

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### I. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the "Company") was incorporated in Maanshan City, Anhui Province, 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 (the "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. In 1998, it further changed its name to Magang (Group) Holding Company Limited (the "Holding").

The Company is principally engaged in the manufacture and sale of iron and steel products.

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

#### 1. Summary of significant accounting policies

The consolidated financial statements of the Company and its subsidiaries (the "Group") are prepared in conformity with "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises", which is also the basis of the following accounting policies adopted by the Company and the Group.

During late 2000 and early 2001, the Ministry of Finance issued out eight specific standards, namely Debt Restructuring (Revised), Non-monetary Transactions (Revised), Cash Flow Statements (Revised), Investments (Revised), Changes in Accounting Policies and Accounting Estimates, and Corrections of Accounting Errors (Revised), Borrowing Costs, Intangible Assets and Leases. These standards, together with "Accounting Regulations for Business Enterprises" and its supplementary provisions, have had no significant effect on the Group's state of affairs and operating results for the year 2001.

#### 2. Financial year

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

#### 3. Reporting currency

Except for overseas subsidiaries which use their respective local currencies for recording purposes, Renminbi is used as the Group's reporting currency.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 4. Basis of accounting and value determination

The financial statements of 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 ruling at the balance sheet date as quoted by the People's Bank of China. The consequential exchange difference ruling with the exception of foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets is capitalised during the construction period, are dealt with as financial expenses 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. All 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 Group is based on the rules of directive No. 1995 (11) "Provisional Regulations for Consolidated Financial Statements" issued by the Ministry of Finance. Enterprises of which the Group has over 50% of the equity interest and under the control of the Group 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.

#### 7. Cash equivalents

Cash equivalents are short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired and were subject to an insignificant risk of changes in value.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 8. Short term investments

The cost of an investment is the initial price paid on acquisition. However, cash dividends which have been declared but unpaid at the time of acquisition, or unpaid interest on debt investments which have been accrued and are therefore included in the price paid, should be accounted for separately as receivable items. Cash dividends or interest on short term investments should be offset against the carrying amount of investment upon receipt. On disposal of an investment, the difference between the weighted average cost of investment less impairment provision, unpaid dividends and interests, and the sales proceeds actually received should be recognised as an investment gain or loss in the current period.

Short term investments are stated at the lower of cost and market value at the end of year. Provision for impairment in short term investments is made for any reduction of cost to market value, and charged to the profit and loss account in the period in which they arise.

#### 9. Provision for doubtful debts

Recognition criteria for doubtful debts:

- (i) The irrecoverable amount of a bankrupt or deceased debtor who has insufficient assets or estate to repay the debt;
- (ii) The irrecoverable amount, demonstrated by sufficient evidence, of a debtor who is proven to be unable to comply with the repayment obligation after the debt fall due.

Provision for doubtful debt is made using the provision method and is offset against the corresponding trade and other receivables when those doubtful debts are approved.

The Group applies the provision method in assessing doubtful debts provision for its trade and other receivables. Full provision is made for those trade and other receivables that have been specifically identified as irrecoverable, while general provision is made for the remaining balance after taking into account the ageing analysis and the repayment history of relevant debtors. The details of general provision are as follows:

Ageing	Percentage of doubtful debts provision (Net of post balance sheet date settlement)	
	Trade receivables	Other receivables
1 to 6 months	—	—
7 to 12 months	10%	—
13 to 24 months	25%	40%
25 to 36 months	50%	60%
over 36 months	100%	100%

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 10. Inventories

Inventories include raw materials, work in progress, finished goods and spare parts. Inventories are stated at the cost of purchase. Inventories, other than spare parts, are determined on the weighted average basis and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of production overheads. Spare parts are charged to the profit and loss account as and when incurred.

Provision is made for those inventories which cannot be recovered due to them being damaged, wholly or partly obsolete, or having their selling prices lower than cost. Provision is determined as the excess of carrying value of the inventories over its net realisable value on an individual basis.

#### 11. Long term investments

Long term investments include long term equity investments and long term debt investments.

Long term equity investments are stated at initial price paid on acquisition, estimated value or price determined in agreement. The equity method should be used to account for long term equity investments when the Company has control, joint control or has significant influence over the investee enterprises, while cost method should be used for all other equity investments.

When a long term equity investment is accounted for using the equity method, the difference between the investment cost and the Company's share of the investee's shareholders' funds is accounted for as equity investment difference and should be amortised over the investment period, if any, as stipulated in the investment contract. If the investment period is not specified in the contract, debit balance should be amortised over a period of not more than 10 years while credit balance should be amortised over a period of not less than 10 years.

The initial cost of a debt investment is the price paid on acquisition, including incidental expenses such as taxes and handling charges. However, the unpaid interest on debt investment which has been accrued and is therefore included in the price paid, should be accounted for separately as a receivable item.

The difference between the initial cost of long term investments in bonds, as reduced by incidental expenses and interest receivable, and the par value of bonds should be treated as premium or discount on investment in bonds. Premium or discount on investment in bonds should be amortised, using straight line method, over the period between the acquisition date and the maturity date in which the relevant bond interest is recognised.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 11. Long term investments (continued)

The incidental expenses included in the initial cost of debt investment, if significant, may be amortised over the period from the acquisition date to the maturity date in which the related bond interest is recognised and recorded in the profit and loss account; otherwise, it may be written off in full when the bond is purchased and charged to the profit and loss account.

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 operating conditions of the investee enterprise, the difference between the recoverable amount and the carrying amount of the investment should be recognised as impairment of long term investment and an investment loss in the current year.

#### 12. Fixed assets and depreciation

Fixed assets represent buildings and structure, plant and machinery, transportation vehicles, other equipments used in operating activities with useful life exceeding 1 year and other equipment used in non-operating activities, with unit cost over RMB2,000 and useful life of more than 2 years. Fixed asset is stated at the cost of acquisition. Interest and exchange differences arising from specific borrowings that are incurred in bringing the fixed asset to its working condition are capitalised. Subsequent overhaul and technical improvement costs incurred that provide future economic benefits to the fixed assets are capitalised as fixed assets. Except for furnace relining cost which is amortised, using straight line method, over the period between relinings, 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. The gain or loss on disposal or retirement of fixed assets is recognised as non-operating income or expense in the period of occurrence.

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 are as follows:

<u>Categories</u>	<u>Estimated useful life</u>	<u>Annual depreciation rate</u>
Buildings and structure	16 to 50 years	2%–6.25%
Plant, machinery and equipment	7 to 20 years	5%–14.29%
Transportation vehicles and equipment	7 to 11 years	9.09%–14.29%

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 12. Fixed assets and depreciation (continued)

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 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 condition of these assets when they were acquired by the Group.

The carrying amounts of the Group's fixed assets are reviewed periodically. If the recoverable amount of the fixed asset is lower than the carrying amount of the fixed asset as a result of a continuing decline in market value, change in technical environment, damages in fixed asset or persistently idle in fixed asset, the difference between the recoverable amount and the carrying amount of the fixed asset should be recognised as an impairment loss. Impairment provision should be made on an individual basis.

When the value of a fixed asset for which an impairment loss has been recognised previously recovers, the recovery should be recognised to the extent of the amount of the impairment loss previously recognised.

No depreciation was charged to fixed asset which has already been fully provided for impairment in value.

#### 13. Construction in progress

Construction in progress represents the costs incurred in the construction and installation of fixed assets in bringing construction from its preparation stage to its working condition. Cost comprises direct materials, direct labour, equipment cost, installation and management fee, as well as interest charges and exchange differences on the related borrowed funds during the periods of construction and installation. Interest charges and exchange differences arising from funds borrowed for construction in progress are capitalised when the fixed assets are not substantially ready for their intended use and charged as financial expenses when they are subsequently ready. Construction in progress is transferred to fixed assets when completed and ready for use.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 13. Construction in progress (continued)

Construction in progress of the Group is reviewed periodically. Provision for impairment should be made for construction in progress if one of the following conditions exists:

- (i) The projects are suspended for a long time and will not resume construction within three years;
- (ii) The projects are of functional and technological obsolescence and the economic benefits arising from such projects are extremely uncertain, and hence causing their recoverable amounts to be lower than their carrying values.

The difference between the recoverable amount and the carrying value of these construction in progress is recognised as impairment loss. The provision for impairment of construction in progress is calculated on an individual basis.

#### 14. Borrowing costs

Interest incurred in connection with specific borrowings borrowed for the acquisition or construction of a fixed asset, and amortisation of discounts or premiums relating to and exchange differences arising from those specific borrowings, should be capitalised if expenditures for the assets are being incurred, borrowing costs are being incurred and acquisition and construction that are necessary to prepare the asset for its intended use have been commenced. The capitalisation amount is determined based on the weighted average amount of the accumulated expenditure incurred in the accounting period multiplied by the capitalisation rate. Capitalisation of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption period is more than three months. These costs should be recognised as expenses for the current period until the acquisition or construction is resumed. Capitalisation of borrowing costs should cease when the fixed asset being acquired or constructed has reached its expected usable condition. Borrowing costs incurred thereafter should be recognised as an expense in the period in which they are incurred.

Interests incurred in connection with, amortisation of discounts or premiums relating to, and exchange differences arising from other borrowings should be recognised as an expense in the period in which they are incurred.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 15. Intangible assets

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.

The Group should review the carrying amount of its intangible assets periodically. Any excess of the carrying amount of the asset over the recoverable amount is recognised as impairment provision.

#### 16. Housing subsidies

Pursuant to an implemented staff housing subsidies scheme, one-off lump sum housing subsidies for current and retired employees were charged to retained earnings upon payment.

#### 17. Pension benefits

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

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.

#### 18. 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. According to the rules of directive No. 2001(5) issued by the Ministry of Finance in January 2001, the unamortised deferred staff cost as at 1 January 2001 has been fully charged to opening retained profits.

#### 19. Specific payables

Government subsidies for specific construction projects are recognised as specific payables on actual receipt of the subsidies. Upon completion of the subsidised construction project, the cost incurred is recognised as fixed asset and the utilised portion of specific payables thereof is transferred to capital reserve.



## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

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

#### 20. 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 revenue and costs can be measured reliably.

Principal operating income represents the invoiced value of goods sold, net of discounts and returns, and excludes value-added tax ("VAT").

Investment income is recognised when investee enterprise declare the distribution of cash dividends or profit.

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

#### 21. Income tax

Income tax is provided using the tax-effect accounting method. Deferred tax is provided, using the liability method, on all significant timing differences. Income tax charged to the profit and loss account is the sum of income tax payable for the year and the effect of timing difference on income tax.

#### 22. Related parties

If a party has the power to, directly or indirectly, control, jointly control or exercise significant influence over another party; or if two or more parties are subject to control from the same party, they are regarded as related parties. Related parties may be individuals or corporate entities.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### III. TAX

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

**1. 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.

**2. Business tax**

Payable based on 5% of the service income.

**3. City construction and maintenance tax**

Payable based on 7% of the net VAT and business tax to be paid.

**4. Education tax**

Payable based on 3% of the net VAT and business tax to be paid.

**5. Real estate tax**

Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.

**6. 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 subsidiary 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 overseas subsidiary has been made as there were no assessable profits during the year.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### IV. SUBSIDIARIES

Name of subsidiaries	Place of incorporation/ registration	Principal activities	Registered and paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
					directly %	indirectly %
Ma Steel International Trade and Economic Corporation	Anhui, PRC	Import of machinery and raw materials and export of steel products	RMB50,000,000	50,000,000	100	—
Design & Research Institute of Maanshan Iron & Steel Company Limited (Note 1)	Anhui, PRC	Planning and design of metallurgical, construction and environmental protection projects	RMB8,000,000	7,500,000	93.75	6.25
MG Trading and Development GmbH	Germany	Trading of equipment, iron and steel products and provision of technology services	DM300,000	1,573,766	100	—
Ningbo Chang Yi Company Limited (Note 2)	Zhejiang, PRC	Trading of steel and pig iron products	RMB1,000,000	200,000	20	80
Shanghai Zhong Ma Company Limited	Shanghai, PRC	Trading of steel and pig iron products	RMB1,000,000	900,000	90	10
Maanshan Iron & Steel (HK) Limited	Hong Kong, PRC	Trading of steel and pig iron products	HK\$4,800,000	4,101,688	80	20
<b>Total</b>				<b>64,275,454</b>		

Note 1: Newly incorporated during the year

Note 2: 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.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS

#### 1. Cash and balances with financial institutions

Note	2001			2000		
	Original Currency	Exchange Rate	RMB	Original Currency	Exchange Rate	RMB
Cash on hand	RMB72,302	1.00	72,302	RMB97,282	1.00	97,282
Balances with financial institutions	2					
	RMB1,093,362,992	1.00	1,093,362,992	RMB1,276,731,779	1.00	1,276,731,779
	HK\$116,330,237	1.0613	123,266,526	HK\$150,746,060	1.0606	159,881,271
	US\$4,934,124 (Note)	8.2766	40,837,776	US\$21,841,016	8.2781	180,802,109
	DM561,165	3.5352	1,984,167	DM372,506	4.0003	1,490,136
	JPY994,343,605	0.063	62,648,619	—	N/A	—
<b>Total</b>			<b>1,322,172,382</b>			<b>1,619,002,577</b>

Note: Fixed deposit of US\$1,000,000 has been pledged to the Hongkong and Shanghai Banking Corporation Limited and fixed deposits of US\$580,485 have been pledged to the Bank of China, Maanshan Branch and the Industrial and Commercial Bank of China, Maanshan Branch as securities for the provision of banking facilities to Maanshan Iron & Steel (HK) Limited and Ma Steel International Trade and Economic Corporation respectively.

#### 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 RMB202 million (2000: RMB206 million).

	2001 RMB'000	2000 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	26,327	29,835
China Venturetech Investment Corporation ("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	74,242
	<b>202,180</b>	205,688
Provision for overdue deposits	<b>(175,000)</b>	(175,000)
	<b>27,180</b>	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 to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 2. Balances with financial institutions (continued)

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 RMB3.51 million from GITIC and the outstanding deposit principal with GITIC as at 31 December 2001 was reduced to approximately RMB26.33 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 in December 1998 and has obtained court judgements against SEG on 19 March 1999 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.

On 16 March 2000, the Company reached an agreement with SLCL for the repayment of an amount of RMB84.85 million (HK\$80 million) over five years, in settlement of the deposit and accrued interest. In 2000, repayment of approximately RMB10.61 million (HK\$10 million) has been received. The remaining RMB74.24 million (HK\$70 million) would be repaid by installments of RMB24.39 million (HK\$23 million) on both 31 December 2003 and 31 December 2004, and RMB25.46 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.

Based on the above factors, the directors 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 receipts basis.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 3. Short term investments

Items	2001		2000	
	Investment cost RMB	Provision for impairment RMB	Investment cost RMB	Provision for impairment RMB
Designated investment	100,000,000	(i) —	—	—
Equity investment	13,568,593	(ii) 1,771,790	—	—
<b>Total</b>	<b>113,568,593</b>	<b>1,771,790</b>	—	—

- (i) On 17 March 2001, the Company entered into a designated investment agreement and a supplementary agreement with Shanghai Anshen Investment & Administrative Co., Ltd. ("Anshen") whereby Anshen 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 operation is under the supervision of the Company's personnel. The agreement was for a period of 12 months, from 3 April 2001 to 3 April 2002. In April 2002, the Company has fully collected the designated investment amount and its related investment income amounting to RMB100,000,000 and RMB6,000,000 respectively.

(ii) Name of enterprise	Number of shares held	Investment cost RMB	Closing	Market price
			market unit price RMB	at year end RMB
China Petroleum & Chemical Corporation	1,800,000	7,596,000	3.45	6,210,000
Baoshan Iron & Steel Company Limited	1,428,850	5,972,593	3.91	5,586,803
<b>Total</b>		<b>13,568,593</b>		<b>11,796,803</b>

The year end market prices of the shares were the closing market prices as at 31 December 2001 as disclosed in "China Securities Journal".

There is no material restriction on realisation of investments.

The movement of provision for impairment of short term investments for the year 2001 is disclosed in the supplementary information of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 4. Bills receivable

	2001 RMB	2000 RMB
Bank bills receivable	878,498,188	462,651,346
Commercial bills receivable	—	5,000,000
<b>Total</b>	<b>878,498,188</b>	<b>467,651,346</b>

The increase in Group's bills receivable by 88% is attributable to the increase in sales and the receipt of more bank bills.

As at 31 December 2001 and 31 December 2000, the Group did not have any pledged bills receivable.

#### 5. Trade receivables

Trade receivables ageing analysis:

	Group					
	2001			2000		
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	313,544,939	41	(38,069,444)	377,640,618	46	(3,323,137)
One to two years	32,924,310	4	(14,736,178)	77,331,995	9	(21,917,968)
Two to three years	66,139,368	9	(40,857,417)	99,030,860	12	(64,351,430)
Over three years	354,518,588	46	(354,394,509)	274,443,273	33	(271,915,013)
<b>Total</b>	<b>767,127,205</b>	<b>100</b>	<b>(448,057,548)</b>	<b>828,446,746</b>	<b>100</b>	<b>(361,507,548)</b>

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 5. Trade receivables (continued)

	Company					
	2001			2000		
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	286,510,072	39	(26,588,816)	340,846,647	44	(3,056,510)
One to two years	32,924,310	5	(14,736,178)	74,730,633	10	(21,267,627)
Two to three years	66,139,368	9	(40,857,417)	94,482,988	12	(62,077,494)
Over three years	348,699,216	47	(348,575,137)	259,459,024	34	(257,805,917)
<b>Total</b>	<b>734,272,966</b>	<b>100</b>	<b>(430,757,548)</b>	<b>769,519,292</b>	<b>100</b>	<b>(344,207,548)</b>

The decrease in the Group's trade receivables, net of provision by 32% is mainly attributable to the increase in collection ability and the receipt of more bank bills.

As at 31 December 2001, the five largest trade receivables amounted to RMB306,622,794, which accounted for 40% of total trade receivables.

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 5% or above of the Company's equity interest.

Included in the Company's trade receivables is an amount due from a subsidiary of RMB12.8 million (2000: RMB25.19 million) which principally arose from normal trading activities.

The movement of doubtful debts provision for trade receivables for the year 2001 is disclosed in the supplementary information of the financial statements.



## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 6. Other receivables

Other receivables ageing analysis:

	Group					
	2001			2000		
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	582,523,115	91	(6,466,984)	364,061,340	85	—
One to two years	3,519,243	1	(3,168,024)	5,063,472	1	(2,431,661)
Two to three years	1,241,290	—	(1,113,442)	5,157,498	1	(3,188,622)
Over three years	49,474,298	8	(49,474,298)	53,315,105	13	(45,602,465)
<b>Total</b>	<b>636,757,946</b>	<b>100</b>	<b>(60,222,748)</b>	<b>427,597,415</b>	<b>100</b>	<b>(51,222,748)</b>

  

	Company					
	2001			2000		
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	294,293,553	85	(6,466,984)	282,782,412	82	—
One to two years	3,519,243	1	(3,168,024)	5,021,401	1	(2,431,661)
Two to three years	1,240,790	—	(1,113,442)	5,157,498	1	(3,188,622)
Over three years	49,474,298	14	(49,474,298)	51,846,430	16	(45,602,465)
<b>Total</b>	<b>348,527,884</b>	<b>100</b>	<b>(60,222,748)</b>	<b>344,807,741</b>	<b>100</b>	<b>(51,222,748)</b>

The increase in the Group's other receivables, net of provision by 53%, is mainly attributable to the increase in purchases of imported raw materials.

As at 31 December 2001, the five largest other receivables amounted to RMB327,058,714, which is accounted for 51% of total other receivables.

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 5% or above of the Company's equity interest.

The movement of doubtful debts provision for other receivables for the year 2001 is disclosed in the supplementary information of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 7. Prepayments

Prepayments ageing analysis:

	2001		2000	
	Balance RMB	Ratio %	Balance RMB	Ratio %
Within one year	461,870,051	99	109,693,694	97
One to two years	4,400,818	1	1,692,800	2
Two to three years	614,447	—	392,180	—
Over three years	—	—	1,583,468	1
<b>Total</b>	<b>466,885,316</b>	<b>100</b>	<b>113,362,142</b>	<b>100</b>

The increase in the Group's prepayments by 312% is mainly attributable to the increase in prepayments for the purchase of raw materials and construction materials for fixed assets.

Prepayments are aged over one year as certain construction contracts have not yet been settled.

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 5% or above of the Company's equity interest.

#### 8. Inventories

	2001		2000	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	623,146,667	—	706,334,733	—
Work in progress	403,306,453	(3,000,000)	428,979,866	(3,000,000)
Finished goods	141,452,756	(4,150,000)	189,921,867	(4,150,000)
Spare parts	681,241,874	(66,913,041)	768,153,917	(66,913,041)
<b>Total</b>	<b>1,849,147,750</b>	<b>(74,063,041)</b>	<b>2,093,390,383</b>	<b>(74,063,041)</b>

For inventories with no contracted selling price, the net realisable value is determined based on average selling price less estimated cost of completion and direct selling expenses. For inventories with contracted selling price, the net realisable value is determined based on the contracted selling price.

The movement of provision for inventories for the year 2001 is disclosed in the supplementary information of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 9. Long term debt investments, current portion

The decrease in current portion of the Group's long term debt investments by 63% is attributable to the retrieval of debt investments.

#### 10. Long term investments

Items	Group			
	At 1	Additions	Decrease	At 31
	January	during the	during the	December
	2001	year	year	2001
	RMB	RMB	RMB	RMB
Long term equity investments				
Equity investments (ii)	11,389,628	1,000,000	(5,972,593)	6,417,035
Long term debt investments				
Other debt investments (iii)	24,218,870	—	(2,660,000)	21,558,870
<b>Total</b>	<b>35,608,498</b>	<b>1,000,000</b>	<b>(8,632,593)</b>	<b>27,975,905</b>

Items	Company			
	At 1	Additions	Decrease	At 31
	January	during the	during the	December
	2001	year	year	2001
	RMB	RMB	RMB	RMB
Long term equity investments				
Interests in subsidiaries (i)	262,405,377	140,310,951	—	402,716,328
Equity investments (ii)	11,389,628	1,000,000	(5,972,593)	6,417,035
	273,795,005	141,310,951	(5,972,593)	409,133,363
Long term debt investments				
Other debt investments (iii)	24,218,870	—	(2,660,000)	21,558,870
<b>Total</b>	<b>298,013,875</b>	<b>141,310,951</b>	<b>(8,632,593)</b>	<b>430,692,233</b>

The increase in the Company's long term investments by 45% is mainly attributable to the increase in amounts due from subsidiaries.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 10. Long term investments (continued)

##### (i) Interests in subsidiaries

	Company	
	2001 RMB	2000 RMB
Unlisted investments, at cost	64,275,454	58,775,454
Amounts due from subsidiaries	338,440,874	203,629,923
<b>Total</b>	<b>402,716,328</b>	<b>262,405,377</b>

##### (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
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
Others				1,050,000
<b>Total</b>				<b>6,417,035</b>

##### (iii) Other debt investments

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the year RMB	Accumulated interest received/receivable RMB	Carrying value RMB
安徽省電子開發總公司	21,558,870	Nil	2002-2009	—	—	21,558,870

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 11. Fixed assets

	Buildings and structure RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
<b>Cost</b>				
At 1 January 2001	5,893,690,335	8,092,225,362	457,707,059	14,443,622,756
Additions	9,927,202	11,322,700	17,700,700	38,950,602
Transferred from construction in progress (note 12)	274,497,490	363,746,065	16,240,274	654,483,829
Reclassifications	449,504,702	(449,457,975)	(46,727)	—
Disposals	(67,596,127)	(90,696,883)	(14,577,366)	(172,870,376)
<b>At 31 December 2001</b>	<b>6,560,023,602</b>	<b>7,927,139,269</b>	<b>477,023,940</b>	<b>14,964,186,811</b>
<b>Accumulated depreciation</b>				
At 1 January 2001	1,228,383,001	2,590,764,245	259,523,030	4,078,670,276
Provided during the year	231,244,314	540,476,287	38,969,538	810,690,139
Reclassifications	77,509,379	(77,269,231)	(240,148)	—
Disposals	(24,425,769)	(61,515,326)	(12,504,784)	(98,445,879)
<b>At 31 December 2001</b>	<b>1,512,710,925</b>	<b>2,992,455,975</b>	<b>285,747,636</b>	<b>4,790,914,536</b>
<b>Net book value</b>				
At 31 December 2001				
Net book value	5,047,312,677	4,934,683,294	191,276,304	10,173,272,275
Less: Impairment	(61,564,391)	(63,867,021)	—	(125,431,412)
<b>Net book value, net of impairment</b>	<b>4,985,748,286</b>	<b>4,870,816,273</b>	<b>191,276,304</b>	<b>10,047,840,863</b>
<b>At 31 December 2000</b>				
Net book value	4,665,307,334	5,501,461,117	198,184,029	10,364,952,480
Less: Impairment	(14,472,623)	(6,072,274)	—	(20,544,897)
<b>Net book value, net of impairment</b>	<b>4,650,834,711</b>	<b>5,495,388,843</b>	<b>198,184,029</b>	<b>10,344,407,583</b>

The movement of provision for impairment of fixed assets for the year 2001 is disclosed in the supplementary information of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2001:

Name of project	Budgeted cost RMB'000	At 1 January 2001 RMB	Additions during the year RMB	Transferred to fixed assets (Note 11) RMB	Transferred to intangible assets RMB	CIP project written off RMB	Provision reversed/ (made) RMB	31 December 2001 RMB	At 2001 RMB	Source of fund	Percentage of completion %
1. High Temperature Brick Factory Improvement Project	45,000	72,834,094	—	—	—	(95,834,094)	23,000,000	—	—	Internally generated funds	N/A
2. Coke Furnace System Project	449,410	62,571,974	—	(46,287,402)	—	—	—	16,284,572	—	Internally generated funds	N/A
3. Cai Nan Station & Bei Huan Transportation Line	88,430	33,874,667	—	—	—	—	(30,000,000)	3,874,667	—	Internally generated funds	N/A
4. No. 1 Steel Making Plant Converter Furnace Project	740,000	192,436,520	253,673,176	(329,970,000)	—	—	—	116,139,696	—	Internally generated funds and loan from financial institution	60
<i>Including interest capitalised</i>		2,428,800	13,384,480	(10,946,320)	—	—	—	4,866,960	—		
5. 220t/h Boiler Project	54,000	5,091,250	49,264,839	—	—	—	—	54,356,089	—	Internally generated funds	100
6. Reconstruction Project of 2*8m <sup>2</sup> Palletizing Shaft Furnace	52,200	—	52,370,786	(52,370,786)	—	—	—	—	—	Internally generated funds	100
7. Billet Continuous Casting Machines	140,000	1,900,000	127,929,966	(129,829,966)	—	—	—	—	—	Internally generated funds	100
8. Other projects		155,569,786	179,739,417	(96,025,675)	(114,778,733)	—	—	124,504,795	—	Internally generated funds and loan from financial institution	N/A
<i>Including interest capitalised</i>		4,612,206	—	(4,612,206)	—	—	—	—	—		
<b>Total</b>		<b>524,278,291</b>	<b>662,978,184</b>	<b>(654,483,829)</b>	<b>(114,778,733)</b>	<b>(95,834,094)</b>	<b>(7,000,000)</b>	<b>315,159,819</b>			

The decrease in the Group's construction in progress by 40% is attributable to the transfers to fixed assets and intangible assets.

The capitalisation rates of interests are 5.85%–6.21% per annum.

The movement of provision for impairment of construction in progress for the year 2001 is disclosed in the supplementary information of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 13. Intangible assets

	Original amount RMB	At 1 January 2001 RMB	Additions during the year RMB	Amortisation during the year RMB	Accumulated amortisation RMB	At 31 December 2001 RMB	Remaining year of amortisation
Land use rights	1,028,251,518	780,409,605	119,502,067	(19,517,638)	(147,857,484)	880,394,034	41 to 50 years

Current year addition of intangible assets is mainly attributable to the transfer from construction in progress.

#### 14. Long term deferred expenditure

	At 1 January 2001 RMB	Additions during the year RMB	Amortisation during the year RMB	Loss from sales of staff quarters charged to opening retained profits RMB	At 31 December 2001 RMB
Deferred staff cost	105,600,289	—	—	(105,600,289)	—

The decrease in long term deferred expenditure is attributable to the charge of deferred staff cost to opening retained profits.

As at 1 January 2001, the deferred staff cost of RMB106 million related to the loss of approximately RMB164 million in 1997 resulted from the disposal of staff quarters to the Company's employees at preferential prices, net of amortisation. In 1 January 2001, the Company implemented the rules of directive No.2001(5) issued by Ministry of Finance and the unamortised deferred staff cost has been charged to the opening retained profits.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 15. Short term loans

Type	Annual interest rate %	Maturity date	2001 RMB	2000 RMB
Guaranteed loans	N/A	—	—	80,000,000
Unsecured loans	5.265 – 5.850	January 2002 – December 2002	985,930,885	1,318,110,315
Total			985,930,885	1,398,110,315

As at 31 December 2001 and 31 December 2000, all of the Group's guaranteed loans were guaranteed by Holding.

#### 16. Trade payables

The ageing of trade payables is within three years.

Except for those as stated in Note VI point 6, the balance of trade payables does not contain any trade payables to a shareholder who holds 5% or above of the Company's equity interest.

#### 17. Deposits received

The increase in the Group's deposits received by 157% is mainly attributable to the increase in sales deposits received.

The ageing of deposits received is within one year.

Except for those as stated in Note VI point 6, the balance of deposits received does not contain any deposits received from a shareholder who holds 5% or above of the Company's equity interest.

#### 18. Wages payable

The decrease in the Group's wages payable by 99% is mainly attributable to the payment of 2000 bonus in current year.

Current year balance represents performance related wages.



## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 19. Tax payable

	2001 RMB	2000 RMB
Income tax	(9,704,786)	(22,972,680)
VAT	268,581,097	289,367,344
Business tax	111,552	(3,278,001)
Other taxes	561,030	(4,118,547)
<b>Total</b>	<b>259,548,893</b>	<b>258,998,116</b>

The basis of calculations and the applicable tax rates are disclosed in Appendix III of the financial statements.

The movement of VAT for the year 2001 is disclosed in the supplementary information of the financial statements.

#### 20. Other taxes payable

	2001 RMB	2000 RMB
Education surcharge	319,389	(1,108,367)
Flood prevention fund	16,515,129	11,642,030
Other taxes	25,801	544
<b>Total</b>	<b>16,860,319</b>	<b>10,534,207</b>

The increase in the Group's other tax payable by 60% is mainly attributable to the increase in flood prevention fund.

The basis of calculations and the applicable tax rates are disclosed in Appendix III of the financial statements.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 21. Other payables

	2001 RMB	2000 RMB
Labour costs	27,375,779	35,107,300
Construction fee	125,008,384	130,420,817
Maintenance and inspection fee	17,202,686	19,362,495
Others	29,370,761	50,992,658
<b>Total</b>	<b>198,957,610</b>	<b>235,883,270</b>

Except for those as stated in Note VI point 6, the balance of other payables does not contain any other payables to a shareholder who holds 5% or above of the Company's equity interests.

Certain of the Group's other payables are aged over three years as a result of a delay in settlement of construction fee.

#### 22. Accrued charges

	2001 RMB	2000 RMB
Loan interests	47,695,984	44,064,176
Freight charges	64,085,423	28,578,589
Retirement benefits payable to early retired employees	73,142,630	72,000,000
Others	50,248,912	32,505,804
<b>Total</b>	<b>235,172,949</b>	<b>177,148,569</b>

The increase in the Group's accrued charges by 33% is mainly attributable to the increase in freight charges.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 23. Long term loans, current portion

Lender	2001			2000			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency	Original Currency	RMB	Currency	Original Currency	RMB			
The Industrial and Commercial Bank of China — Magang Branch	RMB	103,940,000	103,940,000	RMB	400,468,000	400,468,000	2/2002–12/2002	2.88–5.94	Unsecured
China Construction Bank — Maanshan Branch	RMB	2,700,000	2,700,000	RMB	2,700,000	2,700,000	12/2002	2.88	Unsecured
The Industrial and Commercial Bank of China — Anhui Branch	N/A	—	—	RMB	30,000,000	30,000,000	N/A	N/A	N/A
China Construction Bank — Metallurgical Branch	RMB	60,000,000	60,000,000	RMB	120,000,000	120,000,000	12/2002	6.21	Guaranteed by Holding
China Construction Bank — Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2002	2.4	Unsecured
Agricultural Bank of China — Maanshan Branch	N/A	—	—	RMB	20,000,000	20,000,000	N/A	N/A	N/A
China Construction Bank — Anhui Branch	USD	7,972,657	65,986,493	USD	7,972,657	65,998,451	10/2002	5.8	Guaranteed by Holding
Bank of China — Maanshan Branch (Note)	EUR	123,947	907,015	LUF	5,000,000	953,965	9/2002	0.25	Unsecured
<b>Total</b>			<b>246,733,508</b>			<b>653,320,416</b>			

The decrease in Group's long term loans, current portion by 62% is attributable to the decrease in loan borrowings and increase in loan repayments.

Note: According to the changeover requirements as determined by the European Commission of European Union, the Company's long term loan, as previously denoted in Luxembourg Francs, was converted into Euro by the Credit Department of the Bank of China — Maanshan Branch, at a rate of 1 EUR to 40.3399 LUF on 30 June 2001.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 24. Long term loans

Lender	2001			2000			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency	Original Currency	RMB	Currency	Original Currency	RMB			
The Industrial and Commercial Bank of China — Magang Branch	RMB	20,000,000	20,000,000	RMB	130,000,000	130,000,000	2/2003	5.94	Unsecured
China Construction Bank — Metallurgical Branch	RMB	505,000,000	505,000,000	RMB	365,000,000	365,000,000	6/2003–12/2007	6.21	Guaranteed by Holding
China Construction Bank — Anhui Branch	USD	35,876,958	296,914,033	USD	43,849,615	362,991,497	4/2003–10/2007	5.8	Guaranteed by Holding
Bank of China — Maanshan Branch (Note)	EUR	2,107,089	15,419,255	LUF	90,000,000	17,171,370	3/2003–10/2019	0.25	Unsecured
<b>Total</b>			<b>837,333,288</b>			<b>875,162,867</b>			

Note: According to the changeover requirements as determined by the European Commission of European Union, the Company's long term loan, as previously denoted in Luxembourg Francs, was converted into Euro by the Credit Department of the Bank of China — Maanshan Branch, at a rate of 1 EUR to 40.3399 LUF on 30 June 2001.

#### 25. Specific payables

	2001 RMB	2000 RMB
Government subsidies for specific construction projects	<b>485,840,000</b>	58,920,000

The increase in the Group's specific payables by 725% is attributable to the increase in government subsidies for specific construction projects.

#### 26. Other long term liabilities

	2001 RMB	2000 RMB
Accrued charges for furnace relining	<b>120,343,721</b>	123,971,940
Retirement benefits payable to early retired employees	<b>61,724,138</b>	84,998,110
<b>Total</b>	<b>182,067,859</b>	208,970,050

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 27. Share capital

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

	Group and Company	
	2001 RMB	2000 RMB
A. Unlisted shares		
1. Shares held by promoter:		
(i) State-owned shares	4,034,560,000	4,034,560,000
(ii) shares owned by domestic legal persons	—	—
(iii) shares owned by foreign	—	—
(iv) Others	—	—
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	—	—
4. Preferred shares and others	—	—
<b>Total unlisted shares</b>	<b>4,122,370,000</b>	<b>4,122,370,000</b>
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	—	—
<b>Total listed shares</b>	<b>2,332,930,000</b>	<b>2,332,930,000</b>
<b>C. Total share capital</b>	<b>6,455,300,000</b>	<b>6,455,300,000</b>

There was no change in share capital during the year.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 28. Capital reserve

	Group and Company			
	At 1	Additions	Decrease	At 31
	January	during the	during the	December
	2001	year	year	2001
	RMB	RMB	RMB	RMB
Share premium	3,491,344,482	—	—	3,491,344,482

#### 29. Surplus reserves

	Group			
	At 1	Additions	Decrease	At 31
	January	during the	during the	December
	2001	year	year	2001
	RMB	RMB	RMB	RMB
Statutory surplus reserve	189,934,498	20,471,279	—	210,405,777
Statutory public welfare fund	189,883,907	20,420,259	—	210,304,166
Total	379,818,405	40,891,538	—	420,709,943

	Company			
	At 1	Additions	Decrease	At 31
	January	during the	during the	December
	2001	year	year	2001
	RMB	RMB	RMB	RMB
Statutory surplus reserve	189,833,316	20,351,839	—	210,185,155
Statutory public welfare fund	189,833,316	20,351,839	—	210,185,155
Total	379,666,632	40,703,678	—	420,370,310

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 29. Surplus 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 RMB20,351,839 (2000: RMB17,300,636) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of RMB203,518,387 (2000: RMB173,006,359) 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 RMB119,440 and RMB68,420, respectively.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 30. Retained profits

	Notes	Group Amount RMB
Retained profits at beginning of year		187,891,056
Less: Staff housing subsidies payment charged to retained profits	40	(84,567,947)
Loss from sales of staff quarters charged to opening retained profits	14	(105,600,289)
Add: Group net profit for the year		208,396,492
Less: Transfer to statutory surplus reserve	29	(20,471,279)
Transfer to statutory public welfare fund	29	(20,420,259)
Dividend payable for the year ended 2001	41	(129,106,000)
Retained profits at end of year		36,121,774

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 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 RMB20.39 million (2000: approximately RMB177 million), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong accounting standards, 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 RMB 3.49 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue. At the same date, the Company did not have any capitalisation issue.



## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 31. Principal operating income, cost of sales and profit from principal operating activities

Items	Group					
	2001			2000		
	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	8,848,110,853	7,637,851,253	1,210,259,600	7,442,412,190	6,255,723,749	1,186,688,441
Sales of pig iron	26,812,279	20,638,626	6,173,653	46,146,734	38,689,987	7,456,747
Sales of steel billets	46,492,338	48,523,412	(2,031,074)	95,459,081	91,369,339	4,089,742
Others	626,513,262	484,338,051	142,175,211	601,668,804	544,172,808	57,495,996
<b>Total</b>	<b>9,547,928,732</b>	<b>8,191,351,342</b>	<b>1,356,577,390</b>	<b>8,185,686,809</b>	<b>6,929,955,883</b>	<b>1,255,730,926</b>

Items	Company					
	2001			2000		
	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	8,775,293,899	7,583,387,862	1,191,906,037	6,541,947,049	5,408,128,374	1,133,818,675
Sales of pig iron	26,812,279	20,638,626	6,173,653	25,166,353	21,951,782	3,214,571
Sales of steel billets	46,492,338	48,523,412	(2,031,074)	94,885,501	90,757,776	4,127,725
Others	563,605,218	432,766,462	130,838,756	417,063,316	364,198,334	52,864,982
<b>Total</b>	<b>9,412,203,734</b>	<b>8,085,316,362</b>	<b>1,326,887,372</b>	<b>7,079,062,219</b>	<b>5,885,036,266</b>	<b>1,194,025,953</b>

The sales of the five major customers amounted to RMB2,284,687,465, which accounted for 24% of the total Group's and Company's sales volumes respectively.

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.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 32. Sales tax and surcharges

	2001 RMB	2000 RMB
City construction and maintenance tax	52,138,116	44,581,084
Education surcharge	22,344,907	19,106,179
Other taxes	247,310	290,230
<b>Total</b>	<b>74,730,333</b>	<b>63,977,493</b>

The calculation bases of the Group's sales tax and surcharges and the related tax rates are disclosed in Appendix III of the financial statements.

#### 33. Other operating profit/(loss)

The other operating profit of the Group is mainly attributable to other operating income being greater than other operating expenses.

#### 34. Administrative expenses

The increase in the Group's administrative expenses by 35% is mainly attributable to the increase in bad debts provision and salaries.

#### 35. Financial expenses

	2001 RMB	2000 RMB
Interest expenses	150,762,519	203,494,052
Less: Interest income	(22,308,192)	(27,658,501)
Exchange loss	2,315,332	2,614,994
Less: Exchange gain	(3,112,346)	(2,641,956)
Others	2,732,618	1,963,104
<b>Total</b>	<b>130,389,931</b>	<b>177,771,693</b>

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 36. Investment income

	Group		Company	
	2001 RMB	2000 RMB	2001 RMB	2000 RMB
Equity investments income	669,937	2,675,648	669,937	2,675,648

The decrease in the Group's investment income by 75% is attributable to the decrease in equity investment.

#### 37. Subsidies income

	2001 RMB	2000 RMB
Government subsidies income	4,942,320	232,475

The increase in the Group's subsidies income by 20 folds is attributable to the increase in government subsidies income.

#### 38. Non-operating income

The increase in the Group's non-operating income by 143% is mainly attributable to the increase in exemption on repayment of environmental protection loans.

#### 39. Non-operating expenses

	2001 RMB	2000 RMB
Retirement benefits payable to early retired employees	—	221,000,000
Provision for impairment of construction in progress	7,000,000	67,000,000
Provision for impairment of fixed assets	104,886,515	20,544,897
Staff children education expenses	25,731,857	25,220,142
Loss on disposals of fixed assets, net	62,994,520	12,185,861
Loss on disposal of construction in progress	95,834,093	—
Penalties	6,181,470	8,845,394
Others	2,204,196	313,817
<b>Total</b>	<b>304,832,651</b>	<b>355,110,111</b>

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 40. Staff housing subsidies charged to retained profits

Under the rules of directive No.2001 (5) issued by the Ministry of Finance, the one-off lump sum housing subsidies payments to eligible current and retired employees aggregating RMB84,567,947 (2000: RMB20,872,421) during the year have been charged to the retained profits accounts.

#### 41. Dividend payable

##### Group and Company

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

Proposed final dividend is determined based on the profit appropriation plan for the year ended 2001 as approved by the Board of Directors. Dividend payable to legal person shares, A shares and H shares amounted to RMB82,447,400, RMB12,000,000 and RMB34,658,600 respectively. The proposed final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

#### 42. Other cash paid relating to operating activities

	2001 RMB
Real estate tax	28,359,534
Environmental protection fee	29,852,294
Welfare and support service	77,588,345
Export related cost	18,921,753
Transportation cost	21,228,913
Unloading cost	10,443,474
Packing fee	12,302,760
Staff children education expenses	25,731,857
Sewage system cost	7,920,000
Warehouse fee	3,389,810
Stamp duty	4,379,903
Others	62,146,346
<b>Total</b>	<b>302,264,989</b>

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 43. Other cash received relating to financing activities

	2001 RMB
Government subsidies for specific construction projects	426,920,000

#### 44. 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 a 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.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Ernst & Young is responsible for the audit of financial statements prepared under Hong Kong accounting standards.

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

Difference in net profit	Notes	2001 RMB'000	2000 RMB'000
Net profit under Hong Kong accounting standards as previously reported		—	102,301
<i>Retrospective adjustment</i>			
Adjustment of furnace relining costs incurred	(iii)	—	(2,137)
Net profit under Hong Kong accounting standards (2000: as 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 under PRC accounting standards		208,396	176,031

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 45. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

Difference in shareholders' funds	Notes	2001 RMB'000	2000 RMB'000
Shareholders' funds under Hong Kong accounting standards as previously reported		—	11,835,128
<i>Retrospective adjustment</i>			
Last year proposed final dividend restated as capital and reserves section	(iv)	—	129,106
Add back provision for furnace relining costs charged in prior years	(iii)	—	123,972
<hr/>			
Shareholders' funds under Hong Kong accounting standards (2000: as restated)		<b>12,111,381</b>	12,088,206
<i>Add back:</i>			
Amortisation of deferred staff cost	(i)	<b>17,600</b>	—
Staff housing subsidies charged to profit and loss account:			
Current employees	(ii)	<b>69,774</b>	34,887
Retired employees	(ii)	<b>38,843</b>	38,843
<i>Deduct:</i>			
Unamortised deferred staff cost charged to opening retained earnings	(i)	<b>(105,600)</b>	—
Staff housing subsidies charged to retained earnings	(ii)	<b>(105,440)</b>	(20,872)
Provision for furnace relining costs recorded as liability	(iii)	<b>(120,344)</b>	(123,972)
Proposed final dividend	(iv)	<b>(129,106)</b>	(129,106)
Deferred credit	(v)	<b>(1,373,631)</b>	(1,373,631)
<hr/>			
Shareholders' funds under PRC accounting standards		<b>10,403,477</b>	10,514,355

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 45. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

(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 RMB164 million was incurred. 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 RMB58.18 million and the deferred staff cost net of amortisation was approximately RMB106 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 RMB106 million as brought forward from 31 December 2000 to the opening retained profits account as at 1 January 2001 directly.

(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 RMB38.84 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.



## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 45. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

##### (ii) *Staff housing subsidies (continued)*

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 RMB34.89 million (2000: approximately RMB34.89 million) have been accrued and charged to the profit and loss account during the year. The cumulative effect thereof on the Company's shareholders' funds at 31 December 2001 was approximately RMB69.78 million (31 December 2000: approximately RMB34.89 million).

The aggregate subsidies of approximately RMB38.84 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' funds at 31 December 2001 was approximately RMB38.84 million (31 December 2000: approximately RMB38.84 million).

Under PRC accounting standards, the subsidies paid to eligible current and retired employees aggregating approximately RMB84.57 million (2000: approximately RMB20.87 million) during the year have been charged directly to the retained profits account. The cumulative effect thereof on the Company's shareholders' funds at 31 December 2001 was approximately RMB105 million (31 December 2000: approximately RMB20.87 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 RMB5.49 million (2000: approximately RMB11.85 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 million (31 December 2000: approximately RMB124 million).

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 45. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

(iii) *Furnace relining costs (continued)*

With the implementation of the new Hong Kong Statement of Standards Accounting Practice (SSAP) 28, 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 RMB11.85 million and the balance thereof of approximately RMB124 million as at 31 December 2000 were derecognised retrospectively by a prior year adjustment, whereas, the relining costs incurred during the year amounting to approximately RMB9.12 million (2000: approximately RMB13.99 million) has been charged to the profit and loss account.

(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. 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. 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 as at 31 December 2001.

(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.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 45. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

##### (v) *Deferred credit (continued)*

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.

### VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### 1. Related party involving control relationship

Name	Registered address	Principal activities	Relationship with the Company	Nature	Legal representative
Holding	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 2001, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries and associates of the Holding become the Company's related parties.

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Name	At 1 January 2001 RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	At 31 December 2001 RMB'000
Holding	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 1 January 2001 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2001 RMB'000	Ratio %
Holding	4,081,480	63.23	850	0.01	—	—	4,082,330	63.24

#### 4. Associates

Information on related parties who carried out related party transactions with the Company and do not involve any 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
安徽神馬冶金有限責任公司	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
馬鋼合力金屬製品有限公司	Subsidiary of the Holding
石馬鐵合金廠	Subsidiary of the Holding
來得省租賃公司	Subsidiary of the Holding
馬鋼運動用品公司	Subsidiary of the Holding
巨龍公司	Subsidiary of the Holding
上海聯安製造公司	Subsidiary of the Holding
永固公司	Subsidiary of the Holding
鋼渣綜合利用公司	Subsidiary of the Holding
馬鞍山黑馬鋼筋焊網有限公司	Subsidiary of the Holding

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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:

	2001 RMB	2000 RMB
Transactions with ultimate holding company		
Purchases of iron ore and limestone	742,249,458	673,141,120
Fees received for the supply of utilities, services and other consumable goods	(35,327,534)	(37,071,347)
Fees paid for welfare, support services and other services	249,866,304	233,642,745
Purchases of fixed assets and construction services	80,203,988	81,914,075
Sales of steel products	—	(98,000)
Transactions with subsidiaries & associates of Holding		
Sales of steel products		
Including		
馬鋼合力金屬製品有限公司	(548,202)	(4,571,788)
馬鞍山市黑馬交通器材公司	—	(13,809,950)
馬鞍山黑馬鋼筋焊網有限公司	(20,137,247)	—
集團公司桃冲礦業公司	(1,121,616)	—
集團公司姑山礦業公司	(2,848,718)	—
	<b>(24,655,783)</b>	<b>(18,381,738)</b>

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 2001 between the Company and the Holding.

The terms for the cross-provision of welfare, support services and other 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.

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

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 6. Receivable from/payable to related parties

	2001 RMB	2000 RMB	Details
<b>Trade receivables:</b>			
<b>Holding</b>	<b>1,110,948</b>	4,533,104	Trade
馬鋼合力金屬製品有限公司	—	6,473,200	Trade
馬鞍山市黑馬交通器材公司	<b>180,600</b>	398,095	Trade
馬鞍山市馬鋼合力公司工貿分公司	<b>4,664,217</b>	1,358,900	Trade
上海江南物資聯合經銷公司	<b>2,790,048</b>	—	Trade
馬鞍山市凱馬螺絲製造有限公司	<b>117,217</b>	—	Trade
巨龍公司	<b>2,004,149</b>	—	Trade
<b>Total</b>	<b>10,867,179</b>	12,763,299	
<b>Other receivables:</b>			
<b>Holding</b>	<b>251,348,686</b>	264,802,307	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	<b>2,600,447</b>	2,600,447	Trade
深圳市粵海馬鋼實業有限公司	<b>159,657</b>	—	Trade
巨龍公司	<b>47,318</b>	—	Trade
<b>Total</b>	<b>254,156,108</b>	267,811,230	
<b>Trade payables:</b>			
<b>Holding</b>	<b>30,317,426</b>	5,042,943	Trade
馬鞍山市聯營乙炔廠	<b>1,302,990</b>	9,977	Trade
馬鋼法蘭環件製造聯合公司	<b>157,679</b>	24,258	Trade
馬鋼合力金屬製品有限公司	—	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	<b>918,541</b>	7,761	Trade
馬鋼三聯鐵廠	<b>251,342</b>	—	Trade
來得省租賃公司	<b>45,789</b>	—	Trade
巨龍公司	<b>54,398</b>	—	Trade
<b>Total</b>	<b>33,048,165</b>	5,683,831	

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

#### 6. Receivable from/payable to related parties (continued)

	2001 RMB	2000 RMB	Details
<b>Other payables:</b>			
<b>Holding</b>	<b>2,653,290</b>	2,833,183	Trade
馬鋼三聯鐵廠	250,777	250,777	Trade
馬鋼法蘭環件製造聯合公司	50,000	—	Trade
馬鋼金屬製品聯合公司	17,750	—	Trade
安徽神馬冶金有限責任公司	90,118	—	Trade
<b>Total</b>	<b>3,061,935</b>	3,083,960	
<b>Deposits received:</b>			
<b>Holding</b>	<b>20,621,897</b>	585,841	Trade
馬鞍山市凱馬螺絲製造有限公司	929	—	Trade
馬鋼法蘭環件製造聯合公司	6,338	—	Trade
馬鋼三聯鐵廠	326,674	—	Trade
馬鋼運動用品公司	514	—	Trade
來得省租賃公司	1,281	—	Trade
巨龍公司	1,748	—	Trade
安徽神馬冶金有限責任公司	385,660	—	Trade
上海江南物資聯合經銷公司	34,473	—	Trade
<b>Total</b>	<b>21,379,514</b>	585,841	
<b>Prepayments:</b>			
<b>Holding</b>	—	614,359	Trade

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

## Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2001

### VII. CONTINGENT LIABILITIES

As at 31 December 2001 and 2000, the Group and Company had no significant contingent liabilities.

### VIII. CAPITAL COMMITMENTS

The commitments for capital expenditure as at 31 December 2001 were as follows:

	Group and Company	
	2001 RMB'000	2000 RMB'000
Contracted, but not provided for:		
Thin Plate Project	975,271	—
2500m <sup>3</sup> 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	—
	<b>1,280,241</b>	<b>77,688</b>
Authorised, but not contracted for:		
Thin Plate Project	4,044,859	—
2500m <sup>3</sup> Blast Furnace	788,678	—
No. 1 Steel Making Plant Converter Furnace Project	298,586	525,401
40000m <sup>3</sup> Oxygenerator	340,000	—
Modification of Train Wheel Rolling System	118,244	304,480
300m <sup>3</sup> 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
	<b>6,608,685</b>	<b>1,277,183</b>
<b>Total capital commitments</b>	<b>7,888,926</b>	<b>1,354,871</b>



## Notes to Financial Statements

*(Prepared under PRC accounting standards)*

31 December 2001

### IX. COMPARATIVE AMOUNTS

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

### X. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 15 April 2002.