

# REPORT OF THE BOARD OF DIRECTORS

Chongqing Iron & Steel Company Limited

The Board of Directors (“the Board”) has pleasure in presenting their report together with the audited accounts of the Company for the year ended 31st December 2004 to the shareholders.

## General Meeting

During the year, the Company had strictly complied with the relevant laws, regulations and the Articles of Association of the Company. Class Meetings and Extraordinary General Meeting and Annual General Meeting were convened, details of which are as follows:

1. On 8th April 2004, the Company convened Class Meetings for holders of H Shares and Domestic Shares. Both meetings considered and approved the extension of validity term of the resolution concerning the Company’s issuance of additional A Shares to the date convening the Company’s 2004 Annual General Meeting as a special resolution. The issuance of additional A Shares was previously approved at the Class Meetings for holders of Domestic Shares and H Shares and the Extraordinary General Meeting on 16th April 2003.
2. On 8th April 2004, the first Extraordinary General Meeting for 2004 was held. At the meeting, two special resolutions to extend the validity term of the resolution concerning the Company’s issuance of additional A Shares, as approved at the Class Meetings for holders of Domestic Shares and H Shares and the Extraordinary General Meeting on 16th April 2003, to the date convening the Company’s 2004 Annual General Meeting, and to extend the validity term of the resolution concerning the authorization to the Board to handle, at its sole discretion, any matters related to the issuance of additional A Shares, as approved at the Extraordinary General Meeting on 16th April 2003, to the date convening the Company’s 2004 Annual General Meeting were considered and approved.

Details of the above General Meetings have been published in Wen Wei Po (Hong Kong) and The Standard (Hong Kong) on 13th April 2004.



## General Meeting *(continued)*

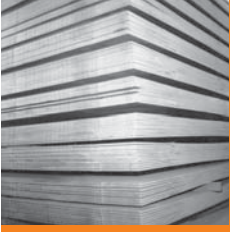
3. The Company's 2003 Annual General Meeting was held on 19th May 2004. At the meeting, several matters concerning the annual report, the audited accounts and the auditors' report, profit distribution proposal, distribution of final dividends for the year 2003 and election of Ms. Chen Hong as Supervisor from the Company's shareholders' representatives were considered and approved.

## Board Meetings

The third Board of the Company was established on 16th April 2003, which comprises six Executive Directors and three Independent Non-executive Directors. All Directors undertook their obligations in accordance with laws and implemented the resolutions passed at General Meetings in a proactive manner.

During the year, the Board convened, amongst others, the following meetings to consider and approve the interim and final results:

1. On 11th March 2004, the fifth meeting of the third Board of the Company was held, at which the annual report, the annual results announcement and the final profit distribution proposal for 2003, the 2004 investment scheme and the proposal for re-appointment of auditors were considered and approved.
2. On 20th August 2004, the sixth meeting of the third Board of the Company was held, at which several matters including the unaudited interim financial accounts, the interim report and the interim results announcement of the Company for the year 2004 were considered and approved.



# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Audit Committee

The second Audit Committee of the Company was set up on 16th April 2003, comprising three Independent Non-executive Directors.

During the year, the Audit Committee convened the following meetings to consider and approve the interim and final results:

1. On 10th March 2004, the second meeting of the second Audit Committee of the Company was held at which several matters including the audited financial accounts for 2003, the report on appointment of auditors, internal control matters and the Company's connected transactions in 2003 were considered and approved.
2. On 19th August 2004, the third meeting of the second Audit Committee of the Company was held. At the meeting, several matters including the unaudited interim financial accounts, the interim report, the interim results announcement and connected transactions of the Company for the year 2004 were considered and approved.

## Principal Business

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



## **Principal Business** *(continued)*

No geographical segment information is presented as virtually all of the Company's turnover and operating profits are derived from the PRC, where all assets of the Company are located in a single region and subject to corresponding risks and returns.

## **Results and Appropriations**

Results and appropriations of the Company for the year ended 31st December 2004 prepared in accordance with the accounting principles generally accepted in Hong Kong are set out in the consolidated profit and loss account on page 60 of the annual report.

The Company has not declared any interim dividends for 2004.

The Board recommends the distribution of a final dividend of Rmb0.15 per share for the year 2004, representing a total of Rmb159,591,600.

In accordance with documents no. 372 (1999) issued by State Administration of Foreign Exchange and State Administration of Taxation, the final dividend for the year of 2004 distributed by the Company are exempt from tax.

## **Financial Summary**

A summary of the results and the assets and liabilities of the Company for the past five years are set out on page 12 to 13 of the annual report.

# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited



## Share Capital and Shareholders

The structure of the Company's share capital as at 31st December 2004 was as follows:

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

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



## H Share Information:

Details of the issue of the Company's H Shares listed in Hong Kong since the establishment of the Company in 11th August 1997 are as follows:

### Pursuant to initial public offering

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

### Pursuant to over-allotment option

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

Number of H Shares approved for listing	413,944,000 shares
---	--------------------

During the year:

Highest trading price	HK\$5.45 per share
Lowest trading price	HK\$2.25 per share
Closing price on the last trading day	HK\$3.25 per share
Total transaction volume	2,869,410,000 shares



# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Number of Shareholders

At 31st December 2004, the Company's total number of shareholders was 201, which included one shareholder of State-owned Legal Person Shares and 200 shareholders of H Shares, among which, Chongqing Iron and Steel Company (Group) Limited was the ultimate controlling shareholder of the Company.

## Shareholdings of Substantial Shareholders

As at 31st December 2004, the following interests or short positions in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"):

Name of shareholders	Class of shares	Number of shares ( <i>'000</i> )	total issued share capital (%)
Chongqing Iron & Steel Company (Group) Limited	State-owned Legal Person Shares	650,000	61.09

Save as disclosed above, as at 31st December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Supervisors' interests in the shares of the Company or any associated corporation" below, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



## Purchase, Sale or Redemption of the Securities of the Company

For the year ended 31st December 2004, neither the Company nor its subsidiaries has purchased, sold or redeemed any securities of the Company.

## Pre-emptive Rights

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

## Use of Proceeds from the New Issue

The proceeds raised from the issue of H Shares of the Company in 1997 have been fully utilized at the end of 31st December 2000.

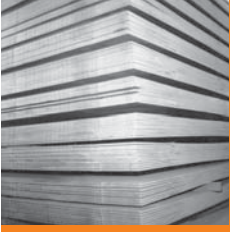
## Directors and Supervisors

Directors and Supervisors of the Company who held offices during the year ended 31st December 2004 were as follows:

### Directors:

Mr. Tang Min Wei	Chairman	Re-elected on 16th April 2003
Mr. Yuan Jin Fu	Director	Appointed on 16th April 2003
Mr. Yang Zhi Wei	Director	Appointed on 16th April 2003
Mr. Chen Shan	Director	Re-elected on 16th April 2003
Mr. Sun Yi Jie	Director	Appointed on 16th April 2003
Mr. Tu De Ling	Director	Appointed on 16th April 2003
Mr. Wang Xiang Fei	Independent Non-executive Director	Re-elected on 16th April 2003
Mr. Wu Zhong Fu	Independent Non-executive Director	Re-elected on 16th April 2003
Mr. Sun Yu	Independent Non-executive Director	Appointed on 16th April 2003





# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Directors and Supervisors (continued)

### Supervisors:

Mr. Zhu Jian Pai	Chairman of Supervisory Committee	Re-elected on 16th April 2003
Mr. Huang You He	Supervisor	Re-elected on 16th April 2003
Ms. Yuan Xue Bing	Supervisor	Re-elected on 16th April 2003
Mr. Wu Zi Sheng	Supervisor	Resigned on 19th May 2004
Ms. Liu Xiu Ying	Supervisor of staff's representative	Resigned on 24th March 2004
Ms. Chen Hong	Supervisor	Appointed on 19th May 2004
Ms. Lu Kang Mei	Supervisor of staff's representative	Appointed on 24th March 2004

In accordance with Articles 93 and 121 of the Articles of Association of the Company, the term of office of Directors and Supervisors is three years commencing from the date of appointment or re-election, and are renewable upon re-appointment or re-election.

## Changes of Directors, Supervisors and Other Senior Management of the Company

1. On 8th January 2004, as recommended by Mr. Yang Zhi Wei, the general manager of the Company, the Board appointed Mr. Xu Gang and Mr. Wu Zi Sheng as deputy general managers of the Company. Mr. Xu Gang was also appointed as the chief engineer and Mr. Sun Yi Jie resigned from office of the chief engineer of the Company.
2. On 24th March 2004, the 37th joint meeting of the first staff representative meeting for its group (team) leaders and the Chairman of Labour Union was held, at which Ms. Lu Kang Mei was elected as the Supervisor from the staff's representatives of the Company and Ms. Liu Xiu Ying resigned from the same position. The Company's 2003 Annual General Meeting was held on 19th May 2004, at which Mr. Chen Hong was elected as the Supervisor from the shareholders' representatives of the Company for a term of three years commencing from 19th May 2004 to 18th May 2007 (both days inclusive). At the same time, Mr. Wu Zi Sheng resigned from the same position.



## Directors' and Supervisors' Service Contracts

Save for the service contracts entered into between Ms. Chen Hong and Ms. Lu Kang Mei and the Company which will expire on 18th May 2007, all other Directors and Supervisors of the Company have entered into service contracts with the Company which will expire on 16th April 2006. Either party may terminate its service contract with three months prior notice. No director or supervisor will be proposed for re-election at the forthcoming Annual General Meeting.

Independent Non-executive Directors of the Company have not entered into service contracts with the Company.

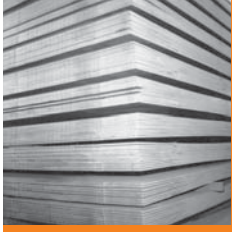
## Directors' and Supervisors' Interests in the Shares of the Company or any Associated Corporation

As at 31st December 2004, the interests and short positions of the directors and chief executive in the shares or underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Interests in 重慶恒達鋼業股份有限公司(Chongqing Hengda Steel Industrial Co., Ltd.) ("Hengda"):

<b>Name (Note 1)</b>	<b>Number of shares</b>
Yuan Jin Fu	2,400 shares
Chen Shan	800 shares
Yang Zhi Wei	800 shares
Sun Yi Jie	800 shares
Tu De Ling	800 shares
Wu Zi Sheng	2,400 shares
Yuan Xue Bing	800 shares
Chen Hong	1,600 shares

*Note 1: This represents interests of the directors and supervisors in Hengda which was transferred from the Company to the Holding Company in December 2002. Please refer to the Company's 2002 annual report for details of the reorganisation.*



# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Directors' and Supervisors' Interests in the Shares of the Company or any Associated Corporation (continued)

Save as disclosed above, as at 31st December 2004, none of the directors or chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that were required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

For the year ended 31st December 2004, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year was the Company, its fellow subsidiaries or its Holding Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

None of the directors or supervisors of the Company were materially interested, either directly or indirectly, in any contract of significance subsisting during or at the end of the financial year ended 31st December 2004.

## Independent Non-executive Directors

The Company has received from each of its independent non-executive directors, Mr. Wang Xang Fei, Mr. Wu Zhong Fu and Mr. Sun Yu a confirmation of each of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company still considers such independent non-executive directors to be independent as at the date of this Annual Report.



## Qualified Accountants

On 29th October 2004, the Company announced that it had applied to the Stock Exchange for a waiver from strict compliance with Rule 3.24 of the Listing Rules for a term of three years commencing from 1st October 2004 and that further information for the application will be submitted to the Stock Exchange in due course.

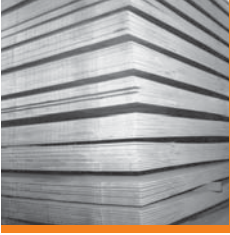
## Material Contracts with the Holding Company

### 1. Service and Supply agreement

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

### 2. Lease agreements

Under the lease agreements dated 14th August 1997 and 13th August 1997, as amended by a supplementary agreement dated 29th September 1997, the Company and Hengda leased land on which the Company’s plants are located from the Holding Company for a term of 50 years from 14th August 1997 and 13th August 1997 respectively. For the years 1998 to 2000, the total rental was Rmb11,994,000 per annum. Thereafter, the rent will be adjusted subject to a maximum increment of 10% of the latest applicable rental amount every three years by negotiation between the Company and the Holding Company.



## Material Contracts with the Holding Company *(continued)*

### 2. Lease agreements *(continued)*

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

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



## Connected Transactions

1. Details of the related party transactions entered into by the Company during the year ended 31st December 2004 are set out in note 24 to the Accounts on pages 95 to 97. Such transactions also constituted connected transactions under the Listing Rules.
2. The connected transactions discloseable according to Chapter 14 of the Listing Rules are set out below:
  - (1) Connected transactions that have been granted waivers

Waivers have been granted by the Stock Exchange from strict compliance with the provisions of Chapter 14 of the Listing Rules, provided that the conditions as set out in the letters from the Stock Exchange dated 28th November 1997 and 24th December 2002 (details of which are set out in paragraph (3) headed “Land leasing agreements” above) are fulfilled for connected transactions between the Company and the Holding Company Group described in paragraphs (2), (4) to (9) on pages 76 to 80 of the Prospectus and page 33 to 34 of this annual report (the “Transactions”).

The Independent Non-executive Directors of the Company have reviewed the Transactions during the year and have confirmed that:

- (a) The Transactions have been entered into in the ordinary course of business of the Company;



# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Connected Transactions (continued)

2. The connected transactions discloseable according to Chapter 14 of the Listing Rules are set out below: (Continued)

(1) Connected transactions that have been granted waivers (Continued)

(b) The Transactions have been entered into on normal business terms (i.e. terms determined with reference to transactions of a similar nature or entered into by similar companies in the PRC) or, where there were no available comparisons, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;

(c) The Transactions were entered into: (1) in accordance with the terms of the agreements that governed the Transactions, or (2) where there was no such agreement, on terms no less favourable than those available to third parties; and

(d) The Transactions were in compliance with the conditions of the relevant waivers granted.

(2) Loan guarantee provided by the Holding Company

The Company's secured short term bank loans of Rmb315,000,000 (2003: Rmb86,000,000) (note 18(a)) and long term bank loans of Rmb214,000,000 (2003: Rmb145,000,000) (note 21(a)) at 31st December 2004 are secured by the Holding Company's land and certain fixed assets of the Company.

In addition to the above, the Company's unsecured short-term bank loans of Rmb250,900,000 (2003: Rmb409,900,000) (note 18(b)) and long-term bank loans of Rmb827,295,000 (2003: Rmb595,000,000) (note 21(b)) at 31st December 2004 are guaranteed by the Holding Company.



## Designated Deposits and Overdue Time Deposits

As at 31st December 2004, the Company had not placed any designated deposits with any financial institutions in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

## Pledge of Assets and Contingent Liabilities

The Company has pledged certain of its fixed assets as securities for bank loans. As at 31st December 2004, the net book value of the Company's pledged fixed assets amounted to Rmb346,384,000 (31st December 2003: Rmb368,014,000).

As at 31st December 2004, the Company had no contingent liabilities.

## Foreign Exchange Risk

As at 31st December 2004, the Company's bank balances and loans are denominated in USD. Since the foreign exchange of USD to Rmb has been stable for recent periods, the foreign exchange risk for the Company is remote.

## Material Litigation

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





# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Significant Events

1. On 8th January 2004, the Company's Board of Directors approved the Proposal for Appointment of Deputy General Manager and Chief Engineer of the Company, pursuant to which Mr. Xu Gang and Mr. Wu Zi Sheng were appointed as Vice General Managers of the Company as recommended by the General Manager of the Company, Mr. Yang Zhi Wei, while Mr. Xu Gang was also appointed as the Chief Engineer of the Company and Mr. Sun Yi Jie resigned from the same position.
2. On 28th December 2004, the Company completed the construction of the project of cold rolling phase I.

## Progress of Issuance of A Shares

In June 2003, the Company formally lodged an application for additional issuance of A Shares to China Securities Regulatory Commission, and has been continuing to carry out the relevant work during the period.

## Management Contract

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

## Fixed Assets

Details of the movements in fixed assets of the Company during the year are set out on page 82 to 83 of the annual report.



## **Reserves**

Movements in the reserves of the Company during the year are set out on pages 89 to 90 of the annual report.

## **Bank Loans and Other Loans**

Details of the Company's bank and other loans are set out on pages 87 to 88 and pages 91 to 92 of the annual report.

## **Interest Capitalisation**

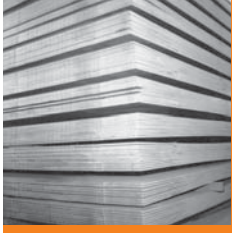
The amount of interest capitalised by the Company during the year is set out on page 78 of the annual report.

## **Staff Retirement and Benefits Scheme**

Details of the Company's staff retirement and benefits scheme are set out on page 72 of the annual report.

## **Sale of Staff Quarters**

For the year ended 31st December 2004, the Company had not sold any quarters to its employees, nor had it incurred any expenses as a result of the Holding Company's sale of quarters to the Company's employees.



## Financial Arrangement of Housing Policy Reform

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

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

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

In view of the above, the Company has not provided for any housing subsidy in the accounts for the year ended 31st December 2004.



## Employees and Remunerations

As at 31st December 2004, the Company had 11,712 employees, including 9,818 production operators, 841 technical staff and 1,053 management staff.

During the year, the staff cost of the Company amounted to Rmb555,149,000 (2003: Rmb489,705,000), representing an increase of 13.36% from last year.

## Major Customers and Suppliers

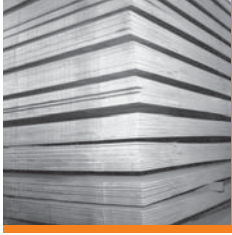
As both the percentage of the aggregate sales to the top five customers in the Company's total sales and the percentage of aggregate purchases from the top five suppliers in the Company's total purchase were lower than 30%, no further information on major suppliers and customers was disclosed.

Save for two fellow subsidiaries in the top five suppliers of the Company, none of Directors, Supervisors or their respective associates or any shareholder (which to the knowledge of the Directors has 5% or more of equity interest in the Company) of the Company was beneficially interested in the top five suppliers or the top five customers of the Company.

## Policy of Corporate Income Tax

No Hong Kong profits tax has been provided as the Company had no taxable profits in Hong Kong for the year (2003: nil).

In April 2003, the Company obtained approvals issued by the relevant tax authorities under which the preferential income tax treatment for enterprises in the western development region is granted to the Company. In accordance with these approvals, the Company is entitled to the preferential income tax policy applicable to enterprises in the western development region and the income tax rate is reduced to 15% for the period from 2001 to 2010.



# REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Chongqing Iron & Steel Company Limited

## Policy of Corporate Income Tax (continued)

In addition, in accordance with an approval issued by relevant government authorities, the Company has been qualified as joint stock limited company with foreign investment since 7th December 1998. In accordance with the relevant tax law of the PRC, enterprises with foreign investment engaged in production business activities are entitled to two years exemption from income tax followed by three years of 50% reduction in income tax commencing from the first profitable year. The year ended 31st December 2004 is the Company's fifth profitable year after the above change in status, therefore, income tax has been provided at 50% of the applicable income tax rate (i.e. 7.5%, being 50% of 15%) on its estimated taxable income for the year ended 31st December 2004 (2003: 7.5%).

In 2003, the Company purchased certain domestically manufactured equipment. In accordance with relevant tax regulations, part of the purchase costs of the domestically manufactured equipment could be utilised to reduce the Company's corporate income tax.

In accordance with the approval from relevant tax authorities, the total tax reduction that the Company is entitled to amounted to Rmb36,894,000. The above tax deductible amount was utilised to offset the Company's corporate income tax payables for 2004.

## Compliance with the Code of Best Practice and the Model Code

In the opinion of the Board, in 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange applicable in 2004.

The Company takes the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of Listing Rules of the Stock Exchange as the code for securities transactions by its Directors and Supervisors. Based on specific enquiries to all Directors and Supervisors, the Company confirms that all Directors and Supervisors had complied with the requirements of the above code concerning the securities transactions by Directors and Supervisors during the reporting period.

Based on the information that is publicly available to the Company and within the knowledge of their directors, as at the latest practicable date prior to the issue of this annual report, at least 25% of the Company's total issued share capital was held in public hands.

# REPORT OF THE BOARD OF DIRECTORS *(CONTINUED)*

Chongqing Iron & Steel Company Limited



## Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who has retired upon expiry of its term. The Board will put forward a resolution at the forthcoming Annual General Meeting to re-appoint PricewaterhouseCoopers as the auditors of the Company for the year 2005.

By Order of the Board

**Tang Min Wei**

*Chairman*

Chongqing, the PRC

10th March 2005