

Report of the PRC Auditors



**To the shareholders of
Angang New Steel Company Limited (“the Company”)**

We have audited the accompanying Company’s consolidated balance sheet and balance sheet at 31 December 2003, 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. The preparation of these financial statements is the responsibility of the Company’s management. Our responsibility is to express an audit opinion on these financial statements based on our audit.

We conducted our audit in accordance with China’s Independent Auditing Standards of the Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting policies used and significant estimates made by the Company’s management in the preparation of the financial statements, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China and present fairly, in all material respects, the Company’s consolidated financial position and the financial position at 31 December 2003, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the year then ended.

KPMG Huazhen

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

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Wu Wei
Zheng Gun Fang

16 April 2004

Consolidated Balance Sheet

At 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Assets	Note	2003 Rmb'000	2002 Rmb'000
Current assets			
Cash at banks and in hand	7	2,606,976	1,702,051
Bills receivable	8	2,097,812	1,719,474
Trade receivables	9	84,749	92,060
Other receivables	10	18,996	94,200
Prepayments	11	593,967	676,208
Inventories	12	1,440,283	1,217,049
Deferred expenses	13	184	4,534
Total current assets		6,842,967	5,505,576
<hr style="border-top: 1px dashed black;"/>			
Long-term equity investments	14	14,406	—
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Fixed assets			
Fixed assets, at cost or valuation	15	9,848,116	7,071,140
Less: Accumulated depreciation		(3,261,582)	(2,840,975)
Net book value of fixed assets		6,586,534	4,230,165
Construction in progress	16	1,206,658	2,358,791
Total fixed assets		7,793,192	6,588,956
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Intangible assets and other assets			
Intangible assets	17	334,995	323,863
Long-term deferred expenses	18	26,310	6,955
Total intangible assets and other assets		361,305	330,818
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Total assets		15,011,870	12,425,350

Consolidated Balance Sheet *(Continued)*

At 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Liabilities and shareholders' funds	<i>Note</i>	2003 Rmb'000	2002 <i>Rmb'000</i>
Current liabilities			
Short-term loans	19	—	65,000
Bills payable	20	1,259,594	1,525,791
Trade payables	21	246,669	298,724
Receipts in advance	22	1,735,563	995,222
Accrued payroll	23	61,181	38,753
Staff welfare payable	24	15,763	7,795
Taxes payable	4(d)	8,642	95,309
Other payables	25	417,586	120,187
Current portion of long-term liabilities	26	420,267	—
Total current liabilities		4,165,265	3,146,781
Long-term liabilities			
Long-term loans	26	1,892,733	1,463,000
Convertible debentures	27	5,604	10,121
Total long-term liabilities		1,898,337	1,473,121
Total liabilities		6,063,602	4,619,902
Shareholders' funds			
Share capital	28	2,962,309	2,960,874
Capital reserve	29	3,083,648	3,078,693
Surplus reserve (including statutory public welfare fund of Rmb385,297,000; 2002: Rmb242,039,000)	30	770,594	484,078
Undistributed profits (including dividend declared after the balance sheet date of Rmb592,462,000; 2002: Rmb296,087,000)	31	2,131,717	1,281,803
Total shareholders' funds		8,948,268	7,805,448
Total liabilities and shareholders' funds		15,011,870	12,425,350

These financial statements have been approved by the board of directors on 16 April 2004.

Yang Hua
On behalf of Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Balance Sheet

At 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Assets	Note	2003 Rmb'000	2002 Rmb'000
Current assets			
Cash at banks and in hand	7	2,580,613	1,675,586
Bills receivable	8	2,097,812	1,719,474
Trade receivables	9	84,749	92,060
Other receivables	10	13,883	56,235
Prepayments	11	593,962	676,208
Inventories	12	1,406,410	1,217,049
Deferred expenses	13	—	4,321
Total current assets		6,777,429	5,440,933
<hr style="border-top: 1px dashed black;"/>			
Long-term equity investments	14	266,718	248,305
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Fixed assets			
Fixed assets, at cost or valuation	15	9,838,222	7,068,914
Less: Accumulated depreciation		(3,260,751)	(2,840,761)
Net book value of fixed assets		6,577,471	4,228,153
Construction in progress	16	703,121	2,094,732
Total fixed assets		7,280,592	6,322,885
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Intangible assets and other assets			
Intangible assets	17	313,802	318,666
Total intangible assets and other assets		313,802	318,666
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Total assets		14,638,541	12,330,789

Balance Sheet *(Continued)*

At 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

Liabilities and shareholders' funds	<i>Note</i>	2003 Rmb'000	2002 <i>Rmb'000</i>
Current liabilities			
Bills payable	20	1,259,594	1,525,791
Trade payables	21	246,669	298,724
Receipts in advance	22	1,736,125	995,222
Accrued payroll	23	61,181	38,599
Staff welfare payable	24	15,763	7,795
Taxes payable	4(d)	11,095	95,253
Other payables	25	291,242	90,836
Current portion of long-term liabilities	26	400,000	—
Total current liabilities		4,021,669	3,052,220
Long-term liabilities			
Long-term loans	26	1,663,000	1,463,000
Convertible debentures	27	5,604	10,121
Total long-term liabilities		1,668,604	1,473,121
Total liabilities		5,690,273	4,525,341
Shareholders' funds			
Share capital	28	2,962,309	2,960,874
Capital reserve	29	3,083,648	3,078,693
Surplus reserve (including statutory public welfare fund of Rmb385,297,000; 2002: Rmb242,039,000)	30	770,594	484,078
Undistributed profits (including dividend declared after the balance sheet date of Rmb592,462,000; 2002: Rmb296,087,000)	31	2,131,717	1,281,803
Total shareholders' funds		8,948,268	7,805,448
Total liabilities and shareholders' funds		14,638,541	12,330,789

These financial statements have been approved by the board of directors on 16 April 2004.

Yang Hua
On behalf of Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Income from principal operations	32	14,520,736	10,771,077
Less: Cost of sales	33	12,183,096	9,473,797
Business tax and surcharges	34	38,588	24,600
Profit from principal operations		2,299,052	1,272,680
Add: Other operating profit	35	36,691	30,270
Less: Operating expenses		231,034	185,360
Administrative expenses		279,623	224,369
Financial expenses	36	9,498	13,835
Operating profit		1,815,588	879,386
Add: Investment income	37	6	—
Non-operating income		1,593	522
Less: Non-operating expenses	38	64,404	27,909
Total profit		1,752,783	851,999
Less: Income tax expense		320,204	257,411
Net profit		1,432,579	594,588

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Net profit		1,432,579	594,588
Add: Undistributed profits at the beginning of the year		1,281,803	1,042,838
Distributable profits		2,714,382	1,637,426
Less: Transfer to statutory surplus reserve	30	143,258	59,459
Transfer to statutory public welfare fund	30	143,258	59,459
Profits distributable to shareholders		2,427,866	1,518,508
Less: Transfer to discretionary surplus reserve		—	—
Dividends		296,149	236,705
Undistributed profits at the end of the year			
(including: dividend declared after the balance sheet date of Rmb592,462,000; 2002: Rmb296,087,000)		2,131,717	1,281,803

Additional information:

Item	2003 Rmb'000	2002 Rmb'000
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	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	(103,000)	—
5. Losses (or gains) arising from debt restructuring	—	—
6. Others	—	—

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Income from principal operations	32	14,520,736	10,771,077
Less: Cost of sales	33	12,183,096	9,473,797
Business tax and surcharges	34	38,588	24,600
Profit from principal operations		2,299,052	1,272,680
Add: Other operating profit	35	36,691	30,270
Less: Operating expenses		231,034	185,360
Administrative expenses		279,623	224,369
Financial expenses	36	9,498	13,835
Operating profit		1,815,588	879,386
Add: Investment income	37	6	—
Non-operating income		1,593	522
Less: Non-operating expenses	38	64,404	27,909
Total profit		1,752,783	851,999
Less: Income tax expense		320,204	257,411
Net profit		1,432,579	594,588

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Net profit		1,432,579	594,588
Add: Undistributed profits at the beginning of the year		1,281,803	1,042,838
Distributable profits		2,714,382	1,637,426
Less: Transfer to statutory surplus reserve	30	143,258	59,459
Transfer to statutory public welfare fund	30	143,258	59,459
Profits distributable to shareholders		2,427,866	1,518,508
Less: Transfer to discretionary surplus reserve		—	—
Dividends		296,149	236,705
Undistributed profits at the end of the year (including: dividend declared after the balance sheet date of Rmb592,462,000; 2002: Rmb296,087,000)		2,131,717	1,281,803

Additional information:

Item	2003 Rmb'000	2002 Rmb'000
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	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	(103,000)	—
5. Losses (or gains) arising from debt restructuring	—	—
6. Others	—	—

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note to the consolidated cash flow statement	2003 Rmb'000
Cash flows from operating activities:		
Cash received from sales of goods		17,236,731
Refund of taxes		16,315
Sub-total of cash inflows		17,253,046
<hr style="border-top: 1px dashed #ccc;"/>		
Cash paid for goods		(14,025,449)
Cash paid to and on behalf of employees		(274,039)
Taxes paid		(821,863)
Cash paid in relation to other operating activities		(133,430)
Sub-total of cash outflows		(15,254,781)
<hr style="border-top: 1px dashed #ccc;"/>		
Net cash flow from operating activities	(a)	1,998,265
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Cash flows from investing activities:		
Net proceeds from the disposal of fixed assets		1,593
Cash received in relation to other investing activities		63,246
Sub-total of cash inflows		64,839
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Cash paid for acquisition of investments		(14,400)
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(1,515,335)
Sub-total of cash outflows		(1,529,735)
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Net cash flow from investing activities		(1,464,896)
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Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2003
 (Prepared under PRC Accounting Rules and Regulations)
 (Expressed in Thousand Renminbi)

	Note to the consolidated cash flow statement	2003 Rmb'000
Cash flows from financing activities:		
Proceeds from loans		975,000
Sub-total of cash inflows		975,000
Repayment of loans		(190,000)
Cash paid for dividends or interest payment		(415,382)
Sub-total of cash outflows		(605,382)
Net cash flow from financing activities		369,618
Effect of exchange rate fluctuations on cash held		1,938
Net increase in cash and cash equivalents	(c)	904,925

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

2003
Rmb'000

Notes to the consolidated cash flow statement

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

Net profit	1,432,579
Add: Bad debt provision	(157)
Inventory provision	9,314
Depreciation of fixed assets	543,407
Amortisation of intangible assets	7,465
Decrease in deferred expenses	4,321
Loss on disposal of fixed assets	61,626
Financial expenses	9,498
Investment income	(6)
Increase in inventories	(215,278)
Increase in operating receivables	(264,069)
Increase in operating payables	409,565

Net cash flow from operating activities 1,998,265

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

Conversion of convertible debentures A shares to capital	4,401
Write off of trade payables to capital	1,913

(c) Net increase in cash and cash equivalents:

Cash at the end of the year	2,606,976
Less: Cash at the beginning of the year	(1,702,051)
Add: Cash equivalents at the end of the year	—
Less: Cash equivalents at the beginning of the year	—

Net increase in cash and cash equivalents 904,925

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note to the cash flow statement	2003 Rmb'000
Cash flows from operating activities:		
Cash received from sales of goods		17,255,124
Refund of taxes		16,315
Sub-total of cash inflows		17,271,439
<hr style="border-top: 1px dashed #ccc;"/>		
Cash paid for goods		(14,025,449)
Cash paid to and on behalf of employees		(274,039)
Taxes paid		(821,863)
Cash paid in relation to other operating activities		(133,430)
Sub-total of cash outflows		(15,254,781)
<hr style="border-top: 1px dashed #ccc;"/>		
Net cash flow from operating activities	(a)	2,016,658
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Cash flows from investing activities		
Net proceeds from the disposal of fixed assets		1,593
Cash received in relation to other investing activities		20,758
Sub-total of cash inflows		22,351
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Cash paid for acquisition of investments		(14,400)
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(1,315,172)
Sub-total of cash outflows		(1,329,572)
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Net cash flow from investing activities		(1,307,221)
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Cash Flow Statement *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

	Note to the cash flow statement	2003 Rmb'000
Cash flows from financing activities:		
Proceeds from loans		700,000
Sub-total of cash inflows		700,000
Repayment of loans		(100,000)
Cash paid for dividends or interest payment		(406,100)
Sub-total of cash outflows		(506,100)
Net cash flow from financing activities		193,900
Effect of exchange rate fluctuations on cash held		1,690
Net increase in cash and cash equivalents	(c)	905,027

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Cash Flow Statement *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

2003
Rmb'000

Notes to the cash flow statement

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

Net profit	1,432,579
Add: Bad debt provision	(157)
Inventory provision	9,314
Depreciation of fixed assets	543,407
Amortisation of intangible assets	7,465
Decrease in deferred expenses	4,321
Loss on disposal of fixed assets	61,626
Financial expenses	9,498
Investment income	(6)
Increase in inventories	(198,675)
Increase in operating receivables	(268,076)
Increase in operating payables	415,362

Net cash flow from operating activities 2,016,658

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

Conversion of convertible debentures to capital	4,401
Write off of trade payables to capital	1,913

(c) Net increase in cash and cash equivalents:

Cash at the end of the year	2,580,613
Less: Cash at the beginning of the year	(1,675,586)
Add: Cash equivalents at the end of the year	—
Less: Cash equivalents at the beginning of the year	—

Net increase in cash and cash equivalents 905,027

The accompanying notes on pages 71 to 111 form an integral part of these financial statements.

Notes on the Financial Statements

For the year ended 31 December 2003
(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 issued 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.

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 by 8 February 2002.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

1. STATUS OF THE COMPANY *(continued)*

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

The principal activities of the Company and ANSC-TKS (collectively referred to as the "Group") are the production and sale of steel billets, wire rods, thick plates, cold rolled sheets, large section steel and hot dip galvanised steel.

2. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

(a) Change in accounting policy

According to the revised Accounting Standard for Business Enterprises: Events after Balance Sheet Date (Caikuaizi [1998] No. 14) and The Notice on the Accounting Standard for Business Enterprises: Events after Balance Sheet Date issued by the Ministry of Finance on 14 April 2003 (Caikuai [2003] No. 12), the Group has presented, separately in the shareholders' funds in the balance sheet, the cash dividends proposed by the board of directors after the balance sheet date but before the issuance of the financial statements. The Group has restated the financial statements of 2002.

The above change in accounting policy has increased the undistributed profits at the beginning of 2003 by Rmb296,087,000, while the accumulative effect on prior years is as follows:

	Before adjustments Rmb'000	Adjustments Rmb'000	After adjustments Rmb'000
Undistributed profits at the beginning of 2002	806,203	236,635	1,042,838
Undistributed profits at the end of 2002	985,716	296,087	1,281,803
Dividend payable at the end of 2002	296,087	(296,087)	—

(b) Change in accounting estimates

The Group has considered the current state of the production facilities and decided to adjust the useful lives of the fixed assets beginning from 1 January 2003. The adjustment is mainly for shortening the estimated useful lives of the fixed assets held by the Group.

The useful lives of fixed assets before and after the adjustment are as follows:

	Useful lives before adjustment	Useful lives after adjustment
Buildings and plants	12 to 42 years	10 to 40 years
Machinery and equipment	6 to 21 years	5 to 20 years
Other fixed assets	4 to 15 years	4 to 15 years

The adjustment increased the depreciation charge for 2003 by Rmb103,000,000 and decreased the profit after taxation by Rmb69,000,000.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by 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 accounting year of the Group 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.

The consolidated financial statements include the financial statements of the Company and its jointly controlled entity.

For those jointly controlled entities which the Company has joint control with other investors under contractual agreement, the Company consolidates their assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to its percentage of holding of equity interest in those entities in the consolidated financial statements.

(c) Accounting basis and pricing principle

The financial statements of the Group have been prepared on an accrual basis, with the historical cost method as the pricing principle, unless otherwise stated.

(d) Reporting currency

The reporting currency of the Group is Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions 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. Except as stated below, exchange gains and losses on foreign currency transactions are dealt with as the gains and losses of the current period.

Exchange gains and losses directly relating to the purchase or construction of fixed assets before they are ready for their intended use (including exchange gains and losses arising from loans used to finance the construction of fixed assets) are capitalised as part of the costs of the fixed assets.

During the construction period, exchange gains and losses are included in long-term deferred expenses and are included in the income statement in the month the related assets are ready for their intended use.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments of the Group which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Bad debt provision

Trade receivables showing signs of uncollectibility are identified individually and bad debt provision is then made based on the probability of being uncollectible. In respect of other trade receivables, bad debt provision is made with reference to the ageing analysis and the management's estimation based on past experience.

Bad debt provision for other receivables is determined based on the nature and corresponding collectibility.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories includes the costs of purchase, costs of conversion and other costs. Inventories are stated at the cost of purchase computed using the weighted average method. 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. Except spare parts and consumables, inventory provision is provided at the difference between the cost of individual inventory item and its net realisable value. Spare parts and consumables are provided on the management's assessment. Net realisable value is determined according to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs and related taxes necessary to make the sale.

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

(i) Long-term equity investments

Long-term equity investments are stated at the lower of the carrying amount and the recoverable amount. A provision for impairment of loss is made when the recoverable amount is lower than the carrying amount.

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.

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

Notes on the Financial Statements *(Continued)*

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Fixed assets and construction in progress

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

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment loss (refer to Note 3(n)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Depreciation is provided over the estimated useful life of each asset on a straight-line basis. The respective estimated useful lives and residual values are as follows:

	Depreciation life	Residual value
Buildings and plants	10 to 40 years	3%
Machinery and equipment	5 to 20 years	3%
Other fixed assets	4 to 15 years	3%

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (refer to Note 3(n)). Amortisation is provided on a straight-line basis over the estimated useful life of ten years, the beneficial period of 12 years as specified in the related agreement or the grant period of 50 years as stipulated by law.

(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 and 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.

Notes on the Financial Statements *(Continued)*

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment loss of long-term equity investment, fixed assets, construction in progress, intangible assets and other assets

The carrying amounts of the Group's assets, other than trade receivables and inventories (refer to Notes 3(g), 3(h)), 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.

(o) 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.

(p) 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.

(q) Repairs and maintenance expenses

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

(r) Research and development costs

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

(s) Borrowing costs

Specific borrowing costs attributable to the construction of an asset during the period of time to get ready for its intended use are capitalised.

Except the above borrowing cost, other borrowing costs are expensed in the income statement in the period in which they are incurred.

Notes on the Financial Statements *(Continued)*

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3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Dividend distribution

Cash dividends are included in the income statement and profit appropriate statement when declare. The cash dividends proposed after the balance sheet date but before the issuance of the financial statements are presented separately in the shareholders' funds in the balance sheet.

(u) 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 40.

(v) 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.

4. TAXATION

(a) Value added tax

Tax relating to sales of goods applicable to the Group includes Value Added Tax ("VAT"). The VAT rate is 17%.

(b) Income tax

The applicable income tax rate of the Company is 33% (2002: 33%).

The jointly controlled entity of the Company, ANSC-TKS, did not provide for income tax as it had not began operations during the year.

(c) 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.

Notes on the Financial Statements *(Continued)*

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4. TAXATION *(continued)*

(d) Taxes payable

	At 31 December 2003 <i>Rmb'000</i>	At 31 December 2002 <i>Rmb'000</i>
The Group		
VAT payable	28,997	43,574
Income tax payable	(23,067)	48,748
Others	2,712	2,987
Total	8,642	95,309
The Company		
VAT payable	31,450	43,574
Income tax payable	(23,067)	48,748
Others	2,712	2,931
Total	11,095	95,253

5. JOINTLY CONTROLLED ENTITY AND ASSOCIATE

As at 31 December 2003, particulars of the jointly controlled entity are set out below:

Name of invested company	Registered capital	Percentage of equity held by the Company	Initial cost of investment	Principal activities
ANSC-TKS	US\$60,000,000	50%	US\$30,000,000	Production and sale of rolled hot dip galvanised steel products

As at 31 December 2003, particulars of the associate are set out below:

Name of invested company	Registered capital	Percentage of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang	Rmb48,000,000	30%	Rmb14,400,000	Processing, sale, storage and distribution of steel products

Notes on the Financial Statements (Continued)

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6. SEGMENT REPORTING

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

7. CASH AT BANK AND IN HAND

The Group	At 31 December 2003			At 31 December 2002		
	Original currency '000	Exchange rate	Rmb/Rmb equivalent Rmb'000	Original currency '000	Exchange rate	Rmb/Rmb equivalent Rmb'000
Cash in hand						
Renminbi			8			26
Euro	—	10.34	2			—
Cash at bank						
Renminbi			2,066,879			1,607,669
HK Dollars	18,844	1.07	20,082	33,376	1.06	35,412
US Dollars	799	8.28	6,613	1,822	8.28	15,085
Euro	2,236	10.34	23,114	5,050	8.64	43,608
Pounds Sterling	19	14.68	278	19	13.21	251
Deposit with banks						
Renminbi			490,000			—
			2,606,976			1,702,051

The Company	At 31 December 2003			At 31 December 2002		
	Original currency '000	Exchange rate	Rmb/Rmb equivalent Rmb'000	Original currency '000	Exchange rate	Rmb/Rmb equivalent Rmb'000
Cash in hand						
Renminbi			8			23
Cash at bank						
Renminbi			2,041,910			1,589,096
HK Dollars	18,844	1.07	20,082	33,376	1.06	35,412
US Dollars	670	8.28	5,548	873	8.28	7,230
Euro	2,204	10.34	22,787	5,046	8.64	43,574
Pounds Sterling	19	14.68	278	19	13.21	251
Deposit with banks						
Renminbi			490,000			—
			2,580,613			1,675,586

The balance of cash at bank and in hand of the Group as at 31 December 2003 has increased by Rmb904,925,000 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.

Notes on the Financial Statements (Continued)

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8. BILLS RECEIVABLE

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

The increase in balance of bills receivable of the Group as at 31 December 2003 as compared with previous year is mainly due to increase in sales in 2003 as compared with previous year.

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

9. TRADE RECEIVABLES

	The Group/Company At 31 December 2003		The Group/Company At 31 December 2002	
	Rmb'000	%	Rmb'000	%
Within one year	84,749	100	92,060	100
Less: Bad debt provision	—	—	—	—
	84,749	100	92,060	100

The management considers that no provision for bad debt in respect of trade receivables as at 31 December 2003 is necessary as all of these amounts are due with one year and it is expected that the amounts can be fully recovered.

The trade receivables of the Group/Company as at 31 December 2003 are as follows:

Name of the debtor	Particulars	The Group/Company	
		Amount Rmb'000	Percentage of total trade receivables %
China Railway Materials Northeast Co.	Sales of goods	22,509	27
China Railway Materials Shenyang Co.	Sales of goods	43,061	51
Shenyang Railway Authority Material Distribution Centre, Research & Development Department	Sales of goods	18,657	22
Shenyang Railway Authority Material Trading (Main Factory) Company	Sales of goods	522	—
		84,749	100

As at 31 December 2003, the total trade receivables of the Group's/Company's five largest debtors are as follows:

	The Group/Company At 31 December 2003	The Group/Company At 31 December 2002
Amount (Rmb'000)	84,749	92,060
Percentage of total trade receivables	100%	100%

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

Notes on the Financial Statements *(Continued)*

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10. OTHER RECEIVABLES

	At 31 December 2003	At 31 December 2002
The Group	Rmb'000	Rmb'000
Subsidiaries of Angang Holding	200	16,886
Others	18,799	77,474
Less: Bad debt provision	(3)	(160)
	18,996	94,200

	At 31 December 2003	At 31 December 2002
The Company	Rmb'000	Rmb'000
Subsidiaries of Angang Holding	200	16,886
Others	13,686	39,509
Less: Bad debt provision	(3)	(160)
	13,883	56,235

Ageing analyses of other receivables are as follows:

The Group	At 31 December 2003		At 31 December 2002	
	Rmb'000	%	Rmb'000	%
Within one year	18,430	97	62,579	66
Between one and two years	—	—	31,107	33
Between two and three years	—	—	514	1
Over three years	569	3	160	—
	18,999	100	94,360	100
Less: Bad debt provision over three years	(3)	—	(160)	—
	18,996	100	94,200	100

Notes on the Financial Statements (Continued)

For the year ended 31 December 2003
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10. OTHER RECEIVABLES (continued)

The Company	At 31 December 2003		At 31 December 2002	
	Rmb'000	%	Rmb'000	%
Within one year	13,317	96	24,704	44
Between one and two years	—	—	31,017	55
Between two and three years	—	—	514	1
Over three years	569	4	160	—
	13,886	100	56,395	100
Less: Bad debt provision over three years	(3)	—	(160)	—
	13,883	100	56,235	100

Bad debt provision	The Group/Company At 31 December 2003		The Group/Company At 31 December 2002	
	Rmb'000		Rmb'000	
Balance at the beginning of the year		160		56
Add: Provision for the year		—		104
Less: Written back for the year		157		—
Balance at the end of the year		3		160

As at 31 December 2003, the management considers that most of the other receivables can be recovered and all debtors have the ability to repay the debts, hence, the level of bad debt provision is less than 5%.

The five largest debtors of other receivables of the Group as at 31 December 2003 are as follows:

Name of the debtor	Particulars	The Group	
		Amount Rmb'000	Percentage of other receivables %
Anshan State Tax Bureau	Export VAT refundable	5,845	31
The People's Insurance Company Of China, Anshan Branch	Insurance compensation	2,523	13
Bank of China, Anshan Branch	Interest receivable	1,544	8
ANSC-TKS	Pre-operating expenses	1,023	5
The Industrial and Commercial Bank of China, Anshan Branch	Interest receivable	944	5
		11,879	62

Notes on the Financial Statements (Continued)

For the year ended 31 December 2003
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10. OTHER RECEIVABLES (continued)

As at 31 December 2003, the total other receivables of the Group's five largest debtors are as follows:

The Group	At 31 December 2003	At 31 December 2002
Amount (Rmb'000)	11,879	85,942
Percentage of total other receivables	63%	91%

The five largest debtors of other receivables of the Company as at 31 December 2003 are as follows:

Name of the debtor	Particulars	The Company	
		Amount Rmb'000	Percentage of other receivables %
Anshan State Tax Bureau	Export VAT refundable	5,845	42
ANSC-TKS	Pre-operating expenses	2,045	15
Bank of China, Anshan Branch	Interest receivable	1,544	11
The Industrial and Commercial Bank of China, Anshan Branch	Interest receivable	944	7
	Prepayment of interest payable of convertible debentures	524	4
Shenzhen Stock Exchange			
		10,902	79

As at 31 December 2003, the total other receivables of the Company's five largest debtors are as follows:

The Company	At 31 December 2003	At 31 December 2002
Amount (Rmb'000)	10,902	49,131
Percentage of total other receivables	79%	87%

The decrease in other receivables in 2003 as compared with 2002 is mainly due to the settlement of approximately Rmb16,886,000 from Angang Holding of prepayment for land use rights and construction costs and the settlement of VAT rebate of approximately Rmb28,273,000 from Anshan State Tax Bureau. The decrease in other receivables of the Group is also due to that ANSC-TKS has received the reimbursement of deposits for the purchase of overseas equipment of approximately Rmb71,320,000 from Dalian Custom.

During the year, the Group had no individually significant write-off or write-back of other receivables which had been fully or substantially provided for in prior years.

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

Notes on the Financial Statements *(Continued)*

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11. PREPAYMENTS

The Group	At 31 December 2003		At 31 December 2002	
	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%
Within one year	593,967	100	673,231	100
Between one and two years	—	—	2,961	—
Between two and three years	—	—	16	—
	593,967	100	676,208	100

The Company	At 31 December 2003		At 31 December 2002	
	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%
Within one year	593,962	100	673,231	100
Between one and two years	—	—	2,961	—
Between two and three years	—	—	16	—
	593,962	100	676,208	100

The Group	At 31 December 2003		At 31 December 2002	
	<i>Rmb'000</i>		<i>Rmb'000</i>	
ANSI	543,545		632,463	
Subsidiaries of Angang Holding	—		11,235	
	543,545		643,698	
Prepayments for spare parts	50,422		32,510	
	593,967		676,208	

Notes on the Financial Statements *(Continued)*

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11. PREPAYMENTS *(continued)*

The Company	At 31 December 2003 <i>Rmb'000</i>	At 31 December 2002 <i>Rmb'000</i>
ANSI	543,545	632,463
Angang Holding and its subsidiaries	—	11,235
	543,545	643,698
Prepayments for spare parts	50,417	32,510
	593,962	676,208

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

12. INVENTORIES

	The Group At 31 December 2003 <i>Rmb'000</i>	The Company At 31 December 2003 <i>Rmb'000</i>	The Group/Company At 31 December 2002 <i>Rmb'000</i>
At cost			
Raw materials	252,877	242,186	144,609
Work in progress	166,244	166,244	124,735
Finished goods	455,217	444,190	366,471
Spare parts and consumables	629,541	617,386	635,516
	1,503,879	1,470,006	1,271,331
Less: Provision for diminution in value			
- Finished goods	(15,130)	(15,130)	—
- Spare parts	(48,466)	(48,466)	(54,282)
	1,440,283	1,406,410	1,217,049

Notes on the Financial Statements *(Continued)*

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12. INVENTORIES *(continued)*

Provision for diminution in value	The Group/Company At 31 December 2003 <i>Rmb'000</i>	The Group/Company At 31 December 2002 <i>Rmb'000</i>
Balance at the beginning of the year	54,282	73,466
Add: Provision for the year	15,130	—
Less: Written back for the year	5,816	19,184
Balance at the end of the year	63,596	54,282

All the above inventories are either purchased or manufactured by the Group.

	The Group/Company At 31 December 2003 <i>Rmb'000</i>	The Group/Company At 31 December 2002 <i>Rmb'000</i>
The cost of inventories recognised as cost of sales	12,183,096	9,473,797

The net realisable value of the inventory of which provision had been made amounted to Rmb36,391,000 (2002: Rmb85,076,000).

The increase in the balance of inventories as at 31 December 2003 as compared with previous year is mainly due to the increase in purchase price of raw materials and the increase in production capacity in 2003.

13. DEFERRED EXPENSES

	At 31 December 2003 <i>Rmb'000</i>	At 31 December 2002 <i>Rmb'000</i>
The Company		
- Heating expenses	—	4,321
ANSC-TKS		
- Software license fee and others	184	213
The Group	184	4,534

The decrease in deferred expenses as at 31 December 2003 as compared with previous year is mainly due to the change in payment of heating expenses which were paid in accordance to actual consumption. Heating expenses were previously paid at the beginning of the winter season and amortised over the period.

Notes on the Financial Statements *(Continued)*

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14. LONG-TERM INVESTMENT

	Balance at the beginning of the year <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Amortisation <i>Rmb'000</i>	Balance at the end of the year <i>Rmb'000</i>
The Group				
Investment in associate	—	14,406	—	14,406
Less: Provision for diminution in value	—	—	—	—
Sub-total	—	14,406	—	14,406
Investment in jointly controlled entity	248,305	4,007	—	252,312
Less: Provision for diminution in value	—	—	—	—
Sub-total	248,305	4,007	—	252,312
The Company				
Total	248,305	18,413	—	266,718

As at 31 December 2003, the Company's investment in jointly controlled entity is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment <i>Rmb'000</i>
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. 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 pledged to Bank of China, Liaoning Branch all its equity interests in ANSC-TKS to secure the performance of the obligation of ANSC-TKS, i.e. 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 26.

Notes on the Financial Statements *(Continued)*

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14. LONG-TERM INVESTMENT *(continued)*

As at 31 December 2003, the Group/Company's investment in associate is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment <i>Rmb'000</i>
Angang Shenyang	30%	50 years	14,400

Name of invested entity	Balance at the beginning of the year <i>Rmb'000</i>	Addition for the year <i>Rmb'000</i>	Gain for the year <i>Rmb'000</i>	Decrease for the year <i>Rmb'000</i>	Balance at the end of the year <i>Rmb'000</i>	Provision for diminution in value <i>Rmb'000</i>	Carrying value <i>Rmb'000</i>
Angang Shenyang	—	14,400	6	—	14,406	—	14,406

As at 31 December 2003, the Company's total investment represents 3% (2002: 3%) of the Company's net asset value.

Notes on the Financial Statements *(Continued)*

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15. FIXED ASSETS

The Group	Land use rights <i>Rmb'000</i>	Buildings and plants <i>Rmb'000</i>	Machinery and equipment <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:					
Balance at the beginning of the year	—	1,813,147	4,833,550	424,443	7,071,140
Additions	—	5,373	1,262	3,437	10,072
Transferred from construction in progress (Note 16)	164,987	580,492	1,988,220	219,841	2,953,540
Reclassification	—	48,526	(48,942)	416	—
Disposals	—	(1,005)	(166,334)	(19,297)	(186,636)
Balance at the end of the year	164,987	2,446,533	6,607,756	628,840	9,848,116
Accumulated depreciation:					
Balance at the beginning of the year	—	537,485	1,915,465	388,025	2,840,975
Charge for the year	210	104,763	412,293	26,758	544,024
Reclassification	—	263	(272)	9	—
Written back on disposal	—	(58)	(104,953)	(18,406)	(123,417)
Balance at the end of the year	210	642,453	2,222,533	396,386	3,261,582
Net book value:					
Balance at the end of the year	164,777	1,804,080	4,385,223	232,454	6,586,534
Balance at the beginning of the year	—	1,275,662	2,918,085	36,418	4,230,165

Notes on the Financial Statements *(Continued)*

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15. FIXED ASSETS *(continued)*

The Company	Land use rights <i>Rmb'000</i>	Buildings and plants <i>Rmb'000</i>	Machinery and equipment <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:					
Balance at the beginning of the year	—	1,813,147	4,833,550	422,217	7,068,914
Additions	—	5,373	758	125	6,256
Transferred from construction in progress (Note 16)	164,987	576,640	1,988,220	219,841	2,949,688
Reclassification	—	48,526	(48,942)	416	—
Disposals	—	(1,005)	(166,334)	(19,297)	(186,636)
Balance at the end of the year	164,987	2,442,681	6,607,252	623,302	9,838,222
Accumulated depreciation:					
Balance at the beginning of the year	—	537,485	1,915,465	387,811	2,840,761
Charge for the year	210	104,749	412,290	26,158	543,407
Reclassification	—	263	(272)	9	—
Written back on disposal	—	(58)	(104,953)	(18,406)	(123,417)
Balance at the end of the year	210	642,439	2,222,530	395,572	3,260,751
Net book value:					
Balance at the end of the year	164,777	1,800,242	4,384,722	227,730	6,577,471
Balance at the beginning of the year	—	1,275,662	2,918,085	34,406	4,228,153

As at 31 December 2003, the net book value of the fully depreciated fixed assets of the Group which are still in use is Rmb19,574,000 (2002: Rmb18,050,000).

Part of the fixed assets are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 26.

Notes on the Financial Statements *(Continued)*

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16. CONSTRUCTION IN PROGRESS

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

	Amount		Including: Capitalisation of interest charges	
	The Group Rmb'000	The Company Rmb'000	The Group Rmb'000	The Company Rmb'000
Cost				
Balance at the beginning of the year	2,358,791	2,094,732	38,410	38,033
Additions	1,801,407	1,558,077	87,048	78,135
Transfer to fixed assets (Note 15)	(2,953,540)	(2,949,688)	(54,313)	(54,313)
Balance at the end of the year	1,206,658	703,121	71,145	61,855
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	1,206,658	703,121		
Balance at the beginning of the year	2,358,791	2,094,732		

Interest charge of the Group for the year was capitalised at a rate of 5.52% (2002: 5.5%).

Notes on the Financial Statements *(Continued)*

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16. CONSTRUCTION IN PROGRESS *(continued)*

As at 31 December 2003, the projects under construction of the Group/Company are as follows:

Project	Budget Rmb'000	Balance at 1 January 2003 Rmb'000	Additions Rmb'000	Transferred to fixed assets Rmb'000 (Note 15)	Balance at 31 December 2003 Rmb'000	Percentage of budget	Source of fund	Interest charges capitalised during the year Rmb'000
Upgrade of cold rolling production lines	4,072,500	1,561,337	1,173,713	(2,130,671)	604,379	75%	Equity finance and bank loans	75,503
Upgrade of continuous casting and rolling mill, and all-purposes rolling mill	600,000	302,027	93,445	(395,000)	472	99%	Equity finance and operating fund	—
Upgrade of the heavy plate rolling line	435,000	221,452	179,520	(345,000)	55,972	95%	Operating fund and bank loans	2,632
Technology renovation	211,640	9,916	111,399	(79,017)	42,298	25%	Operating fund	—
Total for the Company	5,319,140	2,094,732	1,558,077	(2,949,688)	703,121			78,135
Dalian galvanised steel production line	748,602	264,059	243,330	(3,852)	503,537	90%	Operating fund and bank loans	8,913
Total for the Group	6,067,742	2,358,791	1,801,407	(2,953,540)	1,206,658			87,048

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 26.

Notes on the Financial Statements (Continued)

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17. INTANGIBLE ASSETS

The Group	Land use rights Rmb'000	Software Rmb'000	Industrial technology Rmb'000	Total Rmb'000
Cost				
Balance at the beginning of the year	354,200	2,182	3,117	359,499
Additions	—	8,949	9,702	18,651
Deductions	—	—	—	—
Balance at the end of the year	354,200	11,131	12,819	378,150
Less: Accumulated amortisation				
Balance at the beginning of the year	35,534	102	—	35,636
Additions	7,392	127	—	7,519
Deductions	—	—	—	—
Balance at the end of the year	42,926	229	—	43,155
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	311,274	10,902	12,819	334,995
Balance at the beginning of the year	318,666	2,080	3,117	323,863

Notes on the Financial Statements *(Continued)*

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17. INTANGIBLE ASSETS *(continued)*

The Company	Land use rights Rmb'000	Software Rmb'000	Total Rmb'000
Cost			
Balance at the beginning of the year	354,200	—	354,200
Additions	—	2,601	2,601
Deductions	—	—	—
Balance at the end of the year	354,200	2,601	356,801
Less: Accumulated amortisation			
Balance at the beginning of the year	35,534	—	35,534
Additions	7,392	73	7,465
Deductions	—	—	—
Balance at the end of the year	42,926	73	42,998
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	311,274	2,528	313,802
Balance at the beginning of the year	318,666	—	318,666

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 44 years. Software is amortised on a straight-line based 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.

Notes on the Financial Statements *(Continued)*

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18. LONG-TERM DEFERRED EXPENSES

	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
Cost		
Balance at the beginning of the year	6,955	—
Additions	19,355	—
Deductions	—	—
Balance at the end of the year	26,310	—
Net amount		
Balance at the end of the year	26,310	—
Balance at the beginning of the year	6,955	—

Long-term deferred expenses represent pre-operating expenses incurred by ANSC-TKS. As at 31 December 2003, ANSC-TKS is still in the set up stage.

19. SHORT-TERM LOANS

The Group	At 31 December 2003			At 31 December 2002		
	Principal <i>Rmb'000</i>	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal <i>Rmb'000</i>	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
Bank loans	—			65,000	5.04%	Credit

The Company	At 31 December 2003			At 31 December 2002		
	Principal <i>Rmb'000</i>	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal <i>Rmb'000</i>	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
Bank loans	—			—		

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

Notes on the Financial Statements (Continued)

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20. BILLS PAYABLE

The decrease in bills payable is due to the increase in cash purchases of the Group during the year. Bills payable of the Company primarily represent bank accepted bills for raw materials and spear parts purchasing. The repayment terms are within six months.

The Group's/Company's five largest bills payable as at 31 December 2003 are as follows:

Name of creditor	Particulars	Amount Rmb'000	Percentage of total bills payable %
ANSI	Purchase goods	1,000,000	79
Heilongjiang First Heavy Industries Company Limited	Purchase goods	9,700	1
China First Heavy Industries Limited, Sales Branch	Purchase goods	6,870	1
AITG	Purchase goods	5,894	1
Tanggang Refractory Co., Ltd.	Purchase goods	5,583	—
		1,028,047	82

As at 31 December 2003 the total bills payable of the Group's/Company's five largest creditors are as follows:

	At 31 December 2003	At 31 December 2002
Amount (Rmb'000)	1,028,047	1,501,576
Percentage of total bills payable	82%	98%

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

21. TRADE PAYABLES

As at 31 December 2003, the balance of trade payable of the Group includes Rmb32,033,000 due to ANSI for the purchase of raw materials, Rmb19,419,000 due to the subsidiaries of Angang Holding for the purchase of raw materials and maintenance services and Rmb755,000 due to Angang Holding for maintenance services.

None of the trade payables of the Group as at 31 December 2003 are aged over three years.

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

Notes on the Financial Statements *(Continued)*

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22. RECEIPTS IN ADVANCE

The increase in balance of receipts in advance of the Group as at 31 December 2003 as compared with previous year is mainly due to increase in orders from customers for the products of the Group in the second half of the year as compared to same period of last year.

As at 31 December 2003, the balance of receipts in advance of the Group includes Rmb397,731,000, Rmb23,962,000 and Rmb234,223,000 received from AITG, ANSI and the subsidiaries of Angang Holding for the purchase of steel products. The balance also includes Rmb94,000 received from Angang Holding for the purchase of steel products.

None of the receipts in advance of the Group as at 31 December 2003 were aged over one year.

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

23. ACCRUED PAYROLL

The Group's salary is composed of basic salary and performance-linked salary. The increase in the Group's profit for the year led to an increase in accrued payroll. The accrued payroll balance at 31 December 2003 includes Rmb48,940,000 of performance-linked salary which is payable in 2004.

24. STAFF WELFARE PAYABLE

The increase in staff cost in 2003 led to the increase in staff welfare payable in 2003 as compared to 2002.

25. OTHER PAYABLES

	At 31 December 2003	At 31 December 2002
The Group	Rmb'000	Rmb'000
Construction costs	368,143	52,671
Freight charges	10,937	14,159
Deposit for steel shelves	17,094	18,418
Payables to Thyssen	—	11,340
Pension and unemployment insurance	2,200	4,143
Tax withheld	1,687	2,203
Staff education fund	5,346	3,751
Education surcharge	1,259	1,274
Others	10,920	12,228
	417,586	120,187

Notes on the Financial Statements *(Continued)*

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25. OTHER PAYABLES *(continued)*

The Company	At 31 December 2003 <i>Rmb'000</i>	At 31 December 2002 <i>Rmb'000</i>
Construction costs	242,792	35,877
Freight charges	10,937	14,159
Deposit for steel shelves	17,094	18,418
Pension and unemployment insurance	2,200	4,143
Tax withheld	1,687	2,203
Staff education fund	5,346	3,751
Education surcharge	1,259	1,274
Others	9,927	11,011
	291,242	90,836

As at 31 December 2003, the balance of other payables of the Group includes Rmb161,332,000 due to AITG and the subsidiaries of Angang Holding for construction and other services. The balance also includes Rmb32,000 due to Angang Holding for the construction services.

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

None of the other payables of the Group as at 31 December 2003 are aged over three years.

26. LOANS

	The Group At 31 December 2003 <i>Rmb'000</i>	The Company At 31 December 2003 <i>Rmb'000</i>	The Group/Company At 31 December 2002 <i>Rmb'000</i>
Current portion of long-term debts	420,267	400,000	—
Long-term debts	1,892,733	1,663,000	1,463,000
	2,313,000	2,063,000	1,463,000

Notes on the Financial Statements (Continued)

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26. LOANS (continued)

The interest rates and terms of repayment for current portion of long-term loans are as follows:

Bank	Period (Note 1)	Interest rate p.a. (Note 2)	Secured/ guaranteed	The Group	The Company	The Group/ Company
				At 31 December 2003 Rmb'000	At 31 December 2003 Rmb'000	At 31 December 2002 Rmb'000
Industrial and Commercial Bank of China	Due in 2004	5.49%	Guaranteed	300,000	300,000	—
Bank of China	Due in 2004	5.49%	Guaranteed	100,000	100,000	—
Bank of China	Due in 2004	5.76%	Secured	20,267	—	—
				420,267	400,000	—

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

Bank	Period (Note 1)	Interest rate p.a. (Note 2)	Secured/ guaranteed	The Group	The Company	The Group/ Company
				At 31 December 2003 Rmb'000	At 31 December 2003 Rmb'000	At 31 December 2002 Rmb'000
Industrial and Commercial Bank of China	Due in 2004	5.49%	Guaranteed	—	—	300,000
Industrial and Commercial Bank of China	Due in 2005	5.49%	Guaranteed	63,000	63,000	63,000
Bank of China	Due in 2005	5.49%	Guaranteed	1,000,000	1,000,000	1,100,000
Bank of China	Due in 2006	5.49%	Guaranteed	600,000	600,000	—
Bank of China	Due in 2005 to 2014	5.76%	Secured	229,733	—	—
				1,892,733	1,663,000	1,463,000

Notes on the Financial Statements *(Continued)*

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26. LOANS *(continued)*

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

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged its land use rights, construction in progress, buildings and plants, machinery and equipment with a carrying value of Rmb1,015,752,000 (2002: Rmb519,248,000) as at 31 December 2003 to Bank of China as collaterals of the loan.

The Company pledged 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 2003, ANSC-TKS has drawn down Rmb500,000,000 (2002: Rmb Nil) from the above syndicated loan facility.

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

(Note 1) The repayment period of the loans is between 28 June 2004 and 20 December 2014.

(Note 2) The interest rate of the loans was based on rates quoted by the People's Bank of China.

27. 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 rate of Rmb3.3 per share. On 22 June 2001, the conversion rate was revised to Rmb 3.21 per share. On 4 July 2002, the conversion rate was revised to Rmb 3.13 per share. The conversion rate has been further revised to Rmb3.03 per share since 3 June 2003. The exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,108,652 A shares.

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

By 31 December 2003, 453,308,652 A shares were converted from the Debentures of the Company with a value of Rmb1,494,546,000. The par value of Debentures converted in excess the par value of the shares and the accrued interest expenses of Rmb10,251,000 have increased the capital surplus by Rmb1,051,466,000. A cash payment of Rmb22,000 was made for the odd lot convertible debentures.

Notes on the Financial Statements (Continued)

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28. SHARE CAPITAL

Issued and paid up capital	The Company	
	At 31 December 2003 Rmb'000	At 31 December 2002 Rmb'000
Unlisted shares:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
Listed shares:		
751,873,679 (2002: 748,935,149) Renminbi ordinary shares ("A shares") of Rmb1 each issued at the beginning of the year	751,874	748,935
Additional issue of 1,434,973 (2002: 2,938,530) A shares upon the conversion of convertible debentures	1,435	2,939
753,308,652 (2002: 751,873,679) A shares of Rmb1 each issued at the end of the year	753,309	751,874
890,000,000 (2002: 890,000,000) overseas-listed foreign invested shares of Rmb1 each ("H share")	890,000	890,000
	1,643,309	1,641,874
	2,962,309	2,960,874

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

29. CAPITAL RESERVE

The Company	At 1 January	Increase	At 31 December
	2003		2003
	Rmb'000	Rmb'000	Rmb'000
Net asset conversion	709,817	—	709,817
Write 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	1,048,500	2,966	1,051,466
Write off of trade payables	165	1,913	2,078
Receipt of non-cash assets donation	—	76	76
	3,078,693	4,955	3,083,648

Notes on the Financial Statements *(Continued)*

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30. SURPLUS RESERVES

	The Group/Company		
	At 1 January 2003 <i>Rmb'000</i>	Profits distribution <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i>
Statutory surplus reserve	242,039	143,258	385,297
Statutory public welfare fund	242,039	143,258	385,297
	484,078	286,516	770,594

On 16 April 2004, the board of director of the Company approves the allocation of 10% of the net profit after taxation of the Company to the Statutory surplus reserve until the reserve aggregates to 50% of the Company's registered capital. In addition, 10% of the Company's net profit after taxation is allocated to the Statutory public welfare fund.

31. UNDISTRIBUTED PROFITS

	The Group/ Company At 31 December 2003 <i>Rmb'000</i>	The Group/ Company At 31 December 2002 <i>Rmb'000</i>
Undistributed profits at the beginning of the year	1,281,803	1,042,838
Add: Profit for the year	1,432,579	594,588
Less: Transfer to surplus reserves	(286,516)	(118,918)
Dividends	(296,087)	(236,635)
Balance of dividends	(62)	(70)
Undistributed profits at the end of the year	2,131,717	1,281,803

Pursuant to the shareholder's approval at the Annual General Meeting on 23 May 2003, the Company was authorised to declare cash dividend of Rmb0.1 per share (2002: Rmb0.08 per share) totalling Rmb296,087,000 (2002: Rmb236,635,000) to ordinary share shareholders.

Proposed dividends in respect of the year 2002 and the actual amount paid are Rmb296,087,000 and Rmb296,149,000 respectively.

Pursuant to a resolution passed at the Director's meeting on 16 April 2004, the Directors proposed a cash dividend of Rmb0.2 per share (2002: Rmb0.1 per share) to ordinary share shareholders.

Notes on the Financial Statements *(Continued)*

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32. INCOME FROM PRINCIPAL OPERATIONS

	The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
Wire rods	1,727,071	1,653,465
Thick plates	2,768,789	2,309,085
Cold rolled sheets	6,233,339	4,302,645
Large section products	2,976,174	2,198,228
Steel billets	815,363	307,654
	14,520,736	10,771,077

Total sales to the five largest customers were Rmb4,221,237,000 (2002: Rmb1,831,000,000) which accounted for 29% (2002: 17%) of the total sales income of the Group for the year ended 31 December 2003.

There is an increase in the sales income of the Group in 2003 as compared with the previous year. It is mainly due to the increase in sales volume, the improvement in sales mix and the increase in product price of the Company.

33. COST OF SALES

	The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
Wire rods	1,476,719	1,575,276
Thick plates	1,964,154	2,066,566
Cold rolled sheets	5,515,117	3,837,017
Large section steel products	2,483,080	1,701,935
Steel billets	744,026	293,003
	12,183,096	9,473,797

The cost of sales of the Group represents the costs incurred for the sales of steel products.

Notes on the Financial Statements *(Continued)*

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34. BUSINESS TAXES AND SURCHARGES

		The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
City construction and maintenance taxes	7% of VAT payable	24,556	15,655
Education surcharge and local education surcharge	3% and 1% of VAT payable	14,032	8,945
		38,588	24,600

35. OTHER OPERATING PROFIT

	The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
Profit from sales of packaging materials	4,857	6,759
Profit from sales of scrap materials	30,628	23,096
Others	1,206	415
	36,691	30,270

Notes on the Financial Statements *(Continued)*

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36. FINANCIAL EXPENSES/(INCOME)

	The Group 2003 Rmb'000	The Company 2003 Rmb'000	The Group 2002 Rmb'000	The Company 2002 Rmb'000
Interest and other borrowing costs	117,414	107,551	46,169	45,792
Less: Amount capitalised as construction in progress	(87,048)	(78,135)	(27,671)	(27,294)
Amount capitalised as pre-operating expenses	(950)	—	—	—
Net interest expenses	29,416	29,416	18,498	18,498
Net exchange difference	705	(1,690)	(20,175)	(20,175)
Less: Amount capitalised as construction in progress	1,033	1,033	19,918	19,918
Amount capitalised as pre-operating expenses	(2,395)	—	—	—
Net exchange gain	(657)	(657)	(257)	(257)
Interest income	(20,947)	(20,947)	(6,201)	(6,201)
Bank charges	1,686	1,686	1,795	1,795
	9,498	9,498	13,835	13,835

The increase in interest income is due to increase in average bank balances and term deposits.

37. INVESTMENT INCOME

	The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
Income from long-term equity investment in associate - Accounted under equity method	6	—

Investment income of the Group does not have severe restrictions that significantly impair its ability to transfer funds to the investors.

Notes on the Financial Statements (Continued)

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38. NON-OPERATING EXPENSES

	The Group/ Company 2003 Rmb'000	The Group/ Company 2002 Rmb'000
Loss on disposal of fixed assets	63,219	25,634
Fines, penalties and compensation	42	2,265
Donation	1,143	—
Others	—	10
	64,404	27,909

39. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related party with controlling interest:

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

The registered capital of Angang Holding as at 31 December 2003 was Rmb10,794,160,000. It held 44.53% of the total share capital of the Company. There was no change in the registered capital of Angang Holding during the year. The changes in percentage of shares held by Angang Holding are detailed in Note 28 "Share Capital".

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary
ANSC-TKS	Jointly controlled entity
Angang Shenyang	Associate and fellow subsidiary

Notes on the Financial Statements *(Continued)*

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

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Sales (excluding business taxes and surcharges)	1,837,745	991,051
Sales of scrap materials (excluding business taxes and surcharges)	253,966	215,140
Purchases		
- Raw materials	9,856,095	7,501,072
- Ancillary materials and spare parts	91,407	79,646
Supply of fuel and power	306,557	284,432
Staff welfare and other services	289,184	211,942

(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. Included in the above are sales of pipe billets totalling Rmb833,364,000 (2002: Rmb571,917,000).

(ii) Sales of scrap materials

The Company sold scrap materials to ANSI at average prices charged to independent customers.

(iii) Purchase of raw materials

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

(iv) Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from ANSI, the prices 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, compressed air and steam from ANSI at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

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

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI: *(continued)*

(vi) Staff welfare and other services

The subsidiaries of Angang Holding provide 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) Guarantee of debentures

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

(viii) Guarantee of loans

As at 31 December 2003, total amount of loans obtained by the Company from The Industrial and Commercial Bank of China and The Bank of China amounted to Rmb2,063,000,000 (2002: Rmb1,463,000,000). These bank loans are guaranteed by Angang Holding, details of which are set out in Note 26.

(ix) 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 a piece of land situated in the PRC and the title to the buildings on which are erected. Total consideration for the acquisition amounted to Rmb150,915,000. The Company made announcement on 15 January 2003 regarding this transaction. The amount had been fully paid on 21 February 2003.

(x) Interest in Angang Shenyang

On 17 March 2003, the Company entered into an agreement with two fellow subsidiaries to set up Angang Shenyang (Note 14).

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

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

(d) Details of related party transactions between the Company and Angang Holding with ANSC-TKS:

(i) Equity interest of the Company in ANSC-TKS

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

Pursuant to the funding supporting agreement entered into with Thyssen on 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. The commitment is limited to US\$8,000,000 and will be reduced to US\$4,000,000 after the tenth repayment date.

(ii) Sales of products from the Company to ANSC-TKS

The Company sold products to ANSC-TKS totalling Rmb25,193,000 in 2003.

(iii) Provision of construction service by Angang Holding and its subsidiaries to ANSC-TKS

Subsidiaries of Angang Holding constructed the production line for ANSC-TKS at similar terms and pricing policies on providing such construction service to independent parties. The cost for related construction service provided in 2003 amounted to Rmb20,928,000 in which Rmb10,464,000 had been included in the consolidated financial statement of the Group.

(e) Details of related party transactions between the Company and Angang Shenyang:

(i) Sales of products from the Company to Angang Shenyang

The Company sold products to Angang Shenyang totalling Rmb22,193,000 in 2003.

(f) Amounts due from/to Angang Holding, its subsidiaries and ANSI

The amounts of related party balances of the Group are summarised as follows:

	At 31 December 2003 Rmb'000	At 31 December 2002 Rmb'000
The Group		
Prepayments	543,545	643,698
Other receivables	200	16,886
Trade payables	(52,207)	(73,730)
Receipts in advance	(656,011)	(111,552)
Other payables	(161,364)	(20,918)

Notes on the Financial Statements (Continued)

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

39. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(f) Amounts due from/to Angang Holding, its subsidiaries and ANSI (continued)

The amounts of related party balances of the Company are summarised as follows:

The Company	At 31 December	At 31 December
	2003	2002
	Rmb'000	Rmb'000
Prepayments	543,545	643,698
Other receivables	200	16,886
Trade payables	(52,207)	(73,730)
Receipts in advance	(656,011)	(111,552)
Other payables	(159,305)	(19,740)

40. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Anzhenfa [1998] No.28 issued by Anshan City Government, the required contribution from the Company to the retirement benefits scheme is 25.5% of the aggregate monthly salaries of all employees of the Company.

Pursuant to 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.

41. COMMITMENTS

(a) Capital commitments

At 31 December, the Group/Company had the following capital commitments:

	At 31 December 2003		At 31 December 2002	
	The Group	The Company	The Group	The Company
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted for				
– Construction projects of production lines	263,112	112,943	771,467	662,353
– Technology transfer fee	15,845	—	20,780	—
Authorised but not contracted for				
– Improvement projects of production lines	1,370,185	1,338,526	2,635,629	2,396,003
	1,649,142	1,451,469	3,427,876	3,058,356

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared under PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi)

41. COMMITMENTS *(continued)*

(b) Other commitments

Pursuant to the funding supporting agreement with Thyssen 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 operation.

42. POST BALANCE SHEET EVENTS

(a) New investment

On 9 March 2004, the Company entered into an agreement with China Metallurgical Construction (Group) Company, Wuhan Iron and Steel (Group) company, State-owned Assets Operation Company Limited (Qingshan District, Wuhan City) and Shenzhen International Trust and Investment Company Limited to set up Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang"). The principal activities of Zhongye Nanfang include engineering consultancy services, research and development.

The Company injected Rmb10,500,000 into Zhongye Nanfang for its 7% equity interests.

(b) Acquisition of land use rights, plant and buildings

Pursuant to an agreement dated 23 March 2004, the Company acquired certain land use rights, plant and buildings in the PRC from Angang Holding at a consideration of Rmb62,206,000.

43. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policy for dividend payable, details of which are set out in Note 2 - Change in accounting policy and accounting estimates.

Details of the Provision for Impairment Losses of Assets

For the year ended 31 December 2003
 (Prepared under PRC Accounting Rules and Regulations)
 (Expressed in Thousand Renminbi)

	Balance at the beginning of the year <i>Rmb'000</i>	The Group/Company		Balance at the end of the year <i>Rmb'000</i>
		Provision for the year <i>Rmb'000</i>	Written back during the year <i>Rmb'000</i>	
1. Bad debt provision	160	—	(157)	3
Including: Other receivables	160	—	(157)	3
2. Provision for diminution in value of inventories	54,282	15,130	(5,816)	63,596
Including: Spare parts	54,282	—	(5,816)	48,466
Finished goods	—	15,130	—	15,130

Report of the International Auditors



**Report of the International Auditors to the
Shareholders of Angang New Steel Company Limited**
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 114 to 155 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, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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
16 April 2004

Consolidated Income Statement

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Turnover	4	14,482,148	10,746,477
Cost of sales		(12,205,920)	(9,480,916)
Gross profit		2,276,228	1,265,561
Other operating income	5	37,495	30,957
Distribution and other operating expenses		(232,596)	(185,530)
Administrative expenses		(328,991)	(247,409)
Profit from operations		1,752,136	863,579
Net financing income/(costs)	6(a)	293	(6,097)
Income from associate		6	—
Profit from ordinary activities before taxation	6	1,752,435	857,482
Income tax expense	7(a)	(319,433)	(259,166)
Profit attributable to shareholders	10	1,433,002	598,316
Dividends attributable to the year:			
Final dividend proposed after the balance sheet date	9	592,462	296,087
Earnings per share	11		
— Basic		Rmb 0.484	Rmb 0.202
— Diluted		Rmb 0.484	Rmb 0.202

The notes on pages 121 to 155 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Non-current assets			
Property, plant and equipment	12	6,456,682	4,235,362
Intangible assets	13	12,819	—
Construction in progress	14	1,122,923	2,327,558
Lease prepayments	15	298,176	148,995
Investment in associate	17	14,406	—
Deferred tax assets	7(c)	65,450	64,618
		7,970,456	6,776,533
Current assets			
Inventories	18	1,440,283	1,217,049
Amounts due from fellow subsidiaries	30(c)	487,550	643,698
Trade receivables	19	2,182,561	1,811,534
Prepayments, deposits and other receivables		134,781	142,700
Income tax recoverable	7(b)	23,067	—
Deposits with banks	20	290,000	—
Cash and cash equivalents	21	2,316,976	1,702,051
		6,875,218	5,517,032
Current liabilities			
Trade payables	22	1,454,056	1,750,785
Income tax payable	7(b)	—	48,748
Amount due to ultimate holding company	30(b)	881	—
Amounts due to fellow subsidiaries	30(c)	812,505	206,201
Other payables		1,444,578	1,076,312
Short term bank loans	24	420,267	65,000
		4,132,287	3,147,046
Net current assets		2,742,931	2,369,986
Total assets less current liabilities carried forward		10,713,387	9,146,519

Consolidated Balance Sheet *(Continued)*

At 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Total assets less current liabilities brought forward			
		10,713,387	9,146,519
Non-current liabilities			
Convertible debentures	23	5,269	9,264
Bank loans	24	1,892,733	1,463,000
		1,898,002	1,472,264
NET ASSETS		8,815,385	7,674,255
SHAREHOLDERS' FUNDS			
Share capital	25	2,962,309	2,960,874
Share premium		3,055,920	3,052,752
Reserves	26	619,043	332,853
Retained profits		2,178,113	1,327,776
		8,815,385	7,674,255

Approved and authorised for issue by the board of directors on 16 April 2004

Yang Hua
Vice Chairman

Fu Jihui
Director

The notes on pages 121 to 155 form part of these financial statements.

Balance Sheet

At 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Non-current assets			
Property, plant and equipment	12	6,439,245	4,228,153
Construction in progress	14	670,914	2,097,302
Lease prepayments	15	276,467	126,836
Interest in jointly controlled entity	16	234,256	243,519
Investment in associate	17	14,406	—
Deferred tax assets	7(c)	56,557	62,261
		7,691,845	6,758,071
Current assets			
Inventories	18	1,406,410	1,217,049
Amounts due from fellow subsidiaries	30(c)	487,550	643,698
Trade receivables	19	2,182,561	1,811,534
Prepayments, deposits and other receivables		100,299	93,066
Income tax recoverable	7(b)	23,067	—
Deposits with banks	20	290,000	—
Cash and cash equivalents	21	2,290,613	1,675,586
		6,780,500	5,440,933
Current liabilities			
Trade payables	22	1,454,056	1,750,785
Income tax payable	7(b)	—	48,748
Amount due to ultimate holding company	30(b)	881	—
Amounts due to fellow subsidiaries	30(c)	810,446	205,022
Other payables		1,323,308	1,047,930
Short term bank loan	24	400,000	—
		3,988,691	3,052,485
Net current assets		2,791,809	2,388,448
Total assets less current liabilities carried forward		10,483,654	9,146,519

Balance Sheet *(Continued)*

At 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Total assets less current liabilities			
brought forward		10,483,654	9,146,519
Non-current liabilities			
Convertible debentures	23	5,269	9,264
Bank loans	24	1,663,000	1,463,000
		1,668,269	1,472,264
NET ASSETS		8,815,385	7,674,255
SHAREHOLDERS' FUNDS			
Share capital	25	2,962,309	2,960,874
Share premium		3,055,920	3,052,752
Reserves	26	619,043	332,853
Retained profits		2,178,113	1,327,776
		8,815,385	7,674,255

Approved and authorised for issue by the board of directors on 16 April 2004

Yang Hua
Vice Chairman

Fu Jihui
Director

The notes on pages 121 to 155 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
2002						
At 1 January 2002		2,957,935	3,046,099	214,625	1,085,083	7,303,742
Net profit for the year		—	—	—	598,316	598,316
Transfer for the year		—	—	118,918	(118,918)	—
Shares issued upon conversion of convertible debentures	25	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		—	—	232	—	232
At 31 December 2002		2,960,874	3,052,752	332,853	1,327,776	7,674,255
2003						
At 1 January 2003		2,960,874	3,052,752	332,853	1,327,776	7,674,255
Net profit for the year		—	—	—	1,433,002	1,433,002
Proposed transfer for the year		—	—	286,516	(286,516)	—
Shares issued upon conversion of convertible debentures	25	1,435	3,168	(387)	—	4,216
Final dividend - 2002	9(b)	—	—	—	(296,149)	(296,149)
Deferred tax released upon the conversion of convertible debentures	7(c)	—	—	61	—	61
At 31 December 2003		2,962,309	3,055,920	619,043	2,178,113	8,815,385

The notes on pages 121 to 155 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Operating activities			
Cash flows from operations	28	2,172,745	2,395,159
Interest received		21,014	6,201
Interest paid		(117,920)	(45,992)
Income tax paid		(392,019)	(335,524)
Cash flows from operating activities		1,683,820	2,019,844
Investing activities			
Capital expenditure		(1,256,876)	(1,856,930)
Proceeds from disposal of property, plant and equipment		1,593	195
Investment in associate		(14,400)	—
(Increase in)/maturity of fixed deposits maturing over 3 months		(290,000)	50,000
Cash flows from investing activities		(1,559,683)	(1,806,735)
Financing activities			
Dividends paid		(296,149)	(236,705)
Repayment of loan from ultimate holding company		—	(120,000)
Proceeds of bank loans		975,000	1,228,000
Repayment of bank loans		(190,000)	(100,000)
Redemption of convertible debentures		(1)	(1)
Cash flows from financing activities		488,850	771,294
Net increase in cash and cash equivalents		612,987	984,403
Cash and cash equivalents at 1 January		1,702,051	711,229
Effect of exchange rate fluctuations on cash held		1,938	6,419
Cash and cash equivalents at 31 December	21	2,316,976	1,702,051

The notes on pages 121 to 155 form part of these financial statements.

Notes on the Financial Statements

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

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 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 the shareholders' funds under IFRS and the PRC Accounting Rules and Regulations is presented on pages 156 to 157.

(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.

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.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation

(i) Associate

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(ii) 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.

(iii) Transactions eliminated at consolidation

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 associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against investment in associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Investments

In the Company's balance sheet, an investment in an associate or 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 associate's or 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 Company, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated against the investment in the associate or jointly controlled entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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 t). 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.
- (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	10 to 40 years
Plant, machinery and equipment	5 to 20 years
Transportation vehicles and other related equipment	4 to 15 years

(f) 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 t). 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 w), 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.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (refer below) and impairment losses (refer accounting policy t).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 12 years.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Thousand Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) 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.

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

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

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

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) 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. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Notes on the Financial Statements *(Continued)*

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2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) 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.

(p) Net financing income/costs

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 w).

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.

(q) Repairs and maintenance expenses

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

(r) 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 costs and development costs are therefore recognised as expenses in the period in which they are incurred.

(s) 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.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
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2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) 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.

(t) Impairment

The carrying amounts of the Group's assets, other than trade and other receivables (refer accounting policy k), inventories (refer accounting policy i), and deferred tax assets (refer accounting policy s), 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.

(u) 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 31.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
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2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Dividends

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

(w) 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 f).

(x) 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.

(y) 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 individual 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.

Notes on the Financial Statements *(Continued)*

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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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Packaging materials income	4,857	6,759
Income from sales of scrap materials	30,628	23,096
Others	2,010	1,102
	37,495	30,957

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
(a) Net financing costs:		
Interest and other borrowing costs	117,636	46,555
Less: amount capitalised as construction in progress*	(100,203)	(35,982)
Net interest expenses	17,433	10,573
Net exchange difference	705	(19,938)
Less: amount capitalised as construction in progress	1,033	19,918
Net exchange loss/(gain)	1,738	(20)
Interest income	(21,203)	(6,275)
Bank charges	1,739	1,819
	(293)	6,097

* The borrowing costs have been capitalised at an average rate of 5.51% (2002: 4.88%) per annum for construction in progress.

Notes on the Financial Statements *(Continued)*

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

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
(b) Other items:		
Cost of inventories #	12,205,920	9,480,916
Personnel costs		
— Salaries and wages, welfare and other costs #	198,875	185,596
— Contributions to defined contribution scheme #	50,996	60,069
Total personnel costs	249,871	245,665
Auditors' remuneration	3,710	3,756
Depreciation #	543,941	436,167
Amortisation of lease prepayments	3,517	2,758
Repairs and maintenance #	259,887	179,136
Research and development costs	10,970	13,027
Loss on disposals of property, plant and equipment	61,626	25,202

Cost of inventories include Rmb784,896,000 (2002: Rmb603,336,000) relating to salaries and wages, welfare and other costs, contributions to defined contribution scheme, depreciation, and repairs and maintenance expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
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7 INCOME TAX

(a) Income tax expense in the consolidated income statement

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Current tax expense		
Current year	320,204	257,411
Deferred tax expense		
Originating and reversal of temporary differences (note 7(c))	(771)	1,755
Total income tax expense in consolidated income statement	319,433	259,166

The provision for PRC income tax is calculated at 33% (2002: 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:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Profit from ordinary activities before taxation	1,752,435	857,482
Expected PRC income tax using the Company's tax rate of 33%	578,304	282,969
Tax exempt revenue	(656)	—
Non-deductible expenses	28,002	30,420
Additional deduction *	(67,236)	(54,223)
Tax credit *	(218,981)	—
	319,433	259,166

* Pursuant to relevant PRC tax regulations, the Company is entitled to claim an additional deduction based on 50% of approved research and development costs and a tax credit relating to purchases of equipment produced in the PRC for technological improvements.

Notes on the Financial Statements (Continued)

For the year ended 31 December 2003
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7 INCOME TAX (continued)

(b) Income tax in the balance sheet

	The Group and the Company	
	2003	2002
	Rmb'000	Rmb'000
Provision for PRC income tax for the year	320,204	257,411
Balance of PRC income tax provision relating to prior year	48,748	126,861
Payments made during the year	(392,019)	(335,524)
Income tax (recoverable)/payable	(23,067)	48,748

(c) Deferred taxation

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

The Group	Assets		Liabilities		Net	
	2003	2002	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Non-current						
Construction in progress	—	—	(9,245)	(4,903)	(9,245)	(4,903)
Lease prepayments	66,074	67,422	—	—	66,074	67,422
Pre-operating expenses	8,682	2,295	—	—	8,682	2,295
Convertible debentures	—	—	(61)	(196)	(61)	(196)
Tax assets/(liabilities)	74,756	69,717	(9,306)	(5,099)	65,450	64,618
Set off of tax	(9,306)	(5,099)	9,306	5,099	—	—
Net tax assets	65,450	64,618	—	—	65,450	64,618

The Company	Assets		Liabilities		Net	
	2003	2002	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Non-current						
Construction in progress	—	—	(9,245)	(4,903)	(9,245)	(4,903)
Lease prepayments	65,863	67,360	—	—	65,863	67,360
Convertible debentures	—	—	(61)	(196)	(61)	(196)
Tax assets/(liabilities)	65,863	67,360	(9,306)	(5,099)	56,557	62,261
Set off of tax	(9,306)	(5,099)	9,306	5,099	—	—
Net tax assets	56,557	62,261	—	—	56,557	62,261

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
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7 INCOME TAX *(continued)*

(c) Deferred taxation *(continued)*

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

As described in note 26(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.

- (ii) Movement in temporary differences during the year:

	Balance at 1 January 2003	Recognised in income statement (note 7(a))	Recognised in equity (note 26)	Balance at 31 December 2003
The Group	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current				
Construction in progress	(4,903)	(4,342)	—	(9,245)
Lease prepayments	67,422	(1,348)	—	66,074
Pre-operating expenses	2,295	6,387	—	8,682
Convertible debentures	(196)	74	61	(61)
	64,618	771	61	65,450

	Balance at 1 January 2003	Recognised in income statement	Recognised in equity (note 26)	Balance at 31 December 2003
The Company	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current				
Construction in progress	(4,903)	(4,342)	—	(9,245)
Lease prepayments	67,360	(1,497)	—	65,863
Convertible debentures	(196)	74	61	(61)
	62,261	(5,765)	61	56,557

Notes on the Financial Statements *(Continued)*

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7 INCOME TAX *(continued)*

(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:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Fees	240	81
Salaries and other emoluments	1,414	1,212
Discretionary bonuses	—	—
Retirement scheme contributions	361	370
	2,015	1,663

Included in the directors' and supervisors' remuneration were fees of Rmb120,000 (2002: Rmb61,000) 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	
		2003	2002
0 - HK\$1,000,000	0 - Rmb1,060,000	16	16

The five highest paid individuals of the Group in 2003 and 2002 were all executive directors whose emoluments are disclosed above.

Notes on the Financial Statements *(Continued)*

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9 DIVIDENDS

(a) Dividends attributable to the year

	2003	2002
	Rmb'000	Rmb'000
Final dividend proposed after the balance sheet date of 20 cents per share (2002: Rmb10 cents per share)	592,462	296,087

Pursuant to a resolution passed at the directors' meeting on 16 April 2004, a final dividend of Rmb20 cents (2002: Rmb10 cents) per share totalling Rmb592,462,000 (2002: Rmb296,087,000) was approved 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

	2003	2002
	Rmb'000	Rmb'000
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb10 cents per share (2002: Rmb8 cents per share)	296,149	236,705

In respect of the dividends attributable to the year ended 31 December 2002, 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 Rmb1,433,002,000 (2002: Rmb598,316,000) has all been dealt with in the financial statements of the Company.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
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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 Rmb1,433,002,000 (2002: Rmb598,316,000) and a weighted average number of shares outstanding during the year of 2,961,419,000 (2002: 2,959,439,000) calculated as follows:

Weighted average number of shares

(In thousands of shares)	2003	2002
Issued shares at 1 January	2,960,874	2,957,935
Effect of conversion of convertible debentures	545	1,504
Weighted average number of shares at 31 December	2,961,419	2,959,439

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb1,433,002,000 (2002: Rmb598,316,000) and a weighted average number of shares of 2,963,219,000 (2002: 2,962,588,000) 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)	2003	2002
Weighted average number of shares at 31 December	2,961,419	2,959,439
Effect of conversion of remaining convertible debentures	1,800	3,149
Weighted average number of shares (diluted) at 31 December	2,963,219	2,962,588

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

Notes on the Financial Statements *(Continued)*

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12 PROPERTY, PLANT AND EQUIPMENT

(a)

The Group	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 2003	1,148,385	4,445,660	253,034	5,847,079
Reclassification	48,526	(48,942)	416	—
Additions	5,373	7,094	3,437	15,904
Transfer from construction in progress (note 14)	280,172	2,312,307	220,097	2,812,576
Disposals	(1,005)	(166,334)	(19,297)	(186,636)
At 31 December 2003	1,481,451	6,549,785	457,687	8,488,923
Representing:				
Cost	819,604	5,097,661	326,223	6,243,488
Valuation - 1996	661,847	1,452,124	131,464	2,245,435
	1,481,451	6,549,785	457,687	8,488,923
Accumulated depreciation:				
At 1 January 2003	152,466	1,242,635	216,616	1,611,717
Reclassification	263	(272)	9	—
Charge for the year	38,511	478,672	26,758	543,941
Written back on disposal	(58)	(104,953)	(18,406)	(123,417)
At 31 December 2003	191,182	1,616,082	224,977	2,032,241
Net book value:				
At 31 December 2003	1,290,269	4,933,703	232,710	6,456,682
At 31 December 2002	995,919	3,203,025	36,418	4,235,362

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2003
(Prepared in accordance with International Financial Reporting Standards)
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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 2003	1,148,385	4,440,361	250,808	5,839,554
Reclassification	48,526	(48,942)	416	—
Additions	5,373	3,359	125	8,857
Transfer from construction in progress (note 14)	276,320	2,312,307	220,097	2,808,724
Disposals	(1,005)	(166,334)	(19,297)	(186,636)
At 31 December 2003	1,477,599	6,540,751	452,149	8,470,499
Representing:				
Cost	815,752	5,088,627	320,685	6,225,064
Valuation - 1996	661,847	1,452,124	131,464	2,245,435
	1,477,599	6,540,751	452,149	8,470,499
Accumulated depreciation:				
At 1 January 2003	152,466	1,242,533	216,402	1,611,401
Reclassification	263	(272)	9	—
Charge for the year	38,497	478,615	26,158	543,270
Written back on disposal	(58)	(104,953)	(18,406)	(123,417)
At 31 December 2003	191,168	1,615,923	224,163	2,031,254
Net book value:				
At 31 December 2003	1,286,431	4,924,828	227,986	6,439,245
At 31 December 2002	995,919	3,197,828	34,406	4,228,153

Notes on the Financial Statements *(Continued)*

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12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

- (c) All of the Group's buildings are located in the PRC.
- (d) By virtue of a document dated 31 March 1997 issued by the State-owned Assets Administration Bureau, the value of the fixed assets which were taken over by the Company from its ultimate holding company, Anshan Iron & Steel Group Complex ("Angang Holding"), as at 31 December 1996 was determined at Rmb2,848,221,000. The amount was based on a valuation as required by the relevant PRC rules and regulations, carried out on the property, plant and equipment, including the land use rights as at 31 December 1996 by Zhongping Assets Appraisals Office, a firm of valuers registered in the PRC, on a depreciated replacement cost basis. This valuation was an one-off exercise which established the deemed cost of the fixed assets taken over by the Company.
- (e) With effect from 1 January 2003, the Group revised the estimated useful lives of property, plant and equipment. These changes were made, after taking into account of commercial and technological obsolescence as well as normal wear and tear, to better reflect the estimated periods during which such assets will remain in service.
- The above change in depreciation rates has increased the depreciation by approximately Rmb103 million and has decreased the profit after tax by Rmb69 million for the year ended 31 December 2003.
- (f) The Company's jointly controlled entity has pledged its property, plant and equipment at a carrying amount of Rmb25,426,000 at 31 December 2003 (2002: Rmb14,418,000) to secure a syndicated loan as mentioned in note 24.

13 INTANGIBLE ASSETS

The Group	Industrial technology Rmb'000
Cost:	
Balance at 1 January 2003	—
Additions	12,819
Balance at 31 December 2003	12,819
Accumulated amortisation:	
Balance at 1 January 2003 and 31 December 2003	—
Net book value:	
At 31 December 2003	12,819
At 31 December 2002	—

Notes on the Financial Statements *(Continued)*

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14 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January	2,327,558	1,082,644	2,097,302	1,082,644
Additions	1,607,941	1,918,735	1,382,336	1,688,479
	3,935,499	3,001,379	3,479,638	2,771,123
Transfer to property, plant and equipment (note 12)	(2,812,576)	(673,821)	(2,808,724)	(673,821)
Balance at 31 December	1,122,923	2,327,558	670,914	2,097,302
Construction in progress comprises:				
Upgrade of existing production plants	670,914	2,097,302	670,914	2,097,302
Dalian galvanised steel production line	452,009	230,256	—	—
Balance at 31 December	1,122,923	2,327,558	670,914	2,097,302

The Company's jointly controlled entity has pledged its construction in progress at a carrying amount of Rmb904,018,000 at 31 December 2003 (2002: Rmb460,512,000) to secure a syndicated loan as mentioned in note 24.

15 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 range from 44 to 49 years.

The Company's jointly controlled entity has pledged its land use rights at a carrying amount of Rmb43,418,000 at 31 December 2003 (2002: Rmb44,318,000) to secure a syndicated loan as mentioned in note 24.

Notes on the Financial Statements *(Continued)*

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16 INTEREST IN JOINTLY CONTROLLED ENTITY

The Company	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Unlisted shares, at cost	248,305	248,305
Share of losses	(14,049)	(4,786)
	234,256	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 interest		Principal activities
				Group's effective interest	held by the Company	
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

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the jointly controlled entity:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Non-current assets	512,867	261,981
Current assets	94,718	76,099
Non-current liabilities	(229,733)	—
Current liabilities	(143,596)	(94,561)
Net assets	234,256	243,519
Income	—	—
Expenses	(9,263)	(4,786)
	(9,263)	(4,786)

The Company has pledged its equity interest in the jointly controlled entity to secure a syndicated loan granted to ANSC-TKS (note 24).

Notes on the Financial Statements *(Continued)*

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17 INVESTMENT IN ASSOCIATE

	The Group and the Company	
	2003	2002
	Rmb'000	Rmb'000
Unlisted shares, at cost	14,400	—
Share of profit	6	—
	14,406	—

Details of the Company's interest in the associate are set out below:

Name of company	Form of business structure	Place of incorporation and operation	Registered capital	Proportion of equity interest		Principal activities
				Group's effective interest	held by the Company	
Angang Shenyang Steel Product Processing And Distribution Company Limited ("Angang Shenyang")	Equity joint venture	PRC	Rmb48 million	30%	30%	Sale, processing, and distribution, of steel products

18 INVENTORIES

	The Group		The Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	252,877	144,609	242,186	144,609
Work in progress	166,244	124,735	166,244	124,735
Finished goods	440,087	366,471	429,060	366,471
Spare parts, tools and ancillary materials	581,075	581,234	568,920	581,234
	1,440,283	1,217,049	1,406,410	1,217,049
Inventories stated at net realisable value	36,391	85,076	36,391	85,076

Notes on the Financial Statements *(Continued)*

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19 TRADE RECEIVABLES

	The Group and the Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Accounts receivable	84,749	92,060
Bills receivable	2,097,812	1,719,474
	2,182,561	1,811,534

The ageing analysis of trade receivables is as follows:

	The Group and the Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Less than 3 months	1,721,799	1,594,836
More than 3 months but less than 12 months	460,762	216,698
	2,182,561	1,811,534

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.

20 DEPOSITS WITH BANKS

	The Group and the Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Deposits with banks	490,000	—
Less: Deposits with banks with an initial term of less than three months (note 21)	(200,000)	—
	290,000	—

Notes on the Financial Statements *(Continued)*

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21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Bank balances	2,116,976	1,702,051	2,090,613	1,675,586
Add: Deposits with banks with an initial term of less than three months (note 20)	200,000	—	200,000	—
	2,316,976	1,702,051	2,290,613	1,675,586

22 TRADE PAYABLES

	The Group and the Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Accounts payable	194,462	224,994
Bills payable	1,259,594	1,525,791
	1,454,056	1,750,785

The ageing analysis of trade payables is as follows:

	The Group and the Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Due on demand	160,853	199,825
Due within 3 months	749,191	737,273
Due after 3 months but within 6 months	544,012	813,687
	1,454,056	1,750,785

Notes on the Financial Statements *(Continued)*

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23 CONVERTIBLE DEBENTURES

	The Group and the Company	
	2003	2002
	Rmb'000	Rmb'000
Carrying amount of convertible debentures at 1 January	9,264	17,529
Conversion into A shares (note 25)	(4,216)	(8,650)
Redemptions of convertible debentures	(1)	(1)
Transaction costs amortised	19	32
Discount on convertible debentures amortised	203	354
Carrying amount of convertible debentures at 31 December	5,269	9,264

The amount of the convertible debentures initially recognised in equity is net of attributable transaction costs of Rmb2,437,000 (Rmb9,000 at 31 December 2003; Rmb16,000 at 31 December 2002).

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, revised to Rmb3.13 per share on 4 July 2002 and further revised to Rmb3.03 per share on 11 June 2003. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,108,652 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.

Notes on the Financial Statements *(Continued)*

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24 BANK LOANS

At 31 December 2003, the bank loans were repayable as follows:

	Within 1 year or on demand <i>Rmb'000</i>	After 1 year but within 2 years <i>Rmb'000</i>	After 2 years but within 5 years <i>Rmb'000</i>	More than 5 years <i>Rmb'000</i>	Sub-total <i>Rmb'000</i>	Total <i>Rmb'000</i>
Unsecured bank loans:						
— Fixed at 5.49%	400,000	1,063,000	600,000	—	1,663,000	2,063,000
The Company	400,000	1,063,000	600,000	—	1,663,000	2,063,000
Secured bank loan:						
— Fixed at 5.76%	20,267	4,054	121,605	104,074	229,733	250,000
The Group	420,267	1,067,054	721,605	104,074	1,892,733	2,313,000

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

	Within 1 year or on demand <i>Rmb'000</i>	After 1 year but within 2 years <i>Rmb'000</i>	After 2 years but within 5 years <i>Rmb'000</i>	More than 5 years <i>Rmb'000</i>	Sub-total <i>Rmb'000</i>	Total <i>Rmb'000</i>
Unsecured bank loans:						
— Fixed at 5.49%	—	300,000	1,163,000	—	1,463,000	1,463,000
The Company	—	300,000	1,163,000	—	1,463,000	1,463,000
Secured bank loan:						
— Fixed at 5.04%	65,000	—	—	—	—	65,000
The Group	65,000	300,000	1,163,000	—	1,463,000	1,528,000

Notes on the Financial Statements *(Continued)*

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24 BANK LOANS *(continued)*

All unsecured bank loans are guaranteed by Angang Holding.

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 a carrying amount of Rmb972,862,000 at 31 December 2003 (2002: Rmb519,248,000).

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

As at 31 December 2003, the drawdown of the Syndicated Loan amounted to Rmb500,000,000 (2002: Nil).

25 SHARE CAPITAL

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
753,308,652 (2002: 751,873,679) A shares of Rmb1 each	753,309	751,874
890,000,000 H shares of Rmb1 each	890,000	890,000
	2,962,309	2,960,874

During the year, 1,434,973 (2002: 2,938,530) A shares were issued on the conversion of convertible debentures with total carrying values of Rmb4,603,000 (2002: Rmb9,592,000) made up as follows:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Liability component (note 23)	4,216	8,650
Equity component (note 26)	387	922
Accrued interest forfeited	—	20
	4,603	9,592

The balance of Rmb3,168,000 (2002: Rmb6,653,000) was credited to share premium account.

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

Notes on the Financial Statements *(Continued)*

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26 RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Convertible debenture reserve (note a)	Excess over share capital (note b)	Total
The Group and the Company	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
2002					
At 1 January 2002	182,580	182,580	1,421	(151,956)	214,625
Transfer for the year	59,459	59,459	—	—	118,918
Shares issued upon conversion of convertible debentures (note 25)	—	—	(922)	—	(922)
Deferred tax released upon the conversion of convertible debentures	—	—	232	—	232
At 31 December 2002	242,039	242,039	731	(151,956)	332,853
2003					
At 1 January 2003	242,039	242,039	731	(151,956)	332,853
Proposed transfer for the year	143,258	143,258	—	—	286,516
Shares issued upon conversion of convertible debentures (note 25)	—	—	(387)	—	(387)
Deferred tax released upon the conversion of convertible debentures (note 7(c))	—	—	61	—	61
At 31 December 2003	385,297	385,297	405	(151,956)	619,043

Notes on the Financial Statements *(Continued)*

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26 RESERVES *(continued)*

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

- (i) making up cumulative prior years' losses, if any;
 - (ii) allocations to the statutory surplus reserve fund of at least 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations until the fund aggregates to 50% of the Company's registered capital;
 - (iii) allocations of 5% to 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations, to the Company's statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and
 - (iv) allocations to the discretionary surplus reserve subject to approval by the shareholders.
- (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 note 23).
- (b) 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.

27 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 2003, the reserve available for distribution was Rmb2,131,717,000 (2002: Rmb1,281,803,000). Final dividend of Rmb592,462,000 (2002: Rmb296,087,000) in respect of the financial year 2003 was proposed after the balance sheet date.

Notes on the Financial Statements *(Continued)*

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28 NOTES TO THE CASH FLOW STATEMENT

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Profit from ordinary activities before taxation	1,752,435	857,482
Interest income	(21,203)	(6,275)
Interest expenses	17,433	10,573
Income from associate	(6)	—
Depreciation	543,941	436,167
Provision of inventories	9,314	—
(Reversal)/accrual of bad debt provision	(157)	104
Loss on disposal of fixed assets	61,626	25,202
Net exchange loss/(gain)	1,738	(20)
Increase in inventories	(232,548)	(312,836)
Decrease/(increase) in amounts due from fellow subsidiaries	156,148	(244,030)
Decrease in accounts receivable	7,311	53,738
(Increase)/decrease in bills receivable	(379,768)	703,875
Increase in lease prepayments	(149,181)	(31,879)
(Increase)/decrease in prepayments, deposits and other receivables	(8,367)	6,252
(Decrease)/increase in accounts payable	(30,532)	5,112
(Decrease)/increase in bills payable	(211,402)	348,199
Increase/(decrease) in amount due to ultimate holding company	881	(47,977)
Increase in amounts due to fellow subsidiaries	470,634	206,201
Increase in other payables	184,448	385,271
Cash flows from operations	2,172,745	2,395,159

Notes on the Financial Statements *(Continued)*

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29 COMMITMENTS

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

	The Group		The Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Authorised and contracted for:				
— Construction projects of production lines	263,112	771,467	112,943	662,353
— Technology transfer fee	15,845	20,780	—	—
Authorised but not contracted for:				
— Improvement projects of production lines	1,370,185	2,635,629	1,338,526	2,396,003
	1,649,142	3,427,876	1,451,469	3,058,356

- (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.

30 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group, Angang Shenyang (its associate), 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:

	Note	The Group and the Company	
		2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Sales of finished goods	(a)	1,837,745	991,051
Return of scrap materials	(b)	253,966	215,140
Purchases of			
— raw materials	(c)	9,856,095	7,501,072
— ancillary materials and spare parts	(d)	91,407	79,646
Utility supplies	(e)	306,557	284,432
Fees paid for welfare and other support services	(f)	289,184	211,942

Notes on the Financial Statements *(Continued)*

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30 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 billet totalling Rmb833,364,000 (2002: Rmb571,917,000) 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 preceding 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 ware, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.
 - (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.
- (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 Rmb20,928,000 (2002: Rmb91,844,000) were incurred by the jointly controlled entity during the year.
 - (iii) The Company sold finished products amounted to Rmb22,193,000 (2002: Nil) to Angang Shenyang for further processing at market price.

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.

Notes on the Financial Statements *(Continued)*

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30 RELATED PARTY TRANSACTIONS *(continued)*

(b) Amount due to ultimate holding company

Amounts due to ultimate holding company mainly represents fees payable for support services.

The amount due to ultimate holding company is unsecured, interest free and have no fixed terms of repayment.

(c) 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.

(d) Convertible debentures

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

(e) Bank loans

All unsecured bank loans of the Group (note 24) are guaranteed by Angang Holding.

(f) Equity interest in ANSC-TKS

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligation of ANSC-TKS under the agreement of the Syndicated Loan.

The Company also 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. The commitment is limited to US\$8 million and will be reduced to US\$4 million after the tenth repayment date.

(g) Acquisition of land use rights and buildings

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

(h) Interest in Angang Shenyang

On 17 March 2003, the Company entered into an agreement with two fellow subsidiaries to set up Angang Shenyang (note 17).

Notes on the Financial Statements *(Continued)*

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31 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	
		2003	2002
Anshan City and the Liaoning Provincial Government	Employees of the Company	25.5%	30.5%
Dalian Labour Bureau	Employees of ANSC-TKS	19%	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.

32 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, amount due to ultimate holding company, 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 23 and 24 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 bills in full prior to delivery of goods. 51% (2002: 74%) of the accounts receivable are due from a railway company which generally settles the balances within 3 months.

Amounts due from fellow subsidiaries

The terms of amounts due from fellow subsidiaries are disclosed in note 30(c).

Notes on the Financial Statements *(Continued)*

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32 FINANCIAL INSTRUMENTS *(continued)*

(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 2003 amounted to Rmb1,033,000 (2002: Rmb19,918,000).

(d) Fair value

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

Convertible debentures - the fair value is estimated as Rmb5,454,000 (2002: Rmb9,856,000) 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.

33 POST BALANCE SHEET EVENTS

(a) New investment

On 9 March 2004, the Company entered into an agreement with independent third parties to set up Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang"). The principal activities of Zhongye Nanfang include engineering consultancy services, research and development. The Company injected Rmb10,500,000 into Zhongye Nanfang for its 7% equity interests.

(b) Acquisition of land use rights, plant and buildings

Pursuant to an agreement dated 23 March 2004, the Company acquired certain land use rights, plant and buildings in the PRC from Angang Holding at a consideration of Rmb62,206,000.

34 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2003 to be Angang Holding, incorporated in the PRC.

Differences between Financial Statements Prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations

	Note	The Group		The Company	
		2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Profit attributable to shareholders under IFRS		1,433,002	598,316	1,433,002	598,316
Adjustments:					
Share of loss of jointly controlled entity, net of tax	(i)	—	—	13,270	4,786
Pre-operating expenses	(iii)	19,355	6,955	—	—
Revaluation of land use rights	(iv)	(4,536)	(4,536)	(4,536)	(4,536)
Amortisation of lease prepayments	(v)	451	188	—	—
General borrowing costs capitalised	(vi)	(12,933)	(7,925)	(12,933)	(7,925)
Write off of long outstanding accounts payable	(vii)	(1,913)	(165)	(1,913)	(165)
Receipt of donation	(viii)	(76)	—	(76)	—
Deferred tax charge	(ix)	(771)	1,755	5,765	4,112
Profit attributable to shareholders under PRC Accounting Rules and Regulations		1,432,579	594,588	1,432,579	594,588
Shareholders' funds under IFRS		8,815,385	7,674,255	8,815,385	7,674,255
Adjustments:					
Share of loss of jointly controlled entity, net of tax	(i)	—	—	18,056	4,786
Convertible debentures	(ii)				
— Discount on convertible debentures		(185)	(592)	(185)	(592)
— Additional borrowing costs capitalised		(7,157)	(6,935)	(7,157)	(6,935)
Pre-operating expenses	(iii)	26,310	6,955	—	—
Revaluation of land use rights	(iv)	199,584	204,120	199,584	204,120
Amortisation of lease prepayments	(v)	639	188	—	—
General borrowing costs capitalised	(vi)	(20,858)	(7,925)	(20,858)	(7,925)
Deferred tax	(ix)	(65,450)	(64,618)	(56,557)	(62,261)
Shareholders' funds under PRC Accounting Rules and Regulations		8,948,268	7,805,448	8,948,268	7,805,448

Differences between Financial Statements Prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations *(Continued)*

Notes:

- (i) The amount represents the difference in treatment of pre-operating expenses and land use rights between the IFRS and PRC financial statements of the jointly controlled entity as mentioned in notes (iii) and (v) respectively.
- (ii) The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IFRS and PRC financial statements.
- (iii) Pre-operating expenses are expensed when incurred under IFRS. However, in the PRC financial statements, pre-operating expenses are capitalised before the commencement of operation and will be written off when the enterprise commences operation.
- (iv) Effective 1 January 2002, land use rights are carried at historical cost base under IFRS. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed from shareholders’ equity. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.
- (v) Land use rights are amortised on a straight-line basis over the respective periods of rights from the date of grant under IFRS. Under the PRC Accounting Rules and Regulations, land use rights are amortised when the construction work on the related land has been completed.
- (vi) Under IFRS, general borrowing costs are capitalised by applying a capitalisation rate to the expenditures on the qualifying assets. Under the PRC Accounting Rules and Regulations, general borrowing costs are charged to the income statement when incurred.
- (vii) Under IFRS, the write off of long outstanding accounts payable is recognised in the income statement. Under the PRC Accounting Rules and Regulations, long outstanding accounts payable are written off against the capital reserve.
- (viii) Under IFRS, the receipt of donation is recognised as other income in the income statement. Under the PRC Accounting Rules and Regulations, receipt of donation is accounted for as a movement in capital reserve.
- (ix) Deferred tax is provided on the IFRS adjustments at the tax rate of 33%.

Five Year Summary

A PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS

	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000	1999 Rmb'000
Principal operating revenue	14,520,736	10,771,077	9,490,523	9,793,150	6,923,142
Net profit	1,432,579	594,588	403,743	492,204	293,716
Total assets	15,011,870	12,425,350	10,237,888	9,452,195	6,855,970
Total liabilities	(6,063,602)	(4,619,902)	(2,799,856)	(2,284,634)	(1,539,401)
Net assets	8,948,268	7,805,448	7,438,032	7,167,561	5,316,569

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000	1999 Rmb'000
Turnover	14,482,148	10,746,477	9,465,247	9,767,600	6,907,996
Profit attributable to shareholders	1,433,002	598,316	366,481	491,395	295,421
Non-current assets	7,970,456	6,776,533	5,281,336	4,564,869	3,884,369
Current assets	6,875,218	5,517,032	4,820,586	4,922,329	3,009,672
Current liabilities	(4,132,287)	(3,147,046)	(2,380,651)	(2,014,162)	(1,299,401)
Net current assets	2,742,931	2,369,986	2,439,935	2,908,167	1,710,271
Total assets less current liabilities	10,713,387	9,146,519	7,721,271	7,473,036	5,594,640
Non-current liabilities	(1,898,002)	(1,472,264)	(417,529)	(253,240)	(240,000)
Net assets	8,815,385	7,674,255	7,303,742	7,219,796	5,354,640