

1999 Annual Report

Importance: The Board of Directors of Bengang Steel Plates Co., LTD hereby confirms that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and / or joint, for the reality accuracy and completion of the whole contents.

I. About the company

1. Name of the Company:
In Chinese: 本钢板材股份有限公司
In English: BENGANG STEEL PLATES CO., LTD
2. Legal representative: Zhang Yingfu
3. Authorized representative: Sun Zhongzheng
Liaison Address: No.16 Renmin Rd. Pingshan District Benxi, Liaoning Province, China
Tel: 0086-414-7827344, 7828734, 7827004
Fax: 0086-414-7827004, 7828009
4. Registered address & office address:
No.16 Remin Rd, Pingshan District, Benxi, Liaoning Province, P.R. China.
Post Code: 117000
E-mail: bgbctwg@mail.bxptt.ln.cn
5. Newspapers for disclosing the information of the Company:
“China Securities”, “Securities Times”, “Hong Kong Commerce”
Internet Web Site for publishing the annual report:
<http://www.cninfo.com.cn>
The place where the annual report is prepared and placed:
No.16 Renmin Rd. Pingshan District, Benxi Liaoning Province, China
6. Stock exchange listed with: Shenzhen Stock Exchange
(1) Short form of B Share: BENGANGBAN B
Stock Code: 2761
(2) Short form of A Share: BENGANGBANCAI
Stock Code: 0761

II. Summary of Accounting Data and Business Data

1. Major Accounting Data for 1999	Unit RMB		
Total profit:	391,368,655		
Net profit:	332,663,357		
Profit from main business lines:	463,343,093		
Business profit:	392,292,744		
Non-operating expense, net:	-- 924,089		
Net cash flows from operating activities:	516,816,941		
Net increase of cash and bank balances:	86,488,467		
2. By the end of this year, the major accounting data and financial ratios for 1997,1998,1999			
Item	1999	1998	1997
Profit from main business (Yuan)	5,578,168,459	4,720,721,130	4,452,514,014
Net profit	332,663,357	297,564,768	381,312,773
Total assets	4,380,644,000	3,862,583,844	3,442,292,536
Shareholders' equity	3,293,257,382	2,960,594,025	2,920,306,090
Earnings per share (Yuan/Share)	0.2928	0.2619	0.3357
Net assets per share	2.8990	0.6062	2.5707
Adjusted net assets per share	2.8791	2.5896	2.5572
Net cash flow from business activity per share	0.45	0.30	/
Return on net assets (%)	10.10	10.05	13.06

Note: Major financial return worked out as follows:

Earning per share = net profit / total number of common shares at the end of the year

Net assets per share = shareholders' equity at the end of the year / total number of common shares at the end of the year

Net cash flow from business activity per share = net cash flow from business activity / total number of common shares at the end of the year

Return on net assets = net profit / shareholders' equity at the end of the year x 100%

Adjusted net assets per share = (shareholders' equity at the end of the year – accounts receivable over three years – deferred expenses – net loss in suspended assets (both current and fixed) – preoperating expenses – other deferred assets) / total common shares at the end of the year.

By December 31, 1999, there existed no difference in the after-tax profit calculated according to the P.R.China Accounting Standards and the International Accounting Standards respectively.

3. Particulars about changes in shareholders' equity during the report year Unit: RMB

Item	Share Capital	Reserve	Undistributed Profit	Total shareholders' Equity
At the beginning	1,136,000	1,465,275	321,096	2,922,371
Of the period				
Increase in This period		88,123	282,763	370,886
Decrease in This period				
At the end of This period	1,136,000	155,398	603,859	3,293,257
Reasons of change		See notes 15, due to the increase 16 of Financial Statement of net profit:		

III. Particulars about the changes in capital shares and shareholders

1. Changes in Share Capital

Unit: share

	At the beginning Of the year	Increase/decrease (+/-) during the year				At the end of the year
		Shares Placed	Bonus shares	Conversion from capital reserve	Others	
I. Shares unlisted						
1. Promoters' shares including:	616,000,000					616,000,000
State-owned shares	616,000,000					616,000,000
Domestic legal person shares						
Foreign legal person shares						
Others						
2. Legal person shares placed						
3. Employees' shares	90,000				- 20,000	70,000
4. Preference shares or others						
Total of shares unlisted	616,090,000				- 20,000	616,070,000
II. Shares listed						
1. Common shares (in RMB) listed	119,910,000				+ 20,000	119,930,000
2. Foreign shares listed domestically	400,000,000					400,000,000
3. Foreign shares listed abroad						
4. Others						
Total of shares listed	519,910,000					519,910,000
III. Total shares	1,136,000,000					1,136,000,000

2. Particulars about the listing and issuing of shares

Bengang Steel Plates Co., LTD is a joint stock company with limited liabilities incorporated on March 27, 1997 upon the approval from Liaoning Provincial People's Government by the Document LG (1997) No.57. The only promoter is Bengang Group Company that established the Company with its subsidiaries – Steel Plant, Blooming Mill, Hot Rolling Mill Plant as the principal and by means of placing shares in the

public with total amount of capital shares 1,136 million, including 616 million promoter's shares, 400 million domestically listed foreign shares (Bshares) with the par value of RMB 1.00 per share and the issue price of HKD 2.38. The issue time was June 10 to 12, 1997 and the date of listing July 8, 1997 and the amount of the shares permitted for listing 400 million shares. The Company also issued 120 million domestically listed common shares in RMB (A Shares).

Of 120 million public common shares in RMB, 12 million shares were employees' with the issue date November 3, 1997, the issue price RMB 5.40 and entrusted with Liaoning Securities Registration Management Center on November 26, 1997. The employees' shares were listed on July 16, 1998. 11.93 million shares were approved to be listed in the year, the remaining 70,000 shares held by executives were still frozen.

3. About the shareholders

(1) As of December 30, 1999, the Company had 67,588 shareholders, including one shareholder of state-owned shares, 7,432 shareholders of B Shares and 60,155 shareholders of A Shares.

(2) Particulars about shares held by the top ten shareholders (As of December 30, 1999)

No.	Name of shareholders	Number at the End of the year	Proportion of total shares %
1.	BX STEEL (STATE-OWNED SHARES)	616,000,000	54.23
2.	FI-CIBLUXS/A THS BATTERYMARCH GEM FUNP	7,500,000	0.66
3.	SSBT/THE CHINA FUND-UHI UHOI	7,309,600	0.64
4.	CHINA INTL MARINE CONTAINERS (HONG KONG) LTD	6,868,701	0.60
5.	LAU YAM HOI	5,033,000	0.44
6.	BIAL/HSBC GLOBAL INVESTMENT FUNDS CHINESE EQUITY	4,999,996	0.44
7.	NG CHUN WAH	4,750,000	0.42
8.	ZHANG ZHI CHENG		
9.	LI, PING	4,561,100	0.40
10.	CHINA PINGAN INSURANCE (HK) CO. LTD	3,000,000	0.26

(3) Benxi Iron & Steel (Group) Co., Ltd. is the legal person shareholder of the Company holding over 10% of the total shares, its legal representative is Mr. Zhang Yingfu, and its business scope including steel smelting, mining, plates rolling, oxygen making, pipe making, generating electricity, coal chemical industry, supply of special steel, heating, supply of water, electricity, pneumatic air and gas, metal processing, mechanical and electrical equipment making and repairing, equipment manufacture, building and installation, railway, highway transportation, import and export business, travel, building materials, fire-proof materials, meters and instruments, materials supply and marketing, real estate development, scientific research, design and information service, etc.

(4) There was no change of dominant shareholders during the report year. The Company engaged China Security Daily, Securities Times and Hong Kong Commercial Daily for disclosing the concerned information. The notification of address changing was given on March 24, the annual report of 1998, the resolution of the 7th meeting of the first Board of Directors and the announcement of 1998 Shareholders General Meeting were published on April 16; the announcement of the resolution about investing in building the second continuous casting project by the Board of Directors was given on April 23; the announcement of the resolution of 1998 shareholders general meeting on May 20; the interim report of 1999 on August 12, 1999.

IV. A Brief Introduction to the Shareholders' General Meeting

1. The public notice on holding '98 Shareholders' General Meeting was published on China Securities daily, Securities Times and Hong Kong Commercial Daily dated April 16, 1999.
2. The Company held '98 Shareholders General Meeting on the morning of May 20, 1999 at Jinshan Hotel, Dongming Rd. Pingshan District, Benxi, Liaoning Province. There were 58 shareholders / authorized shareholders' representatives present at the meeting, representing 627,147,074 shares and covering 55.2% of the total shares of the Company. The meeting passed the following resolutions:
 - (1) '98 work report of the Board of Directors;
 - (2) '98 work report of the Supervisory Committee;
 - (3) The report on '98 financial settlement;
 - (4) '98 annual report and abstract'
 - (5) '98 plan on production and operation;
 - (6) Proposal on '98 profit distribution;
 - (7) Proposal on investing in building the second slab caster project;

- (8) Agreement on disengagement of Mr. Zhang Luquan and Mr. Guo Ximing as directors;
 - (9) The proposal on the engagement of Arthur Andersen Huaqiang Certified Public Accountants and Arthur Andersen & Co. as auditors of the Company for the year 1999.
3. Mr. Zhang Luquan and Mr. Guo Ximing resigned their positions as directors due to job change.

V. Report of the Board of Directors

1. Business Highlights

(1) Position of the Company in the industry and its operation results

The Company is mainly engaged in iron & steel making, steel rolling and sales of strips, plates and relevant products. It has become the second largest hot rolled product base in China as far as sales value is concerned. The coverage on domestic market is 15.82% (information comes from the Metallurgical Economic Development Research Center of National Metallurgical Bureau.)

(2) The main business line, scope and operation of the Company:

The major production and sales of the whole year have greatly increased as compared with that of last year, the production of hot rolled coils is 2.61 million tons, increased by 17.25%; sales amount is 2.7 million tons, increased by 27.24%; Income from main business lines is 5,578,168,459 Yuan RMB, increased by 18.16%. The structure classified according to regional income main business lines and profit from main business line is as follows: Northeast covering 45.18%, North of China 28.19%, East of China 19.37%, South of China 6.53%, other regions 0.73%. The total profit is 391,368,655 Yuan RMB, increased by 11.05%, as compared with that of the same period last year.

(3) Problems and difficulties occurred in business and solutions

In 1999, the Company met with the stagnant effects caused by the financial crisis. Although the sales of hot rolled strip sales tended to be in favour, the price maintained at low level. At the same time, there were a series of difficulties and problems, such as lack of funds and tough modernization projects. In this case, the Company stived to scale the height and built technical facilities for producing Hi-tech and deep processing products, which greatly adjusted the product structure and increased their competitiveness on the markets home and abroad.

A. The production and operation quality improved, output steadily increased and structure obviously optimized. The annual output was increased by 17.2% as compared with that of last year. The slab caster of Steel Making Plant went into operation, the slab output increased from the planned 800,000 tons to the actual 1.2 million tons, the casting ratio increased from 29.6% (at the beginning of this year) to 40% now, which has promoted the adjustment of product structure, upgrading of quality and increase of economic benefit. The Company produced 80,000 tons for "Replacing import by domestic products" and exported 88,000 tons steel products.

B. Strengthening the adjustment of product structure and increasing products that suit to the market. The Company aimed at developing new high valu-added products, such as sheets for automotives, high grade electric appliance, etc. so as to improve the benefit in terms of the variety and quality.

C. Business management further strengthened and low cost stratege got magnificent results. The Company organized its production on the basis of sales. The ratio of production and sales reached 100.1%. The unit cost of hot rolled strip decreased by 170.6 Yuan RMB per ton as compared with that of last year.

D. Achievements have been made in improving quality, product image and quality benefit. The ratio of two standards for plain carbon steel reached 92.8%, the ratio of reaching standard by Y-grade was 90.73%, increased by 1.64% and 5.32% respectively as compared with last year. The surface and internal quality of the hot rolled strips were improved steadily, which directly earned 22 million Yuan RMB in the year.

E. Keeping marketing on the first place and strengthening the product pioneering on the market. The Company laid stress on the important market, suited to the change with the time and extended sales network steadily. It has established 8 subcompanies and 24 sales network systems from south to north of China. The policy of promoting export to stimulate domestic sales has had remarkable results by improving service quality creating new Bengang image by way of exporting.

2. Financial Status of the Company

Item	1999	1998	increase/decrease of changes %
Total assets (in 10,000 RMB)	438,064.4	386,258.3	13.41
Long-term liabilities	17,707.0	10,456.0	69.35
Shareholders' equity	329,325.7	296,059.4	11.24
Profit from main operation	46,334.3	41,248.2	12.33
Net profit	33,266.3	29,756.5	11.80

Reasons of changes:

- (1) Total assets increased by RMB 518.061 million over the previous year mainly due to the increase of current liabilities by RMB 112.88 million, the increase of long-term loan by RMB 72.51 million, the increase of shareholders' equity by RMB 332.66 million, among which the increase of current liabilities was caused by the increase of short-term loan and advance from customers.
- (2) Long-term liabilities increased by RMB 72.51 million over the previous year mainly due to newly added long-term loan.
- (3) The shareholders' equity increased by RMB 332.663 million over the previous year mainly due to the net profit of RMB 332.663 million in 1999.
- (4) The profit of main operation increased by RMB 50,861 million over the previous year mainly due to the increase of sales and decrease of cost.
- (5) The net profit increase by RMB 35.098 million over the previous year mainly due to the increase of the sales and decrease of cost as compared with last year. The increase of total profit affects the increase of net profit.

3.The Investment of the Company

- (1) The Company didn't make any external investment in 1999.
- (2) The planned investment amount of the Company in 1999 was RMB 545.34 million and the actual amount was RMB 478.69 million which was 88% of the planned figure. The accumulated investment amount of the construction-in-process projects was RMB 2,173.18 million, among which the amount for the projects utilizing the proceeds from share issuance and other funds was respectively RMB 1,577.77 million and RMB 595.41 million.
- (3) Application of the proceeds

By the end of 1999 the actual investment projects are the same with those promised at the time of fund raising through share offering. The projects are as followl:

Project names	planned Investment (in RMB million)	completed investment	uncompleted investment	investment in this year	project progress	estimated benefit
Slab caster 1700mm Hot Rolling Mill Modernization	1,890	1,724.8	978.32	266.64	32% Start-up 21%	270 280

In 1997, the Company raised net fund of RMB 962.71 million through issuing 400 million B Shares and RMB 62,880 million through issuing 120 million A Shares. The total funds raised added up to RMB 1,591.51 million, which were applied for the same purposes as promised in Prospectus. The funds were mainly applied in slab caster project and the initial preparation for the modernization of hot strip mill project.

- A. The first phase of slab caster project: The planned total investment is RMB 18.9 billion, whose construction started in March 1997. The accumulated investment of RMB 17.2 billion was completed by the end of 1999. The start-up began in November 1998 and up to now, the caster has reached the designed capacity. But this project is at the stage of trial production because the Secondary Metallurgy of this project is at commissioning stage.
 - B. The hot strip mill modernization project: The planned total investment is RMB 12.4 billion, whose construction started in March 1999 and it is expected to complete by June 2001.
- (4) The progress of the projects with the fund not from share offerings
- A. The second phase of the slab caster project:
The planned total investment is RMB 430 million, whose construction started in June 1999, by the end of 1999, the accumulated investment of RMB 81.37million, that is, 18% of the investment was completed. The project is expected to complete by August 2000.
 - B. The auxiliary project of converter steel making:

The planned total investment is RMB 4.6 million. By the end of 1999, the investment of RMB 3.92 million, that is, 85% of the investment was completed. It is expected to complete by June 2000.

C. The modification and expansion of the hot strip mill roller grinding shop project:
The planned total investment is RMB 76.84 million, whose construction started in April 1995 and put into operation in December 1999. The accumulated investment of RMB 77.07 million was completed. However, the project was exceeded by RMB 0.23 million due to the additional equipment investment.

D. Construction of new No.4 heating furnace:
The planned total investment is RMB 115 million, whose construction started in January 1999. By the end of 1999, the investment of RMB 45.19 million, that is, 39% of the investment was completed. It is expected to complete by June 2000.

4. Business plan for the coming year

(1) The general objective of production and operation as well as measures to be taken.

Operation objective:

To attain output of 3 million tons of hot rolled coils. The sales income of new variety will cover more than 15% of the total sales income.

Measures:

A. Strengthening marketing, optimizing market structure and further extending the coverage of our products on the market. Persisting in the sales strategy of promoting domestic sales by expecting and vice versa, actively opening up the two markets home and abroad. Making full use of sales sub-companies so that they will become the quick response force of flexible, quick reflection to occupy the market. Strengthening the market opening up and sales of new products and placing the sales of new products on the most important position of all importance.

B. On the basis of fulfilling "Utilizing domestic products to replace import" and promoting the export, the Company will strive to realize stable product with high output, and try to complete 0.15 million tons of "Utilizing domestic products to replace import" products and to export 558,000 ton products. On the basis of this, the target of producing 3 million tons of hot rolled coils will be realized.

C. Further adjusting product structure, greatly developing new products and continually improving product quality. The Company has decided to make full use of its advantages in hot metal, such as low sulfur, low phosphor and low harmful impurities. With the successively going into operation of hot metal desulphurization station, continuous caster and secondary metallurgy of the Steel Making Plant, the target of increasing the purity of steel quality and stabilizing the product quality will be reached, the melting and developing of pure steel sped up and experimenting and producing of new products stressed. The stress will be laid on the development and production of oil pipeline steel, automotive structure steel, DDQ steel, weather resistant steel, chain steel, etc.

D. Taking the enforcing financial management as the center, the Company will greatly increase management level and deeply execute the low cost strategy. In financial management, budgetary system will be fully applied, through comparing with the advanced level of the same industry, further reduction of cost by procedure will be made. The cost of hot rolled coils will rank among the first three of the same industry.

5. The influence on the Company due to the accession of China to WTO

As a matter of fact, the accession of China to WTO doesn't have much influence on Bengang Products. The domestic iron & steel market opened to the outside world and the connection with international market rather early, therefore, its impact-resistance is stronger. The hot rolled coil price let down successively over the past years, the price is much lower than that of advanced countries, like European Community, Japan, etc. As a result, it has built a "Low Price Great Wall" against the impact of foreign products for domestic market. Meanwhile, with geological advantages and familiarity with domestic market, the Company is competent to compete against developed countries.

6. The main new projects:

(1) Hot rolling charging system:

The planned total investment is RMB 17 million, whose construction started at the beginning of 2000, and expected to complete by the end of 2000. The planned investment this year is RMB 17 million.

- (2) The slag stop system of the Steel Making Plant:
The planned total investment is RMB 26 million, whose construction started at the beginning of this year, and expected to complete in 2001. The planned investment this year is RMB 12.85 million.
- (3) Smoke and dust control of converters:
The planned total investment is RMB 80 million, whose construction started in January 2000, and expected to complete in 2001. The planned total investment this year is RMB 36 million.
- (4) Hot rolling skin pass and recoiling line:
The planned total investment is RMB 100 million, the planned investment this year is RMB 22.66 million. It is expected to complete in 2001.
- (5) Modification of No.2 down-coiler of the Hot Rolling Mill:
The planned total investment is RMB 100 million, the planned investment this year is RMB 10.2 million. It is expected to complete in 2001.
7. The Routine Duties of the Board of Directors:
- (1) The Company held two board meetings in the report year.
- A. On April 16, 1999, the Company held the 7th Meeting of the 1st Board of Directors. The following resolutions were examined and adopted:
- '98 work report of the Board of Directors
 - '98 annual report and the summary
 - '98 financial settlement
 - '98 plan on production and operation
 - The proposal on '98 profit appropriation
 - The motion of investing in building the second slab caster project
 - The proposal on renewal of Andersen . Huaqiang Certified Public Accountants and Arthur Andersen & Co. as the auditors of the Company for the year 1999.
 - The proposal on holding the '98 Shareholders General Meeting
- B. On August 9, 1999 the Company held the 8th meeting of the 1st Board of Directors and the following resolutions were adopted:
- '99 interim report;
 - The proposal of engaging Mr. Liang Guangde as the Vice General Manager by President Liu Guoqiang;
 - The preplan on '99 interim profit distribution.

8. Particulars about top management and others currently in office

(1) Particulars about the directors, supervisors and senior executives in office

Name	Sex	Title	Office term	No. Of shares held at the beginning of the year	No. Of shares held at the end of the year	increase / decrease during the year (+/-)	Reason of change	Pay
Zhang Yingfu	male	Chairman	May 26,1998- Of the Board June 25,2000					No pay from the Company
Liu Guoqiang	male	Vice Chairman President	ditto	5000	5000			ditto
Wu Maoqing	male	Director	ditto	5000	5000			ditto
Yu Tianchen	male	Director	ditto	10000	10000			ditto
Jie Houfu	male	Director, Vice General Manager	ditto					ditto
Wang Qingyang	male	ditto	ditto	10000	10000			19172
Zhao Linxin	male	Director	ditto					No pay from the Company
Guo Yanchang	male	Director	ditto					ditto
Liang Guangde	male	Director, Vice General Manager	ditto	10000	10000			20358
Wang Yinglie	male	Chairman of	ditto					No pay from the Company

		Supervisory				
		Committee				
He Xusheng	male	Vice Chairman of	ditto			ditto
		Supervisory				
		Committee				
ZhangShihua	male	Supervisor	ditto	10000	10000	ditto
Wang Yunhe	male	Supervisor	ditto	10000	10000	17017
Wu Wei	male	Supervisor	ditto	10000	10000	14505

In the report period there was no disengagement of directors, supervisors or senior executives. Mr. Liang Guangde was engaged as Vice General Manager. There was no engagement of the secretary of the Board of Directors.

(2) About number and qualification of the staff

The Company now has 5743 staff members, among which 5062 are production personnel, 5 sales personnel, 295 technicians, 22 financial personnel, 359 administration and managing personnel. Divided by education level, the staff includes 17 postgraduates, 374 undergraduates, 460 graduates of college for professional training, 382 graduates of secondary specialized school, 1573 high school graduates and 2937 of less than high school graduates.

9. Preplan on the profit appropriation for the report period / preplan on capitalizing the capital reserves

The total amount of profit as of the year 1999 was RMB 391,368,655, the net profit was RMB 332,663,357, and earnings per share was RMB 0.293, which had been confirmed by Arthur Andersen . Huaqiang Certified Public Accountants. According to the Article of Association of the Company, 10% of the total net profit was to be allotted as statutory surplus reserve, amounting to RMB 33,266,336, 5% of the same was to be allotted as the welfare fund, amounting to RMB 16,633,168. The actual amount of the profit distributable to the shareholders was RMB 319,091,675 (including RMB 319,091,675 passed on from last year). In order to speed up the progress of the second caster and the modernization of hot strip mill and to maintain the stable and sustainable development of the Company, through the discussion at this board meeting, the Company has decided not to conduct profit distribution or capitalization of the capital reserve of 1999. The above preplan was subject to the examination and approval of '99 Shareholders' General Meeting.

VI. Report of the Supervisory Committee

During the report period, two meetings of the Supervisory Committee were held.

1. The 4th meeting of the Ist Supervisory Committee was held on April 14, 1999. The following resolutions were examined and approved:

(1) '98 Report of the Supervisory Committee

(2) The following resolutions were adopted on the 7th meeting of the Ist Board of Directors of the Company:

A. '98 work report of the Board of Directors

B. '98 report of financial settlement

C. '98 annual report and the summary

D. '98 plan on production and operation

E. The preplan on '98 profit distribution

F. The proposal on investing in building the second slab caster project

G. The proposal on the agreement of the disengagement of Mr. Zhang Luquan and Mr. Guo Ximing as directors

H. The proposal on engagement of Arthur Andersen . Huaqiang Certified Public Accountants and Arthur Andersen & Co. as auditors of the Company for the year 1999.

2. The 5th meeting of the Ist Board of Directors was held on August 7, 1999 and the following resolutions were examined and adopted:

(1) '99 Interim Report

(2) President of BX STEEL Mr. Liu Guoqiang engaged Mr. Liang Guangde as Vice General Manager.

(3) The preplan on '99 Interim profit distribution

3. In 1999, Supervisory Committee of the Company fulfilled its duties in accordance with the Corporation Law of the People's Republic of China and the Securities Law of the People's

Republic of China and all powers and authorities granted by the Articles of Association of the Company by adhering to the principle of being fully responsible to all shareholders. It hereby forms independent opinions in respect of the following matters:

- (1) The Company was able to conduct its work in accordance with laws and regulations, the decision was made legally and the Company has established perfect internal control system. No act of the directors and executives of the Company was found to violate the laws, regulations and the Articles of Association or infringe upon the Company's interests.
- (2) The comments on audit by the Certified Public Accountants and the matters involved truly reflected the financial status and business management results of the Company.
- (3) The proceeds from share issuance by the Company were applied in such projects as promised in the Prospectus.
- (4) The Company didn't purchase or sell any assets in the year. No inside trading or act that caused harm to the rights and interests of part of shareholders or the loss of the Company's assets were found.
- (5) The Company strictly implemented the agreement on related transaction. The related transactions were fair and reasonable without hearing the interests of the listed Company.

VII. Significant Events

1. There were no significant lawsuit and arbitration in the report period.
2. There were no penalty to the Company, directors of the Company and senior executives from the supervision and management department in the report year.
3. There were no change of dominant shareholders, the Board of Directors, reelection or change of majorities. No change of President, disengagement or engagement of secretary of the Board of Directors occurred during the report period.
4. There were no acquisition, sales of assets and merger in the report year.
5. Significant related party transaction.

In the report period, no related party transaction different from those of previous year occurred. For details, refer to the notes to the financial statements.

6. The Company maintained the principle of "Three Separations" as to independence of personnel, integrity of assets and independence of finance with dominant shareholders.

In the case of separation of personnel, the staff members of the listed company are independent. During the report period, there existed the fact that the Chairman of the Board of the listed company is the same person as the legal representative of the shareholding company; also, the General Manager and one Vice General Manager of the listed company have double positions in the listed company as well as in the shareholding company. No financial personnel has any part time job in related companies. The management of labor, personnel and wage of the listed company is completely independent.

In the case of assets integrity, the listed company assets are complete. All the assets used by the listed company in production system, auxiliary production system and their completion facilities, industrial property right and non-patent technology, etc. will be put into the listed company's account. The listed company has its own independent production, material supply and sales systems. There is no competition of the same industry on the same production and management between shareholding company and the listed company.

In the case of financial separation, the listed company has its own financial department, and has established an independent financial accounting system with standard and independent financial accounting system; The listed company has its own bank account, which does not share the bank account with the shareholding company. The listed company pays its own tax in accordance with the law.

In the light of the fact that the General Manager and one Vice General Manager used to be the same person with double positions both in the listed company and the shareholding company, a resolution was adopted on the 9th meeting of the 1st Board of Directors to resign his position.

7. The Company continued to engage Arthur . Huaqiang Certified Public Accountants and Arthur Andersen & C. As the auditor for the year 1999.
8. In the report period, there were no important contracts (including warranty, lease business and entrust business).
9. There were no change of name of the Company or name of share in the report period.

10. On calculating and drawing “Four Reserves”

“The management system of calculating and drawing Four Reserves” was approved on the 9th meeting of the 1st Board of Directors held in 2000. The calculating and drawing Four Reserves in 1999 is as follows:

- (1) Calculating and drawing reserves for inventory declination
The Company calculated and drawn RMB 2,283,426.52 as reserves for inventory declination at the end of the year because , the equipment purchased during the construction of the Roughing Mill is out of date now and has caused loss of its value.
- (2) Calculating and drawing reserves for bad debt
The Company calculated and drawn RMB 2.1 million as reserves for bad debt at the end of the year, among which other amounts receivable is RMB 0.29 million and accounts receivable is RMB 1,81 million.
- (3) The Company has made long-term investment in Bengang Cold Rolling Mill which has reached normal capacity gradually and has had favorable trend of development. Therefore, no reserve for long-term investment declination was calculated and drawn.
- (4) The Company doesn’ t have short-term investment, therefore, no reserve for short-term investment declination.

VIII. Financial Accounting Statement

The reader is advised that this report has been prepared originally in Chinese. In the event of a conflict between this report and the original Chinese version or difference in interpretation between the versions of the report, the Chinese language report shall prevail.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BENGANG STEEL PLATES CO., LTD.:

Arthur Andersen & Co. (hereinafter referred to as "We") have audited the accompanying balance sheets of Bengang Steel Plates Co., Ltd. (hereinafter referred to as the "Company") as of December 31, 1999 and 1998 and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee.

Hong Kong
April 15, 2000

BENGANG STEEL PLATES CO., LTD.

BALANCE SHEETS

AS OF DECEMBER 31, 1999 AND 1998

(Expressed in thousands of Renminbi Yuan)

	<u>Note</u>	<u>1999</u>	<u>1998</u>
ASSETS			
NON-CURRENT ASSETS:			
Fixed assets, net	4	715,846	770,097
Construction-in-progress	5	2,080,153	1,694,490
Long-term investments	6	198,000	198,000
Other long-term investments		18,785	14,245
		<u>3,012,784</u>	<u>2,676,832</u>
CURRENT ASSETS:			
Inventories, net	7	571,588	621,013
Accounts receivable, net	8	41,863	46,853
Due from related parties	3	380,423	415,339
Other receivables		37,809	39,376
Other current assets		3,861	4,558
Notes receivable	24	207,018	19,803
Cash and cash equivalents	10	125,298	38,809
		<u>1,367,860</u>	<u>1,185,751</u>
Total assets		<u><u>4,380,644</u></u>	<u><u>3,862,583</u></u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	11	1,136,000	1,136,000
Reserves	20	1,553,398	1,465,275
Retained earnings		603,859	321,096
	23	<u>3,293,257</u>	<u>2,922,371</u>
NON-CURRENT LIABILITIES			
Long-term loans	13	177,070	104,560
Deferred tax liabilities	14	-	38,223
		<u>177,070</u>	<u>142,783</u>
CURRENT LIABILITIES:			
Accounts payable		6,945	25,979
Advances from customers	15	608,430	383,642
Short-term loans	16	147,000	127,000
Current portion of long-term bank loans	13	50,000	116,510
Other current liabilities		97,942	144,298
		<u>910,317</u>	<u>797,429</u>
Total shareholders' equity and liabilities		<u><u>4,380,644</u></u>	<u><u>3,862,583</u></u>

The accompanying notes form an integral part of these financial statements.

BENGANG STEEL PLATES CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(Expressed in thousands of Renminbi Yuan, except for earnings per share data)

	<u>Note</u>	<u>1999</u>	<u>1998</u>
Sales	3	5,578,168	4,706,446
Cost of sales	3	<u>(5,114,825)</u>	<u>(4,323,964)</u>
Gross profit		463,343	382,482
Selling, general and administrative expenses	3	<u>(63,056)</u>	<u>(46,153)</u>
Operating profit		400,287	336,329
Finance expenses (income)	17	(7,994)	16,576
Other expenses, net		<u>(924)</u>	<u>(471)</u>
Profit before taxation	18	391,369	352,434
Taxation	19	<u>(58,706)</u>	<u>(52,865)</u>
Net profit	23	<u>332,663</u>	<u>299,569</u>
Earnings per share	9	<u>RMB 0.29</u>	<u>RMB 0.26</u>

The accompanying notes form an integral part of these financial statements.

BENGANG STEEL PLATES CO., LTD.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(Expressed in thousands of Renminbi Yuan)

	Note	Share capital	Share premium	Reserves			Retained earnings	Total
				Revaluation reserve	Revenue reserve	Other reserve		
Balances as of December 31, 1997		1,136,000	1,071,510	331,483	57,197	(232,524)	324,116	2,687,782
Net profit for the year		-	-	-	-	-	299,569	299,569
Appropriation to revenue reserves	20	-	-	-	44,635	-	(44,635)	-
Dividends distribution	20	-	-	-	-	-	(257,954)	(257,954)
Others	12	-	677	-	-	192,297	-	192,974
Balances as of December 31, 1998		1,136,000	1,072,187	331,483	101,832	(40,227)	321,096	2,922,371
Net profit for the year		-	-	-	-	-	332,663	332,663
Appropriation to revenue reserves	20	-	-	-	49,900	-	(49,900)	-
Dividends distribution	20	-	-	-	-	-	-	-
Others	12	-	-	-	-	38,223	-	38,223
Balances as of December 31, 1999		<u>1,136,000</u>	<u>1,072,187</u>	<u>331,483</u>	<u>151,732</u>	<u>(2,004)</u>	<u>603,859</u>	<u>3,293,257</u>

The accompanying notes form an integral part of these financial statements.

BENGANG STEEL PLATES CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(Expressed in thousands of Renminbi Yuan)

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	391,369	352,434
Adjustments for:		
Provision for doubtful receivables	1,211	-
Provision for inventory obsolescence	2,283	-
Depreciation	146,960	138,853
Losses on disposal of fixed assets	-	7,524
Interest expenses	8,697	4,488
Interest income	(730)	(21,064)
	<u>549,790</u>	<u>482,235</u>
Operating profit before changes of working capital	549,790	482,235
Decrease (Increase) in notes receivable	(187,215)	112,597
Decrease in accounts receivable	3,808	231,045
Decrease (Increase) in due from related companies	34,916	(242,307)
Decrease in inventories, net	47,142	1,550
Decrease (Increase) in other receivables	1,567	(29,960)
Decrease (Increase) in other current assets	697	(3,484)
Increase in advances from customers	224,788	197,569
Decrease in accounts payable	(19,034)	(10,133)
(Decrease) Increase in other current liabilities	(46,356)	69,563
	<u>610,103</u>	<u>808,675</u>
Interest paid	(8,697)	(4,488)
Interest received	730	21,064
Tax paid	(58,706)	(54,866)
	<u>543,430</u>	<u>770,385</u>
Net cash flows from operating activities	<u>543,430</u>	<u>770,385</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(482,941)	(842,231)
	<u>(482,941)</u>	<u>(842,231)</u>
Net cash used in investing activities	<u>(482,941)</u>	<u>(842,231)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) Increase in short-term bank loans	(46,510)	127,000
Increase (Decrease) in long-term bank loans	72,510	(4,000)
Proceeds from share issuance	-	678
Dividends paid	-	(257,956)
	<u>26,000</u>	<u>(134,278)</u>
Net cash flows from (used in) financing activities	<u>26,000</u>	<u>(134,278)</u>
Net increase (decrease) in cash and cash equivalents	86,489	(206,124)
Cash and cash equivalents, beginning of year	<u>38,809</u>	<u>244,933</u>
Cash and cash equivalents, end of year	<u><u>125,298</u></u>	<u><u>38,809</u></u>

The accompanying notes form an integral part of these financial statements.

BENGANG STEEL PLATES CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

(Amounts expressed in Renminbi Yuan unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Bengang Steel Plates Co., Ltd. (the “Company”) was incorporated as a joint stock limited company in the People’s Republic of China (the “PRC”) on June 27, 1997 by Benxi Iron and Steel (Group) Limited (the “Bengang Group Company”), through reorganization of assets and liabilities of its subordinations, namely, Steel Smelting Plant, Primary Rolling Plant and Continuous Hot Rolling Plant, the Company was established and the issuance of the Company’s Domestically Listed Foreign Shares (“B Shares”) in a private placement. In November 1997, the Company was approved to issue Renminbi Denominated Domestic Shares (“A Shares”).

The Company is principally engaged in steel smelting, metallurgy and processing and distribution business of related products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in presenting financial statements of the Company to comply with International Accounting Standards issued by the International Accounting Standards Committee (the “IAS”) are as follows:

(a) Basis of presentation

The accompanying financial statements were prepared in accordance with IAS. This basis of accounting differs from that used in the statutory accounts of the Company which were prepared in accordance with generally accepted accounting principles and relevant financial regulations applicable to enterprises in the PRC (the “PRC GAAP”). Adjustments have been made to the statutory accounts of the Company to conform to IAS, as if those standards had been applied consistently throughout the year.

(b) Revenue recognition

Sales of goods

Sales of goods are recognized when the significant risks and rewards of ownership of the goods have been transferred to customers, the economic benefits associated with the transaction can be received and the amount of revenue and costs can be measured reliably.

Interest income

Interest income is recognised on a time-proportion basis on principal outstanding and at the applicable rate. When the amount of the income can be measured reliably, the economic benefits associated with the transaction can be received.

2. PRINCIPAL ACCOUNTING POLICIES (Cont' d)

(c) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of fixed asset comprised its purchase price and any direct costs incurred when bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul cost is normally charged to the statement of income in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits, the expenditure is capitalised as an additional cost of the fixed assets

Depreciation is provided using the straight-line method over their estimated useful lives, after deducting the estimated residual value. The estimated useful lives and annual depreciation rates are as follows:

<u>Category</u>	<u>Estimated useful lives</u>	<u>Annual depreciation rate</u>
Plant and buildings	10-35 years	2.8~9.7%
Machinery and equipment	5-15 years	6.5~19.4%
Motor vehicles & office equipment	5-8 years	12%-19.4%

Any increase in fixed assets valuation is credited to the revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to operating profit. All other decreases are charged to the statement of income.

When fixed assets are sold or retired, their cost or valuation and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposals is included in the determination of net profit.

(d) Construction-in-progress

Construction-in-progress ("CIP") represents building under construction, machinery and equipment pending for installation and testing, and is stated at cost. This includes the costs of construction and interest charges and exchange differences arising from borrowings used to finance these assets during the period of construction, installation and testing. When the assets are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

(e) Long-term investments

Long-term investments are stated at cost less provision for diminution.

(f) Inventories

Inventories are stated at the lower of cost, calculated using the weighted average method, and net realizable value. Costs of work-in-progress and finished goods comprise direct materials, direct labour and an attributable portion of production overheads. Net realizable value is calculated based on the estimated selling price less all further costs of production and the related marketing, selling and distribution expenses.

2. PRINCIPAL ACCOUNTING POLICIES (Cont' d)

(g) Taxation

The Company provides for taxation on the basis of its income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided using the balance sheet liability method in respect of significant temporary differences arising from difference between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

(h) Foreign currency translation

The Company maintains its books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange, quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transaction. Monetary assets and liabilities denominated in other currencies are retranslated into RMB at the applicable PBOC rates prevailing at the balance sheet dates. Exchange differences, other than those capitalised in fixed assets, are included in the determination of net profit.

(i) Cash and cash equivalents

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

(j) Capitalization of borrowing cost

Borrowing costs that are directly attributable to the purchase or construction of the assets, or production are capitalized as part of the costs of the assets. Borrowing costs are capitalized at the weighted average cost of the related borrowings up to the date when relevant assets get ready for their intended use or sales cease.

(k) Related Parties

Related parties include the Company's major shareholders, key managerial staff and companies that have voting rights or the ability to exercise significant influence.

(l) Staff retirement benefits

All of Company's staff participates state-managed retirement plan as required by the PRC laws and regulations, the Company and its staff make contributions to relevant pension fund based on certain proportion of staff's salaries. The Company accounts for these contributions on accrual basis.

3. RELATED PARTY TRANSACTIONS

For the years ended December 31, 1999 and 1998, the Company had the following significant transactions with its related companies:

	<u>1999</u>	<u>1998</u>
	RMB' 000	RMB' 000
Sales of goods to Bengang Group Company	3,050,893	1,598,854
Sales of goods to other related companies	33,209	47,491
Purchases of raw materials from Bengang Group Company	3,365,343	2,785,653
Purchases of energy and electric power from Bengang Group Company	594,609	475,945
Purchases of accessories and spare parts from Bengang Group Company	634,721	464,852
Freight charges paid to Bengang Group Company	92,746	87,387
Rentals of land paid to Bengang Group Company	2,673	2,673
Trademark royalty paid to Bengang Group Company	25	25

On April 14, 1997, the Company entered into a Comprehensive Services Agreement governing, inter alia, the purchases of raw materials, energy and electric power, ancillary materials and spare parts from Bengang Group Company, effective from the date of the incorporation of the Company with a term of five years. In addition, pursuant to this agreement, the Company will pay trademark royalty to Bengang Group Company.

According to an approval document "Liao Tu Pi Zi (1997) No.6" issued by the Land Bureau of Liaoning Province on March 5, 1997 regarding the valuation of land and the related arrangements, and the land use right lease contract entered into between the Company and Bengang Group Company on April 7, 1997, the Company is authorised to lease the land on which its plant and buildings are located from Bengang Group Company at an agreed fee. The term of the lease contract is 50 years. The initial rent payable by the Company to Bengang Group Company will be approximately RMB2,700,000 per annum. The rent will be adjusted after the first five years of the lease and subsequently at an interval of three years.

According to the guarantee letter issued by Bengang Group Company in 1998 and 1997, Bengang Group Company will settle the accounts receivable of RMB302,551,682 through the deduction its dividend receivable from the Company and any receivables arising from future sales of raw materials to the Company. As of December 31, 1999, the balance of accounts receivable was RMB52,000,000.

In 1999, the Company received interest income amounting to approximately RMB8,861,000 (1998: RMB3,926,000) from Bengang Group Company.

As of December 31, 1999, the Company had loan amounting to RMB152,510,000 (1998: RMB179,510,000) guaranteed by Bengang Group Company.

Since 1999, Bengang Group Company has bore the income tax amounting to RMB38,223,000 arising from revaluation surplus of fixed assets during the Company's restructuring for its listing (the applicable tax rate is 15%, Bengang Group Company will bear any impacts from changes in tax rate.

3. RELATED PARTY TRANSACTIONS (Cont' d)

As of December 31, 1999 and 1998, amounts due from related companies were as follows:

	1999 RMB' 000	1998 RMB' 000
Due from and prepayments to Bengang Group Company	<u>380,423</u>	<u>415,339</u>

Balances with Bengang Group Company were unsecured, non-interest bearing and had no fixed repayment date.

4. FIXED ASSETS, net

	1999			1998	
	Plant and buildings	Machinery and equipment	Motor vehicles & Office equipment	Total	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<u>Cost/valuation</u>					
Beginning of year	499,011	1,249,381	22,463	1,770,855	1,675,521
Additions	-	1,089	1,489	2,578	-
Transfers from CIP	9,909	80,222	-	90,131	111,300
Disposals	-	-	-	-	(15,966)
End of year	<u>508,920</u>	<u>1,330,692</u>	<u>23,952</u>	<u>1,863,564</u>	<u>1,770,855</u>
<u>Accumulated depreciation</u>					
Beginning of year	197,716	787,629	15,413	1,000,758	870,348
Additions	17,120	127,003	2,837	146,960	138,853
Disposals	-	-	-	-	(8,443)
End of year	<u>214,836</u>	<u>914,632</u>	<u>18,250</u>	<u>1,147,718</u>	<u>1,000,758</u>
<u>Net book value</u>					
Beginning of year	<u>301,295</u>	<u>461,752</u>	<u>7,050</u>	<u>770,097</u>	<u>805,173</u>
End of year	<u>294,084</u>	<u>416,060</u>	<u>5,702</u>	<u>715,846</u>	<u>770,097</u>

Had fixed assets been carried at cost less accumulated depreciation, the carrying amounts of each category of fixed assets would have been included at the following amounts:

Cost	426,559	1,318,824	17,671	1,763,054	1,670,347
Accumulated depreciation	<u>165,612</u>	<u>1,133,386</u>	<u>16,388</u>	<u>1,315,386</u>	<u>1,168,428</u>
	<u>260,947</u>	<u>185,438</u>	<u>1,283</u>	<u>447,668</u>	<u>501,919</u>

On March 16, 1997, Liaoning Assets Appraisal Office performed a revaluation of the Company's assets and liabilities as of December 31, 1996 using replacement cost method and issued Liao Zi Ping Zi (1997) No.10 valuation report. Pursuant to the valuation report, the revaluation surplus arising on fixed assets was approximately RMB268,178,000, which was endorsed by Guo Zi Ping (1997) No.334 document issued by the State Assets Administration Bureau. The surplus has been included in the financial statements.

5. CONSTRUCTION-IN-PROGRESS

	<u>1999</u>	<u>1998</u>
	RMB' 000	RMB' 000
Continuous casting project	1,724,801	1,577,775
Roll grinding shop project	-	61,443
Continuous hot rolling plant	214,503	42,838
Others	140,849	12,434
	<u>2,080,153</u>	<u>1,694,490</u>

6. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 1999 and 1998 represent the 12.375% equity interest of the Company in Benxi Iron and Steel (Group) Cold Rolling Thin Plate Company Limited.

7. INVENTORIES, net

	<u>1999</u>	<u>1998</u>
	RMB' 000	RMB' 000
Raw materials	1,098	2,443
Work-in-progress	180,612	59,267
Finished goods	247,355	342,456
Spare parts	144,806	216,847
	<u>573,871</u>	<u>621,013</u>
Less: Provision for inventory obsolescence	(2,283)	-
	<u>571,588</u>	<u>621,013</u>

8. ACCOUNTS RECEIVABLE, net

	<u>1999</u>	<u>1998</u>
	RMB' 000	RMB' 000
Accounts receivable	43,966	47,774
Less: Provision for doubtful receivables	(2,103)	(921)
	<u>41,863</u>	<u>46,853</u>

9. EARNINGS PER SHARE

Earnings per share was calculated based on the net profit for the year ended December 31, 1999 of RMB 332,663,000 (1998: RMB299,569,000) divided by the number of shares outstanding during 1999 of 1,136,000,000 shares (1998: 1,136,000,000 shares).

10. CASH AND CASH EQUIVALENTS

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Cash on hand	11	2
Cash at bank	<u>125,287</u>	<u>38,807</u>
	<u><u>125,298</u></u>	<u><u>38,809</u></u>

11. SHARE CAPITAL

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Unlisted 616,000,000 State Shares of RMB1 each	616,000	616,000
Listed 400,000,000 B Shares of RMB1 each	400,000	400,000
Listed 120,000,000 A Shares of RMB1 each	<u>120,000</u>	<u>120,000</u>
	<u><u>1,136,000</u></u>	<u><u>1,136,000</u></u>

12. OTHER RESERVES

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Balances, beginning of year	(40,227)	(232,524)
Write back during the year	-	232,524
Deferred tax liabilities arising from fixed assets revaluation surplus (Note 14)	<u>38,223</u>	<u>(40,227)</u>
Balances, end of year	<u><u>(2,004)</u></u>	<u><u>(40,227)</u></u>

Pursuant to the approval document (Liao Guo Zi Zi (1997) NO. 44) issued by Liaoning State Assets Administration Bureau on January 1, 1997, net assets injected into the Company by Bengang Group Company were approximately RMB947,483,000, which included the share capital of RMB616,000,000 and capital reserves of RMB331,483,000. The revaluation was performed by Liaoning Assets Appraisal Office according to related regulations of the PRC. The appraised net asset value exceeded that as restated in the financial statements prepared in accordance with IAS by approximately RMB232,524,000. The differences were caused by the provision for doubtful receivables and inventory obsolescence and had been recorded as other reserves in the balance sheet as of December 31, 1997. As Bengang Group Company had taken over the assets related to the other reserves, such provision was considered no longer necessary by the directors and was written back by the Company in 1999.

13. LONG-TERM LOANS

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Balances of bank loans due:		
Within one year	50,000	116,510
In the second to fifth year (inclusive)	<u>177,070</u>	<u>104,560</u>
	227,070	221,070
Less: Current portion of long-term bank loan	<u>(50,000)</u>	<u>(116,510)</u>
	<u><u>177,070</u></u>	<u><u>104,560</u></u>

Long-term bank loans of RMB122,510,000 were guaranteed by Bengang Group Company and bore interest at rates ranging from 6.03% to 7.2% per annum.

14. DEFERRED TAX LIABILITIES

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Deferred tax liabilities arising from fixed assets revaluation surplus	38,223	40,227
Less: Reversal of temporary differences	-	(2,004)
Reversal of deferred tax liabilities	<u>(38,223)</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>38,223</u></u>

15. ADVANCES FROM CUSTOMERS

Advances from customers mainly represented deposits received from customers for sales of goods.

16. SHORT-TERM LOANS

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Unsecured bank loans	<u>147,000</u>	<u>127,000</u>

As of December 31, 1999, short-term bank loans of RMB67,000,000 were guaranteed by Bengang Group Company (1998: RMB67,000,000). Short-term bank loans bore interest at rates ranging from 5.85% to 7.029% per annum.

17. FINANCE EXPENSES

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Interest income	730	21,064
Interest expenses	(40,200)	(25,767)
Capitalized interest	31,503	21,279
	<u>(8,697)</u>	<u>(4,488)</u>
Others	(27)	-
	<u>(7,994)</u>	<u>16,576</u>

18. PROFIT BEFORE TAXATION

Profit before taxation was arrived at after charging the following:

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Depreciation of fixed assets	146,960	138,853
Provision for doubtful receivables	1,211	-
Provision for inventory obsolescence	2,283	-
Provision for retirement fund	21,583	17,924

19. TAXATION

In accordance with the approval document Liao Zheng (1997) No. 58 issued by Liaoning provincial government on March 28, 1997, the Company is subject to enterprise income tax at the tax rate of 15% on the profit, commencing from the date of the listing of the Company's shares. Pursuant to approval documents Liao Di Shui Suo (1997) No. 250 issued by Liaoning Financial Bureau and Ben Cai Gong Zi (1997) No. 163 issued by Benxi Financial Bureau, starting from January 1, 1997, all listed companies subject to enterprise income tax at the tax rate of 15% will be levied income tax at a rate of 33% with a financial refund of 18% by the local finance bureau. However, the refund is subject to approval by the relevant departments. The Company is not aware of any changes in government policies that may terminate the financial refund granted to the Company.

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
Income tax	129,152	120,712
Less: Financial refund by the local financial bureau	(70,446)	(65,843)
	58,706	54,869
Deferred tax income relating to the reversal of temporary differences	-	(2,004)
	<u>58,706</u>	<u>52,865</u>

20. STATUTORY RESERVE AND DIVIDENDS

(1) Statutory reserve

According to the Company Laws of the PRC and Articles of Association of the Company, the Company is required to provide certain statutory reserves, which are appropriated from the net profit as reported in the statutory accounts. Accordingly, the Company shall set aside 10% of its net profit for statutory revenue reserve (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% for the statutory common welfare fund. The Company may make appropriations from its net profit to the discretionary revenue reserve fund upon approval by shareholders. These reserves cannot be used for purposes other than those of which they are created and are not distributed as cash dividends without the prior approval by shareholders under certain conditions.

When the statutory revenue reserve is not sufficient to cover the prior years' losses, the current year's net profit shall first be used to compensate the previous losses before the appropriations to the statutory revenue reserve and statutory common welfare fund.

The statutory common welfare fund is designated for collective welfare of the employees.

The statutory revenue reserve, discretionary revenue reserve and capital reserve fund as approved by shareholders may be converted into share capital provided that the balance of the statutory reserve does not fall below 25% of the registered share capital. The Company can issue bonus shares and increase par value of each share to the existing shareholders in proportion to their original shares.

	1999		1998	
	Percentage	Amount	Percentage	Amount
<u>Statutory reserves</u>				
Statutory revenue reserve	10%	33,266	10%	29,757
Statutory common welfare fund	5%	16,634	5%	14,878
	15%	49,900	15%	44,635

(2) Dividends

In accordance with the Articles of Association of the Company, the Company declares dividends based on the lower of retained earnings as reported in the statutory accounts prepared in accordance with PRC GAAP and the financial statements prepared in accordance with IAS. As the statutory accounts have been prepared in accordance with PRC GAAP, the retained earnings as reported in the statutory accounts will be different from the amount reported in the accompanying statement of changes in equity.

Pursuant to the resolution of the Board of Directors, no final dividends will be proposed for the year ended December 31, 1999 (1998: dividend RMB257,954,235 was distributed).

The resolution is to be approved by shareholders in the coming annual general meeting

21. COMMITMENTS

	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
<u>Approved and contracted</u>		
Purchases of fixed assets	<u>269,498</u>	<u>301,521</u>
<u>Approved but not yet contracted</u>		
Purchases of fixed assets	<u>79,132</u>	<u>92,783</u>
	<u>348,630</u>	<u>394,304</u>

22. CONTINGENCIES

As of December 31, 1999, the Company did not have any significant contingent liabilities.

23. IMPACTS OF IAS ADJUSTMENTS ON NET PROFIT AND SHAREHOLDERS' EQUITY

	<u>Net profit for the year ended</u> <u>December 31,</u>		<u>Shareholders' equity as of</u> <u>December 31,</u>	
	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000	<u>1999</u> RMB' 000	<u>1998</u> RMB' 000
As reported in the statutory accounts	332,663	297,565	3,293,257	2,960,594
Impacts of adjustments				
Deferred taxation	<u>-</u>	<u>2,004</u>	<u>-</u>	<u>(38,223)</u>
As restated for IAS	<u>332,663</u>	<u>299,569</u>	<u>3,293,257</u>	<u>2,922,371</u>

24. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 1999, all notes receivable had been settled.