liabilities	24	**—**	**—**	120,000
Total current liabilities		**3,442,868**	**3,348,307**	2,617,103
Long-term liabilities				
Long-term loans	24	**1,463,000**	**1,463,000**	400,000
Convertible debentures	25	**10,121**	**10,121**	19,388
Total long-term liabilities		**1,473,121**	**1,473,121**	419,388
Total liabilities		**4,915,989**	**4,821,428**	3,036,491
Shareholders' funds				
Share capital	26	**2,960,874**	**2,960,874**	2,957,935
Capital reserve	27	**3,078,693**	**3,078,693**	3,072,099
Surplus reserve	28	**484,078**	**484,078**	365,160
(including: statutory public welfare fund)	28	**242,039**	**242,039**	182,580
Undistributed profits	29	**985,716**	**985,716**	806,203
Total shareholders' funds		**7,509,361**	**7,509,361**	7,201,397
Total liabilities and shareholders' funds		**12,425,350**	**12,330,789**	10,237,888

These financial statements have been approved by the board of directors on 31 March 2003.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 50 to 87 form an integral part of these financial statements.

Income Statements and Profit Appropriation Statements

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

		The Group	The Company	
	Note	**2002**	**2002**	2001
Income from principal operations	30	**10,771,077**	**10,771,077**	9,490,523
Less: Costs of sales	31	**9,473,797**	**9,473,797**	8,430,929
Business tax and surcharges	32	**24,600**	**24,600**	25,276
Profit from principal operations		**1,272,680**	**1,272,680**	1,034,318
Add: Other operating profit	33	**30,270**	**30,270**	25,431
Less: Operating expenses		**185,360**	**185,360**	158,670
Administrative expenses		**224,369**	**224,369**	194,730
Financial expenses/(income)	34	**13,835**	**13,835**	(25,858)
Operating profit		**879,386**	**879,386**	732,207
Add: Non-operating income		**522**	**522**	74
Less: Non-operating expenses		**27,909**	**27,909**	33,457
Total profit		**851,999**	**851,999**	698,824
Less: Income tax expense		**257,411**	**257,411**	295,081
Net profit		**594,588**	**594,588**	403,743

The accompanying notes on pages 50 to 87 form an integral part of these financial statements.

Income Statements and Profit Appropriation Statements *(Continued)*

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

		The Group	The Company	
	Note	**2002**	**2002**	2001
Net profit		**594,588**	**594,588**	403,743
Add: Undistributed profits at the beginning of the year		**806,203**	**806,203**	724,034
Distributable profits		**1,400,791**	**1,400,791**	1,127,777
Less: Transfer to statutory surplus reserve fund	28	**59,459**	**59,459**	41,032
Transfer to statutory public welfare fund	28	**59,459**	**59,459**	41,032
Profits distributable to shareholders		**1,281,873**	**1,281,873**	1,045,713
Less: Transfer to discretionary surplus reserve		**—**	**—**	—
Dividends	21	**296,157**	**296,157**	239,510
Undistributed profits at the end of the year		**985,716**	**985,716**	806,203

Additional information:

	The Group	The Company	
	2002	**2002**	2001
1. Proceeds from the sale and disposal of divisions or invested entities	**—**	**—**	—
2. Losses arising from natural disasters	**—**	**—**	—
3. Increase (or decrease) in total profits due to the changes in accounting policy	**—**	**—**	2,455
4. Increase (or decrease) in total profits due to the changes in accounting estimates	**—**	**—**	—
5. Losses (or gains) arising from debt restructuring	**—**	**—**	—
6. Others	**—**	**—**	—

The accompanying notes on pages 50 to 87 form an integral part of these financial statements.

Cash Flow Statements

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Notes to the cash flow statements	The Group	The Company
Cash flows from operating activities:			
Cash received from sales of goods		13,648,354	13,648,354
Refund of taxes		13,974	13,974
Sub-total of cash inflows		13,662,328	13,662,328
Cash paid for goods		(10,591,884)	(10,591,884)
Cash paid to and on behalf of employees		(232,429)	(232,429)
Taxes paid		(597,898)	(597,898)
Cash paid in relation to other operating activities		(141,189)	(141,189)
Sub-total of cash outflows		(11,563,400)	(11,563,400)
Net cash flow from operating activities	(a)	2,098,928	2,098,928
Cash flows from investing activities:			
Proceeds from the disposal of fixed assets		195	195
Cash from interest received		6,201	6,201
Cash received relating to other investing activities		—	86,980
Sub-total of cash inflows		6,396	93,376
Cash paid for acquisition of fixed assets		(2,656)	(145)
Cash paid for acquisition of investments		—	(248,305)
Cash paid for construction in progress, intangible assets and other long-term assets		(1,851,029)	(1,696,732)
Cash paid relating to other investing activities		(42,612)	—
Sub-total of cash outflows		(1,896,297)	(1,945,182)
Net cash flow from investing activities		(1,889,901)	(1,851,806)

Cash Flow Statements *(Continued)*

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Notes to the cash flow statements	The Group	The Company
Cash flows from financing activities:			
Proceeds from loans		1,228,000	1,163,000
Cash received relating to other financing activities		74	—
Sub-total of cash inflows		1,228,074	1,163,000
Repayments of loans		(220,000)	(220,000)
Cash paid for dividends or interest payment		(282,698)	(282,398)
Sub-total of cash outflows		(502,698)	(502,398)
Net cash flow from financing activities		725,376	660,602
Effect of exchange rate fluctuations on cash held		6,419	6,633
Net increase in cash and cash equivalents	(c)	940,822	914,357

The accompanying notes on pages 50 to 87 form an integral part of these financial statements.

Cash Flow Statements *(Continued)*

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	The Group	The Company

Notes to the cash flow statements

(a) Reconciliation of net profit to cash flows from operations:

	The Group	The Company
Net profit	594,588	594,588
Add: Bad debt provision	104	104
Depreciation of fixed assets	435,851	435,851
Amortisation of intangible assets	7,106	7,106
Increase in deferred expenses	(1,077)	(1,077)
Loss on disposals of fixed assets	25,202	25,202
Financial expenses	12,297	12,297
Increase in inventories	(293,652)	(293,652)
Write back of inventories provision	(19,184)	(19,184)
Decrease in operating receivables	520,839	520,839
Increase in operating payables	816,854	816,854
Net cash flow from operating activities	2,098,928	2,098,928

(b) Non-cash transactions of investing and financing activities:

	The Group	The Company
Conversion of debt to capital	9,368	9,368

(c) Net increase in cash and cash equivalents:

	The Group	The Company
Cash at the end of the year	1,702,051	1,675,586
Less: Cash at the beginning of the year	(559,141)	(559,141)
Add: Cash equivalents at the end of the year	—	—
Less: Cash equivalents at the beginning of the year	(202,088)	(202,088)
Net increase in cash and cash equivalents	940,822	914,357

The accompanying notes on pages 50 to 87 form an integral part of these financial statements.

Notes on the Financial Statements

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

1. STATUS OF THE COMPANY

Angang New Steel Company Limited (the "Company") was formally established on 8 May 1997 as a joint stock limited company.

The Company was established as a joint stock limited company under the Company Law of the People's Republic of China ("PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole originator, pursuant to the approval document Tigaisheng [1997] No. 62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. The Company took over the business of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding. Angang Holding is one of the largest iron and steel comprehensive production companies in China. According to the Division Agreement which took effect from 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 at 31 December 1996 as its contribution to the Company. The above assets and liabilities had been revalued by China Assets Appraisal Co., Ltd. The revalued net asset value amounted to Rmb2,028,817,600. The valuation was confirmed by the State Administration of State-owned Assets under the document Guoziping [1997] No. 326.

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

Pursuant to the approval document Guoziqifa [1997] No. 65 issued by the State Administration of State-owned Assets, the above net assets transferred from Angang Holding to the Company was converted into 1,319,000,000 shares of Rmb1.00 each based on the conversion ratio of 65.01%.

Pursuant to the approval document Zhengweifa [1997] No. 40 issued by the Securities Committee of the State Council, the Company issued 890,000,000 ordinary H shares ("H shares") with a par value of Rmb1.00 each on 22 July 1997 which were subsequently listed on the Stock Exchange of Hong Kong Limited on 24 July 1997.

Pursuant to the approval documents "Notice on the Limit of A Shares to be Issued by Angang New Steel Company Limited" (Yetiban [1997] No. 16) issued by the Ministry of Metallurgical Industry and "Reply on the Application of the Public Offering of the Shares of Angang New Steel Company Limited" (Zhengjianfazi [1997] No. 503) issued by the China Securities Regulatory Commission, the Company also issue 300,000,000 ordinary A shares ("A shares") with a par value of Rmb1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 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.

1. STATUS OF THE COMPANY *(continued)*

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 become the main production line facilities of the Steel Smelting Plant of the Company.

On 9 January 2002, the Company entered into a joint venture agreement and a technology transfer agreement with Thyssen Krupp Stahl AG ("Thyssen"). The business registration of ANSC-TKS Galvanizing Co. Ltd. ("ANSC-TKS") was completed on 8 February 2002.

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 by the Company and its jointly controlled entity-ANSC-TKS (collectively referred to as the "Group") 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.

(a) Accounting period

The Group's accounting year is from 1 January to 31 December.

(b) Preparation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the Accounting Regulations for Business Enterprises and the Interim Provisions on Consolidated Financial Statements (Caikuaizi [1995] No. 11) issued by the Ministry of Finance.

ANSC-TKS is a sino-foreign equity joint venture established between the Company and Thyssen over which the control exercised by each party is established under contractual agreement. During the preparation of the consolidated financial statements, the Company consolidated the assets, liabilities, revenue, costs and expenses of ANSC-TKS on a pro rata basis.

(c) Accounting basis and pricing principle

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Reporting currency & translation of foreign currencies

The reporting currency of the Group 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 as the gains and losses of the current period, 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.

(e) 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.

(f) Bad debt provision

Bad debt provision is accounted for based on allowance method under which bad debt provision is estimated periodically. Trade receivables showing signs of uncollectibility are identified individually, and allowance is made based on the probability of being uncollectible. In respect of trade receivables showing no sign of uncollectibility, allowance is made based on the ageing analysis and a reasonable portion as determined by the management with reference to their past experience.

Bad debt provision for other receivables is determined based on their specific nature and corresponding risk assessment of collectibility.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Inventories

Inventories include raw materials, work in progress, finished goods and spare parts as well as low value consumables and packaging materials.

Inventories, except spare parts and low value consumables, 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 addition to the actual cost for the purchase of raw materials, the cost of work in progress and finished goods also includes direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

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

Spare parts are stated at cost less stock provision.

Except spare parts, 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, less the estimated costs of completion and selling expenses.

(h) Long-term equity investments

Long-term investments are carried at the lower of the carrying amount and the recoverable value. Whenever the recoverable value falls below the carrying amount, provisions for diminution in value is made on the difference.

Long-term investments controlled or jointly controlled by the Company or over which the Company exercises significant influence are accounted for under the equity method. It is initially recorded at cost and adjusted thereafter according to the Company's share of equity interest in the invested entity. Difference arising from equity investments is the difference between the original cost of investments and the share of equity interests in the invested entity, which should be amortised on a straight-line basis. Amortisation charge for the period is accounted for in the investment income.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Fixed assets

(i) Fixed assets represent assets with an useful life of over one year and with a higher unit cost which are held by the Group for production and operation purpose.

(ii) Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation and impairment losses (refer to Note 2 (r)). The cost of a fixed asset comprises its purchase price, related charges 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 relevant fixed assets. All other expenditure is charged to the income statement in the period when it is incurred.

(iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised as income or expense in the period when it is incurred.

(iv) 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 deducting its estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings and plants	12 to 42 years
Machinery and equipment	6 to 21 years
Other fixed assets	4 to 15 years

(j) Construction in progress

Construction in progress represents buildings, plants and equipments under construction and is stated at cost less impairment losses (refer to Note 2 (r)). Cost of construction represents all direct and indirect costs related to the acquisition or construction of fixed assets which are incurred before the related asset is ready for its intended use, including the interest charges (and the related exchange gains or losses) on specified borrowings incurred during the construction period, are capitalised as construction in progress.

Capitalisation of these borrowing costs and exchange gains or losses ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost or valuation less accumulated amortisation and impairment losses (refer to Note 2 (r)). Amortisation is provided on a straight-line basis over the beneficial period, the useful life of the asset or the period as specified in the relevant rules and regulations.

(l) Convertible debentures

Convertible debentures are stated at par value. Interest expense is accrued annually and 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 is credited to the share capital and capital reserve.

(m) Pre-operating expenses

All the costs incurred during the set up period, except from that incurred for the purchase or construction of fixed assets, are initially recorded as long-term deferred expenses and are subsequently accounted for on a lump sum basis as profits or losses in the month when the enterprise commences operation.

(n) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due 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.

(o) Repairs and maintenance expenses

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

(p) Research and development costs

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) 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 36.

(r) Impairment

The carrying amounts of the Group's assets (including long-term investments, fixed assets, construction in progress, intangible assets, etc), other than trade receivables and inventories (refer to Notes 2 (f), 2 (g)), are reviewed periodically in order to assess whether the recoverable amounts have decreased below the book value. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decrease has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by these assets are discounted to their present value. The amount of the impairment loss is recognised in the income statement of the current period.

Whenever there is any indication that an impairment loss recognised for an asset in prior years may no longer exist, or there has been a change in the estimates used to determine the recoverable amount which has led to a decrease in the impairment loss, the allowance for impairment loss will be reversed and the reversed amount is recognised in the income statement of the current period.

(s) Income tax

Income tax is provided on an accrual basis. The income tax of the Group for the current year is calculated according to the taxable income and the applicable tax rate.

(t) Profit appropriation

Profit appropriation of the Group is made in accordance with relevant rules and regulations of the Company Law of the PRC and the Articles of Association of the concerned entity.

(u) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control and jointly control the party or exercise significant influence over the party, or vice versa, or where the Group and the party or parties are subject to common control or common significant influence. Related parties may be individuals or other entities.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Taxation

The taxes applicable to the Group are income tax, value added tax ("VAT") and other taxes.

(i) Income tax

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

(ii) VAT

The VAT rate applicable to the Group is 17%.

(iii) Others

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

3. JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity are set out below:

Name of jointly controlled entity	Economic nature	Registered capital	Principal activities	Percentage of equity held by the Company
ANSC-TKS	Sino-foreign equity joint venture	US$60 million	Production and sale of rolled hot dip galvanised and galvanised steel products.	50%

4. SEGMENT REPORTING

ANSC-TKS, the jointly controlled entity of the Group, is still in the set up stage. 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.

5. CASH AT BANK AND IN HAND

	At 31 December 2002			At 31 December 2001		
The Group	**Original currency '000**	**Exchange rate**	**Rmb/ Rmb equivalent**	Original currency '000	Exchange rate	Rmb/ Rmb equivalent
Cash in hand						
Renminbi	**—**	**—**	**26**	—	—	4
Cash at bank						
Renminbi	**—**	**—**	**1,607,669**	—	—	197,453
HK Dollars	**33,376**	**1.06**	**35,412**	190,078	1.06	201,597
US Dollars	**1,822**	**8.28**	**15,085**	302	8.28	2,500
Euro	**5,050**	**8.64**	**43,608**	47,151	7.33	345,428
Pounds Sterling	**19**	**13.21**	**251**	1,180	12.00	14,165
Deutsche Marks	**—**	**—**	**—**	22	3.75	82
			1,702,051			761,229

	At 31 December 2002			At 31 December 2001		
The Company	**Original currency '000**	**Exchange rate**	**Rmb/ Rmb equivalent**	Original currency '000	Exchange rate	Rmb/ Rmb equivalent
Cash in hand						
Renminbi	**—**	**—**	**23**	—	—	4
Cash at bank						
Renminbi	**—**	**—**	**1,589,096**	—	—	197,453
HK Dollars	**33,376**	**1.06**	**35,412**	190,078	1.06	201,597
US Dollars	**873**	**8.28**	**7,230**	302	8.28	2,500
Euro	**5,046**	**8.64**	**43,574**	47,151	7.33	345,428
Pounds Sterling	**19**	**13.21**	**251**	1,180	12.00	14,165
Deutsche Marks	**—**	**—**	**—**	22	3.75	82
			1,675,586			761,229

The balance of cash at bank and in hand of the Group as at 31 December 2002 has increased by Rmb940,822,000 as compared with the end of the previous year. The increase is mainly due to the increase in cash received for the sale of goods by the Company during the year as compared with previous year.

(Expressed in Thousand Renminbi)

6. BILLS RECEIVABLE

All the bills receivable held by the Company represent the bills of acceptance issued by banks which are not secured.

Due to the increasing use of cash by customers for settlement of accounts with the Company, there is a decrease in the balance of bills receivable as at 31 December 2002 compared with last year.

Among the balance of bills receivable, no balance is due from a shareholder who holds 5% or above of the Company's shares.

7. TRADE RECEIVABLES

	The Group/Company At 31 December 2002		The Company At 31 December 2001	
	Amount	**%**	Amount	%
Within one year	**92,060**	**100**	145,798	100
Less: Bad debt provision	**—**	**—**	—	—
	92,060	**100**	145,798	100

The management considers that no provision for bad debt in respect of trade receivables as at 31 December 2002 is necessary as all of these amounts are due within one year and it is expected that the amounts can be fully recovered.

The trade receivables of the Group at 31 December 2002 were as follows:

Name of the debtor	**Particulars**	**Amount**	**Percentage of total trade receivables %**
China Railway Materials Shenyang Co.	Sales of goods	68,327	74
China Railway Construction (Shenyang) Corporation Northeast Office	Sales of goods	23,733	26
		92,060	100

(Expressed in Thousand Renminbi)

7. TRADE RECEIVABLES (continued)

The total trade receivables of the Group's five largest debtors at 31 December 2002 were as follows:

	The Group/Company 31 December 2002	The Company 31 December 2001
Amount	**92,060**	145,798
Percentage of total trade receivables	**100%**	100%

The significant decrease in the balance of trade receivables during the year as compared with 2001 is mainly because the customers mainly settled their accounts with the Company by cash during the year.

Among the balance of trade receivables, no balance is due from a shareholder who holds 5% or above of the Company's shares.

8. OTHER RECEIVABLES

	The Group		**The Company**			
	31 December 2002		**31 December 2002**		31 December 2001	
	Amount	**%**	**Amount**	**%**	Amount	%
Other receivables						
Within one year	**62,579**	**66**	**24,704**	**44**	173,498	99
Between one and two years	**31,107**	**33**	**31,017**	**55**	1,674	1
Between two and three years	**514**	**1**	**514**	**1**	113	—
Over three years	**160**	**—**	**160**	**—**	56	—
	94,360	**100**	**56,395**	**100**	175,341	100
Less: Bad debt provision over three years	**(160)**	**—**	**(160)**	**—**	(56)	—
Other receivables, net	**94,200**	**100**	**56,235**	**100**	175,285	100

(Expressed in Thousand Renminbi)

8. OTHER RECEIVABLES *(continued)*

Bad debt provision	**The Group/Company 31 December 2002**	The Company 31 December 2001
Balance at the beginning of the year	**56**	21
Add: Provision for the year	**104**	35
Less: Written back for the year	**—**	—
Balance at the end of the year	**160**	56

At 31 December 2002, the management considers that all debtors have the ability to repay the debts and most of the other receivables can be recovered, hence, the level of bad debt provision is less than 5%.

The Group's five largest debtors at 31 December 2002 were as follows:

Name of the debtor	**Particulars**	**Amount**	**Percentage of other receivables %**
Dalian Custom	Import duty deposit	37,053	39
Anshan State Tax Bureau	Rebate of VAT receivable	28,273	30
Angang Holding	Prepayments for land use rights and construction costs	16,886	18
Rautaruukki Oyj Helsinki, Finland	Prepayment of software acquisition cost	2,600	3
China Railway Materials Shenyang Co.	Reimbursement of freight charges	1,130	1
		85,942	91

The total other receivables of the Group's five largest debtors at 31 December 2002 were as follows:

	The Group/Company 31 December 2002	The Company 31 December 2001
Amount	**85,942**	166,040
Percentage of total trade receivables	**91%**	95%

The significant decrease in other receivables during the year as compared with 2001 is mainly due to the reimbursement of equipment costs of approximately Rmb86,980,000 paid on behalf of ANSC-TKS which was received by the Company during September 2002.

Angang Holding holds 5% or above of the Company's share.

(Expressed in Thousand Renminbi)

9. PREPAYMENTS

	The Group/Company 31 December 2002		The Company 31 December 2001	
	Amount	**%**	Amount	%
Within one year	**673,231**	**100**	407,040	100
Between one and two years	**2,961**	**—**	410	—
Between two and three years	**16**	**—**	18	—
	676,208	**100**	407,468	100

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

The Group's prepayments as at 31 December 2002 were as follows:

	The Group/Company 31 December 2002	The Company 31 December 2001
Angang New Steel and Iron Company Limited ("ANSI")	**632,463**	399,668
Subsidiaries of Angang Holding	**11,235**	—
	643,698	399,668
Prepayments for spare parts	**32,510**	7,800
	676,208	407,468

The increase in prepayments as compared with previous year is mainly due to the increase in the purchase of raw materials as a result of the increase in the production level of the Company. As a result, the amount of prepayments has been increasing accordingly.

Among the balance of prepayments, no balance is due from a shareholder who holds 5% or above of the Company's shares.

(Expressed in Thousand Renminbi)

10. INVENTORIES

	The Group/Company 31 December 2002		The Company 31 December 2001	
	Amount	**%**	Amount	%
At cost:				
Raw materials	**144,609**	**11**	122,362	13
Work in progress	**124,735**	**10**	91,098	9
Finished goods	**366,471**	**29**	209,464	21
Spare parts and consumables	**635,516**	**50**	554,755	57
	1,271,331	**100**	977,679	100
Less: Provision for diminution in value				
- Spare parts	**(54,282)**	**—**	(73,466)	—
	1,217,049	**100**	904,213	100

Provision for diminution in value	**The Group/Company 31 December 2002**	The Company 31 December 2001
Balance at the beginning of the year	**73,466**	77,920
Provision for the year	**—**	—
Written back for the year	**(19,184)**	(4,454)
Balance at the end of the year	**54,282**	73,466

	The Group/Company 31 December 2002	The Company 31 December 2001
Costs of inventories recognised in the income statement are as follows		
- Cost of sales	**9,473,797**	8,430,929

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

10. INVENTORIES *(continued)*

Net realisable value of the spare parts which provision had been made amounts to Rmb85,076,000 (2001: Rmb152,324,000).

The increase in the balance of inventories as at 31 December 2002 as compared with previous year is mainly due to the increase in finished good at the end of the year as a result of the increase in purchase order during the fourth quarter of 2002 as compared with the same period of previous year. In addition, the increase in spare parts is also a result of the purchase made by the Company for the newly established galvanised steel production line and colored coating plate production line.

11. DEFERRED EXPENSES

	Balance at the beginning of the year	Additions	Amortisation	Balance at the end of the year
The Company				
- Heating expenses	3,244	6,808	(5,731)	4,321
ANSC-TKS				
- Software license fee	—	245	(32)	213
The Group	3,244	7,053	(5,763)	4,534

12. LONG-TERM INVESTMENT

	Balance at the beginning of the year	Additions	Deductions	Balance at the end of the year
Investment in jointly controlled entity	—	248,305	—	248,305
Less: Provision for diminution in value	—	—	—	—
Total	—	248,305	—	248,305

(Expressed in Thousand Renminbi)

12. LONG-TERM INVESTMENT *(continued)*

As at 31 December 2002, the Company's investment in jointly controlled entity was mainly as follows:

Name of the invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment
ANSC-TKS	50%	50 years	248,305

The Company's first injection to ANSC-TKS had been verified by Dalian Hengping United Public Accountants and the capital verification report was issued on 28 March 2002. The Company's second injection had been verified by KPMG Huazhen and the capital verification report was issued on 28 September 2002. As at 28 August 2002, the registered capital of ANSC-TKS had been fully paid in accordance with the Articles of Association. ANSC-TKS is still in the set up stage.

Pursuant to an Equity Pledge Agreement entered into between the Company and Bank of China, Liaoning Branch on 20 October 2002, the Company pledges to Bank of China, Liaoning Branch all its equity interests in ANSC-TKS to continuously secure the performance of the obligation of ANSC-TKS to repay and settle the related debts due to Bank of China, Liaoning Branch in full and in a timely manner. Details of the arrangement are set out in Note 24.

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

13. FIXED ASSETS

The Group	Building and plants	Machinery and equipment	Others	Total
Cost or valuation:				
Balance at the beginning of the year	1,362,701	4,696,657	395,833	6,455,191
Additions	—	—	2,371	2,371
Transferred from construction in progress (Note 14)	462,491	163,698	47,632	673,821
Disposals	(12,045)	(26,805)	(21,393)	(60,243)
Balance at the end of the year	1,813,147	4,833,550	424,443	7,071,140
Accumulated depreciation:				
Balance at the beginning of the year	484,959	1,610,094	344,703	2,439,756
Charge for the year	54,187	321,146	60,732	436,065
Written back on disposal	(1,661)	(15,775)	(17,410)	(34,846)
Balance at the end of the year	537,485	1,915,465	388,025	2,840,975
Net book value:				
Balance at the end of the year	1,275,662	2,918,085	36,418	4,230,165
Balance at the beginning of the year	877,742	3,086,563	51,130	4,015,435

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

13. FIXED ASSETS *(continued)*

The Company	Building and plants	Machinery and equipment	Others	Total
Cost or valuation:				
Balance at the beginning of the year	1,362,701	4,696,657	395,833	6,455,191
Additions	—	—	145	145
Transferred from construction in progress (Note 14)	462,491	163,698	47,632	673,821
Disposals	(12,045)	(26,805)	(21,393)	(60,243)
Balance at the end of the year	1,813,147	4,833,550	422,217	7,068,914
Accumulated depreciation:				
Balance at the beginning of the year	484,959	1,610,094	344,703	2,439,756
Charge for the year	54,187	321,146	60,518	435,851
Written back on disposal	(1,661)	(15,775)	(17,410)	(34,846)
Balance at the end of the year	537,485	1,915,465	387,811	2,840,761
Net book value:				
Balance at the end of the year	1,275,662	2,918,085	34,406	4,228,153
Balance at the beginning of the year	877,742	3,086,563	51,130	4,015,435

As at 31 December 2002, the net book value of the fully depreciated fixed assets of the Group which are still in use is Rmb18,050,000.

Part of the fixed assets are pledged by the Group as collaterals of the syndicated loans. Details of which are set out in Note 24.

(Expressed in Thousand Renminbi)

14. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred for buildings, plants, machinery and equipment which have not yet put into operation.

	Amount		Capitalisation of interest charges	
	The Group	**The Company**	**The Group**	**The Company**
Cost:				
Balance at the beginning of the year	1,076,095	1,076,095	10,739	10,739
Additions	1,956,517	1,692,458	27,671	27,294
Transferred to fixed assets	(673,821)	(673,821)	—	—
Balance at the end of the year	2,358,791	2,094,732	38,410	38,033
Less: Provision for diminution in value				
Balance at the beginning of the year	—	—		
Additions	—	—		
Deductions	—	—		
Written off	—	—		
Balance at the end of the year	—	—		
Net amount:				
Balance at the end of the year	2,358,791	2,094,732		
Balance at the beginning of the year	1,076,095	1,076,095		

Interest charges of the Group for the year was capitalised at a rate of 5.5% (2001: 4.88%).

(Expressed in Thousand Renminbi)

14. CONSTRUCTION IN PROGRESS *(continued)*

As at 31 December 2002, the projects under construction of the Group/Company were mainly as follows:

Project	Budget	Balance at 1 January 2002	Additions	Transferred to fixed assets (Note 13)	Balance at 31 December 2002	Percentage of budget	Source of fund	Interest charges capitalised during the year
Upgrade of the second cold rolling production line	3,930,000	698,476	1,288,789	(425,928)	1,561,337	51%	Equity finance and bank loans	26,508
Upgrade of continuous casting and rolling mill, and all - purpose rolling mill	689,000	244,418	231,848	(174,239)	302,027	69%	Equity finance and operating fund	—
Upgrade of the heavy plate rolling line	370,000	65,691	155,761	—	221,452	60%	Operating fund and bank loans	786
Technology renovation	31,000	12,334	10,947	(13,365)	9,916	75%	Operating fund	—
Equipment transformation	20,000	12,137	5,113	(17,250)	—	100%	Operating fund	—
Combined pickling and continuous rolling line	700,000	43,039	—	(43,039)	—	100%	Equity finance	—
Total for the Company	5,740,000	1,076,095	1,692,458	(673,821)	2,094,732			27,294
Dalian galvanised steel production line	641,000	—	264,059	—	264,059	41%	Operating fund and bank loans	377
Total for the Group	6,381,000	1,076,095	1,956,517	(673,821)	2,358,791			27,671

Part of the construction in progress are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 24.

(Expressed in Thousand Renminbi)

15. INTANGIBLE ASSETS

	The Company Land use rights	Software	Industrial technology	The Group Total
Cost:				
Balance at the beginning of the year	354,200	—	—	354,200
Additions	—	2,182	3,117	5,299
Deductions	—	—	—	—
Balance at the end of the year	354,200	2,182	3,117	359,499
Less: Accumulated amortisation				
Balance at the beginning of the year	28,428	—	—	28,428
Additions	7,106	102	—	7,208
Deductions	—	—	—	—
Balance at the end of the year	35,534	102	—	35,636
Less: Provision for diminution in value				
Balance at the beginning of the year	—	—	—	—
Additions	—	—	—	—
Deductions	—	—	—	—
Balance at the end of the year	—	—	—	—
Net amount:				
Balance at the end of the year	318,666	2,080	3,117	323,863
Balance at the beginning of the year	325,772	—	—	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 years. Software is amortised on a straight-line basis over 10 years. Industrial technology purchased by ANSC-TKS from Thyssen, has a useful life of 12 years commencing from the date when ANSC-TKS obtained its business license. Amortisation is calculated on a straight-line basis over its remaining useful life commencing from the date when it was put into use.

(Expressed in Thousand Renminbi)

16. LONG-TERM DEFERRED EXPENSES

	The Group	The Company
Cost:		
Balance at the beginning of the year	—	—
Additions	6,955	—
Deductions	—	—
Balance at the end of the year	6,955	—
Net amount:		
Balance at the end of the year	6,955	—
Balance at the beginning of the year	—	—

Long-term deferred expenses represent pre-operating expenses incurred by ANSC-TKS. As at 31 December 2002, ANSC-TKS was still in the set up stage.

17. SHORT-TERM LOANS

	The Group 31 December 2002			The Company 31 December 2002/2001		
	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
Bank loans	65,000	5.04%	Credit	—		

Among the above balance, no balance is due to a shareholder who holds 5% or above of the Company's shares.

(Expressed in Thousand Renminbi)

18. BILLS PAYABLE

The increase in bills payable is a result of the increase in the production level of the Company during the year which has led to an increase in the purchase of materials. Bills payable of the Company primarily represent bank accepted bills for raw materials and spare parts purchasing. The repayment terms are within six months.

The Group's five largest bills payable at 31 December 2002 were as follows:

Name of creditor	Particulars	Amount	Percentage of bills payable %
ANSI	Purchase goods	1,100,000	72
China First Heavy Industries	Purchase goods	354,016	23
Jinguang Ferroalloy Company Limited	Purchase goods	20,900	1
Bao Steel Group Changzhou Metallurgical Machinery Plant	Purchase goods	13,510	1
Jilin Ferroalloy Company Limited	Purchase goods	13,150	1
		1,501,576	98

The total bills payable of the Company's five largest creditors at 31 December 2002 were as follows:

	The Group/Company 31 December 2002	The Company 31 December 2001
Amount	**1,501,576**	757,015
Percentage of total bills payable	**98%**	64%

Among the balance of bills payable, no balance is due to a shareholder who holds 5% or above of the Company's shares.

19. TRADE PAYABLES

As at 31 December 2002, the balance of trade payables of the Group include Rmb53,815,000 due to ANSI in respect of the purchase of raw materials and Rmb19,915,000 due to a subsidiary of Angang Holding in respect of the purchase of raw materials and the maintenance service rendered.

None of the trade payables of the Group as at 31 December 2002 were aged over three years.

Among the balance of trade payables, no balance is due to a shareholder who holds 5% or above of the Company's shares.

(Expressed in Thousand Renminbi)

20. RECEIPTS IN ADVANCE

The significant increase in the balance of receipts in advance during the year as compared with previous year is mainly due to the increase in purchase orders made by the customers of the Company.

The balance of receipts in advance of the Group as at 31 December 2002 include Rmb102,505,000 and Rmb9,047,000 received from Angang International Trading (Group) Company ("AITG") and other subsidiaries of Angang Holding respectively in respect of the purchase of steel products.

None of the receipts in advance of the Group as at 31 December 2002 were aged more than one year.

Among the balance of receipts in advance, no balance is due to a shareholder who holds 5% or above of the Company's shares.

21. DIVIDEND PAYABLE

	The Group/Company 31 December 2002	The Company 31 December 2001
Proposed dividends of Rmb0.1 per share (Rmb0.08 per share for 2001)	**296,087**	236,635

22. TAXES PAYABLE

	The Group 31 December 2002	**The Company 31 December 2002**	The Company 31 December 2001
VAT	**43,574**	**43,574**	48,298
Income tax	**48,748**	**48,748**	126,861
City construction and maintenance tax	**2,229**	**2,229**	2,653
Individual Income Tax	**758**	**702**	—
Total	**95,309**	**95,253**	177,812

(Expressed in Thousand Renminbi)

23. OTHER PAYABLES

	The Group 31 December 2002	**The Company 31 December 2002**	The Company 31 December 2001
Construction fee	**52,671**	**35,877**	24,427
Freight charges	**14,159**	**14,159**	16,999
Deposit for steel shelves	**18,418**	**18,418**	24,756
Reimbursement to Thyssen	**11,340**	**—**	—
Endowment and unemployment insurance	**4,143**	**4,143**	13,582
Tax withheld and paid	**2,203**	**2,203**	15,648
Staff education fund	**3,751**	**3,751**	2,612
Education surcharge	**1,274**	**1,274**	1,516
Others	**12,228**	**11,011**	12,344
Total	**120,187**	**90,836**	111,884

The balance of other payables of the Group includes Rmb20,919,000 due to AITG and other subsidiaries of Angang Holding in respect of the construction and other services rendered.

Among the balance of other payables, no balance is due to a shareholder who holds 5% or above of the Company's shares.

24. LOANS

	Note	**The Group/Company 31 December 2002**	The Company 31 December 2001
Current portion of long-term debts appropriation to Angang Holding	(a)	—	120,000
Long-term loans	(b)	1,463,000	400,000
		1,463,000	520,000

(a) Up to 31 December 1996, distribution payable to Angang Holding in connection with the accumulated profits prior to listing of the Company 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 had been fully repaid in June 2002.

(Expressed in Thousand Renminbi)

24. LOANS *(continued)*

(b) The interest rates and terms of repayment for long-term loans are as follows:

Bank	Period (note)	Interest rate p.a.	Interest type	The Group/ Company 31 December 2002	The Company 31 December 2001
Industrial and Commercial Bank of China	Due in 2004	5.49%	Fixed	**363,000**	300,000
Bank of China	Due in 2005	5.49%	Fixed	**1,100,000**	—
Bank of China	Due in 2002	6.03%	Fixed	**—**	100,000
				1,463,000	400,000

The bank loans of the Company are mainly used for technology renovation and equipment upgrading. They are guaranteed by Angang Holding.

In October 2002, ANSC-TKS entered into a loan agreement in respect of a syndicated loan totalling RMB1.08 billion arranged by Bank of China which will be used for the construction of its production line. ANSC-TKS secured its land use rights, construction in progress, building and plant, machinery and equipment at a carrying amount of Rmb519,248,000 at 31 December 2002 to Bank of China as collaterals of the loan.

The Company pledges to Bank of China its 50% equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

As at 31 December 2002, the above syndicated loan was not drawn down by ANSC-TKS.

Among the above balance, no balance is due from a shareholder who holds 5% or above of the Company's shares.

(Note): The term of the long-term loans of the Group is from the date when the loans are drawn-down to the last date when they are repaid as agreed with the lenders. The repayment period is between 28 June 2004 and 21 October 2005.

25. CONVERTIBLE DEBENTURES

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 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 at a conversion price of Rmb3.3 per share. Since 22 June 2001, the conversion price has been revised to Rmb3.21 per share. Since 4 July 2002, the conversion price has been further revised to Rmb3.13 per share. The exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,022,561 A shares.

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

By 31 December 2002, 451,873,679 A shares were converted from the convertible debentures of the Company at a conversion price of Rmb1,490,144,000. The par value of debentures converted in excess of the par value of the shares and the accrued interest expenses of Rmb10,251,000 have increased the capital surplus by Rmb1,048,500,000. A cash payment of Rmb21,000 was made for the odd lot convertible debentures.

(Expressed in Thousand Renminbi)

26. SHARE CAPITAL

Issued and paid up capital	**The Company 31 December 2002**	The Company 31 December 2001
Unlisted shares:		
1,319,000,000 State-owned legal person shares of Rmb1 each	**1,319,000**	1,319,000
Listed shares:		
748,935,149 (2001: 708,943,331) Renminbi ordinary shares ("A share") of Rmb1 each issued at the beginning of year	**748,935**	708,943
Additional issue of 2,938,530 (2001: 39,991,818) shares upon the conversion of convertible debentures	**2,939**	39,992
751,873,679 (2001: 748,935,149) shares issued at the end of the year	**751,874**	748,935
890,000,000 overseas-listed foreign invested shares of Rmb1 each ("H share")	**890,000**	890,000
	1,641,874	1,638,935
	2,960,874	2,957,935

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

(Expressed in Thousand Renminbi)

27. CAPITAL RESERVE

		The Company	
	1 January 2002	Additions	31 December 2002
Net asset conversion	709,817	—	709,817
Written off of water and electricity use rights	(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	1,042,071	6,429	1,048,500
Written off of trade payables	—	165	165
	3,072,099	6,594	3,078,693

28. SURPLUS RESERVES

		The Group/Company	
		Profit distribution	
	1 January 2002	for the year	31 December 2002
Statutory surplus reserve	182,580	59,459	242,039
Statutory public welfare fund	182,580	59,459	242,039
	365,160	118,918	484,078

On 31 March 2003, the Board of Directors approved the allocation of 10% of the Company's net profit after taxation to the statutory surplus reserve, until the reserve aggregates to 50% of the Company's registered capital; and the allocation of 10% of the Company's net profit after taxation to the statutory public welfare fund.

(Expressed in Thousand Renminbi)

29. UNDISTRIBUTED PROFITS

	The Group/Company 31 December 2002	The Company 31 December 2001
Undistributed profits at the beginning of the year	**806,203**	724,034
Add: Profit for the year	**594,588**	403,743
Less: Transfer to reserves	**(118,918)**	(82,064)
Dividends	**(296,087)**	(236,635)
Balance of dividends	**(70)**	(2,875)
Undistributed profits at the end of the year	**985,716**	806,203

Proposed dividends in respect of the financial year 2001 and the actual amount paid are Rmb236,635,000 and Rmb236,705,000 respectively.

Additional dividends are distributed to the holders of A shares which were issued upon the conversion of convertible debentures before the closing of the register of members.

30. INCOME FROM PRINCIPAL OPERATIONS

	The Group/Company 2002	The Company 2001
Wire rods	**1,653,465**	1,690,819
Thick plates	**2,309,085**	2,426,689
Cold rolled sheets	**4,302,645**	3,086,572
Large section steel products	**2,198,228**	2,168,317
Steel billets	**307,654**	118,126
	10,771,077	9,490,523

As at 31 December 2002, the total sales to the five largest customers were Rmb1,831,083 (2001: Rmb3,360,000,000) which accounted for 17% (2001: 35%) of the total sales income of the Group.

There is an increase in the sales income of the Company in 2002 as compared with the previous year. It is mainly due to the increase in sales volume, the improvement in sales structure and the increase in product price of the Company.

For the year ended 31 December 2002
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

31. COST OF SALES

	The Group/Company 2002	The Company 2001
Wire rods	**1,575,276**	1,631,314
Thick plates	**2,066,566**	2,113,728
Cold rolled sheets	**3,837,017**	2,856,711
Large section steel products	**1,701,935**	1,707,456
Steel billets	**293,003**	121,720
	9,473,797	8,430,929

32. BUSINESS TAXES AND SURCHARGES

	The Group/Company 2002	The Company 2001
City construction and maintenance tax	**15,655**	16,085
Education surcharge and local education surcharge	**8,945**	9,191
	24,600	25,276

33. OTHER OPERATING PROFIT

	The Group/Company 2002	The Company 2001
Packaging material profits	**6,759**	7,214
Income from sales of scrap materials	**23,096**	18,213
Others	**415**	4
	30,270	25,431

(Expressed in Thousand Renminbi)

34. FINANCIAL EXPENSES/(INCOME)

	The Group 2002	The Company 2002	The Company 2001
Interest and other borrowing costs	**46,169**	**45,792**	21,701
Less: Amount capitalised as construction in progress	**(27,671)**	**(27,294)**	(11,246)
Net interest expenses	**18,498**	**18,498**	10,455
Exchange difference	**(20,175)**	**(20,175)**	20,892
Less: Amount capitalised as construction in progress	**19,918**	**19,918**	(21,082)
Net exchange gain	**(257)**	**(257)**	(190)
Interest income	**(6,201)**	**(6,201)**	(37,790)
Bank charges	**1,795**	**1,795**	1,667
	13,835	**13,835**	(25,858)

The decrease in interest income is due to the decrease in the average balances of bank deposits and fixed deposits during the year.

35. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) 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 City Liaoning Province	Production and sale 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 2002 was Rmb10,794,160,000. The proportion of investment of Angang Holding in the Company represents 44.55% of the total share capital of the Company. There is no change in the registered capital of Angang Holding during the period. The changes in percentage of shares held by Angang Holding are set out in Note 26 "Share capital".

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary of Angang Holding
ANSC-TKS	Jointly controlled entity of the Company

(Expressed in Thousand Renminbi)

35. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Details of related party transactions:

	The Group/Company 2002	The Company 2001
Sales (excluding business tax and surcharges)	**991,051**	808,403
Sales of scrap materials (excluding business tax and surcharges)	**215,140**	226,577
Purchase		
– Raw materials	**7,501,072**	6,392,129
– Ancillary materials and spare parts	**79,646**	63,739
Supply of fuel and power	**284,432**	272,417
Staff welfare and other services	**211,942**	148,670
Subcontracting fee (excluding business tax and surcharges)	**—**	71,249

(i) Sales

The Company sold steel products to ANSI and various subsidiaries of Angang Holding at selling prices not lower than the average prices charged to independent customers for the preceding month. Sales made to ANSI by the Company during the year include sales income of Rmb571,917,000 (2001: Rmb647,932,000) in respect of the pipe billets sold.

(ii) Sales of scrap materials

The Company sold scrap materials to ANSI at average selling prices of such materials to independent customers.

(iii) Purchase of raw materials

Raw materials are supplied by ANSI to the Company 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.

35. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Details of related party transactions: *(continued)*

(iv) Purchase of ancillary materials and spare parts

The Company purchased part of its 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.

(v) Supply of fuel and utilities

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

(vi) Staff welfare and other services

The subsidiaries of 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 the subsidiaries of Angang Holding.

(vii) Sub-contract

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. No sub-contracting income was received during the current period as the relevant sub-contracting contract was expired at the end of year 2001.

(viii) Balances with Angang Holding and ANSI

The balances of the Company with its related parties are set out in Notes 8, 9, 19, 20 and 23.

35. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Details of related party transactions: *(continued)*

(ix) 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.

(x) Guarantee of loans

As at 31 December 2002, total amount of loans obtained by the Company from the Industrial and Commercial Bank of China and the Bank of China amounted to Rmb1,463,000,000. These bank loans are guaranteed by Angang Holding, details of which are set out in Note 24.

(xi) Construction service

A subsidiary of Angang Holding constructed the production line for ANSC-TKS at similar terms and pricing principles on providing such construction service to independent parties. The cost for related construction service provided during 2002 amounted to Rmb91,844,000 in which Rmb45,922,000 had been included in the consolidated financial statements of the Group.

36. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the decision of the working conference of Liaoning Provincial Government on 17 August 2000, from 1 January 2001 to 31 December 2002, 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 employees of the Company.

As required by the "Notice Concerning the Implementation of the Measures on Improving the Basic Old-Age Pension Scheme for Workers of Enterprises in City and Town in Liaoning Province (Trial Implementation)" (Dalaoxianzi [2001] No. 73) issued by Dalian Labour Bureau, ANSC-TKS is required to contribute 19% of the total salary to the retirement benefit scheme.

(Expressed in Thousand Renminbi)

37. COMMITMENTS

(a) Capital commitments

	The Group	The Company	
	31 December 2002	**31 December 2002**	31 December 2001
Contracted for			
— Construction projects of production lines	**771,467**	**662,353**	949,681
— Technology transfer fee	**20,780**	**—**	—
Authorised but not contracted for			
— Investment in jointly controlled entity (Note12)	**—**	**—**	248,040
— Improvement projects of production lines	**2,635,629**	**2,396,003**	3,484,120
	3,427,876	**3,058,356**	4,681,841

(b) Other commitments

According to the funding support agreements entered into between the Company and Bank of China, Liaoning Branch on 22 October 2002, in the event that ANSC-TKS does not have sufficient funds to complete the construction, or to finance its operation or to repay its outstanding loans after the completion of the construction, the Company has to provide funds to ANSC-TKS.

38. POST BALANCE SHEET EVENTS

(a) Change of the depreciation rates of fixed assets

The Group revised the estimated useful lives of its fixed assets with effect from 1 January 2003. Major changes include shortening the useful lives of the Group's fixed assets.

Based on the carrying amount of the fixed assets of the Group as at 31 December 2002, the above adjustments will approximately increase the depreciation of fixed assets of the Group by Rmb103 million during 2003 while at the same time decrease the profit after tax by approximately Rmb69 million.

(b) Acquisition of land use rights and titles of related buildings

On 14 January 2003, the Company entered into a Transfer Agreement with Angang Holding under which the Company agreed to acquire from Angang Holding the land use rights of part of its land situated in the PRC and the title to the buildings which are erected on such land. The total consideration for the acquisition amounted to Rmb150,915,000 which was fully settled on 21 February 2003.

(c) New investment

On 17 March 2003, the Company entered into an agreement with AITG and ANSI to set up Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang"). The principal activities of Angang Shenyang include the sales, processing and distribution of steel products. The Company holds 30% interests in Angang Shenyang, whose registered capital amounted to Rmb48,000,000.

The Group has no other commitment beyond the injection of its proportionate share of registered capital of Angang Shenyang.

39. COMPARATIVE FIGURES

In order to facilitate comparison, certain items in the financial statements for the year ended 2001 have been reclassified.