1. CORPORATE INFORMATION

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

In the opinion of the directors, the ultimate holding company is Magang (Group) Holding Company Limited ("Holding"), which is incorporated in the People's Republic of China (the "PRC").

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations — subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 14 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. As explained in note 4 to the financial statements, the Group has not presented business and geographical segment information for the years ended 31 December 2001 and 2000, because it has only one business and geographical segment respectively.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The principal impact of this SSAP on the financial statements is that a provision for furnace relining costs which was recognised in previous years, no longer qualifies for recognition as a provision under SSAP 28. This has resulted in a prior year adjustment, further details of which are included in note 29 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 16 to the financial statements, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the balance sheet.

3. 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 include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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 intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 fixed assets have been put into operation, such as repairs and maintenance, is normally 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.

Depreciation is calculated on the 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 new conditions are as follows:

Land use rights	Over the lease terms 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 the Universal Section Rolling Mill. The 2001 depreciation charge after adjustment for this activity factor was approximately RMB9 million (2000: approximately 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 conditions of these assets when they were acquired by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Construction in progress

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing and capitalised borrowing costs on related borrowed funds during the periods of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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. The estimated fair values of unlisted investments 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 value 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 in 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.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Spare parts are stated at cost less provision for obsolescence.

Deferred staff cost

Losses arising from the disposal of staff quarters to employees at preferential prices are capitalised as deferred staff cost 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. Further details are set out in note 20 to the financial statements.

Housing subsidies

The Company's housing subsidies obligations payable to current employees pursuant to a staff housing subsidies scheme are accrued and charged to the 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.

Deferred income

Deferred income comprises grants and subsidies from the government and is recognised at its fair value when it is received or there is reasonable assurance that it will be received, and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy, on a systematic basis, to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is initially recorded as deferred income in the balance sheet, and thereafter will be recognised as income over the useful life of the relevant fixed asset.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation.

The adoption of SSAP 28 has given rise to a prior year adjustment, further details of which are included in note 29 to the financial statements.

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.

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.

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;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(c) investment income, when the right to receive payment has been established.

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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Memorandum and Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised), has given rise to a prior year adjustment in both the Group's and the Company's financial statements, further details of which are included in notes 14 and 31 to the financial statements.

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 ruling 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 into Renminbi at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Pension benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension benefits (continued)

Pension benefits payable to early retired employees prior to such employees joining the government-organised pension scheme upon normal retirement were assumed by the Company commencing from 1 January 2000. Such benefits payable are related to past services of such employees, and have been charged to the profit and loss account on an one-off basis. Further details are set out in notes 6 and 35 to the financial statements.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. The SSAP requires that segment information is presented by way of business and geographical segments.

The Group has only one business segment, which is the manufacture and sale of iron and steel products, and therefore, no business segment information is presented.

No geographical segment information is presented as the Group's operations were substantially carried out in the PRC during the year. Over 90% of the Group's turnover was derived from customers in the PRC.

5. 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:

	2001 **RMB'000**	2000 RMB'000
Turnover — sale of goods	**9,547,929**	8,185,687
Interest income	**22,308**	27,659
Others	**31,881**	2,203
	9,602,118	8,215,549

6. OTHER OPERATING EXPENSES

	Notes	2001 RMB'000	2000 RMB'000
Pension benefits for early retired employees (Note)	35	—	221,000
Housing subsidies for retired employees	29 & 36(ii)	—	38,843
Provision for impairment of fixed assets, net		**104,887**	20,545
Provision for impairment of construction in progress, net		**7,000**	67,000
Provision for doubtful debts		**95,550**	43,980
Loss on disposals of fixed assets		**62,994**	—
Write-off of construction in progress		**95,834**	—
Others		**1,994**	—
		368,259	391,368

Note: In a prior year, the Company implemented an early retirement plan for certain employees, and the monthly pension benefits payable to the early retired employees were assumed by the government-organised pension scheme. However, following the gradual rationalisation by the government of its pension schemes, starting from 1 January 2000, the pension benefit obligations payable to early retired employees prior to joining the government-organised pension scheme upon normal retirement can no longer be vested from the government-organised pension scheme, and would be borne by the Company. Such pension benefit obligations were payable for past services of relevant employees and accordingly, the estimated total obligations therefor aggregating RMB221 million, were charged to the comparative profit and loss account in the year ended 31 December 2000, on an one-off basis.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2001	2000
	RMB'000	RMB'000
Depreciation	**830,207**	724,621
Provision for doubtful debts	**95,550**	43,980
Auditors' remuneration	**4,300**	4,500
Staff costs (excluding directors' and supervisors' remuneration):		
Wages and salaries	**786,415**	697,289
Contributions to government-organised pension scheme	**190,319**	150,394
Pension benefits for early retired employees (Note 6)	**—**	221,000
Housing subsidies for retired employees	**—**	38,843
Housing subsidies for current employees (Note 29)	**34,887**	34,887
Loss on disposals of fixed assets	**62,994**	15,801
Write-off of construction in progress	**95,834**	—
Provision for impairment of fixed assets, net	**104,887**	20,545
Provision for impairment of construction in progress, net	**7,000**	67,000
Unrealised loss on changes in fair values of short term investments	**1,772**	—
Amortisation of deferred staff cost	**17,600**	16,378
Interest income	**(22,308)**	(27,659)
Investment income from listed investments	**(2,442)**	—
Exchange gains, net	**(797)**	(26)

8. FINANCE COSTS

	Group	
	2001	2000
	RMB'000	RMB'000
Interest on bank loans	**164,146**	207,903
Less: Interest capitalised	**(13,384)**	(4,409)
	150,762	203,494

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001	2000
	RMB'000	RMB'000
Fees	**30**	30
Other emoluments:		
Salaries, allowances and benefits in kind	**163**	198
Performance related bonuses	**964**	668
Pension scheme contributions	**237**	38
	1,364	904
	1,394	934

Fees include RMB30,000 (2000: RMB30,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2001	2000
Nil to HK$1,000,000	**17**	18

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2000: five) directors, details of whose remuneration are set out in note 9 above.

11. TAX

	2001	2000
	RMB'000	RMB'000
Hong Kong profits tax	**516**	391
PRC income tax	**64,669**	20,665
Underprovision of PRC income tax in prior year	**23,550**	—
Tax charge for the year	**88,735**	21,056

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

There was no material unprovided deferred tax in respect of the year or at the balance sheet date (2000: Nil).

12. 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 RMB147,403,000 (2000: net profit of approximately RMB97,138,000 as restated).

13. TRANSFERS TO RESERVES

	Group	
	2001	2000
	RMB'000	RMB'000
Transfer to statutory surplus reserve	**20,472**	17,402
Transfer to statutory public welfare fund	**20,420**	17,352
	40,892	34,754

14. DIVIDEND

	2001	2000
	RMB'000	RMB'000
Proposed final — RMB2 cents (2000: RMB2 cents) per ordinary share	**129,106**	129,106

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of RMB129,106,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000, by RMB129,106,000.

The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividend of RMB129,106,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

15. 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 approximately RMB152,281,000 (2000: net profit of approximately RMB100,164,000 as restated) and 6,455,300,000 (2000: 6,455,300,000) ordinary shares in issue during the year.

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

16. 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					
As previously reported	908,750	5,879,217	8,086,153	457,707	15,331,827
Reclassified to accumulated depreciation and impairment (Note)	—	14,473	6,072	—	20,545
As restated	908,750	5,893,690	8,092,225	457,707	15,352,372
Additions	4,723	9,927	11,323	17,701	43,674
Transferred from construction in progress (Note 17)	114,779	274,497	363,746	16,240	769,262
Reclassifications	—	449,505	(449,458)	(47)	—
Disposals	—	(67,596)	(90,697)	(14,577)	(172,870)
At 31 December 2001	1,028,252	6,560,023	7,927,139	477,024	15,992,438
Accumulated depreciation and impairment:					
At beginning of year					
As previously reported	128,340	1,228,383	2,590,764	259,523	4,207,010
Reclassified from cost (Note)	—	14,473	6,072	—	20,545
As restated	128,340	1,242,856	2,596,836	259,523	4,227,555
Depreciation provided during the year	19,518	231,244	540,476	38,969	830,207
Impairment during the year recognised in the profit and loss account	—	49,215	60,905	—	110,120
Reversal of impairment during the year recognised in the profit and loss account	—	(2,123)	(3,110)	—	(5,233)
Reclassifications	—	77,509	(77,269)	(240)	—
Disposals	—	(24,426)	(61,515)	(12,505)	(98,446)
At 31 December 2001	147,858	1,574,275	3,056,323	285,747	5,064,203
Net book value:					
At 31 December 2001	880,394	4,985,748	4,870,816	191,277	10,928,235
At 31 December 2000	780,410	4,650,834	5,495,389	198,184	11,124,817

16. FIXED ASSETS (continued)

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					
As previously reported	908,750	5,875,574	8,083,992	456,015	15,324,331
Reclassified to accumulated depreciation and impairment (Note)	—	14,473	6,072	—	20,545
As restated	908,750	5,890,047	8,090,064	456,015	15,344,876
Additions	4,723	3,713	9,393	16,038	33,867
Transferred from construction in progress (Note 17)	114,779	274,497	363,746	16,240	769,262
Reclassifications	—	449,505	(449,458)	(47)	—
Disposals	—	(67,596)	(90,697)	(14,437)	(172,730)
At 31 December 2001	1,028,252	6,550,166	7,923,048	473,809	15,975,275
Accumulated depreciation and impairment:					
At beginning of year					
As previously reported	128,340	1,227,029	2,589,520	258,275	4,203,164
Reclassified from cost (Note)	—	14,473	6,072	—	20,545
As restated	128,340	1,241,502	2,595,592	258,275	4,223,709
Depreciation provided during the year	19,518	229,389	539,740	38,222	826,869
Impairment during the year recognised in the profit and loss account	—	49,215	60,905	—	110,120
Reversal of impairment during the year recognised in the profit and loss account	—	(2,123)	(3,110)	—	(5,233)
Reclassifications	—	77,509	(77,269)	(240)	—
Disposals	—	(24,426)	(61,515)	(12,369)	(98,310)
At 31 December 2001	147,858	1,571,066	3,054,343	283,888	5,057,155
Net book value:					
At 31 December 2001	880,394	4,979,100	4,868,705	189,921	10,918,120
At 31 December 2000	780,410	4,648,545	5,494,472	197,740	11,121,167

Note: Accumulated impairment losses are aggregated with accumulated depreciation under the revised disclosure requirements of SSAP 17, as detailed in note 2 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification.

16. FIXED ASSETS (continued)

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

Impairment during the year recognised in the profit and loss account is summarised as follows:

	Notes	RMB'000
Roughing Mill Plant	(i)	50,000
Ferrous Powder Plant	(ii)	60,120
		110,120

Notes:

(i) Due to the launch of the new Thin Plate Production Plant construction project in 2002 to replace the existing Roughing Mill Plant, an impairment provision has been made to write down those fixed assets which do not have other use to its recoverable amount. The recoverable amount is determined based on the net selling price which is based on the scrap value of the assets.

(ii) Due to recent adverse changes in the iron powder market, the Ferrous Powder Plant has been written down to its recoverable amount, which is determined based on its value in use. The discount rate used in determining the value in use is 9% per annum.

Prior to its transfer to fixed assets, the carrying amount of construction in progress included capitalised interest of RMB4,866,960 (31 December 2000: RMB7,041,006).

17. CONSTRUCTION IN PROGRESS

Group and Company

	RMB'000
Cost:	
At beginning of year	
As previously reported	524,278
Reclassified to accumulated impairment (Note i)	67,000
As restated	591,278
Additions	662,978
Write-off (Note ii)	(95,834)
Transferred to fixed assets (Note 16)	(769,262)
At 31 December 2001	389,160
Accumulated impairment:	
At beginning of year	
As previously reported	—
Reclassified from cost (Note i)	67,000
As restated	67,000
Impairment during the year recognised in the profit and loss account (Note iii)	30,000
Write-off of impairment provision against cost (Note ii)	(23,000)
At 31 December 2001	74,000
Net book value:	
At 31 December 2001	315,160
At 31 December 2000	524,278

Notes:

(i) Accumulated impairment losses are separately disclosed under the revised disclosure requirements of SSAP 17, as detailed in note 2 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the construction in progress. This change has been disclosed as a retrospective reclassification.

(ii) The cost of construction in progress written off during the year related to the High Temperature Brick Factory construction project. The project was fully written off because the plan to set up a joint venture for production of high temperature brick, pursuant to a letter of intent entered into between the Company and a foreign party, has been abandoned. The directors estimate that the recoverable amount thereof, which is the scrap value, will be immaterial.

(iii) The impairment loss related to the Cai Nan Station Project, a railway station construction project. The project has been written down to its recoverable value, which is the estimated scrap value, because the project has been terminated following the change in the transportation design plan of Maanshan City by the local government.

18. INTERESTS IN SUBSIDIARIES

Company

	2001 **RMB'000**	2000 RMB'000
Unlisted investments, at cost	**64,275**	58,774
Due from subsidiaries	**340,732**	203,631
Due to a subsidiary	**(2,291)**	—
	402,716	262,405

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel International Trade and Economic Corporation	PRC	RMB50,000,000	100	—	Import of machinery and raw materials and export of steel products
Design & Research Institute of Maanshan Iron & Steel Company Limited (Note i)	PRC	RMB8,000,000	93.75	6.25	Planning and design of metallurgical, construction and environmental protection projects
MG Trading and Development GmbH	Germany	DM300,000	100	—	Trading of equipment, iron and steel products and provision of technology services
Ningbo Chang Yi Company Limited (Note ii)	PRC	RMB1,000,000	20	80	Trading of steel and pig iron products
Shanghai Zhong Ma Company Limited	PRC	RMB1,000,000	90	10	Trading of steel and pig iron products
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK$4,800,000	80	20	Trading of steel and pig iron products

Notes:

(i) Newly incorporated during the year.

(ii) Ningbo Chang Yi Company Limited is in the process of liquidation.

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

19. LONG TERM INVESTMENTS

Group and Company

	2001	2000
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**6,417**	11,390

20. OTHER LONG TERM ASSET

Group and Company

	2001	2000
	RMB'000	RMB'000
Deferred staff cost	**88,000**	105,600

The deferred staff cost of approximately RMB88 million (2000: approximately RMB106 million) relates 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 sets 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.

21. INVENTORIES

	Group		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**623,147**	706,334	**623,147**	706,334
Work in progress	**400,306**	425,980	**400,306**	425,980
Finished goods	**137,303**	185,772	**131,083**	121,027
Spare parts	**614,329**	701,241	**614,329**	701,241
	1,775,085	2,019,327	**1,768,865**	1,954,582

The carrying amount of inventories of the Group and the Company carried at net realisable value included in the above balances was approximately RMB47,116,000 (2000: approximately RMB2,086,000) as at the balance sheet date.

22. TRADE RECEIVABLES

The Group's credit periods to customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**1,099,912**	712,983	**1,084,058**	651,546
Four to six months	**49,381**	104,120	**49,381**	99,342
Seven to twelve months	**4,680**	24,866	**4,680**	21,654
One to two years	**18,188**	55,414	**18,188**	53,463
Two to three years	**25,283**	34,679	**25,283**	32,405
Over three years	**124**	2,528	**124**	1,653
	1,197,568	934,590	**1,181,714**	860,063

Included in both the Group's and the Company's trade receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating approximately RMB10,867,000 (2000: approximately RMB12,763,000). Such balances principally arose from normal trading activities.

Included in the Company's trade receivables are amounts due from subsidiaries of the Company of approximately RMB12,797,000 (2000: approximately RMB25,186,000). Such balances principally arose from normal trading activities.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding, and subsidiaries and associates of Holding aggregating approximately RMB254,156,000 (2000: approximately RMB268,426,000) for the purchase of raw materials and the provision of support services from Holding.

24. SHORT TERM INVESTMENTS

Group and Company

	2001	2000
	RMB'000	RMB'000
Listed equity investments, at market value:		
PRC	**11,797**	—
Other investment (Note)	**100,000**	—
	111,797	—

Note: On 17 March 2001, the Company entered into a designated investment agreement and a supplementary agreement with an investment management company whereby the latter agreed to invest an amount of RMB100,000,000, on behalf of the Company, on short term investment portfolios comprising listed securities, government bonds and various funds. The agreement was for a period of 12 months, from 3 April 2001 to 3 April 2002. In April 2002, the Company fully collected the designated investment amount and its related investment income amounting to RMB100,000,000 and RMB6,000,000 respectively.

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		**Company**	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**651,731**	1,373,060	**527,630**	1,302,321
Time deposits and balances with financial institutions, net of a provision of RMB175 million (2000: RMB175 million)	**670,441**	245,943	**656,647**	218,501
	1,322,172	1,619,003	**1,184,277**	1,520,822
Less: Pledged time deposits for trading facilities	**(13,081)**	(48,947)	**—**	—
Cash and cash equivalents	**1,309,091**	1,570,056	**1,184,277**	1,520,822

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (continued)

The balances with financial institutions included the following overdue fixed deposit principal amounts with five non-bank financial institutions aggregating approximately RMB202 million (2000: approximately RMB206 million).

	Notes	2001 RMB'000	2000 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**26,327**	29,835
China Venturetech Investment Corporation ("China Venturetech")	(i)	**9,954**	9,954
SEG International Trust & Investment Corporation ("SEG")	(ii)	**46,545**	46,545
CITIC Ningbo Inc. ("Ningbo CITIC")	(i)	**45,112**	45,112
Shenzhen Leasing Co. Ltd. ("SLCL")	(iii)	**74,242**	74,242
		202,180	205,688
Provision for overdue deposits		**(175,000)**	(175,000)
		27,180	30,688

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.

Notes:

(i) 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 RMB3.5 million from GITIC and the outstanding deposit principal with GITIC as at 31 December 2001 was reduced to approximately RMB26.3 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 the Company will be able to recover from these three companies.

(ii) 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, SEG is currently in process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed.

(iii) 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. In 2000, an amount of RMB10.6 million (HK$10 million) was repaid by SLCL in accordance with the agreement. The remaining RMB74.2 million (HK$70 million) would be paid by instalments 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. In light of the long term repayment schedule, certain provision thereof has continued to be made by the Company.

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (continued)

Based on the above factors, the directors consider it prudent to maintain the provision of RMB175 million, brought forward from 2000, against these five overdue fixed deposits, and to continue to account for any interest income arising from these deposits on a receipt basis.

26. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**763,330**	676,993	**757,944**	672,642
One to two years	**33,925**	12,343	**33,794**	12,343
Two to three years	**403**	881	**403**	881
Over three years	**8,589**	8,629	**7,152**	8,629
	806,247	698,846	**799,293**	694,495

Included in the Group's and the Company's trade payables are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB33,048,000 (2000: approximately RMB5,684,000). Such balances principally arose from normal trading activities.

27. OTHER PAYABLES AND ACCRUALS

Included in the Group's and the Company's other payables and accruals are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB24,441,000 (2000: approximately RMB3,670,000). Such balances principally arose from normal trading activities.

28. BANK BORROWINGS

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans repayable:				
Within one year	**1,232,664**	2,051,431	**1,231,757**	2,029,477
In the second year	**191,893**	236,952	**190,987**	235,998
In the third to fifth years, inclusive	**600,681**	525,857	**597,959**	522,995
	2,025,238	2,814,240	**2,020,703**	2,788,470
Beyond five years	**44,759**	112,354	**32,968**	98,998
	2,069,997	2,926,594	**2,053,671**	2,887,468
Portion classified as current liabilities	**(1,232,664)**	(2,051,431)	**(1,231,757)**	(2,029,477)
Long term portion	**837,333**	875,163	**821,914**	857,991

All the bank loans are unsecured and bear interest rates ranging from 0.25% to 6.21% per annum (2000: 0.25% to 8.63% per annum). Certain of the Company's bank loans of approximately RMB927,901,000 (2000: approximately RMB913,990,000) are guaranteed by Holding.

29. PROVISIONS

Group and Company

	Pension benefits for early retired employees (Note 6) RMB'000	Housing subsidies (Note 36(ii)) RMB'000	Furnace relining costs (Note) RMB'000	Total RMB'000
At beginning of year:				
As previously reported	156,998	52,858	123,972	333,828
Prior year adjustment	—	—	(123,972)	(123,972)
As restated	156,998	52,858	—	209,856
Additional provision	—	34,887	—	34,887
Amounts utilised during the year	(22,131)	(84,568)	—	(106,699)
At 31 December 2001	134,867	3,177	—	138,044
Portion classified as current liabilities	(73,143)	(3,177)	—	(76,320)
Long term portion	61,724	—	—	61,724

Note: In prior years, furnace relining costs were estimated and charged to profit and loss account over the period between relinings on a straight-line basis.

With the adoption of SSAP 28, there were provisions for furnace relining costs, amounting to approximately RMB123,972,000 and RMB126,109,000, which were respectively recorded as liabilities as at 31 December 2000 and 1999, not qualifying for recognition as provisions under SSAP 28, due to the situations not fulfilling present obligation criteria set out in SSAP 28 as at those balance sheet dates. These liabilities have been retrospectively derecognised by a prior year adjustment, resulting in a decrease of approximately RMB2,137,000 in the Group's and Company's profit for the year ended 31 December 2000 and an increase in both the Group's and Company's net assets of approximately RMB123,972,000 and RMB126,109,000, as at 31 December 2000 and 1999, respectively. Starting from 1 January 2001, furnace relining costs are recognised as and when incurred.

30. SHARE CAPITAL

Group and Company

		2001 RMB'000	2000 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.

31. 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 2000:					
As previously reported	4,864,976	172,532	172,532	196,593	5,406,633
Prior year adjustment:					
SSAP 28 — derecognition of provision for furnace relining costs (Notes 2 and 29)	—	—	—	126,109	126,109
As restated	4,864,976	172,532	172,532	322,702	5,532,742
Net profit attributable to shareholders (as restated)	—	—	—	100,164	100,164
Transfers from/(to) reserves	—	17,402	17,352	(34,754)	—
Proposed final 2000 dividend	—	—	—	(129,106)	(129,106)
At 31 December 2000 (as restated)	4,864,976	189,934	189,884	259,006	5,503,800
At 1 January 2001:					
As previously reported	4,864,976	189,934	189,884	135,034	5,379,828
Prior year adjustment:					
SSAP 28 — derecognition of provision for furnace relining costs (Notes 2 and 29)	—	—	—	123,972	123,972
As restated	4,864,976	189,934	189,884	259,006	5,503,800
Net profit attributable to shareholders	—	—	—	152,281	152,281
Transfers from/(to) reserves	—	20,472	20,420	(40,892)	—
Proposed final 2001 dividend	—	—	—	(129,106)	(129,106)
At 31 December 2001	4,864,976	210,406	210,304	241,289	5,526,975

31. RESERVES (continued)

Company

	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 2000:					
As previously reported	4,864,976	172,532	172,532	188,423	5,398,463
Prior year adjustment:					
SSAP 28 — derecognition of provision for furnace relining costs (Notes 2 and 29)	—	—	—	126,109	126,109
As restated	4,864,976	172,532	172,532	314,532	5,524,572
Net profit attributable to shareholders (as restated)	—	—	—	97,138	97,138
Transfers from/(to) reserves	—	17,301	17,301	(34,602)	—
Proposed final 2000 dividend	—	—	—	(129,106)	(129,106)
At 31 December 2000 (as restated)	4,864,976	189,833	189,833	247,962	5,492,604
At 1 January 2001:					
As previously reported	4,864,976	189,833	189,833	123,990	5,368,632
Prior year adjustment:					
SSAP 28 — derecognition of provision for furnace relining costs (Notes 2 and 29)	—	—	—	123,972	123,972
As restated	4,864,976	189,833	189,833	247,962	5,492,604
Net profit attributable to shareholders	—	—	—	147,403	147,403
Transfers from/(to) reserves	—	20,352	20,352	(40,704)	—
Proposed final 2001 dividend	—	—	—	(129,106)	(129,106)
At 31 December 2001	4,864,976	210,185	210,185	225,555	5,510,901

31. RESERVES (continued)

In accordance with the Company Law of the PRC 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 Company Law of the PRC, 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 approximately RMB20.4 million (2000: approximately RMB17.3 million) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of approximately RMB204 million (2000: approximately RMB173 million as previously reported) 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 approximately RMB120,000 and RMB68,000, respectively.

In accordance with the PRC relevant regulations, the retained profits of the Company for the purpose of profit distribution are 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 2001, the Company had retained profits of approximately RMB20 million (31 December 2000: approximately RMB177 million) after the appropriation of proposed final dividend, 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 2001, in accordance with the Company Law of the PRC, an amount of approximately RMB3.49 billion (2000: 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.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 RMB'000	2000 RMB'000 (Restated)
Profit from operating activities	**391,778**	324,714
Interest income	**(22,308)**	(27,659)
Depreciation	**830,207**	724,621
Unrealised loss on changes in fair values of short term investments	**1,772**	—
Investment income from listed investments	**(2,442)**	—
Pension benefits, housing subsidies and furnace relining provisions movement, net	**(71,812)**	209,856
Loss on disposals of fixed assets	**62,994**	15,801
Provision for impairment of fixed assets, net	**104,887**	20,545
Write-off of construction in progress	**95,834**	—
Provision for impairment of construction in progress, net	**7,000**	67,000
Amortisation of deferred staff cost	**17,600**	16,378
Exchange gains, net	**(797)**	(26)
Decrease in inventories	**244,242**	78,239
Decrease/(increase) in trade receivables	**(262,978)**	197,142
Decrease/(increase) in prepayments, deposits and other receivables	**(561,424)**	181,658
Increase/(decrease) in trade payables	**107,401**	(107,752)
Increase/(decrease) in other payables and accruals	**287,599**	(209,539)
Net cash inflow from operating activities	**1,229,553**	1,490,978

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Bank loans RMB'000	Government subsidies RMB'000
At 1 January 2000	3,399,699	—
Net cash inflow/(outflow) from financing activities, net	(471,499)	58,920
Translation differences	(1,606)	—
At 31 December 2000 and beginning of year	2,926,594	58,920
Net cash inflow/(outflow) from financing activities, net	(855,645)	426,920
Translation differences	(952)	—
At 31 December 2001	2,069,997	485,840

(c) The overdue fixed deposits amounting to approximately RMB202 million as at 31 December 2001 (2000: approximately RMB206 million) were not included as part of the cash and cash equivalents in the consolidated cash flow statement. Further details of the overdue fixed deposits are set out in note 25 to the financial statements.

33. CONTINGENT LIABILITIES

At 31 December 2001, neither the Group, nor the Company had any significant contingent liabilities.

34. CAPITAL COMMITMENTS

The commitments for capital expenditure for buildings, plant and equipment at the balance sheet date were as follows:

Group and Company

	2001 **RMB'000**	2000 RMB'000
Contracted, but not provided for:		
Thin Plate Project	**975,271**	—
2500m^3 Blast Furnace	**4,070**	—
No. 1 Steel Making Plant Converter Furnace Project	**40,981**	37,479
Modification of Train Wheel Rolling System	**158,956**	—
Revamping of High Speed Wire and Rolling Mill Project	**99,704**	—
Wire Rod Mill of No. 2 Steel Making Plant	**491**	—
Billet Continuous Casting Machines	**—**	40,209
Other projects	**768**	—
	1,280,241	77,688
Authorised, but not contracted for:		
Thin Plate Project	**4,044,859**	—
2500m^3 Blast Furnace	**788,678**	—
No. 1 Steel Making Plant Converter Furnace Project	**298,586**	525,401
40000m^3 Oxygenerator	**340,000**	—
Modification of Train Wheel Rolling System	**118,244**	304,480
300m^3 Sintering Machine	**298,000**	—
Coke Dry Quenching Project	**175,000**	175,000
No. 2 Coke Furnace	**172,000**	—
Revamping of High Speed Wire and Rolling Mill Project	**55,016**	170,000
Wire Rod Mill of No. 2 Steel Making Plant	**130,752**	—
Reformation of the Dock and Stock Storage Ground	**109,510**	—
Billet Continuous Casting Machines	**—**	39,492
Other projects	**78,040**	62,810
	6,608,685	1,277,183
Total capital commitments	**7,888,926**	1,354,871

35. 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 staff who leave the Company cannot be used to reduce the Company's ongoing contributions.

However, due to gradual rationalisation by the government of its pension schemes, starting from 1 January 2000, the pension benefit obligations payable to early retired employees prior to joining the government-organised pension scheme upon normal retirement would be borne by the Company. Further details on pension benefit obligations payable to early retired employees are set out in note 6 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.

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

Effects on net profit and the shareholders' equity arising from the material differences between the consolidated financial statements prepared under PRC and Hong Kong accounting standards are summarised as follows:

Net profit	Notes	**2001** **RMB'000**	2000 RMB'000
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards (2000 net profit is restated)		**152,281**	100,164
Add back:			
Amortisation of deferred staff cost	(i)	**17,600**	—
Staff housing subsidies to:			
Current employees	(ii)	**34,887**	34,887
Retired employees	(ii)	**—**	38,843
Furnace relining costs incurred	(iii)	**9,119**	13,985
Deduct:			
Provision for furnace relining costs	(iii)	**(5,491)**	(11,848)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		**208,396**	176,031

36. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

Shareholders' equity	Notes	**2001** **RMB'000**	2000 RMB'000
Shareholders' equity under Hong Kong accounting standards (2000 shareholders' equity is restated)		**12,111,381**	12,088,206
Add back:			
Amortisation of deferred staff cost	(i)	**17,600**	—
Staff housing subsidies charged to profit and loss account:			
Current employees	(ii)	**69,774**	34,887
Retired employees	(ii)	**38,843**	38,843
Deduct:			
Unamortised deferred staff cost charged to opening retained earnings	(i)	**(105,600)**	—
Staff housing subsidies charged to retained earnings	(ii)	**(105,440)**	(20,872)
Provision for furnace relining costs	(iii)	**(120,344)**	(123,972)
Proposed final dividend	(iv)	**(129,106)**	(129,106)
Deferred credit	(v)	**(1,373,631)**	(1,373,631)
Shareholders' equity under PRC accounting standards		**10,403,477**	10,514,355

(i) Deferred staff cost

From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain new staff quarters for its employees. Those staff quarters were fully delivered for use during 1997. From January 1997, the Company commenced the sale of staff quarters to its employees in accordance with the Maanshan Municipal Regulation (the "Regulation") governing the sale of public housing. The Regulation sets out the rules and conditions governing the sale and purchase of staff quarters in Maanshan, including the quantum of price discount given to the Company's employees. Most of the staff quarters have been sold at preferential prices and a loss of approximately RMB163.8 million was incurred.

36. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

(i) Deferred staff cost (continued)

As at 31 December 2000 or before, under Hong Kong and PRC accounting standards, the relevant loss was recorded as deferred staff cost and amortised over the estimated remaining average service life of the relevant employees of 10 years, commencing from the dates of sale of staff quarters. As at 31 December 2000, the accumulated amortisation thereof was approximately RMB58.2 million and the deferred staff cost net of amortisation was approximately RMB105.6 million.

Under Hong Kong accounting standards, the current year treatment still follows the aforesaid accounting policies and the required amortisation of approximately RMB17.6 million was charged to the profit and loss account during the year.

Under PRC accounting standards, starting from 1 January 2001, the Company implemented the rules of directive No. 2001(5) issued by the Ministry of Finance in January 2001 to fully charge the unamortised deferred staff cost of approximately RMB105.6 million as brought forward from 31 December 2000 to the opening retained earnings account as at 1 January 2001 directly, and amortisation thereof is no longer applicable.

(ii) Staff housing subsidies

Pursuant to an 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 estimated that the aggregate subsidies payable to all eligible current and retired employees to be approximately RMB349 million and RMB38.8 million, respectively. The subsidies payable to current 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 approximately RMB34.9 million (2000: approximately RMB34.9 million) have been accrued and charged to the profit and loss account during the year. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2001 was approximately RMB69.8 million (31 December 2000: approximately RMB34.9 million).

36. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

(ii) Staff housing subsidies (continued)

The aggregate subsidies of approximately RMB38.8 million payable to all eligible retired employees during the future years have already been fully charged to the comparative profit and loss account during the year ended 31 December 2000 since such subsidies are related to past services of eligible retired employees. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2001 was approximately RMB38.8 million (31 December 2000: approximately RMB38.8 million).

Under PRC accounting standards, the subsidies paid to eligible current and retired employees aggregating approximately RMB84.5 million (2000: approximately RMB20.9 million) during the year have been charged directly to the retained earnings account. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2001 was approximately RMB105.4 million (31 December 2000: approximately RMB20.9 million). No accrual for the subsidies payable to current employees or retired employees has been made in the financial statements.

(iii) Furnace relining costs

Under PRC accounting standards, provision for furnace relining costs has been accrued on a straight-line basis over the period between relinings, and the resulting provision of approximately RMB5.5 million (2000: approximately RMB11.8 million) has been charged to the profit and loss account during the year. As at 31 December 2001, the balance of provision thereof was approximately RMB120.3 million (31 December 2000: approximately RMB124 million).

Under SSAP 28, as disclosed in note 29 to the financial statements, furnace relining costs is recognised as and when incurred, and the Company no longer accrues for the provision for furnace relining costs on a straight-line basis. Provision for furnace relining costs during the previous year of approximately RMB11.8 million and the balance thereof of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment, whereas, the relining costs incurred during the year amounting to approximately RMB9.1 million (2000: approximately RMB14 million) has been charged to the profit and loss account.

36. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

(iv) Proposed final dividend

Under PRC accounting standards, proposed final dividends, which are declared and approved after the balance sheet date, are recognised as a liability at the balance sheet date.

Under SSAP 9 (Revised), proposed final dividends, which are not declared and approved until after the balance sheet date, are no longer recognised as a liability at the balance sheet date, but disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. Further details are included in note 14 to the financial statements.

(v) Deferred credit

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.

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.

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, and no material gain or loss has resulted from the Renminbi exchange rate unification.

37. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group, Holding, and the subsidiaries and associates of Holding during the year:

	2001 **RMB'000**	2000 RMB'000
Purchases of iron ore and limestone	**742,249**	673,141
Fees received for the supply of utilities, services and other consumable goods	**(35,328)**	(37,071)
Fees paid for welfare, support services and other services	**249,866**	233,643
Purchases of fixed assets and construction services	**80,204**	81,914
Sale of steel products	**(24,656)**	(18,480)

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 2001 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 2001 between the Company and Holding.

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

In the opinion of the directors the above transactions were carried out in the normal course of business of the Group.

Further details on balances with Holding, and the subsidiaries and associates of Holding are set out in notes 22 to 23 and notes 26 to 27 to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2002.