

Notes to Financial Statements

(Prepared under Hong Kong accounting standards)
31 December 2000

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in the manufacture and sale of iron and steel products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of 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, is charged to the profit and loss account in the period 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 expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of fixed assets recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant assets.

Depreciation of fixed assets is calculated on a straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets in a new condition are as follows:

Land use rights	Over the lease term of 50 years
Buildings	16 to 50 years
Plant, machinery and equipment	7 to 20 years
Transportation vehicles and equipment	7 to 11 years

Depreciation of the universal section rolling mill, which commenced commercial production in December 1999, for the first 18 months of production is calculated on a straight-line basis adjusted by an activity factor. This factor is based on the actual production as compared to the normal expected annual production for this universal section rolling mill. The 2000 depreciation charge after adjustment for this activity factor was RMB55 million less than the straight-line method.

Depreciation of fixed assets acquired pursuant to the Group reorganisation in 1993 is calculated on a straight-line basis to write off the cost of such assets over the estimated remaining useful lives thereof, after taking into account the condition of these assets when they were acquired by the Group.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and is stated at cost. Cost comprises direct costs of construction, installation and testing, as well as interest charges and their related exchange differences on related borrowed funds during the periods of construction or installation. Construction in progress is transferred to fixed assets when it is capable of producing saleable output on a commercial basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use

or sale. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Inventories

Inventories, other than spare parts, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Spare parts are stated at cost less provisions for obsolescence.

Deferred staff costs

Losses arising from the disposal of staff quarters to employees at preferential prices are capitalised as deferred staff costs and are amortised over 10 years, which approximates the estimated remaining average service life of the relevant employees, commencing from the dates of sale of the staff quarters.

Housing subsidies

The Company's housing subsidy obligations payable to current employees pursuant to a recently implemented staff housing subsidies scheme are accrued and charged to profit and loss account on a straight-line basis over 10 years, which approximates the estimated benefit vesting period of the relevant employees starting from 1 January 2000. Housing subsidies obligations payable to retired employees under the same staff housing subsidies scheme have been accrued and charged to profit and loss account immediately, since such subsidies are payable for past services of retired employees.

Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Renminbi.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates as quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange prevailing at the balance sheet date as quoted by the People's Bank of China.

Foreign currency translation differences relating to interest charges on funds borrowed to finance the construction of fixed assets are capitalised during the construction period. All other exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated to Renminbi at the applicable rates of exchange ruling at the balance sheet date. All material translation differences arising on consolidation are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Pension benefits

Contributions to a government-organised pension scheme are charged to the profit and loss account as incurred.

Pension benefit obligations payable to early retired employees prior to joining the government-organised pension scheme upon normal retirement age will be assumed by the Group, and all outstanding obligations therefor have been charged to the profit and loss account during the year. Further details are set out in Note 4 (i).

Provision for doubtful debts

Provision for doubtful debts is made by the directors after taking into account all relevant factors including the ageing profile of the Group's outstanding debtors.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of turnover and revenue is as follows:

	2000	1999
	RMB'000	RMB'000
Turnover - sale of goods	8,185,687	6,668,436
Interest income	27,659	38,152
Revenue	8,213,346	6,706,588

4. OTHER OPERATING EXPENSES

	Note	2000 RMB'000	1999 RMB'000
Retirement benefits payable to early retired employees (i)		221,000	-
Housing subsidies for retired employees	31	38,843	-
Provisions for impairments of fixed assets		20,545	-
Provisions for impairments of construction in progress		67,000	-
Provisions for doubtful debts		43,980	46,000
		391,368	46,000

- (i) In a prior year, the Company implemented an early retirement plan for certain employees. Subsequently, the pension benefits payable to the early retired employees were assumed by the government-organised pension scheme.

Following the gradual rationalisation by the government of its pension schemes, the directors anticipate that from now on the pension benefit obligations payable to early retired employees prior to joining the government-organised pension scheme upon normal retirement cannot be vested from the government-organised pension scheme, and should be borne by the Group. Such pension benefit obligations are payable for past services of relevant employees and accordingly, the directors consider it prudent to charge the estimated total obligations therefor aggregating RMB221 million, on an one-off basis, to the profit and loss account during the year.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2000 RMB'000	1999 RMB'000
Depreciation of fixed assets	724,621	583,239
Provisions for doubtful debts	43,980	46,000
Directors' and supervisors' remuneration:		
Fees to non-executive directors	30	7
Emoluments to executive directors	866	292
Auditors' remuneration	4,500	4,500
Staff costs (excluding directors and supervisors):		
Wages and salaries	697,289	525,534
Contributions to government-organised pension scheme	150,394	156,868
Pension benefits for early retired employees (Note 4 (i))	221,000	-
Housing subsidies for retired employees	38,843	-
Housing subsidies for current employees	34,887	-
Government subsidies income (i)	-	-
	(109,989)	

Loss on disposal of fixed assets	15,801	243
Provisions for impairments of fixed assets	20,545	-
Provisions for impairments of construction in progress	67,000	-
Interest income	(27,659)	(38,152)
Exchange gains, net	(26)	(2,374)

- (i) The government subsidies income in the prior year was confirmed by the Maanshan Financial Bureau and was fully received by the Company.

6. FINANCE COSTS

	2000	1999
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	207,903	291,165
Less: interest capitalised	(4,409)	(65,368)
	203,494	225,797

7. TAX

	2000	1999
	RMB'000	RMB'000
Hong Kong profits tax	369	39
The People's Republic of China ("PRC") income tax	20,687	230
	21,056	269

The PRC income tax for the Company and its subsidiaries is calculated at 15% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Hong Kong profits tax has been provided at the rate of 16% (1999:16%) on the estimated assessable profits which were earned in or derived from Hong Kong during the year.

No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year.

Deferred tax asset arising from timing difference in recognition of housing subsidies obligations has not been recognised in the financial statements because the amount is immaterial.

There were no material unprovided deferred tax liabilities during the year or at the balance sheet date.

8. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out in the normal course of business between the Group, Magang (Group) Holding Company Limited ("Holding"), and the subsidiaries and associates of Holding during the year:

	2000 RMB'000	1999 RMB'000
Purchases of iron ore and limestone	673,141	698,174
Fees received for the supply of utilities, services and other consumable goods	(37,071)	(37,400)
Fees paid for welfare, support services and other services	233,643	202,597
Purchases of fixed assets and construction services	81,914	87,533
Sales of steel products	(18,480)	(20,898)

The terms for the purchase of iron ore and limestone from Holding were in accordance with an agreement dated 14 October 1993 and a supplementary agreement dated 27 April 2000 between the Company and Holding.

The terms for the cross-provision of welfare and support services between the Company and Holding were based on a service agreement dated 14 October 1993 and a supplementary agreement dated 27 April 2000 between the Company and Holding.

The other related party transactions were conducted on terms determined between the Group and Holding.

Further details on balances with Holding, and the subsidiaries and associates of Holding are set out in Notes 19-20 and Notes 22-23 to the financial statements.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately RMB99 million (1999: RMB12 million).

10. TRANSFERS TO RESERVES

	2000 RMB'000	1999 RMB'000
Transfer to statutory surplus reserve (Note 26)	17,402	1,167
Transfer to statutory public welfare fund (Note 26)	17,352	1,167
	34,754	2,334

11. DIVIDENDS

	2000 RMB'000	1999 RMB'000
Proposed final - RMB2 cents (1999: Nil) per ordinary share	129,106	-

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of RMB102,301,000 (1999: RMB13,112,000) and 6,455,300,000 shares (1999: 6,455,300,000 shares) in issue during the year.

No diluted earnings per share is presented as the Company does not have any dilutive potential ordinary shares.

13. FIXED ASSETS

Group

	Land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	908,493	5,642,963	7,772,096	433,593	14,757,145
Additions	257	-	1,621	4,829	6,707
Transferred from construction in progress (Note 14)	-	204,380	404,544	19,123	628,047
Reclassifications	-	58,863	(65,369)	6,506	-
Disposals	-	(12,516)	(20,667)	(6,344)	(39,527)
Impairments	-	(14,473)	(6,072)	-	(20,545)
At 31 December 2000	908,750	5,879,217	8,086,153	457,707	15,331,827
Accumulated depreciation:					
At beginning of year	110,170	1,034,310	2,135,176	225,226	3,504,882
Provided during the year	18,170	195,700	475,214	35,537	724,621
Reclassifications	-	2,435	(5,676)	3,241	-
Disposals	-	(4,062)	(13,950)	(4,481)	(22,493)
At 31 December 2000	128,340	1,228,383	2,590,764	259,523	4,207,010
Net book value:					
At 31 December 2000	780,410	4,650,834	5,495,389	198,184	11,124,817
At 31 December 1999	798,323	4,608,653	5,636,920	208,367	11,252,263

Company

	Land use rights RMB'000	Buildings RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	908,493	5,639,320	7,770,155	431,901	14,749,869
Additions	257	-	1,401	4,829	6,487
Transferred from construction in progress (Note 14)	-	204,380	404,544	19,123	628,047
Reclassifications	-	58,863	(65,369)	6,506	-
Disposals	-	(12,516)	(20,667)	(6,344)	(39,527)
Impairments	-	(14,473)	(6,072)	-	(20,545)
At 31 December 2000	908,750	5,875,574	8,083,992	456,015	15,324,331
Accumulated depreciation:					
At beginning of year	110,170	1,033,139	2,134,105	224,126	3,501,540
Provided during the year	18,170	195,517	475,041	35,389	724,117
Reclassifications	-	2,435	(5,676)	3,241	-
Disposals	-	(4,062)	(13,950)	(4,481)	(22,493)
At 31 December 2000	128,340	1,227,029	2,589,520	258,275	4,203,164
Net book value:					
At 31 December 2000	780,410	4,648,545	5,494,472	197,740	11,121,167
At 31 December 1999	798,323	4,606,181	5,636,050	207,775	11,248,329

All of the Group's land and buildings are located in the PRC and are held on long term leases.

14. CONSTRUCTION IN PROGRESS

Group and Company

	2000 RMB'000	1999 RMB'000
At beginning of year	634,569	3,855,979
Additions	584,756	693,567
Impairments	(67,000)	-
Transferred to fixed assets (Note 13)	(628,047)	(3,914,977)
At end of year	524,278	634,569

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2000:

Group and Company

Name of projects	Expected year of completion	2000 RMB'000	1999 RMB'000
Ferrous powder project	2000	-	154,451
High temperature bricks factory improvement project	2001	72,834	103,734
No. 4 limestone kiln	2000	-	49,879
Coke furnace system project	2001	62,572	75,572
Beam blank caster	2000	-	34,721
Universal section rolling mill project	2001	21,596	-
No. 1 steel-making plant electric arc furnace	2002	154,161	7,330
Cai Nan station & Bei Huan transportation line	2001	33,875	54,484
Other projects	various	179,240	154,398
		524,278	634,569

Further details of the capital commitments in respect of these projects are set out in Note 29.

15. INTERESTS IN SUBSIDIARIES

Company

	2000 RMB'000	1999 RMB'000
Unlisted investments, at cost	58,774	58,774
Amounts due from subsidiaries	203,631	125,760
	262,405	184,534

The amounts due from the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name of subsidiaries	Date of establishment	Place of establishment and operations	Registered and paid-up capital	Percentage of equity held by the Company		Nature of entity	Principal activities
				directly	indirectly		
Ma Steel International Trade and Economic Corporation steel products	14 December 1983	PRC	RMB50,000,000	100%	-	Joint stock company*	Import of machinery and raw materials and export of steel products
Metallurgical Building Material Retail Division of Magang Company	28 February 1985	PRC	RMB2,000,000	100%	-	Joint stock company*	Retail sales of steel products
MG Trading and Development GmbH products and provision of technology services	22 August 1994	Germany	DM300,000	100%	-	Limited company	Trading of equipment, steel
Ning Bo Chang Yi Company Limited **	10 November 1997	PRC	RMB1,000,000	20%	80%	Limited company*	Trading of steel and pig iron products
Shanghai Zhong Ma Company Limited **	25 August 1998	PRC	RMB1,000,000	90%	10%	Limited company*	Trading of steel and pig iron products
Maanshan Iron & Steel (HK) Limited	30 September 1998	Hong Kong	HK\$4,800,000	80%	20%	Limited company	Trading of steel and pig iron products

* *As described in the latest business licence*

** *The authorised operating periods of Ning Bo Chang Yi Company Limited and Shanghai Zhong Ma Company Limited are 10 years and 30 years, respectively.*

The names of the PRC subsidiaries in English are direct translations of their registered names in Chinese.

16. LONG TERM INVESTMENTS

Group and Company

	2000 RMB'000	1999 RMB'000
Unlisted equity investments, at fair value	11,390	4,716

17. OTHER LONG TERM ASSETS

Group and Company

	2000 RMB'000	1999 RMB'000
Deferred staff costs	105,600	121,978

The deferred staff costs of RMB106 million (1999: RMB122 million) relate to the loss of approximately RMB163.8 million in 1997 which resulted from the disposal of staff quarters to the Company's employees at preferential prices, net of accumulated amortisation. The disposals were made in accordance with the regulations issued by the Maanshan Municipal Government which set out the rules and conditions governing the sale and purchase of staff quarters in Maanshan, including the quantum of price discount to be given to the Company's employees.

18. INVENTORIES

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Raw materials	706,334	528,664	706,334	528,664
Work in progress	425,980	509,214	425,980	509,214
Finished goods	185,772	287,968	121,027	226,008
Spare parts	701,241	771,720	701,241	771,720
	2,019,327	2,097,566	1,954,582	2,035,606

The carrying amount of inventories of the Group and the Company included in the above that are carried at net realisable value was RMB2,086,000 (1999: RMB61,477,000).

19. TRADE RECEIVABLES

The Group's credit terms to trade debtors are 30-90 days. The aged analysis of trade receivables, net of provisions, as at the balance sheet date was as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Within one year	841,969	1,025,398	772,542	1,003,353
One to two years	55,414	67,035	53,463	62,517
Two to three years	34,679	22,132	32,405	22,127
Over three years	2,528	17,167	1,653	-
	934,590	1,131,732	860,063	1,087,997

Included in both the Group's and Company's trade receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating RMB12,763,000 (1999: RMB10,123,000). Such balances principally arose from normal trading activities.

Included in the Company's trade receivables are amounts due from subsidiaries of the Company of RMB25,186,000 (1999: RMB2,468,000). Such balances principally arose from normal trading activities.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and Company's prepayments, deposits and other receivables are prepayments to Holding, and subsidiaries and associates of Holding aggregating RMB268,426,000 (1999: RMB324,930,000) for the purchase of raw materials and the provision of support services from Holding.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Cash and bank balances	1,373,060	918,106	1,302,321	846,142
Time deposits and balances with financial institutions, net of a provision of RMB175 million (1999: RMB175 million)	245,943	437,752	218,501	432,312
	1,619,003	1,355,858	1,520,822	1,278,454

The balances with financial institutions included the following overdue fixed deposit principal amounts with five non-bank financial institutions aggregating approximately RMB206 million (1999: RMB219 million) which the Company has been unable to recover.

	2000 RMB'000	1999 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	29,835	32,034
China Venturetech Investment Corp. ("China Venturetech")	9,954	9,954
SEG International Trust & Investment Corporation ("SEG")	46,545	46,545
CITIC Ningbo Inc. ("Ningbo CITIC")	45,112	45,112
Shenzhen Leasing Co. Ltd. ("SLCL")	74,242	85,424
	205,688	219,069

Based on legal advice, the directors are satisfied that the Company's deposits with the above five non-bank financial institutions are valid fixed deposits.

GITIC, China Venturetech and Ningbo CITIC are now in liquidation and the Company has registered its debts with their respective liquidators. During the year, the Company received certain repayments aggregating approximately RMB2 million from GITIC and the outstanding deposit principal with GITIC as at 31 December 2000 was reduced to approximately RMB30 million. For China Venturetech and Ningbo CITIC, no repayment was received during the year. The directors are unable to estimate, as at the date on which these financial statements were approved, how much of the outstanding deposit principal, if any, the Company will be able to recover from these three companies.

The Company initiated legal proceedings against SEG and has obtained court judgements against SEG for the principal amounts of those fixed deposits and interest thereon. However, based on information currently available, the directors are of the view that SEG may not have adequate financial resources to satisfy the court judgement to repay the debts to the Company.

On 16 March 2000, the Company reached an agreement with SLCL for the repayment of an amount of RMB84.8 million (HK\$80 million) over five years, in settlement of the deposit and accrued interest. Under the agreement, RMB5.3 million (HK\$5 million) would be repaid at both 30 days and 60 days from the date of agreement. The remaining RMB74.2 million (HK\$70 million) would be paid by installments of RMB24.4 million (HK\$23 million) on both 31 December 2003 and 31 December 2004, and RMB25.4 million (HK\$24 million) on 30 June 2005, with interest being charged only from 1 January 2003. During the year, the Company received repayments aggregating RMB10.6 million (HK\$10 million) from SLCL in accordance with the agreement and the outstanding deposit principal was reduced to RMB74.2 million (HK\$70 million). However, the directors are unable to estimate the further amount that the Company is able to recover from SLCL.

Based on the above factors, the directors consider it prudent to maintain the provision of RMB175 million, brought forward from 1999, against these five overdue fixed deposits, and to continue to account for any interest income arising from these deposits on a receipts basis.

22. TRADE CREDITORS

The aged analysis of the trade payables as at the balance sheet date was as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Within one year	676,993	782,335	672,642	779,897
One to two years	12,343	16,857	12,343	16,857
Two to three years	881	1,057	881	1,057
Over three years	8,629	6,349	8,629	6,349
	698,846	806,598	694,495	804,160

Included in the Group's and Company's trade creditors are amounts due to Holding, and subsidiaries and associates of Holding aggregating RMB5,684,000 (1999: RMB67,415,000) which principally arose from normal trading activities.

23. OTHER CREDITORS AND ACCRUALS

Included in the Group's and Company's other creditors and accrued liabilities are amounts due to Holding, and subsidiaries and associates of Holding aggregating RMB3,670,000 (1999: RMB10,811,000) which principally arose from normal trading activities.

24. INTEREST-BEARING BANK BORROWINGS

Group bank loans

	2000	1999
	RMB'000	RMB'000
Balances due:		
Within one year	2,051,431	2,139,555
In the second year	236,952	762,981
In the third to fifth years, inclusive	525,857	343,692
	2,814,240	3,246,228
After the fifth year	112,354	153,471
	2,926,594	3,399,699
Portion classified as current liabilities	(2,051,431)	(2,139,555)
Long term portion	875,163	1,260,144

Company bank loans

	2000	1999
	RMB'000	RMB'000
Balances due:		
Within one year	2,029,477	2,117,524
In the second year	235,998	761,950
In the third to fifth years, inclusive	522,995	340,598
	2,788,470	3,220,072
After the fifth year	98,998	137,998
	2,887,468	3,358,070
Portion classified as current liabilities	(2,029,477)	(2,117,524)
Long term portion	857,991	1,240,546

All the bank loans are unsecured, and bear interest rates ranging from 0.25% to 8.63% per annum (1999: 0.25% to 11.7% per annum). Certain of the Company's bank loans of RMB913,989,948 (1999: RMB808,995,120) is guaranteed by Holding.

25. SHARE CAPITAL

Group and Company

		2000 RMB'000	1999 RMB'000
Registered, issued and fully paid:			
4,034,560,000	State A shares of RMB1.00 each	4,034,560	4,034,560
87,810,000	Legal person A shares of RMB1.00 each	87,810	87,810
600,000,000	Individual A shares of RMB1.00 each	600,000	600,000
1,732,930,000	H shares of RMB1.00 each	1,732,930	1,732,930
6,455,300,000		6,455,300	6,455,300

Except for dividends for H shares which are payable in Hong Kong dollars, all of the A shares and H shares rank pari passu with each other in respect of dividends and voting rights.

26. RESERVES

Group

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 1999	4,864,976	171,365	171,365	185,815	5,393,521
Net profit attributable to shareholders	-	-	-	13,112	13,112
Transfers from/(to) reserves	-	1,167	1,167	(2,334)	-
At 31 December 1999 and beginning of year	4,864,976	172,532	172,532	196,593	5,406,633
Net profit attributable to shareholders	-	-	-	102,301	102,301
Transfers from/(to) reserves	-	17,402	17,352	(34,754)	-
Proposed final dividends	-	-	-	(129,106)	(129,106)

At 31 December 2000	4,864,976	189,934	189,884	135,034	5,379,828
Company					
At 1 January 1999	4,864,976	171,365	171,365	179,089	5,386,795
Net profit attributable to shareholders	-	-	-	11,668	11,668
Transfers from/(to) reserves	-	1,167	1,167	(2,334)	-
At 31 December 1999 and beginning of year	4,864,976	172,532	172,532	188,423	5,398,463
Net profit attributable to shareholders	-	-	-	99,275	99,275
Transfers from/(to) reserves	-	17,301	17,301	(34,602)	-
Proposed final dividends	-	-	-	(129,106)	(129,106)
At 31 December 2000	4,864,976	189,833	189,833	123,990	5,368,632

In accordance with the PRC Companies Law and the Company's Articles of Association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company. Part of the SSR may be capitalised as the Company's share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the Company.

In accordance with the PRC Companies Law, the Company is required to transfer 5% to 10% of its profit after tax to its statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Company.

When the PWF is used, the lower of the cost of assets and the balance of the PWF should be transferred to the SSR. This reserve is not distributable unless the Company is dissolved. When the related assets are sold, the amount which was originally transferred from the PWF to the SSR should be transferred back.

During the year, the directors determined that the Company should transfer RMB17.3 million (1999: RMB1.2 million) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of RMB173 million (1999: RMB11.7 million) determined in accordance with PRC accounting standards. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the subsidiaries' aggregate appropriation to each of the SSR and the PWF, as dealt within the Group's financial statements were 101,000 and 51,000 respectively.

In accordance with the PRC relevant regulations, the retained profits of the Company for the purpose of profit distribution will be deemed to be the lower of the amount determined in accordance with PRC accounting standards and regulations, and the amount determined in accordance with generally accepted accounting principles in Hong Kong.

As at 31 December 2000, the Company had retained profits of approximately RMB124 million (1999: RMB188 million), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2000, in accordance with the PRC Companies Law, an amount of approximately RMB3.49 billion (1999: approximately RMB3.49 billion) standing to the credit of the Company's share premium account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue plan.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2000 RMB'000	1999 RMB'000
Profit from operating activities	326,851	239,178
Interest income	(27,659)	(38,152)
Depreciation of fixed assets	724,621	583,239
Loss on disposal of fixed assets	15,801	243
Provisions for impairment of fixed assets	20,545	-
Provisions for impairment of construction in progress	67,000	-
Amortisation of deferred staff costs	16,378	16,378
Exchange gains, net	(26)	(2,374)
Decrease in deferred VAT recoverable	-	
	28,991	
Decrease in trade receivables	197,142	374,375
Decrease in inventories	78,239	386,004
Decrease/(increase) in prepayments, deposits and other receivables	181,658	(203,105)
Decrease in trade creditors	(107,752)	(208,966)
Decrease in other creditors and accruals	(84,681)	(105,175)
Increase in other long term liabilities	141,781	13,592
Net cash inflow from operating activities	1,549,898	1,084,228

(b) Analysis of changes in financing during the year

	Bank loans RMB'000
Balance at 1 January 1999	3,598,847
Net cash outflow from financing activities, net	(195,763)
Translation differences	(3,385)
Balance at 31 December 1999 and 1 January 2000	3,399,699
Net cash outflow from financing activities, net	(471,499)
Translation differences	(1,606)
Balance at 31 December 2000	2,926,594

- (c) The overdue fixed deposits amounting to approximately RMB206 million as at 31 December 2000 (1999: RMB219 million) were not included as part of the cash and cash equivalents in the cash flow statement.

28. CONTINGENT LIABILITIES

As at 31 December 2000, neither the Group, nor the Company had any significant contingent liabilities.

29. CAPITAL COMMITMENTS

The commitments for capital expenditure as at 31 December 2000 were as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Contracted, but not provided for:				
No. 1 steel-making plant electric arc furnace	37,479	28,405	37,479	28,405
Billet continuous casting machines of No. 1 steel-making plant	40,209	-	40,209	-
No. 4 iron-making plant TRT	-	7,170	-	7,170
Universal section rolling mill project	-	84,335	-	2,839
Other projects	-	12,897	-	9,601
	77,688	132,807	77,688	48,015

Authorised, but not contracted for:				
No. 1 steel-making plant electric arc furnace	525,401	658,690	525,401	658,690
Modification of train wheel rolling system	304,480	304,480	304,480	304,480
Coke dry quenching project	175,000	-	175,000	-
Revamping of high speed wire and roll mill project	170,000	-	170,000	-
Billet continuous casting machines of No. 1 steel-making plant	39,492	-	39,492	-
No. 4 iron-making plant TRT	-	23,380	-	23,380
Other projects	62,810	60,550	62,810	60,550
	1,277,183	1,047,100	1,277,183	1,047,100
Total capital commitments	1,354,871	1,179,907	1,354,871	1,095,115

30. PENSION CONTRIBUTIONS

The Company has joined a pension scheme organised by the Maanshan Municipal Government whereby the Company has agreed to make an annual contribution equivalent to 21% of its annual basic payroll and the Maanshan Municipal Government has agreed to take over all the pension obligations of all existing and future retired employees of the Company. Forfeited contributions in respect of unvested benefits of employee leavers cannot be used to reduce the Company's ongoing contributions. However, due to gradual rationalisation by the government of its pension schemes, the directors anticipate that from now on pension benefit obligations payable to early retired employees will be borne by the Company. Further details on pension benefit obligations payable to early retired employees are set out in Note 4 (i) to the financial statements. Save as aforesaid and subject to any further changes in government policies, the Company has no further obligations in respect of employee pension benefits.

31. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

Other than the differences in classification of certain items in the financial statements and the accounting treatment of foreign currency items and staff housing subsidies described below, there are no material differences between the Group's financial statements prepared in accordance with PRC and Hong Kong accounting standards.

(A) Translation of Hong Kong dollar proceeds on H Share issue

Under PRC accounting standards, the Hong Kong dollar share proceeds received from the issue of H shares during 1993 were required to be recorded in Renminbi at the official rate ruling at the transaction date. Accordingly, in preparing the 31 December 1993 PRC statutory financial statements, the Hong Kong dollar share proceeds were translated at the official rate prevailing at that date.

Under Hong Kong accounting standards, the rates of exchange used to record foreign currency transactions and for the translation of foreign currency assets at 31 December 1993 are those rates quoted by the Foreign Exchange Adjustment Centre in Shenzhen.

Following the unification of the Renminbi exchange rates on 1 January 1994, under PRC accounting standards, the Group realised an exchange gain of approximately RMB1,374 million which was recorded as a deferred credit on the balance sheet. Pursuant to a directive issued by the Ministry of Finance on 2 March 1994, the directors determined that the Group should retain the deferred credit either to offset future losses, or to retain the amount until liquidation. The summary effect of the differences in the treatment of foreign currency transactions under PRC and Hong Kong accounting standards on the financial statements are compared as follows:

	Hong Kong accounting standards RMB'000	PRC accounting standards RMB'000
Group and Company - 2000 and 1999		
Balance sheet:		
Share premium	4,864,976	3,491,345
Deferred credit	-	1,373,631

(B) Staff housing subsidies

Pursuant to a recently-implemented staff housing subsidies scheme, the Company is required to pay one-off lump sum cash subsidies to both current and retired employees who are eligible under the scheme, provided that each eligible employee entitled to the subsidies continues to provide service to the Company for a stipulated period or to the date on which they reach their respective normal retirement ages, whichever is the earlier. The directors estimate that the aggregate subsidies payable to all eligible current and retired employees to be RMB349 million and RMB38.8 million respectively. The subsidies payable to both current employees and retired employees will be on a batch basis upon application from eligible employees during the coming years.

Under Hong Kong accounting standards, the subsidies payable to eligible current employees have been provided for on a straight-line basis over 10 years, which approximates the estimated remaining average vesting period of the relevant employees, commencing from 1 January 2000. Accordingly, subsidies for current employees of RMB34.9 million have been accrued and charged to the profit and loss account during the year ended 31 December 2000.

The aggregate subsidies payable to all eligible retired employees during the coming years has been fully charged to the profit and loss account during the year ended 31 December 2000 since such subsidies cover past services of eligible retired employees.

Under PRC accounting standards, the subsidies paid to eligible current and retired employees aggregating RMB20,872,000 during the year have been charged to the retained earnings account. No accrual for the subsidies payable to current employees or retired employees has been made in the financial statements.

The differences in accounting treatment between the two accounting standards are summarised as follows:

	Hong Kong accounting standards	PRC accounting standards
	Year ended 31 December 2000 RMB'000	Year ended 31 December 2000 RMB'000
Group and Company		
Profit and loss account:		
Subsidies for eligible current employees	34,887	-
Subsidies for eligible retired employees	38,843	-
	73,730	-
	31 December 2000 RMB'000	31 December 2000 RMB'000
Group balance sheet		
Subsidies payable, net of amount already paid:		
Eligible current employees	17,055	-
Eligible retired employees	35,803	-
Retained earnings	135,034	187,892
	31 December 2000 RMB'000	31 December 2000 RMB'000
Company balance sheet		
Subsidies payable, net of amount already paid:		
Eligible current employees	17,055	-
Eligible retired employees	35,803	-
Retained earnings	123,990	176,848

32. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is Magang (Group) Holding Company Limited, a state-owned enterprise established in the PRC.

33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 18 April 2001.