

Notes to Financial Statements

(Prepared under PRC accounting standards)
31 December 2000

I. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 1 September 1993 as a joint stock company as part of the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company ("Original Magang"). On the same date, the Company took over as from the effective date of the reorganisation on 1 June 1993, the principal iron and steel business undertakings (with the exception of the mine sites and other operations unrelated to iron and steel production) and two subsidiaries of Original Magang, together with the related operating assets and liabilities. The consideration for the net assets acquired of RMB4,826,547,000 was satisfied by the issue of 4,034,560,000 State A shares of RMB1.00 each, credited as fully paid, to Original Magang. At the same time, Original Magang changed its name to Maanshan Magang Holding Company ("Holding"). In 1998, Holding further changed its name to Magang (Group) Holding Company Limited.

The Company is principally engaged in the manufacturing and sales of steel products.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies adopted by the Company are in accordance with "Accounting Standards for Enterprises" and "Accounting Regulations for Joint Stock Companies" as promulgated by the Ministry of Finance of the PRC. In adoption of directive Cai Kuai 2001 No. 17, the financial statements did not have adjusting events in respect of implementation of changes in accounting policies subsequent to the 2000 balance sheet date which would require retrospective adjustments. The current year's provisions for impairments of construction in progress and fixed assets are disclosed in Notes V point 32 to the financial statements. As the relevant impairment circumstances arose in 2000, retrospective adjustments to the 1999 comparative figures as required by the "Accounting Standards for Enterprises" is not necessary. The Company's next year financial statements will be prepared in accordance with the requirements of the "Accounting System for Enterprises" which came into effect on 1 January 2001.

2. Financial year

The financial year of the Company is from 1 January to 31 December of each calendar year.

3. Functional currency for recording purposes

Renminbi is the Company's functional currency for recording purposes.

4. Basis of accounting and value determination

The financial statements of the Company and its subsidiaries (collectively the "Group") are prepared on an accrual basis and under the historical cost convention.

5. Foreign currency transactions

Foreign currency transactions are recorded in Renminbi 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 to Renminbi at the applicable rates of exchange prevailing at the balance sheet date as quoted by the People's Bank of China. The consequential exchange difference, with the exception of foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period, 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 are included in the exchange difference reserve.

6. Basis of the preparation of the consolidated financial statements

The basis of consolidating the financial statements of the Company and its subsidiaries (thereinafter collectively referred to as the "Group") is based on Provisional Regulations for Consolidated Financial Statements [1995] No.11 as promulgated by the Ministry of Finance. Enterprises of which the Group has over 50% of the equity interest and those which are, in substance, under the control of the Group despite the fact that the Group has less than 50% of the equity interest are consolidated in the Group's financial statements. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (CONTINUED)

7. Cash equivalents

Cash equivalents are short term, highly liquid investments which are readily convertible into known amounts of cash without notice, and which were within three months of maturity when acquired and were subject to an insignificant risk of changes in value.

8. Provisions for doubtful debts

Provisions 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.

9. 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.

Provisions are made for those portion of inventory value which cannot be recovered due to being damaged, wholly or partly obsolete, or having selling price lower than cost.

10. Short term investments

Short term investments are stated at the lower of cost and market value. Investment income is recognised on an accruals basis.

11. Long term investments

Long term investments are investments in debt and equity securities intended to be held on a long term basis.

Long term equity investments are stated at investment cost, estimated value or price determined in agreement. The equity method should be used to account for long term equity investments when an investor has control, joint control or has significant influence over the investee enterprise. Cost method should be used to account for long term equity investments when an investor does not have control, joint control or significant influence over the investee enterprise. If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in the operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment should be recognised as an investment loss in the current period.

When a long term equity investment is accounted for using the equity method, the difference between the investment cost of the investor and the investor's share of owners' equity of the investee enterprise, if any, should be amortised over the investment period, as stipulated in the investment contract. If the investment period is not specified in the contract, the excess of the investment cost over the investor's share of owners' equity of the investee enterprise should generally be amortised over a period of not more than 10 years. The short-fall of investment cost over the investor's share of owners' equity of the investee enterprise should generally be amortised over a period of not less than 10 years.

Long term debt investments are carried at cost and the accrued interest derived from the debt investments is accounted for as a receivable when it is recognised.

12. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

Fixed assets represent buildings and structure, plant and machinery, transportation vehicles and other equipments used in operating activities and non-operating activities, with useful life of more than one year.

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:

Categories	Estimated useful life
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.

Provisions for impairments are made by the Company for fixed assets which have been impaired, and for fixed assets under one of the following situations:

- (1) fixed assets which are persistently idle, will not be used in the foreseeable future and possess no transfer value;
- (2) fixed assets cannot be used due to the reasons of technology improvements and etc.;
- (3) fixed assets that produced large volume of inferior quality products although such assets can still be used;
- (4) fixed assets does not have value in use or transfer value due to being damaged;
- (5) other fixed assets which in substance cannot bring in economic benefit to the enterprise.

No depreciation were charged to fixed assets which have already been fully provided for impairments in value.

13. 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 testings, as well as interest charges and their related exchange differences on related borrowed funds during the periods of construction or installation. Capitalisation of interest charges and exchange differences ceases when the fixed assets are substantially ready for their intended use. Construction in progress is transferred to fixed assets when it is capable of producing saleable output on a commercial basis.

14. Intangible assets and amortisation

Intangible assets represent land use rights and are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off the cost over the lease term of 50 years.

15. Housing subsidies

Housing subsidies for current and retired employees in respect of a recently implemented staff housing subsidies scheme were charged to retained profits upon payment.

16. 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 profit and loss account during the year. Further details are set out in Note V point 32.

17. 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 sales of the staff quarters.

18. Basis of revenue recognition

Revenue on the sales of goods should be recognised when the significant risks and rewards of ownership have been transferred to the buyer, providing that the Group maintains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and when it is probable that the economic benefits associated with the transaction will flow to the enterprise, and the relevant amount of costs can be measured reliably.

Principal operating income represents the invoiced value of goods sold, net of discounts and returns, and excludes sales taxes.

Interest income is recognised on a time proportion basis after taking into account the principal outstanding and the effective interest rate applicable.

19. 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.

III. TAX

The principal kinds of taxes and the related rates are as follows:

- (i) VAT - the VAT rate of the Group's principal products is 17%. The output VAT is offset against the input VAT paid on purchases. The Group has to pay VAT on the net balance.
- (ii) City construction and maintenance tax - payable based on 7% of the net VAT to be paid.
- (iii) Education tax - payable based on 3% of the net VAT to be paid.
- (iv) Income tax - the corporate income tax of the Company and its subsidiaries is calculated at 15%-33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practice in respect thereof. Profits tax of the Hong Kong subsidiaries has been provided at the rate of 16% on the estimated assessable profits which were earned in or derived from Hong Kong during the year. No provision for income tax for other subsidiaries has been made as they have no assessable profits during the year.

In 1999, the Group has received government subsidies of RMB109,989,000 from Maanshan Financial Bureau. For further details, please refer to Note V point 30.

IV. SUBSIDIARIES

Name of subsidiaries	Place of registration	Principal activities	Registered and paid-up capital	Nature of the entity	Legal representative	Amount of investments RMB	Percentage of equity held by the Company	
							directly	indirectly
Ma Steel International Trade and Economic Corporation	Anhui, China	Import of machinery and raw materials and export of steel products	RMB50,000,000	Joint stock company*	Zhang Chongzong	50,000,000	100%	-
Metallurgical Building Material Retail Division of Magang Company	Anhui, China	Retail sales of steel products	RMB2,000,000	Joint stock company*	Wang Yen Ling	2,000,000	100%	-
MG Trading and Development GmbH	Germany	Trading of equipment, steel products and provision of technology services	DM300,000	Limited company	N/A	1,573,766	100%	-
Ningbo Chang Yi Company Limited**	Zhejiang, China	Trading of steel and pig iron products	RMB1,000,000	Limited company*	Hu Zhang Shen	200,000	20%	80%
Shanghai Zhong Ma Company Limited**	Shanghai, China	Trading of steel and pig iron products	RMB1,000,000	Limited company*	Zhu Jin Nan	900,000	90%	10%
Maanshan Iron & Steel (HK) Limited	Hong Kong	Trading of steel and pig iron products	HK\$4,800,000	Limited company	N/A	4,101,688	80%	20%
						58,775,454		

* As per latest business licence

** The authorised operating periods of Ningbo 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.

V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

Items	Note	2000			1999		
		Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Cash on hand		RMB97,282	1.00	97,282	RMB55,810	1.00	55,810
Balances with financial institutions	2	RMB1,276,731,779	1.00	1,276,731,779	RMB818,909,682	1.00	818,909,682
		HK\$150,746,060	1.0606	159,881,271	HK\$252,563,332	1.0651	269,005,205
		US\$21,841,016	8.2781	180,802,109	US\$32,355,936	8.2793	267,884,504
		DM372,506	4.0003	1,490,136	DM695	4.2667	2,966
Total				1,619,002,577			1,355,858,167

2. Balances with financial institutions

The balances with financial institutions included the following overdue fixed deposit principal amounts with five non-bank financial institutions aggregating 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 current 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.

3. Bills receivable

As at 31 December 2000, the Group does not have any discounted bills.

As at 31 December 2000 and 31 December 1999, the Group does not have any secured bills receivable.

The balance of bills receivable does not contain any amount due from a shareholder who holds over 5% (including 5%) equity interest in the Company.

4. Trade receivables

Trade receivables ageing analysis:

	Group					
	2000		1999			
	Balance RMB	Ratio %	Provisions for doubtful debts RMB	Balance RMB	Ratio %	Provisions for doubtful debts RMB
Within one year	377,640,618	48	(3,323,137)	501,923,281	56	(17,541,141)
One to two years	72,331,995	9	(16,917,968)	89,362,975	10	(22,327,968)
Two to three years	89,030,860	11	(54,351,430)	40,647,703	5	(18,515,864)
Over three years	253,763,273	32	(251,235,013)	256,832,692	29	(239,665,306)
Total	792,766,746	100	(325,827,548)	888,766,651	100	(298,050,279)

	Company					
	2000		1999			
	Balance RMB	Ratio %	Provisions for doubtful debts RMB	Balance RMB	Ratio %	Provisions for doubtful debts RMB
Within one year	340,846,647	46	(3,056,510)	492,488,087	57	(17,541,141)
One to two years	69,730,633	10	(16,267,627)	84,845,481	10	(22,327,968)
Two to three years	84,482,988	12	(52,077,494)	40,643,061	5	(18,515,864)
Over three years	238,779,024	32	(237,125,917)	239,665,306	28	(239,665,306)
Total	733,839,292	100	(308,527,548)	857,641,935	100	(298,050,279)

As at 31 December 2000, the 5 largest trade receivables were as follows:

Name	Balance due RMB	Period outstanding	Reasons
馬材廠	119,261,169	7/2000 - 12/2000	Trade balance
中國鐵路物資上海公司	73,599,379	7/2000 - 12/2000	Trade balance
江東第二軋鋼廠	42,238,429	12/1994 - 12/2000	Trade balance
安徽馬鞍山市 江東生產資料服務部	25,556,858	1/1998 - 12/2000	Trade balance
蚌埠市金屬材料總公司	11,903,492	1/1999 - 12/2000	Trade balance

Except for those as stated in Note VI point 6, the balance of trade receivables does not contain any amount due from a shareholder who holds over 5% (including 5%) equity interest of the Company.

Included in the Company's trade receivables is an amount due from a subsidiary of RMB25.19 million (1999: RMB2.47 million) which principally arose from normal trading activities.

5. Other receivables

Other receivables ageing analysis:

	2000			1999		
	Balance RMB	Ratio %	Provisions for doubtful debts RMB	Balance RMB	Ratio %	Provisions for doubtful debts RMB
Within one year	364,061,340	88	-	416,590,787	89	-
One to two years	4,386,352	1	(1,754,541)	5,593,334	1	(2,237,334)
Two to three years	4,922,190	1	(2,953,314)	9,906,193	2	(5,943,716)
Over three years	40,744,195	10	(33,031,555)	35,700,750	8	(29,558,360)
Total	414,114,077	100	(37,739,410)	467,791,064	100	(37,739,410)

As at 31 December 2000, the 5 largest other receivables were as follows:

Name	Balance due RMB	Period outstanding	Reasons
集團公司	264,802,307	8/2000 - 12/2000	Prepayment for iron ore
江東冶金機械廠	3,391,542	7/2000 - 12/2000	Sales of fuel and utilities
馬鞍山市市政建設公司	3,106,963	12/1999	Sales of gas
中保壽險公司	3,000,000	9/1993	Prepayment for insurance
長沙金屬製品廠	2,400,000	9/1996	Prepayment for raw materials

Except for those as stated in Note VI point 6, the balance of other receivables does not contain any amount due from a shareholder who holds over 5% (including 5%) equity interest of the Company.

6. Prepayments

Prepayments ageing analysis:

	2000		1999	
	RMB	%	RMB	%
Within one year	109,693,694	97	182,948,249	95
One to two years	1,692,800	2	3,457,337	2
Two to three years	392,180	-	1,829,146	1
Over three years	1,583,468	1	4,770,138	2
Total	113,362,142	100	193,004,870	100

The decrease in the Group's prepayments by 41% is attributable to the decrease in prepayments for purchases of raw materials.

As at 31 December 2000, the 5 largest prepayments were as follows:

Name	Balance due RMB	Period outstanding	Reasons
淮北礦業集團煤碳運銷總公司	14,731,322	10/2000 - 12/2000	Prepayment for coal
西安冶金機械廠	6,960,000	4/2000 - 6/2000	Prepayment for equipments
抗賽普鍋爐器有限公司	6,277,500	7/2000 - 12/2000	Prepayment for equipments
瀋陽重型機械廠	5,120,000	3/1993 - 12/1993	Prepayment for equipments
上海建設路橋機器設備有限公司	4,314,000	4/2000 - 6/2000	Prepayment for equipments

Except for those as stated in Note VI point 6, the balance of prepayments does not contain any prepayment to a shareholder who holds over 5% (including 5%) equity interest of the Company.

7. Inventories

	2000		1999	
	Balance RMB	Provisions RMB	Balance RMB	Provisions RMB
Raw materials	706,334,733	-	528,664,315	-
Work in progress	428,979,866	(3,000,000)	512,214,110	(3,000,000)
Finished goods	189,921,867	(4,150,000)	292,118,288	(4,150,000)
Spare parts	768,153,917	(66,913,041)	838,632,827	(66,913,041)
Total	2,093,390,383	(74,063,041)	2,171,629,540	(74,063,041)

8. Long term investments

Items	Group			
	At 1 January 2000 RMB	Addition during the year RMB	Decrease during the year RMB	At 31 December 2000 RMB
Long term equity investments:				
Equity investments (ii)	4,715,797	6,673,831	-	11,389,628
Long term debt investments:				
Debenture investments	4,308,000	-	(4,308,000)	-
Other debt investments (iii)	26,898,870	-	(2,680,000)	24,218,870
	31,206,870	-	(6,988,000)	24,218,870
Total	35,922,667	6,673,831	(6,988,000)	35,608,498

Items	Company			
	At 1 January 2000 RMB	Addition during the year RMB	Decrease during the year RMB	At 31 December 2000 RMB
Long term equity investments:				
Interests in subsidiaries (i)	184,534,216	77,871,161	-	262,405,377
Equity investments (ii)	4,715,797	6,673,831	-	11,389,628
	189,250,013	84,544,992	-	273,795,005
Long term debt investments:				
Debenture investments	4,308,000	-	(4,308,000)	-

Other debt investments (iii)	26,898,870	-	(2,680,000)	24,218,870
	31,206,870	-	(6,988,000)	24,218,870
Total	220,456,883	84,544,992	(6,988,000)	298,013,875

(i) Interests in subsidiaries

	Company	
	2000 RMB	1999 RMB
Unlisted investments, at cost	58,775,454	58,775,454
Amounts due from subsidiaries	203,629,923	125,758,762
	262,405,377	184,534,216

(ii) Equity investments

Equity investments accounted for using the cost method:

Name of enterprise	Nature of investments	Number of shares held	Percentage of equity held by the Company	Investments cost RMB
上海氯儉化工股份有限公司	Legal person shares	164,578	0.014%	807,926
唐山鋼鐵股份有限公司	Legal person shares	1,003,200	0.074%	4,559,109
寶山鋼鐵股份有限公司	Legal person shares	1,428,850	0.011%	5,972,593
Others				50,000
				11,389,628

(iii) Other debt investments

Debtors	Principal amount RMB	Annual interest rate %	Maturity date	Book balance RMB	Provision RMB
安徽省電子開發總公司	24,218,870	Nil	2001-2009	24,218,870	-

9. Fixed assets

	Buildings RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
Cost:				
At 1 January 2000	5,642,962,988	7,772,097,091	433,592,168	13,848,652,247
Additions	-	1,620,583	4,829,400	6,449,983
Transferred from construction in progress (point 10)	204,380,447	404,543,589	19,123,221	628,047,257
Reclassifications	58,862,744	(65,368,611)	6,505,867	-
Disposals	(12,515,844)	(20,667,290)	(6,343,597)	(39,526,731)
At 31 December 2000	5,893,690,335	8,092,225,362	457,707,059	14,443,622,756
Accumulated depreciation:				
At 1 January 2000	1,034,310,227	2,135,176,362	225,225,748	3,394,712,337
Provided during the year	195,700,118	475,213,969	35,536,670	706,450,757
Reclassifications	2,434,559	(5,676,073)	3,241,514	-
Disposals	(4,061,903)	(13,950,013)	(4,480,902)	(22,492,818)
At 31 December 2000	1,228,383,001	2,590,764,245	259,523,030	4,078,670,276
Net book value:				
At 31 December 2000				
Net book value	4,665,307,334	5,501,461,117	198,184,029	10,364,952,480
Less: Impairments	(14,472,623)	(6,072,274)	-	(20,544,897)
Net book value, net of impairments	4,650,834,711	5,495,388,843	198,184,029	10,344,407,583
At 31 December 1999				
Net book value	4,608,652,761	5,636,920,729	208,366,420	10,453,939,910
Less: Impairments	-	-	-	-
Net book value, net of impairments	4,608,652,761	5,636,920,729	208,366,420	10,453,939,910

All of the Group's land and buildings are located in the PRC and the land on which the buildings are erected is owned by the State.

All of the Group's fixed assets are unsecured.

10. Construction in progress

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

Name of project	Expected year of completion	At 1 January 2000 RMB	Including: capitalised interest amount RMB	Additions RMB	Including: capitalised interest amount RMB	Transferred to fixed assets (Note 9) RMB	Including: capitalised interest amount RMB	Impairments of CIP RMB	31 December 2000 RMB	Including: capitalised interest amount RMB	Source of fund
No. 1 steel-making plant electric arc furnace	2002	7,330,299	-	146,830,758	2,428,800-	-	-	154,161,057	2,428,800	-	Internally generated funds and loan from financial institution
High temperature bricks factory improvement project	2001	103,734,094	-	-	-	(7,900,000)	-	(23,000,000)	72,834,094	-	Internally generated funds
Coke furnace system project	2001	75,571,974	-	-	-	-	-	(13,000,000)	62,571,974	-	Internally generated funds
Universal section rolling mill project	2001	-	-	109,129,298	-	(87,532,741)	-	-	21,596,557	-	Share issue proceeds, internally generated funds and loan from financial institution
Ferrous powder project	2000	154,451,161	4,687,050	13,701,028	-	(168,152,189)	(4,687,050)	-	-	-	Share issue proceeds, internally generated funds and loan from financial institution
No. 4 limestone kiln	2000	49,879,286	158,250	1,448,696	-	(51,327,982)	(158,250)	-	-	-	Internally generated funds and loan from financial institution
Beam blank caster	2000	34,720,520	-	3,455,500	-	(38,176,020)	-	-	-	-	Share issue proceeds and internally generated funds
Cai Nan station & Bei Huan transportation line	2001	54,484,427	-	390,240	-	-	-	(21,000,000)	33,874,667	-	Internally generated funds
Other projects	various	154,397,546	9,535,190	309,800,721	1,979,936	(274,958,325)	(6,902,920)	(10,000,000)	179,239,942	4,612,206	
		634,569,307	14,380,490	584,756,241	4,408,736	(628,047,257)	(11,748,220)	(67,000,000)	524,278,291	7,041,006	

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

11. Intangible assets

	Original amount RMB	At 1 January 2000 RMB	Addition during the year RMB	Amortisation during the year RMB	At 31 December 2000 RMB
Land use rights	908,493,009	798,323,030	256,442	(18,169,867)	780,409,605

At 31 December 2000, the remaining lease terms of the land use rights are 42-46 years.

12. Long term deferred expenditure

	At 1 January 2000 RMB	Addition during the year RMB	Amortisation during the year RMB	Transferred to construction in progress RMB	At 31 December 2000 RMB
Deferred staff cost (i)	121,978,352	-	(16,378,063)	-	105,600,289
Technical training expenses related to projects under construction (ii)	42,371,957	7,806,208	(13,298,757)	(36,879,408)	-
	164,350,309	7,806,208	(29,676,820)	(36,879,408)	105,600,289

- (i) The deferred staff cost of RMB106 million (1999: RMB122 million) related to the loss of approximately RMB163.8 million in 1997 resulted from the disposal of staff quarters to the Company's employees at preferential prices, net of 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.
- (ii) The decrease in the Group's long term deferred expenditure by 36% is mainly attributable to the transferral of the construction related expenses to construction in progress.

13. Short term loans

Type	Annual interest rate %	Maturity date	2000 RMB	1999 RMB
Secured loans	-	-	-	-
Guaranteed loans	5.94-7.11	9/2001	80,000,000	80,000,000
Unsecured loans	5.85-9.504	1/2001- 12/2001	1,318,110,315	1,468,924,395
			1,398,110,315	1,548,924,395

As at 31 December 2000 and 31 December 1999, all the bank and other loans were unsecured.

As at 31 December 2000 and 31 December 1999, all of the Group's guaranteed loans were guaranteed by Holding.

Included in the short term loans are foreign currency loans of US\$25,150,000 (1999: US\$25,150,000). As at 31 December 2000, US currency was translated to Renminbi at the applicable rate of 8.2781 (1999: rate of 8.2793).

14. Trade creditors

Included in the Group's and the Company's trade creditors is an amount due to Holding of approximately RMB5 million (1999: approximately RMB67 million) which principally arose from normal trading activities. Save as aforesaid, the balance of trade creditors does not contain any amount due to a shareholder who holds over 5% (including 5%) equity interest in the Company.

15. Tax payable

	2000 RMB	1999 RMB
Income tax	(22,972,680)	(442,100)
Value-added tax	289,367,344	320,351,364
Business tax	(3,278,001)	(3,540,183)
Land use tax	(1,972,415)	(2,479,035)
Real estates tax	357,952	165,875
City construction and maintenance tax	(2,504,184)	(2,014,644)
Others	100	(16,106)
	258,998,116	312,025,171

16. Other creditors

Included in the Group's and the Company's other creditors is an amount due to Holding of approximately RMB2.8 million (1999: approximately RMB7.2 million) which principally arose from normal trading activities. Save as aforesaid, the balance of other creditors does not contain any amount due to a shareholder who holds over 5% (including 5%) equity interest in the Company.

17. Accrued charges

Type of expenses	2000 RMB	1999 RMB
Loan interests	44,064,176	42,433,517
Freight charges	28,578,589	48,436,276
Retirement benefits payable to early retired employees	72,000,000	-
Selling expenses	1,500,000	25,000,000
Others	31,005,804	25,712,436
	177,148,569	141,582,229

18. Long term loans, current portion

Type	Annual interest rate %	Maturity date	2000 RMB	1999 RMB
Secured loans	-	-	-	-
Guaranteed loans	6.03-8.63	10/2001	105,998,451	85,199,352
Unsecured loans	0.25-5.94	12/1995- 12/2001	547,321,965	505,431,477
			653,320,416	590,630,829

As at 31 December 2000 and 31 December 1999, the Group had no secured loans.

As at 31 December 2000 and 31 December 1999, all of the Group's guaranteed loans were guaranteed by Holding. Included in the guaranteed loans balance was US\$ loan of US\$7,972,657 (1999: US\$6,667,152). US currency was translated to Renminbi at the applicable rate of 8.2781 (1999: rate of 8.2793).

Included in the unsecured loans was an amount of Luxemburg Franc ("FLUX") 5,000,000 (1999: FLUX5,000,000). As at 31 December 2000, FLUX was translated to Renminbi at the applicable rate of 0.1908 (1999: rate of 0.2063).

19. Long term loans

Lender	Currency	2000		1999		Maturity date	Annual interest rate	Conditions of borrowings	
		Original currency	RMB	Original currency	RMB				
The Industrial and Commercial Bank of China - Magang Branch	RMB	130,000,000	130,000,000	RMB	444,000,000	444,000,000	2/2002 - 7/2003	5.94% - 6.03%	Unsecured
Agricultural Bank of China - Maanshan Branch	RMB	-	-	RMB	20,000,000	20,000,000	-	-	-
The Industrial and Commercial Bank of China - Anhui Branch	RMB	-	-	RMB	30,000,000	30,000,000	-	-	-
China Construction Bank - Metallurgical Branch	RMB	-	-	RMB	80,000,000	80,000,000	-	-	-
	RMB	365,000,000	365,000,000	RMB	307,750,000	307,750,000	12/2002 - 12/2005	6.21%	Guaranteed by Holding
China Construction Bank - Anhui Branch	USD	43,849,615	362,991,497	USD	43,336,486	358,795,768	4/2002 - 10/2007	8.625%	Guaranteed by Holding
Bank of China - Credit Department	FLUX	90,000,000	17,171,370	FLUX	95,000,000	19,598,073	3/2002 - 9/2019	0.25%	Unsecured
			875,162,867			1,260,143,841			

The decrease in the Group's long term loans by 31% is mainly attributable to the decrease in loan borrowings and the increase in loan repayments.

20. Other long term liabilities

	2000 RMB	1999 RMB
Accrued charges for furnace relining	123,971,940	126,110,357
Retirement benefits payable to early retired employees	84,998,110	-
Government subsidies for specific construction project	58,920,000	-
	267,890,050	126,110,357

The increase in the Group's other long term liabilities by 112% is mainly attributable to the increase in the accrual of retirement benefits payable to early retired employees and government subsidies for specific construction projects.

21. Share capital

The Company had registered, issued and fully paid share capital amounting to RMB6,455,300,000, with each share has face value of RMB1. The types and structure of share capital are as follows:

Group and company	At beginning of year RMB	At end of year RMB
A. Unlisted shares		
1. Shares held by promotor		
(i) State-owned shares	4,034,560,000	4,034,560,000
(ii) Shares owned by domestic legal persons	-	-
(iii) Shares owned by foreign legal persons	-	-
(iv) Others	-	-
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	-	-
4. Preferred shares and others	-	-
Total unlisted shares	4,122,370,000	4,122,370,000
B. Listed shares		
1. A shares	600,000,000	600,000,000
2. B shares	-	-
3. H shares	1,732,930,000	1,732,930,000
4. Others -	-	-
Total listed shares	2,332,930,000	2,332,930,000
C. Total share capital	6,455,300,000	6,455,300,000

There was no change of share capital during the year.

22. Capital reserve

Group and company	At beginning of year RMB	Addition during the year RMB	Decrease during the year RMB	At end of year RMB
Share premium	3,491,344,482	-	-	3,491,344,482

23. Surplus reserves

	Group			
	At beginning of year RMB	Addition during the year RMB	Decrease during the year RMB	At end of year RMB
Statutory surplus reserve	172,532,680	17,401,818	-	189,934,498
Statutory public welfare fund	172,532,680	17,351,227	-	189,883,907
	345,065,360	34,753,045	-	379,818,405

	Company			
	At beginning of year RMB	Addition during the year RMB	Decrease during the year RMB	At end of year RMB
Statutory surplus reserve	172,532,680	17,300,636	-	189,833,316
Statutory public welfare fund	172,532,680	17,300,636	-	189,833,316
	345,065,360	34,601,272	-	379,666,632

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 RMB17,300,636 (1999: RMB1,166,782) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of RMB173,006,359 (1999: RMB11,667,822) 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 with in the Group's financial statements were RMB101,182 and RMB50,591, respectively.

24. Retained profits

	Notes	Group Amount RMB
Retained profits as at the end of 1999		196,591,475
Less: Staff housing subsidies charged to retained profits	33	(20,872,421)
Add: Group net profit for the year		176,031,047
Less: Transfer to statutory surplus reserve	23	(17,401,818)
Transfer to statutory public welfare fund	23	(17,351,227)
Dividend payable	34	(129,106,000)
Retained profits as at the end of year		187,891,056

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 GAAP and the amount determined in accordance with Hong Kong accounting standards ("HK GAAP").

As at 31 December 2000, the Company had retained profits of approximately RMB124 million (1999: approximately RMB188 million), as determined in accordance with the lower of the amount determined in accordance with PRC GAAP and HK GAAP, available for distribution by way of cash or kind.

As at 31 December 2000, in accordance with the PRC Company Law, an amount of approximately RMB3.49 billion (1999: approximately RMB 3.49 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards, was available for distribution by way of future capitalisation issues. At the same date, the Company did not have any capitalisation issue plan.

25. Principal operating income, cost and profit from principal operating activities

Items	Group					
	2000		1999			
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sales of steel products	7,442,412,190	6,255,723,749	1,186,688,441	5,836,982,702	5,225,741,082	611,241,620
Sales of pig iron	46,146,734	38,689,987	7,456,747	66,543,642	61,218,549	5,325,093

Sales of steel billets	95,459,081	91,369,339	4,089,742	250,246,588	255,723,129	(5,476,541)
Subcontracting income	-	-	-	69,938,542	53,758,310	16,180,232
Others	601,668,804	544,172,808	57,495,996	444,724,751	424,875,795	19,848,956
	8,185,686,809	6,929,955,883	1,255,730,926	6,668,436,225	6,021,316,865	647,119,360

Items	Company					
	2000			1999		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sales of steel products	6,541,947,049	5,408,128,374	1,133,818,675	5,507,221,185	4,908,681,101	598,540,084
Sales of pig iron	25,166,353	21,951,782	3,214,571	6,965,950	13,350,186	(6,384,236)
Sales of steel billets	94,885,501	90,757,776	4,127,725	248,228,984	253,721,595	(5,492,611)
Subcontracting income	-	-	-	54,407,592	43,662,202	10,745,390
Others	417,063,316	364,198,334	52,864,982	269,271,602	251,732,850	17,538,752
	7,079,062,219	5,885,036,266	1,194,025,953	6,086,095,313	5,471,147,934	614,947,379

26. SALES TAX AND SURCHARGES

	2000 RMB	1999 RMB
Sales tax and surcharges	63,977,493	44,826,086

The increase in the Group's principal operating taxes by 43% is mainly attributable to the increase in principal operating income.

27. Other operating profit/(loss)

	2000 RMB	1999 RMB
Other operating income	42,332,639	31,907,681
Other operating cost	(44,630,831)	(31,231,314)
Other operating profit/(loss)	(2,298,192)	676,367

The Group's other operating profit is attributable to the increase in other operating cost.

28. Financial expenses

	2000	1999
	RMB	RMB
Interest expense	203,494,052	225,797,459
Less: Interest income	(27,658,501)	(38,152,030)
Exchange loss	2,614,994	1,653,875
Less: Exchange gain	(2,641,956)	(4,028,223)
Others	1,963,104	1,658,790
	177,771,693	186,929,871

29. Investment income

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Debt investments income	-	3,001,921	-	3,001,921
Equity investments income	2,675,648	-	2,675,648	-
	2,675,648	3,001,921	2,675,648	3,001,921

30. Subsidies income

Item	2000	1999
	RMB	RMB
Government subsidies income	-	109,989,000
Others	232,475	335,774
Total	232,475	110,324,774

In 1999, the Group received subsidies income aggregating RMB109,989,000 from the Maanshan Financial Bureau. The subsidies income was confirmed by the Maanshan Financial Bureau.

31. Non-operating income

	2000	1999
	RMB	RMB
Exemption on repayment of environmental protection loans	-	4,184,000
Others	3,530,438	1,968,610
	3,530,438	6,152,610

The decrease in the Group's non-operating income by 43% is mainly attributable to the decrease in exemption on repayment of environmental protection loans.

32. Non-operating expenses

	2000 RMB	1999 RMB
Retirement benefits payable to early retired employees (i)	221,000,000	-
Provisions for impairments of construction in progress	67,000,000	-
Provisions for impairments of fixed assets	20,544,897	-
Staff children education expenses	25,220,142	25,438,636
Loss on disposal of fixed assets	12,185,861	-
Penalties	8,845,394	4,845,695
Others	313,817	1,665,949
	355,110,111	31,950,280

- (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.

The increase in the Group's non-operating expenses by 10.1 folds is mainly attributable to the retirement benefits payable to early retired employees, provisions for impairments of construction in progress and fixed assets.

33. Staff housing subsidies charged to retained profits

Under the regulations of the Ministry of Finance, the one-off lump sum housing subsidies payments to eligible current and retired employees aggregating RMB20,872,421 during the year have been charged to retained profits accounts. Details on the different accounting treatment of the staff housing subsidies under PRC and Hong Kong accounting standards are set out in point 37(B) to the financial statements.

34. Dividend payable

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

The increase in dividend payable is mainly attributable to the declaration of final dividends of RMB0.02 per share.

35. Other cash paid relating to operating activities

Other cash paid relating to operating activities as shown in the 2000 consolidated cash flow statement was RMB1,106,761,168 (1999: RMB1,162,167,101), which mainly represents selling and administrative expenses.

36. Deferred credit

On 1 January 1994, the PRC government abolished the dual exchange rate system by unifying the official and swap centre rate systems which resulted in an unified exchange rate as quoted by the People's Bank of China. The deferred credit arose from the retranslation of the proceeds received from the issue of H shares before and after the unification of the exchange rates on 31 December 1993 and 1 January 1994, respectively. In accordance with the directives issued by the Ministry of Finance and recommendations from the officials of the Ministry of Finance and the China Securities Regulatory Commission, this exchange difference is 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 to offset future losses, or retain the amount until liquidation.

37. Differences in financial statements prepared under PRC and Hong Kong accounting standards

Other than the differences in classification of certain financial statement items 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 to offset future losses or 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 as follows:

	Hong Kong accounting standards RMB'000	PRC accounting standards RMB'000
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Group and Company - 2000 and 1999

Balance sheet:

Capital reserve	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 age, 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 applications 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 RMB20,872,421 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
	2000 RMB'000	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
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

38. Deposits received

	2000 RMB	1999 RMB
Deposits received	213,701,727	313,451,550

The decrease in deposits received by 32% is mainly attributable to the decrease in receipts in advance for sales of goods.

39. Staff welfare payable

	2000 RMB	1999 RMB
Staff welfare payable	10,510,911	20,071,600

The decrease in staff welfare payable by 48% is mainly attributable to the increase in the payment of staff welfare expenses.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party involving control relationship

Name	Registered address	Principal activities	Relationship with the Company		Legal representative
			Nature		
Magang (Group) Holding Company Limited	Maanshan City, Anhui Province, PRC	Mining & sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food & beverages; production services; mechanical & electrical equipment manufacturing and metal products manufacturing	Ultimate holding company	Limited company	Gu Jianguo

As at 31 December 2000, Magang (Group) Holding Company Limited owned 63.23% of the Company's total share capital. Thus all subsidiaries and associates of the Holding become the Company's related parties.

2. Registered capital of related party involving control relationship and related changes

Name	At beginning	Increase	Decrease	At
	of year	during the year	during the year	end of year
	RMB'000	RMB'000	RMB'000	RMB'000
Magang (Group) Holding Company Limited	6,298,290	-	-	6,298,290

3. Stocks or equity interest held by related party who could control the Company and the changes

Name	At beginning of year		Increase during the year		Decrease during the year		At end of year	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Magang (Group) Holding Company Limited	4,078,980	63.19	2,500	0.04	-	-	4,081,480	63.23

4. Associates

Information on related parties who carried out related party transactions with the Company and do not involve in control relationship:

Name of related companies	Relationship with the Company
東莞大寶馬五金製品有限公司	Subsidiary of the Holding
深圳市深皖金屬建材工貿公司	Subsidiary of the Holding
馬鋼法蘭環件製造聯合公司	Subsidiary of the Holding
深圳市粵海馬鋼實業有限公司	Subsidiary of the Holding
馬鞍山市凱馬螺絲製造有限公司	Subsidiary of the Holding
上海江南物資聯合經銷公司（江南集團）	Subsidiary of the Holding
馬鞍山市聯營乙炔廠	Subsidiary of the Holding
馬鋼三聯鐵廠	Subsidiary of the Holding
安徽神馬冶有限責任公司	Subsidiary of the Holding
馬鋼金屬製品聯合公司	Subsidiary of the Holding
馬鞍山市黑馬交通器材公司	Subsidiary of the Holding
馬鋼合力金屬製造有限公司	Subsidiary of the Holding
石馬鐵合金廠	Subsidiary of the Holding
市鑫馬立體攝影服務公司	Subsidiary of the Holding

5. The following is a summary of the significant transactions carried out in the normal course of business between the Group and its related parties during the year:

	2000	1999
	RMB	RMB
Transactions with ultimate holding company:		
Purchases of iron ore and limestone	673,141,120	698,174,193
Fees received for the supply of utilities, services and other consumable goods	(37,071,347)	(37,400,367)
Fees paid for welfare, support services and other services	233,642,745	202,597,098
Purchases of fixed assets and construction services	81,914,075	87,532,878
Sales of steel products	(98,000)	(4,745,296)
Transactions with subsidiaries & associates of Holding:		
Sales of steel products		
Including:		
馬鋼合力金屬製造有限公司	(4,571,788)	(10,473,892)
馬鞍山市黑馬交通器材公司	(13,809,950)	(5,678,787)
	(18,381,738)	(16,152,679)

The terms for the purchases 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 the 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.

Details on balances with Holding, and the subsidiaries and associates of Holding are set out in Note VI point 6 to the financial statements.

6. Receivable from/payable to related parties

	2000 RMB	1999 RMB	Details
Trade receivables:			
Holding	4,533,104	539,907	Trade
馬鋼合力金屬造有限公司	6,473,200	8,399,367	Trade
馬鞍山市黑馬交通器材公司	398,095	1,182,863	Trade
馬鋼三聯鐵廠	-	900	Trade
馬鞍山市馬鋼合力公司工貿分公司	1,358,900	-	Trade
	12,763,299	10,123,037	
Other receivables:			
Holding	264,802,307	321,733,867	Trade
石馬鐵合金廠	248,819	-	Trade
馬鞍山市凱馬螺絲製造有限公司	159,657	-	Trade
馬鋼三聯鐵廠	2,600,447	2,600,447	Trade
	267,811,230	324,334,314	
Trade creditors:			
Holding	5,042,943	67,226,155	Trade
馬鞍山市聯營乙炔廠	9,977	189,224	Trade
馬鋼法蘭環件製造聯合公司	24,258	-	Trade
馬鋼合力金屬製造有限公司	535,481	-	Trade
上海江南物資聯合經銷公司	63,411	-	Trade
安徽神馬冶金有限責任公司	7,761	-	Trade
	5,683,831	67,415,379	

6. Receivable from/payable to related parties

	2000 RMB	1999 RMB	Details
Other creditors:			
Holding	2,833,183	7,235,107	Trade
馬鋼三聯鐵廠	250,777	-	Trade
	3,083,960	7,235,107	
Advance on sales:			
Holding	585,841	3,231,633	Trade
馬鞍山市凱馬螺絲製造有限公司	-	21,977	Trade
馬鋼法蘭環件製造聯合公司	-	6,338	Trade
馬鋼合力金屬製品有限公司	-	95,428	Trade
馬鋼三聯鐵廠	-	220,955	Trade
	585,841	3,576,331	
Prepayments:			
Holding	614,359	(127,170)	Trade
馬鋼合力金屬製品有限公司	-	722,461	Trade
	614,359	595,291	

The current accounts with related parties are interest-free, unsecured and have no fixed terms of repayment.

VII. CONTINGENT LIABILITIES

As at 31 December 2000 and 1999, the Group and Company had no significant contingent liabilities.

VIII. 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 Universal section rolling mill project	-	7,170	-	7,170
Other projects	-	84,335	-	2,839
	-	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 machine 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

IX. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the new Ministry of Finance directive No. 2001 (5) stipulated the accounting treatment of loss on disposal of staff quarters, and the directors are currently in process of discussion with the Ministry of Finance regarding how to implement the accounting treatment of the loss on disposal of RMB105,600,289 as capitalised in the Company's and the Group's balance sheet at 31 December 2000. In accordance with that directive, disclosure of the above accounting treatment as non-adjusting post balance sheet event has been made.

Save as aforesaid, at the date of approval of these financial statements, the Company has no other post balance sheet events which would required disclosure.

X. COMPARATIVE AMOUNTS

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

XI. APPROVAL OF THE FINANCIAL STATEMENTS

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