Report of the International Auditors

KPMG

To the Shareholders of
Angang New Steel Company Limited
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 90 to 133 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, China
31 March 2003

Consolidated Income Statement

for the year ended 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	**2002** **Rmb'000**	2001 Rmb'000
Turnover	4	**10,746,477**	9,465,247
Cost of sales		**(9,480,916)**	(8,426,475)
Gross profit		**1,265,561**	1,038,772
Other operating income	5	**30,957**	25,505
Distribution and other operating expenses		**(185,530)**	(158,670)
Administrative expenses		**(247,409)**	(232,641)
Profit from operations		**863,579**	672,966
Net financing (costs)/income	6(a)	**(6,097)**	25,858
Profit from ordinary activities before taxation	6	**857,482**	698,824
Income tax expense	7(a)	**(259,166)**	(332,343)
Profit attributable to shareholders	10	**598,316**	366,481
Dividends attributable to the year:			
Final dividend proposed after the balance sheet date	9	**296,087**	236,635
Earnings per share	11		
- Basic		**Rmb 0.202**	Rmb 0.124
- Diluted		**Rmb 0.202**	Rmb 0.124

The notes on pages 97 to 133 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	2002 Rmb'000	2001 Rmb'000
Non-current assets			
Property, plant and equipment	12	**4,235,362**	4,015,435
Construction in progress	13	**2,327,558**	1,082,644
Lease prepayments	14	**148,995**	117,116
Deferred tax assets	7(c)	**64,618**	66,141
		6,776,533	5,281,336
Current assets			
Inventories	16	**1,217,049**	904,213
Amounts due from fellow subsidiaries	28(b)	**643,698**	399,668
Trade receivables	17	**1,811,534**	2,569,147
Prepayments, deposits and other receivables		**142,700**	186,329
Deposits with banks	18	**—**	50,000
Cash and cash equivalents	19	**1,702,051**	711,229
		5,517,032	4,820,586
Current liabilities			
Trade payables	20	**1,750,785**	1,397,474
Income tax payable	7(b)	**48,748**	126,861
Amount due to ultimate holding company		**—**	167,977
Amounts due to fellow subsidiaries	28(b)	**206,201**	—
Other payables		**1,076,312**	688,339
Short term bank loan	22	**65,000**	—
		3,147,046	2,380,651
Net current assets		**2,369,986**	2,439,935
Total assets less current liabilities carried forward		**9,146,519**	7,721,271

Consolidated Balance Sheet *(Continued)*

at 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	2002 Rmb'000	2001 Rmb'000
Total assets less current liabilities brought forward		**9,146,519**	7,721,271
Non-current liabilities			
Convertible debentures	21	**9,264**	17,529
Bank loans	22	**1,463,000**	400,000
		1,472,264	417,529
NET ASSETS		**7,674,255**	7,303,742
SHAREHOLDERS' FUNDS			
Share capital	23	**2,960,874**	2,957,935
Share premium		**3,052,752**	3,046,099
Reserves	24	**332,853**	214,625
Retained profits		**1,327,776**	1,085,083
		7,674,255	7,303,742

Approved and authorised for issue by the board of directors on 31 March 2003

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 97 to 133 form part of these financial statements.

Balance Sheet

at 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	**2002** **Rmb'000**	2001 Rmb'000
Non-current assets			
Property, plant and equipment	12	**4,228,153**	4,015,435
Construction in progress	13	**2,097,302**	1,082,644
Lease prepayments	14	**126,836**	117,116
Interest in jointly controlled entity	15	**243,519**	—
Deferred tax assets	7(c)	**62,261**	66,141
		6,758,071	5,281,336
Current assets			
Inventories	16	**1,217,049**	904,213
Amounts due from fellow subsidiaries	28(b)	**643,698**	399,668
Trade receivables	17	**1,811,534**	2,569,147
Prepayments, deposits and other receivables		**93,066**	186,329
Deposits with banks	18	**—**	50,000
Cash and cash equivalents	19	**1,675,586**	711,229
		5,440,933	4,820,586
Current liabilities			
Trade payables	20	**1,750,785**	1,397,474
Income tax payable	7(b)	**48,748**	126,861
Amount due to ultimate holding company		**—**	167,977
Amounts due to fellow subsidiaries	28(b)	**205,022**	—
Other payables		**1,047,930**	688,339
		3,052,485	2,380,651
Net current assets		**2,388,448**	2,439,935
Total assets less current liabilities carried forward		**9,146,519**	7,721,271

Balance Sheet *(Continued)*

at 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	**2002** **Rmb'000**	2001 *Rmb'000*
Total assets less current liabilities brought forward		**9,146,519**	7,721,271
Non-current liabilities			
Convertible debentures	21	**9,264**	17,529
Bank loans	22	**1,463,000**	400,000
		1,472,264	417,529
NET ASSETS		**7,674,255**	7,303,742
SHAREHOLDERS' FUNDS			
Share capital	23	**2,960,874**	2,957,935
Share premium		**3,052,752**	3,046,099
Reserves	24	**332,853**	214,625
Retained profits		**1,327,776**	1,085,083
		7,674,255	7,303,742

Approved and authorised for issue by the board of directors on 31 March 2003

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 97 to 133 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
2001						
At 1 January 2001		2,917,943	2,953,619	294,234	1,054,000	7,219,796
Net profit for the year		—	—	—	366,481	366,481
Transfer for the year		—	—	82,064	(82,064)	—
Net exchange difference on hedged transactions recognised		—	—	(6,816)	—	(6,816)
Net exchange difference capitalised as the cost of construction in progress		—	—	6,816	—	6,816
Shares issued upon conversion of convertible debentures	23	39,992	92,480	(14,376)	—	118,096
Final dividend — 2000	9(b)	—	—	—	(265,490)	(265,490)
Deferred tax released upon the conversion of convertible debentures		—	—	4,659	—	4,659
At 31 December 2001		2,957,935	3,046,099	366,581	1,072,927	7,443,542
Adjustment to land use rights		—	—	(151,956)	12,156	(139,800)
At 31 December 2001, as reclassified		2,957,935	3,046,099	214,625	1,085,083	7,303,742
2002						
Net profit for the year		—	—	—	598,316	598,316
Proposed transfer for the year		—	—	118,918	(118,918)	—
Shares issued upon conversion of convertible debentures	23	2,939	6,653	(922)	—	8,670
Final dividend — 2001	9(b)	—	—	—	(236,705)	(236,705)
Deferred tax released upon the conversion of convertible debentures	7(c)	—	—	232	—	232
At 31 December 2002		2,960,874	3,052,752	332,853	1,327,776	7,674,255

The notes on pages 97 to 133 form part of these financial statements.

Consolidated Cash flow Statement

for the year ended 31 December 2002

(Prepared in accordance with International Financial Reporting Standards)

	Note	**2002** **Rmb'000**	2001 Rmb'000
Operating activities			
Cash flows from operations	26	**2,395,159**	(87,170)
Interest received		**6,201**	48,649
Interest paid		**(45,992)**	(11,366)
Income tax paid		**(335,524)**	(209,192)
Cash flows from operating activities		**2,019,844**	(259,079)
Investing activities			
Capital expenditure		**(1,856,930)**	(1,280,777)
Proceeds from disposal of property, plant and equipment		**195**	1,946
Maturity of fixed deposits maturing over 3 months		**50,000**	607,205
Cash flows used in investing activities		**(1,806,735)**	(671,626)
Financing activities			
Dividends paid		**(236,705)**	(265,490)
Repayment of loan from ultimate holding company		**(120,000)**	(120,000)
Proceeds of bank loans		**1,228,000**	500,000
Repayment of bank loans		**(100,000)**	(100,000)
Redemption of convertible debentures		**(1)**	(5)
Cash flows from financing activities		**771,294**	14,505
Net increase/(decrease) in cash and cash equivalents		**984,403**	(916,200)
Cash and cash equivalents at 1 January		**711,229**	1,627,239
Effect of exchange rate fluctuations on cash held		**6,419**	190
Cash and cash equivalents at 31 December	19	**1,702,051**	711,229

The notes on pages 97 to 133 form part of these financial statements.

Notes on the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

1 BACKGROUND OF THE COMPANY

Angang New Steel Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 8 May 1997 as a joint stock limited company. The Company and its jointly controlled entity (the "Group") are principally engaged in the production and sales of cold rolled sheets, wire rods, thick plates, large section steel products and steel billets.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's results and shareholders' funds under IFRS and the PRC Accounting Rules and Regulations is presented on page 134 to 135.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost except for the carrying amount of certain property, plant and equipment (refer to note 12(d)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except that as described in note 24 that land use rights are carried at cost less amortisation and impairment losses effective 1 January 2002. The effect of this change resulted in a decrease in the shareholders' funds as of 1 January 2002. The effect of this change did not have a material impact on the Group's financial condition and results of operations in prior years.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a jointly controlled entity is accounted for under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Property, plant and equipment

(i) Property, plant and equipment are stated at cost or valuation (refer to note 12(d)) less accumulated depreciation (refer below) and impairment losses (refer accounting policy r). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

(ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

(iii) Depreciation is provided to write off the cost or valuation where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

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

(e) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer accounting policy r). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges and exchange differences on other designated financial instruments (refer accounting policy v), during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(f) Lease prepayments

Lease prepayments represent land use rights paid to the PRC land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights. At 31 December 2002, lease prepayments which comprise land use rights have been presented in a separate balance sheet caption. Accordingly, the comparative amount at 31 December 2001 which was previously included in property, plant and equipment was reclassified to conform with the current year's presentation.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Inventories

Inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value.

Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(h) Cash equivalents

Cash equivalents consist of time deposits with an initial term of less than three months. Cash equivalents are stated at cost, which approximates fair value.

(i) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts. An allowance for doubtful accounts is provided based upon an evaluation of the recoverability of these accounts by the directors at the balance sheet date.

(j) Convertible debentures

Convertible debentures that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with both liability and equity component.

The liability component of the convertible debentures is calculated as the present value of the future interest and principal payments, discounted at a market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated net of unamortised transaction costs and unamortised discounts on convertible debentures (refer below).

The equity component is calculated as the excess of the issue proceeds over the liability component.

Transactions costs incurred on issuance of the convertible debentures are allocated to the component parts in proportion to the allocation of proceeds.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Convertible debentures *(continued)*

The discounts on the convertible debentures, being the amount classified as equity as referred to above, are set off against the liability component and are amortised as an interest expense on an effective interest rate method until conversion or maturity.

The transaction costs allocated to the liability component are amortised as an interest expenses on an effective interest rate method until conversion or maturity.

On conversion, the liability component, the accrued interest forfeited together with the relevant portion of the equity component constitute the consideration for the shares being issued.

(k) Trade and other payables

Trade and other payables are stated at their cost.

(l) Provisions and contingent liabilities

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

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

(m) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Net financing costs/income

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

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Borrowing costs are expensed as incurred as part of the net financing costs/income, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(o) Repairs and maintenance expenses

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

(p) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

(q) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax *(continued)*

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

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit.

(r) Impairment loss

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) 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 29.

(t) Dividends

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

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date.

Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (refer accounting policy e).

(v) Hedge of firm commitments and forecasted transactions

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

(w) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

3 SEGMENT REPORTING

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

4 TURNOVER

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for goods returned, trade discounts, value added tax and sales surtaxes. All of the Group's operations are conducted in the PRC.

5 OTHER OPERATING INCOME

	2002	2001
	Rmb'000	*Rmb'000*
Packaging materials income	**6,759**	7,214
Income from sales of scrap materials	**23,096**	18,213
Others	**1,102**	78
	30,957	25,505

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002	2001
	Rmb'000	*Rmb'000*
(a) Net financing costs/(income):		
Interest and other borrowing costs	**46,555**	23,135
Less: amount capitalised as construction in progress*	**(35,982)**	(12,680)
Net interest expense	**10,573**	10,455
Net exchange difference	**(19,938)**	20,892
Less: amount capitalised as construction in progress	**19,918**	(21,082)
Net exchange gain	**(20)**	(190)
Interest income	**(6,275)**	(37,790)
Bank charges	**1,819**	1,667
	6,097	(25,858)

* The borrowing costs have been capitalised at an average rate of 4.88% (2001: 5.58%) per annum for construction in progress.

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(continued)*

	2002	2001
	Rmb'000	*Rmb'000*
(b) Other items:		
Cost of raw materials	**7,896,509**	6,982,978
Personnel costs		
- Salaries and wages	**185,596**	155,521
- Contributions to defined contribution scheme	**60,069**	47,796
Total personnel costs	**245,665**	203,317
Auditors' remuneration	**3,756**	3,544
Depreciation	**436,167**	347,075
Amortisation of lease prepayments	**2,758**	—
Repairs and maintenance	**179,136**	157,188
Research and development costs	**13,027**	7,954
Loss on disposals of property, plant and equipment	**25,202**	30,960

7 INCOME TAX

(a) Income tax expense in the consolidated income statement

	2002	2001
	Rmb'000	*Rmb'000*
Current tax expense		
Current year	**257,411**	270,876
Under provided in prior years	**—**	24,205
	257,411	295,081
Deferred tax expense		
Originating and reversal of temporary differences (note 7 (c))	**1,755**	37,262
Total income tax expense in consolidated income statement	**259,166**	332,343

7 INCOME TAX *(continued)*

(a) Income tax expense in the consolidated income statement *(continued)*

The provision for PRC income tax is calculated at 33% (2001: 33%) of the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations in the PRC.

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

	2002	2001
	Rmb'000	*Rmb'000*
Profit from ordinary activities before taxation	**857,482**	698,824
Expected PRC income tax using the Company's tax rate of 33%	**282,969**	230,612
Deferred tax assets written off	**—**	37,262
Under provided in prior years	**—**	24,205
Non-deductible expenses	**30,420**	40,264
Additional deduction *	**(54,223)**	—
	259,166	332,343

* Pursuant to relevant PRC tax regulations, the Company is entitled to claim an additional deduction based on 50% of approved research and development costs.

(b) Income tax in the balance sheets

	2002	2001
	The Group/ Company	The Company
	Rmb'000	*Rmb'000*
Provision for PRC income tax for the year	**257,411**	295,081
Balance of PRC income tax provision relating to prior year	**126,861**	40,972
Payments made during the year	**(335,524)**	(209,192)
Tax payable	**48,748**	126,861

7 INCOME TAX (continued)

(c) Deferred taxation

(i) Deferred tax assets and (liabilities) are attributable to the following:

The Group

	Assets		Liabilities		Net	
	2002	2001	**2002**	2001	**2002**	2001
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Non-current						
Construction in progress	**—**	—	**(4,903)**	(2,162)	**(4,903)**	(2,162)
Lease prepayments	**67,422**	68,856	**—**	—	**67,422**	68,856
Pre-operating expenses	**2,295**	—	**—**	—	**2,295**	—
Convertible debentures	**—**	—	**(196)**	(553)	**(196)**	(553)
Tax assets/(liabilities)	**69,717**	68,856	**(5,099)**	(2,715)	**64,618**	66,141
Set off of tax	**(5,099)**	(2,715)	**5,099**	2,715	**—**	—
Net tax assets	**64,618**	66,141	**—**	—	**64,618**	66,141

The Company

	Assets		Liabilities		Net	
	2002	2001	**2002**	2001	**2002**	2001
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Non-current						
Construction in progress	**—**	—	**(4,903)**	(2,162)	**(4,903)**	(2,162)
Lease prepayments	**67,360**	68,856	**—**	—	**67,360**	68,856
Convertible debentures	**—**	—	**(196)**	(553)	**(196)**	(553)
Tax assets/(liabilities)	**67,360**	68,856	**(5,099)**	(2,715)	**62,261**	66,141
Set off of tax	**(5,099)**	(2,715)	**5,099**	2,715	**—**	—
Net tax assets	**62,261**	66,141	**—**	—	**62,261**	66,141

As described in note 24 (c), land use rights are carried at cost effective 1 January 2002. The surplus on the revaluation of land use rights net of deferred tax assets are reversed to the shareholders' funds.

There are no other material unrecognised deferred tax assets or liabilities.

7 INCOME TAX *(continued)*

(c) Deferred taxation *(continued)*

(ii) Movement in temporary differences during the year:

The Group

	Balance at 1 January 2002	Recognised in income statement (note 7(a))	Recognised in equity (note 24)	Balance at 31 December 2002
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Non-current				
Construction in progress	(2,162)	(2,741)	—	(4,903)
Lease prepayments	68,856	(1,434)	—	67,422
Pre-operating expenses	—	2,295	—	2,295
Convertible debentures	(553)	125	232	(196)
	66,141	(1,755)	232	64,618

The Company

	Balance at 1 January 2002	Recognised in income statement	Recognised in equity (note 24)	Balance at 31 December 2002
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Non-current				
Construction in progress	(2,162)	(2,741)	—	(4,903)
Lease prepayments	68,856	(1,496)	—	67,360
Convertible debentures	(553)	125	232	(196)
	66,141	(4,112)	232	62,261

(d) Overseas income tax

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

8 DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Directors' and supervisors' remuneration:

	2002	2001
	Rmb'000	*Rmb'000*
Fees	**81**	83
Salaries and other emoluments	**1,212**	1,140
Discretionary bonuses	—	—
Retirement scheme contributions	**370**	348
	1,663	1,571

Included in the directors' and supervisors' remuneration were fees of Rmb61,000 (2001: Rmb63,000) payable to independent non-executive directors during the year.

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

Hong Kong dollars	***Rmb equivalent***	***Number of directors and supervisors***	
		2002	2001
0 - HK$1,000,000	0 - Rmb1,060,000	**16**	16

The five highest paid individuals of the Group in 2002 and 2001 were all executive directors whose emoluments are disclosed above.

9 DIVIDENDS

(a) Dividends attributable to the year

	2002	2001
	Rmb'000	*Rmb'000*
Final dividend proposed after the balance sheet date of Rmb10 cents per share (2001: Rmb8 cents per share)	**296,087**	236,635

Pursuant to a resolution passed at the directors' meeting on 31 March 2003, a final dividend of Rmb10 cents (2001: Rmb8 cents) per share totalling Rmb296,087,000 (2001: Rmb236,635,000) was proposed for shareholders' approval at the Annual General Meeting.

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

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

	2002	2001
	Rmb'000	*Rmb'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb8 cents per share (2001: Rmb9 cents per share)	**236,705**	265,490

In respect of the dividends attributable to the year ended 31 December 2001, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of shares which were issued upon the conversion of convertible debentures before the closing date of the register of members.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders in the amount of Rmb598,316,000 (2001: Rmb366,481,000) has all been dealt with in the financial statements of the Company.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb598,316,000 (2001: Rmb366,481,000) and a weighted average number of shares outstanding during the year of 2,959,439,000 (2001: 2,946,646,000) calculated as follows:

Weighted average number of shares

(In thousands of shares)	**2002**	2001
Issued shares at 1 January	**2,957,935**	2,917,943
Effect of conversion of convertible debentures	**1,504**	28,703
Weighted average number of shares at 31 December	**2,959,439**	2,946,646

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb598,316,000 (2001: Rmb366,481,000) and a weighted average number of shares of 2,962,588,000 (2001: 2,952,629,000) after the adjustment with regard to the effects of conversion of remaining convertible debentures as follows:

Weighted average number of shares (diluted)

(In thousands of shares)	**2002**	2001
Weighted average number of shares at 31 December	**2,959,439**	2,946,646
Effect of conversion of remaining convertible debentures	**3,149**	5,983
Weighted average number of shares (diluted) at 31 December	**2,962,588**	2,952,629

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

12 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Plant, machinery and equipment	Transportation vehicles and other related equipment	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost or valuation:				
At 1 January 2002	877,920	4,123,487	224,424	5,225,831
Additions	—	5,299	2,371	7,670
Transfer from construction in progress (note 13)	278,937	347,252	47,632	673,821
Disposals	(8,472)	(30,378)	(21,393)	(60,243)
At 31 December 2002	1,148,385	4,445,660	253,034	5,847,079
Representing:				
Cost	485,533	2,827,202	102,273	3,415,008
Valuation - 1996	662,852	1,618,458	150,761	2,432,071
	1,148,385	4,445,660	253,034	5,847,079
Accumulated depreciation:				
At 1 January 2002	113,333	923,768	173,295	1,210,396
Charge for the year	40,256	335,180	60,731	436,167
Written back on disposal	(1,123)	(16,313)	(17,410)	(34,846)
At 31 December 2002	152,466	1,242,635	216,616	1,611,717
Net book value:				
At 31 December 2002	995,919	3,203,025	36,418	4,235,362
At 31 December 2001	764,587	3,199,719	51,129	4,015,435

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) The Company

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Transportation vehicles and other related equipment *Rmb'000*	Total *Rmb'000*
Cost or valuation :				
At 1 January 2002	877,920	4,123,487	224,424	5,225,831
Additions	—	—	145	145
Transfer from construction in progress (note 13)	278,937	347,252	47,632	673,821
Disposals	(8,472)	(30,378)	(21,393)	(60,243)
At 31 December 2002	1,148,385	4,440,361	250,808	5,839,554
Representing:				
Cost	485,533	2,821,903	100,047	3,407,483
Valuation -1996	662,852	1,618,458	150,761	2,432,071
	1,148,385	4,440,361	250,808	5,839,554
Accumulated depreciation:				
At 1 January 2002	113,333	923,768	173,295	1,210,396
Charge for the year	40,256	335,078	60,517	435,851
Written back on disposal	(1,123)	(16,313)	(17,410)	(34,846)
At 31 December 2002	152,466	1,242,533	216,402	1,611,401
Net book value:				
At 31 December 2002	995,919	3,197,828	34,406	4,228,153
At 31 December 2001	764,587	3,199,719	51,129	4,015,435

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(c) All of the Group's buildings are located in the PRC.

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

(e) The Company's jointly controlled entity has pledged its property, plant and equipment at a carrying amount of Rmb14,418,000 at 31 December 2002 to secure a syndicated loan as mentioned in note 22(b).

13 CONSTRUCTION IN PROGRESS

	2002		2001
	The Group	**The Company**	The Company
	Rmb'000	***Rmb'000***	*Rmb'000*
Balance at 1 January	**1,082,644**	**1,082,644**	901,039
Additions	**1,918,735**	**1,688,479**	1,268,001
	3,001,379	**2,771,123**	2,169,040
Transfer to property, plant and equipment (note 12)	**(673,821)**	**(673,821)**	(1,086,396)
Balance at 31 December	**2,327,558**	**2,097,302**	1,082,644

Construction in progress comprises:

	2002		2001
	The Group	**The Company**	The Company
	Rmb'000	***Rmb'000***	*Rmb'000*
Upgrade of existing production plants	**2,097,302**	**2,097,302**	984,378
Dalian galvanised steel production line	**230,256**	**—**	—
Construction of new steel smelting plant	**—**	**—**	48,678
Combined pickling and continuous rolling line	**—**	**—**	49,588
Balance at 31 December	**2,327,558**	**2,097,302**	1,082,644

The Company's jointly controlled entity has pledged its construction in progress at a carrying amount of Rmb460,512,000 at 31 December 2002 to secure a syndicated loan as mentioned in note 22(b).

14 LEASE PREPAYMENTS

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights of the Company and the Group are 45 years and 45 to 49 years respectively.

The Company's jointly controlled entity has pledged its land use rights at a carrying amount of Rmb44,318,000 at 31 December 2002 to secure a syndicated loan as mentioned in note 22(b).

15 INTEREST IN JOINTLY CONTROLLED ENTITY

The Company

	2002	2001
	Rmb'000	*Rmb'000*
Unlisted shares, at cost	**248,305**	—
Share of losses	**(4,786)**	—
	243,519	—

Details of the Company's interest in the jointly controlled entity are set out below:

Name of company	Form of business structure	Place of incorporation and operation	Registered capital	Proportion of equity interst: Group's effective interest	Proportion of equity interst: held by the Company	Principal activities
ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS")	Sino-foreign equity joint venture	PRC	US$60 million	50%	50%	Production and sale of hot dip galvanised steel products

The Company has pledged its equity interest in the jointly controlled entity to secure a syndicated loan granted to ANSC-TKS (note 22(b)).

16 INVENTORIES

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Raw materials	**144,609**	122,362
Work in progress	**124,735**	91,098
Finished goods	**366,471**	209,464
Spare parts, tools and ancillary materials	**581,234**	481,289
	1,217,049	904,213
Inventories stated at net realisable value	**85,076**	152,324

17 TRADE RECEIVABLES

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Accounts receivable	**92,060**	145,798
Bills receivable	**1,719,474**	2,423,349
	1,811,534	2,569,147

The ageing analysis of trade receivables is as follows:

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Less than 3 months	**1,594,836**	1,617,264
More than 3 months but less than 12 months	**216,698**	951,883
	1,811,534	2,569,147

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

18 DEPOSITS WITH BANKS

	2002 The Group/ Company Rmb'000	2001 The Company Rmb'000
Deposits with banks	—	202,088
Less: deposits with banks with an initial term of less than three months (note 19)	—	(152,088)
	—	50,000

19 CASH AND CASH EQUIVALENTS

	2002 The Group Rmb'000	2002 The Company Rmb'000	2001 The Company Rmb'000
Bank balances	**1,702,051**	**1,675,586**	559,141
Add: deposits with banks with an initial term of less than three months (note 18)	—	—	152,088
	1,702,051	**1,675,586**	711,229

20 TRADE PAYABLES

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Accounts payable	**224,994**	219,882
Bills payable	**1,525,791**	1,177,592
	1,750,785	1,397,474

The ageing analysis of trade payables is as follows:

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Due on demand	**199,825**	188,514
Due within three months	**737,273**	533,512
Due after three months but within six months	**813,687**	675,448
	1,750,785	1,397,474

21 CONVERTIBLE DEBENTURES

	2002 The Group/ Company *Rmb'000*	2001 The Company *Rmb'000*
Carrying amount of convertible debentures at 1 January	**17,529**	133,240
Conversion into A shares (note 23)	**(8,650)**	(117,140)
Redemptions of convertible debentures	**(1)**	(5)
Transaction costs amortised	**32**	120
Discount on convertible debentures amortised	**354**	1,314
Carrying amount of convertible debentures at 31 December	**9,264**	17,529

21 CONVERTIBLE DEBENTURES *(continued)*

The amount of the convertible debentures initially recognised in equity is net of attributable transaction costs of Rmb2,437,000 (Rmb16,000 at 31 December 2002; Rmb31,000 at 31 December 2001).

On 15 March 2000, the Company issued convertible debentures (the "Debentures") amounting to Rmb1,500,000,000. The Debentures are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14 September 2000 to 13 March 2005 into A shares with a par value of Rmb1 each of the Company ("A Shares") at a conversion price of Rmb3.3 per share. The conversion price was revised to Rmb3.21 per share on 22 June 2001 and further revised to Rmb3.13 per share on 4 July 2002. 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 in arrears on 14 March each year.

The Company may redeem in whole or in part the Debentures from 14 March 2001 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days.

The Debenture holder may require the Company to redeem all or part of the Debentures half a year before the maturity date from 14 September 2004 to 13 March 2005 if the closing price of the A shares on the Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

22 BANK LOANS

(a) At 31 December 2002, the bank loans were repayable as follows:

	2002		2001
	The Group	**The Company**	The Company
	Rmb'000	***Rmb'000***	*Rmb'000*
Within 1 year or on demand	**65,000**	**—**	—
After 1 year but within 2 years	**300,000**	**300,000**	—
After 2 years but within 5 years	**1,163,000**	**1,163,000**	400,000
Long term bank loans	**1,463,000**	**1,463,000**	400,000
	1,528,000	**1,463,000**	400,000

22 BANK LOANS *(continued)*

The short term bank loan is unsecured fixed rate Renminbi loan bearing interest of 5.04% per annum.

All long term bank loans are fixed rate Renminbi loans bearing interest of 5.49% per annum (2001: 5.94% to 6.03% per annum). These bank loans are guaranteed by Angang Holding.

(b) In October 2002, ANSC-TKS entered into a long-term loan facility of Rmb1,080 million (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights; construction in progress; property, plant and equipment of ANSC-TKS at carrying amount of Rmb519,248,000 at 31 December 2002.

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

There was no drawndown of the Syndicated Loan as at 31 December 2002.

23 SHARE CAPITAL

	2002	2001
	Rmb'000	*Rmb'000*
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	**1,319,000**	1,319,000
751,873,679 (2001: 748,935,149) A shares of Rmb1 each	**751,874**	748,935
890,000,000 H shares of Rmb1 each	**890,000**	890,000
	2,960,874	2,957,935

During the year, 2,938,530 (2001: 39,991,818) A shares were issued on the conversion of convertible debentures with total carrying values of Rmb9,592,000 (2001: Rmb132,472,000) made up as follows:

	2002	2001
	Rmb'000	*Rmb'000*
Liability component (note 21)	**8,650**	117,140
Equity component (note 24)	**922**	14,376
Accrued interest forfeited	**20**	956
	9,592	132,472

The balance of Rmb6,653,000 (2001: Rmb92,480,000) was credited to share premium account.

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

24 RESERVES

The Group and the Company

	Statutory surplus reserve	Statutory public welfare fund	Convertible debenture reserve (note a)	Hedging reserve (note b)	Excess over share capital (note c)	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
2001						
At 1 January 2001	141,548	141,548	11,138	—	—	294,234
Transfer for the year	41,032	41,032	—	—	—	82,064
Net exchange difference on hedged transactions recognised	—	—	—	(6,816)	—	(6,816)
Net exchange difference capitalised as the cost of construction in progress	—	—	—	6,816	—	6,816
Shares issued upon conversion of convertible debentures (note 23)	—	—	(14,376)	—	—	(14,376)
Deferred tax released upon the conversion of convertible debentures	—	—	4,659	—	—	4,659
At 31 December 2001	182,580	182,580	1,421	—	—	366,581
Adjustment to land use rights	—	—	—	—	(151,956)	(151,956)
At 31 December 2001, as reclassified carried forward	182,580	182,580	1,421	—	(151,956)	214,625

24 RESERVES (continued)

The Group and the Company (continued)

	Statutory surplus reserve	Statutory public welfare fund	Convertible debenture reserve (note a)	Hedging reserve (note b)	Excess over share capital (note c)	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 31 December 2001, as reclassified brought forward	182,580	182,580	1,421	—	(151,956)	214,625
2002						
Proposed transfer for the year	59,459	59,459	—	—	—	118,918
Shares issued upon conversion of convertible debentures (note 23)	—	—	(922)	—	—	(922)
Deferred tax released upon the conversion of convertible debentures (note 7(c))	—	—	232	—	—	232
At 31 December 2002	242,039	242,039	731	—	(151,956)	332,853

Under the PRC Company Law and the Company's Articles of Association, the Company's net profit after taxation as reported in the financial statements prepared in accordance with the PRC Accounting Rules and Regulations can only be distributed as dividends after allowance has been made for:

(i) making up cumulative prior years' losses, if any;

(ii) allocations to the statutory surplus reserve of at least 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations until the fund aggregates to 50% of the Company's registered capital;

(iii) allocations of 5% to 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations, to the Company's statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

(iv) allocations to the discretionary surplus reserve subject to approval by the shareholders.

24 RESERVES *(continued)*

The Group and the Company *(continued)*

(a) Convertible debentures reserve comprises the value of the option granted to debenture holders to convert their convertible debentures into A shares of the Company (refer to note 21).

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

(c) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed from the shareholders' funds. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the years prior to the change. As such, certain comparative figures have been reclassified to conform with current year's presentation.

Under the PRC Accounting Rules and Regulations, land use rights are carried at the revalued amount.

25 DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As at 31 December 2002, the reserve available for distribution was Rmb1,281,803,000 (2001: Rmb1,042,838,000). Final dividend of Rmb296,087,000 (2001: Rmb236,635,000) in respect of the financial year 2002 was proposed after the balance sheet date.

26 NOTES TO THE CASH FLOW STATEMENT

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

	2002	2001
	Rmb'000	*Rmb'000*
Profit from ordinary activities before taxation	**857,482**	698,824
Interest income	**(6,275)**	(37,790)
Interest expenses	**10,573**	10,455
Depreciation	**436,167**	347,075
Accrual of bad debt provision	**104**	35
Loss on disposal of fixed assets	**25,202**	30,960
Net exchange gain	**(20)**	(190)
Increase in inventories	**(312,836)**	(136,984)
Increase in amounts due from fellow subsidiaries	**(244,030)**	(399,668)
Decrease in accounts receivable	**53,738**	16,360
Decrease/(increase) in bills receivable	**703,875**	(1,100,051)
Increase in lease prepayments	**(31,879)**	—
Decrease/(increase) in prepayments, deposits and other receivables	**6,252**	(77,742)
Increase/(decrease) in accounts payable	**5,112**	(23,785)
Increase in bills payable	**348,199**	458,798
(Decrease)/increase in amount due to ultimate holding company	**(47,977)**	313,696
Increase in amounts due to fellow subsidiaries	**206,201**	—
Increase/(decrease) in other payables	**385,271**	(187,163)
Cash flows from operations	**2,395,159**	(87,170)

27 COMMITMENTS

(a) The Group had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	2002		2001
	The Group	**The Company**	The Company
	Rmb'000	***Rmb'000***	*Rmb'000*
Authorised and 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	**—**	**—**	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) Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations.

28 RELATED PARTY TRANSACTIONS

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

(a) Significant transactions

(i) Significant transactions which the Company conducts with ANSI and Angang Group in the normal course of business are as follows:

		2002	2001
		The Group/ Company	The Company
	Note	**Rmb'000**	Rmb'000
Sales of finished goods	(a)	**991,051**	808,403
Return of scrap materials	(b)	**215,140**	226,577
Purchases of			
– raw materials	(c)	**7,501,072**	6,392,129
– ancillary materials and spare parts	(d)	**79,646**	63,739
Utility supplies	(e)	**284,432**	272,417
Fees paid for welfare and other support services	(f)	**211,942**	148,670
Sub-contracting	(g)	**—**	71,249

28 RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions *(continued)*

Notes:

(a) The Company sold finished products to ANSI and other fellow subsidiaries for their own consumption at average prices charged to independent customers for preceding month. Included in the above are sales of pipe billets totalling Rmb571,917,000 (2001: Rmb647,932,000) to ANSI during the year.

(b) The Company purchased raw materials from ANSI for production and returned scrap materials to ANSI at average prices charged to independent customers.

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

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

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

(f) Angang Group charged the Company for railway and road transportation services; agency services for purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul; design and engineering services, product quality testing and analysis services, heating supply for employees' accommodation, education facilities; newspapers, telephone, fax and other media communication services and staff training either at applicable State price, market price or at cost.

(g) 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.

28 RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions *(continued)*

(ii) Certain fellow subsidiaries were engaged to construct the production line of the jointly controlled entity under similar terms for third parties. Total construction costs of Rmb91,844,000 were incurred by the jointly controlled entity during the year.

The Directors of the Company are of the opinion that the above transactions with related parties were entered into:

— in the ordinary and usual course of its business;

— either (a) on normal commercial terms; or (b) on terms no less favourable than those available from/to independent third parties; or where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

— either in accordance with the terms of the agreement governing each such transaction or where there is no such agreement, on terms no less favourable than terms available from/to third parties

and these have been confirmed by the independent non-executive directors.

(b) Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries mainly represent prepayments and amounts payable for the purchase of raw materials and other services. Advances are received by the Company in respect of sales of finished goods.

The amounts due from/to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(c) Convertible debentures

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

(d) Bank loans

All long term bank loans of the Group (note 22) are guaranteed by Angang Holding.

29 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

As stipulated by the regulations of the PRC, the Group participates in employee pension schemes organised by the local governments under which it is governed. Details of the schemes of the Company and its jointly controlled entity are as follows:

Administrator	Beneficiary	Contribution rate	
		2002	2001
Anshan City and the Liaoning Provincial Government	Employees of the Company	**30.5%**	30.5%
Dalian Labour Bureau	Employees of ANSC-TKS	**19%**	—

All the employees of the Group are entitled to receive, on retirement, pension payments from these schemes. The Group has no other material obligation for payment of retirement benefits beyond the contributions.

30 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash, deposits with banks, amounts due from fellow subsidiaries, bills receivable and trade and other receivables. Financial liabilities of the Group include bills payable, trade and other payables, amounts due to fellow subsidiaries and convertible debentures. The Group does not hold or issue financial instruments for trading purposes.

(a) Interest rate risk

The interest rates of convertible debentures and bank loans are disclosed in notes 21 and 22 respectively.

(b) Credit risk

Cash and cash equivalents

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

Trade and other receivables

The Group requests most of its customers to pay cash or settle in bills in full prior to delivery of goods. 74% (2001:66%) of the accounts receivable are due from a railway company which generally settles the balances within 3 months.

30 FINANCIAL INSTRUMENTS *(continued)*

(b) Credit risk *(continued)*

Amounts due from fellow subsidiaries

The terms of amounts due from fellow subsidiaries are disclosed in note 28(b).

(c) Foreign currency risk

The Group does not have a significant foreign currency risk exposure arising from its sales and raw materials purchases for production as these transactions are mainly carried out in Renminbi, with the exception of a small portion export sales conducted in foreign currencies. The Company incurs foreign currency risks on commitments to purchase plant and equipment in currencies other than Renminbi. The Company uses foreign currency deposits to hedge such foreign currency risks. The foreign exchange gain arising on translation of the deposits designated for hedging forecasted transactions for the year ended 31 December 2002 amounted to Rmb19,918,000 (2001: losses of Rmb21,082,000).

(d) Fair value

The fair values of cash, deposits with banks, bills receivable, trade and other receivables, trade and other payables and amounts due from/to fellow subsidiaries are not materially different from their carrying amounts.

Convertible debentures – the fair value is estimated as Rmb9,856,000 (2001: Rmb22,736,000) by reference to the market value.

The fair values of the Group's bank loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments approximate to their carrying values.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

31 POST BALANCE SHEET EVENTS

(a) Change of depreciation rates

With effect from 1 January 2003, the Group revised the estimated useful lives of property, plant and equipment. Major changes include shortening the useful lives of machinery and equipment, which form a substantial portion of the Group's property, plant and equipment.

Based on the carrying amount of the property, plant and equipment as at 31 December 2002, the above change in depreciation rates will approximately increase the depreciation by Rmb103 million and decrease the profit after tax by Rmb69 million for the year ending 31 December 2003.

(b) Acquisition of land use rights and buildings

Pursuant to an agreement dated 14 January 2003, the Company acquired certain land use rights and buildings in the PRC from Angang Holding at a consideration of Rmb150,915,000.

(c) New investment

On 17 March 2003, the Company entered into an agreement with Angang International Trading (Group) Company 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 to Angang Shenyang.

32 COMPARATIVE FIGURES

All comparative figures of the Group represent the Company's own figures as the jointly controlled entity was not formed until 2002.

33 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2002 to be Angang Holding, incorporated in the PRC.