

## I. BASIC INFORMATION AND MAJOR FINANCIAL DATA AND INDICES OF THE COMPANY

### 1. Basic Information

Company Chinese Name:	馬鞍山鋼鐵股份有限公司 (簡稱「馬鋼」)
Company English Name:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C.L.)
Places of Listing:	Shanghai Stock Exchange (A Share)      The Stock Exchange of Hong Kong Limited (H Share)
Stock:	Magang Stock (A Share)      Magang Stock (H Share)
Stock Code:	600808 (A Share)      323 (H Share)
Company's Registered and Office Address:	No. 8 Hong Qi Zhong Road, Maanshan City Anhui Province, the PRC
Postal Code:	243003
Company's Website:	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a>
E-mail Address:	<a href="mailto:mggfdms@magang.com.cn">mggfdms@magang.com.cn</a>
Legal Representative:	Gu Jianguo
Secretaries to the Board of Directors:	Su Jiangang and Wang Dapeng
Correspondence Address:	No. 8 Hong Qi Zhong Road, Maanshan City Anhui Province, the PRC
Telephone:	86-555-2888158
Fax:	86-555-2887284
E-mail Address:	<a href="mailto:mggfdms@magang.com.cn">mggfdms@magang.com.cn</a>
Newspapers for Information Disclosure:	Shanghai Securities Journal South China Morning Post (Hong Kong) Wen Wei Po (Hong Kong)
Website Designated by China Securities Regulatory Commission for Publishing of Information:	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Depository for the Company's Interim Report:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited



## I. BASIC INFORMATION AND MAJOR FINANCIAL DATA AND INDICES OF THE COMPANY (continued)

### 2. Major Financial Data and Indices (unaudited, in RMB) Prepared under PRC accounting standards

Index Items	January – June 2002	January – June 2001
Net profit ('000)	164,412	130,213
Net profit before extraordinary items ('000)	328,335	261,469
Earnings per share (RMB/share)	0.0255	0.0202
Return on net assets (%)	1.380	1.095
Return on weighted average of net assets before extraordinary items (%)	2.769	2.187
Net cash flow from operating activities per share (RMB)	0.139	0.109
	30 June 2002	31 December 2001
Shareholders' equity ('000)	11,915,457	11,777,107
Net assets per share (RMB/share)	1.85	1.82
Adjusted net assets per share (RMB/share)	1.85	1.82

Note: Deferred credit of RMB1,373,631,000 was included in shareholders' equity when calculating the financial indices as at 31 December 2001.

The nature and the amounts of the extraordinary items, net of corporate income tax, deducted during the reporting period are as follows (in RMB'000):

Designated investment income	5,100
Non-operating income	2,546
Non-operating expenses	171,569
Net extraordinary items	(163,923)

Differences in net profit and shareholders' equity of the consolidated financial statements prepared under PRC and Hong Kong accounting standards are summarised as follows (in RMB'000):

Differences in net profit	January – June 2002
Net profit under Hong Kong accounting standards	143,423
Add back: Amortisation of deferred staff cost	8,800
Staff housing subsidies to current employees	17,444
Deduct: Provision for furnace relining costs	(5,255)
Net profit under PRC accounting standards	164,412
Differences in shareholders' equity	30 June 2002
Shareholders' equity under Hong Kong accounting standards	12,125,698
Add back: Staff housing subsidies charged to profit and loss account:	
Current employees	87,218
Retired employees	38,843
Deduct: Unamortised deferred staff cost	(79,200)
Staff housing subsidies charged to retained earnings	(131,503)
Provision for furnace relining costs recorded as liability	(125,599)
Shareholders' equity under PRC accounting standards	11,915,457

Profit data prepared under PRC accounting standards and regulations in compliance with "Regulation for the preparation of information disclosures by listed securities companies (No. 9)" issued by China Securities Regulatory Commission.

Profit for the reporting period	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	5.61	5.63	0.103	0.103
Operating profit	3.24	3.25	0.060	0.060
Net profit	1.38	1.39	0.025	0.025
Net profit before extraordinary items	2.76	2.77	0.051	0.051

## II. MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDING STRUCTURE

1. During the reporting period, there was no movement in the share capital of the Company.
2. Major shareholding structure:
  - (1) As at the end of the reporting period, the Company had a total of 236,503 shareholders, of whom 231,069 were A-share shareholders and 5,434 were H-share shareholders.
  - (2) Shareholding of the Company's ten largest shareholders as at the end of the reporting period:

Magang (Group) Holding Company Limited (the "Holding"), held 4,082,330,000 A shares of the Company, of which 4,034,560,000 A shares were held on behalf of the State (representing approximately 62.50% of the total share capital of the Company) and also 47,770,000 shares were legal person A shares (representing approximately 0.74% of the total share capital of the Company). There was no change from the previous reporting period.

Other shareholders who were among the ten largest shareholders of the Company were as follows:

Name of shareholders	Stock nature	Number of shares held (share)	Percentage of the total share capital (%)	Increase/ Decrease compared to the beginning of the period (share)
HKSCC Nominees Limited	H shares	1,560,073,997	24.167	-446,000
HSBC Nominees Limited	H shares	28,190,000	0.437	—
上海全隆實業有限公司	Legal person shares	9,800,000	0.152	—
中國人民保險公司				
安徽省分公司	Legal person shares	3,000,000	0.046	—
航空公司	Legal person shares	3,000,000	0.046	—
開元基金	A shares	2,667,095	0.041	—
興和基金	A shares	2,382,289	0.037	—
HSBC Nominees Limited				
A/C-17	H shares	1,400,000	0.022	—
CHEKIANG FIRST BANK (NOMINEES) LTD	H shares	1,380,000	0.021	—

Notes:

- a. There is no connected relationship between the Holding and these 10 largest shareholders. However, the Company does not know if there is any connected relationship amongst these 10 largest shareholders.
- b. During the reporting period, shares held by the Holding were not pledged, frozen nor entrusted. However, the Company did not know if shares held by shareholders holding more than 5% (5% inclusive) of the Company's shares were pledged, frozen or entrusted.
- c. HKSCC Nominees Limited held 1,560,073,997 shares of the Company's H share on behalf of its clients.

## III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, there was no change in the number of shares held by directors, supervisors and senior management.

During the reporting period, Mr Jiang Ping submitted a written resignation to resign from the office of Deputy General Manager of the Company for personal reasons. After discussion, the Board of Directors of the Company accepted Mr Jiang's resignation and released him from his appointment. There were no other new appointments nor release from appointments of other directors, supervisors and senior management.



## IV. MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Results from principal operations

The year 2002 marked the first year after China's WTO accession. With the abolition of trade barriers and the reduction of tariffs, the impact of imported steel products upon the domestic market was increasingly felt, resulting in heated competition in the steel market. Against such complications and difficulties, the Company nevertheless managed to achieve satisfactory results in its production operations during the reporting period. Highlights of its operating results are briefly stated as follows:

Prepared under PRC accounting standards (in RMB'000)

Item	January to June 2002	January to June 2001	% Change
Principal operating income	<b>5,154,673</b>	4,721,611	9.17
Profit from principal operating activities	<b>668,033</b>	718,793	-7.06
Net profit	<b>164,412</b>	130,213	26.26
Net increase in cash and cash equivalents	<b>326,200</b>	105,232	209.98

Principal operating income increased by 9.17% as compared to the same period last year, benefited mainly by the increase in production and sales. In the first half of the year, 2,469,000 tonnes of pig iron, 2,654,000 tonnes of steel and 2,525,000 tonnes of steel products were produced, representing increases of 9.75%, 15.47% and 17.44%, respectively as compared to the same period last year. Marketing efforts during the first half of the year were characterised by aligning production schedules with market demands as much as possible. Meanwhile, a 100% production to sales ratio was achieved, primarily due to the adoption of pro-active and flexible marketing strategies ensuring swift sales of steel products.

Net profit grew by 26.26%, year-on-year, mainly as a result of:

- attainment of economies of scale, with lower fixed costs made possible by significant increase in production;
- cost reductions on all fronts through optimising overall logistics management which improved technical and economic indicators and continuously reduced raw materials and energy consumption;
- enhancement in product profitability by increasing output of products with higher profit margins and aligning production with the structure of economic apportioning.

Nevertheless, profit growth of the Company's principal operations was affected by the increase in the costs of the Company's principal operations because of price hikes in raw materials, fuel and power supply.

Net cash and cash equivalents increased by RMB221 million year-on-year mainly as a result of increased sales revenue.

### 2. Financial conditions during the reporting period

Prepared under PRC accounting standards (in RMB'000)

Item	30 June 2002	31 December 2001	% Change
Total assets	<b>17,257,505</b>	16,723,013	3.20
Shareholders' equity	<b>11,915,457</b>	11,777,107	1.17

The Group was financially sound as at the end of the period. In accordance with the PRC accounting standards, the Group's total assets amounted to RMB17,258 million, shareholders' equity amounted to RMB11,915 million, and debt-equity ratio (namely, total liabilities over total assets) was 31%. These figures have not changed significantly when compared with the figures reported as at the end of 2001.

#### IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

##### 3. Scope of the Company's principal business and operating conditions during the reporting period

The Company is principally engaged in the manufacture and sale of iron and steel products and is currently one of the largest steel manufacturers and suppliers in China. The Company's principal steel products come in four major categories: steel sections, wire rods, medium or thick steel plates and train wheels and tyres. Approximately 90% of these products are sold in the domestic market.

During the reporting period, the Group focused on increasing business development and enhancing efficiency with an emphasis on improving the competitiveness of products to offset the negative impact of falling prices of steel products. Technological upgrades and structural re-alignments were expedited while a string of pro-active measures in technological innovations, management enhancements and cost reductions were made to improve the overall competitiveness of products.

For the period ended 30 June 2002, the Group's sales revenue amounted to RMB5,155 million, a 9% growth from the same period last year. Sales revenue and costs of sales of steel products amounted to RMB4,809 million and RMB4,192 million, respectively, with sales revenue of steel products accounting for 93% of principal operating income. Profit from sale of steel products accounted for 89% of the profit generated from principal operating income. During the reporting period, the Group's steel products accounted for 3% of China's domestic market. Geographically, 32% of the Group's sales revenue from steel products was generated from Anhui, 17% from Jiangsu, 8% from Shanghai, 8% from Zhejiang, 31% from other provinces and 4% from exports.

##### 4. Investments of the Company

Funds raised by the Company had been fully utilised as at 31 December 1999 in accordance with the Company's A Share and H Share prospectuses.

In the first half of the year, the Company completed investment of RMB561 million, financed through its internal resources and bank loans, on the following projects: (1) foundation works for the plant and the converter furnace in the Phase II project of the converter furnace at No. 1 steel-making plant were completed. Installation of steel structures is currently in progress and major equipment for converted furnace No. 2 is now ready for installation. (2) Trial production of the six-stream continuous billet casting machine and the spherical billet continuous casting machine commenced on 18 March and 8 April 2002, respectively. (3) Layout plans for the steel structures at the main plant and civil construction works of the ancillary systems have been completed for the hot-rolled thin plate project. (4) Preliminary design review for the cold-rolled thin plate project has been completed and the old plant has been removed together with the original rolled steel lines. (5) Civil construction has been completed for the train wheel rolling system and the installation of equipment is currently underway.

##### 5. Plans for the second half of the year

Trends in the market prices for steel lend little reason for optimism as steel supply continues to expand as a result of substantial utilisation of the production capacity of the iron and steel industry coupled with increased imports. The Group expects its production to remain stable in the third quarter.

The Group shall further enhance its management over the entire process of procurement, production and sales to achieve cost reductions. We shall promote technological progress and innovation as well as ongoing re-alignment of our product mix to add the value of our products and increase revenues while enhancing our production capacity with a view to improved economies of scale. The production volume for major products in the second half of the year is expected to remain stable or to register slight increase compared to the first half. The production to sales ratio for steel products and the payment collection ratio are expected to maintain at 100%, so as to generate sales revenue of RMB5,000 million.



## V. SIGNIFICANT MATTERS

### 1. Corporate Governance

The Company has established a standardized corporate governance structure comprising the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the management. The Company has a sound basic management system with clearly defined delegations and duties for each of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the management. In accordance with the requirements concerning the Procuring of the Establishment of Modern Enterprise System Inspection at Listed Companies issued by the Chinese Securities Regulatory Commission ("CSRC") and the State Economic and Trade Commission ("SETC"), the Company conducted self-examination during the reporting period and a self-examination report was submitted to CSRC and SETC.

The Company shall continue to improve its corporate governance structure. A new Board of the Directors and a new Supervisory Committee will be elected at the extraordinary general meeting to be convened on 31 August 2002. The Company shall further standardise its corporate governance structure and enhance the development of corporate regulations and systems in accordance with the requirements of Corporate Governance Standards for Listed Companies and other relevant regulations.

2. Profit distribution plan of the Company for the preceding year and its implementation: A dividend of RMB0.02 per share was paid in cash to shareholders on the basis of a total of 6,455,300,000 shares at the end of 2001. The dividends for H shares were paid in Hong Kong dollar. The recommendation was passed by the Annual General Meeting convened on 18 June 2002, and announced in both the PRC and Hong Kong on 19 June 2002. In respect of A shares, the share right registration date was 4 July 2002, the ex dividend date was 5 July 2002, and the dividend payment date was 10 July 2002. In respect of H shares, the register of members was closed from 17 May 2002 through 18 June 2002 (both days inclusive). The cheques in payment of H-share dividends were mailed to holders of the shares on 10 July 2002. The distribution of dividends for A shares and H shares has been completed as scheduled.

### 3. Material Litigations and Arbitrations

- (1) *The Group defended against anti-dumping allegations made by the United States (US)*

On 23 May 2001, a Statement of Claim was submitted to the International Trade Commission (ITC) of the US by US iron and steel enterprises to initiate an anti-dumping investigation against H-shaped steel products produced by overseas iron and steel enterprises (including the Group). On 9 July 2001, ITC affirmed that H-shaped steel products imported from eight countries, including China, were detrimental to the US iron and steel industry and the case was later handed over to the Department of Commerce (DOC) of the USA for further investigation. As the Group did not agree to having carried out dumping activity, the Group engaged O'Melveny & Myers LLP of the US to make its defence. On 17 June 2002, ITC adjudicated that sale of the Company's H-shaped steel products in the US did not do any harm or constitute any threat of harm upon the US domestic iron and steel industry.

- (2) *Material litigations of the Company that had been settled in the past but lasting until the reporting period were as follows:*

The three litigations against CITIC Ningbo Inc., Shenzhen Leasing Co. Ltd and SEG International Trust & Investment Corporation and their judgments and enforcements, as well as two other overdue deposits, were disclosed in the 2001 Annual Report and published in Shanghai Securities Journal, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the Shanghai Stock Exchange Website (<http://www.sse.com.cn>) on 16 April 2002. There has been no change during the reporting period.

4. The Company did not undertake any material acquisition, disposal or other dealings of capital assets or any merger or acquisition activities during the reporting period or any time in the past but lasting until the reporting period nor did the Company and its subsidiaries repurchase, sell and redeem any listed securities of the Company.

## V. SIGNIFICANT MATTERS (continued)

### 5. Connected transactions

The business transactions between the Company and the Holding from 1 January 2002 to 30 June 2002 were as follows:

- (1) Details of the amounts received and paid by the Company and the Holding in respect of the Service Agreement from 1 January 2002 to 30 June 2002 were as follows:

Principal Items of Services Rendered by the Holding to the Company:

Principal items	Pricing basis	Total RMB'000
Primary, secondary and kindergarten education	Actual costs	12,176
Canteens, baths and nurseries	Actual costs	35,549
Renting of staff quarters	Actual costs	16,841
Landscaping of factory districts, sanitation, maintenance and repairs of roads	State prices	13,357
Others	Market prices	14,802
Total		<u>92,725</u>

Principal Items of Services Rendered by the Company to the Holding:

Principal items	Pricing basis	Total RMB'000
Water supply	Market prices	264
Electricity supply	Market prices	3,239
Telephone services	Market prices	1,405
Total		<u>4,908</u>

The Directors are of the opinion that the amounts paid or received by the Company for those services based on market prices were not substantially different from the market prices that prevailed at the time the supplementary agreement for 2002 was made.

- (2) Amounts paid by the Company to the Holding in respect of the "Sale and Purchase of Iron Ore Agreement" from 1 January 2002 to 30 June 2002 are as follows:

	Amount RMB'000
Purchase of iron ore and limestone	364,348

The Directors are of the opinion that the above-mentioned amount purchased in respect of the "Sale and Purchase of Iron Ore Agreement" was not substantially different from the market prices that prevailed at the time the supplementary agreement for 2002 was made.



## V. SIGNIFICANT MATTERS (continued)

### 5. Connected transactions (continued)

- (3) Save for the connected transactions made pursuant to the “Service Agreement” and the “Sale and Purchase of Iron Ore Agreement” as mentioned above, details of other connected transactions made with the Holding are as follows:

	Amount RMB'000
Steel products purchased by the Holding from the Company	(4,298)
Other services procured by the Holding from the Company	(7,441)
Payment by the Company for fixed assets and construction services	48,504
Payment by the Company for other services provided by the Holding	22,318

- (4) Material contracts with the controlling shareholder:

Save for the connected transactions as mentioned above, neither the Company nor any of its subsidiaries have entered into any material contract with the controlling shareholder at any time during the six months ended 30 June 2002.

### 6. Material contracts entered into by the Company during the reporting period and their implementation status

- (1) During the reporting period or any time in the past but lasting until the reporting period, the Company did not undertake any material entrustment, contracting and leasing of assets of other companies, nor did any other companies undertake material entrustment, contracting and leasing of the assets of the Company.
- (2) The Company was in strict compliance with relevant requirements concerning provision of guarantee for third parties. The Company did not provide any material guarantee for third parties that required disclosure during the reporting period or any time in the past but lasting until the reporting period.

- (3) Fund entrustment

In 2001, the Company decided to entrust an internal fund of RMB100 million to Shanghai Anshen Investment Management Company Limited for asset management. On 3 April 2002, the Company received RMB106 million including the fund entrusted and the income generated thereof. During the reporting period, the Company entrusted an internal fund of RMB100 million to the International Trust Investment Company of Anhui Province (“Anhui International Trust”) for asset management. The above information has been disclosed in the 2001 Annual Report and the announcement was published in Shanghai Securities Journal, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and Shanghai Stock Exchanges Website (<http://www.sse.com.cn>) on 16 April 2002.

7. During the reporting period, neither the Company nor any of its shareholders interested in more than 5% (5% inclusive) of the Company's shares made any commitments that might significantly affect the Company's operating results or financial conditions during the reporting period or any time in the past but lasting until the reporting period.
8. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young as the PRC and International auditors of the Company, respectively.

### 9. Code of Best Practice

The Directors believe that the Company has complied with “The Code of Best Practice” set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) during the reporting period.

### 10. Audit Committee

In accordance with the Listing Rules, the Board of Directors set up an audit committee (“Audit Committee”) on 1 September 1999. The Audit Committee comprised independent directors Ms Cheng Shaoxiu, Mr Dong Yuanchi and Mr Wu Junnian and would carry out the review and supervision of the Group's financial reporting procedures and internal controls. During the reporting period, the Audit Committee has convened a meeting to examine the Company's 2001 annual financial reports.





## V. SIGNIFICANT MATTERS (continued)

### 11. Unification of Income Tax rate and the Cancellation of Tax Rebates

As one of the nine pilot joint stock limited enterprises which formed the first batch of the overseas listed companies, in accordance with the Document Cao Shui Zi (1997) No. 38 dated 10 March 1997 jointly issued by the Ministry of Finance and the State Tax Bureau, the Company continued to be subject to an income tax rate of 15%. The cancellation of tax rebates by local governments had no bearing on the Company. As at the date of this report, no document from any authorities indicating any change in income tax rates applicable to the Company has been received.

### 12. Sale of Staff Quarters

From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain new staff quarters for its employees. From January 1997, the Company commenced the sale of the staff quarters to its employees in accordance with the government's regulations. Loss arising from the sale of such staff quarters at preferential prices is accounted for as a deferred staff cost and amortised over 10 years. By the end of 2000, the Group recorded a deferred staff cost of approximately RMB163,780,000, and the aggregate amortisation related thereto amounted to approximately RMB58,180,000. In 2001, the Ministry of Finance stipulated the accounting treatment in respect of loss on disposal of staff quarters. As a move to comply with this directive, the remaining sum of the unamortised deferred staff cost of RMB105,600,000 as at 1 January 2001 has been fully charged to opening retained earnings. As a result, no amortisation for such cost was made in the financial statements since year 2001. Under Hong Kong accounting standards, the loss arising thereof would still be amortised over 10 years, commencing from the dates of sale of the respective staff quarters. The loss of staff quarters charged to profit and loss account was approximately RMB8.8 million for the six months ended 30 June 2002. As at 30 June 2002, unamortised staff cost amounted to RMB79.2 million.

### 13. Housing subsidies

According to the relevant directives issued by State Council, the Company has adopted monetarised housing allocation. Eligible existing and retired staff will be given one-off housing allowances. According to the directive issued by the Ministry of Finance, the housing subsidies for eligible existing staff and retired staff would be charged on cash payment basis to retained earnings in the financial statements prepared in accordance with PRC accounting standards. Under Hong Kong accounting standards, the housing subsidies of approximately RMB38.8 million payable to all eligible retired staff, who were retired before 1 January 2000, have already been fully charged to the profit and loss account for the year 2000. For the existing staff who will still serve the Company for ten years in average, the one-off housing subsidies of RMB349 million payable to them will be accrued on a straight-line basis over 10 years commencing from 1 January 2000.

According to the PRC accounting standards, the housing subsidies of RMB26 million paid to eligible staff between 1 January and 30 June 2002 have been charged to opening retained earnings; under Hong Kong accounting standards, the one-off housing subsidies of approximately RMB17 million paid to existing staff as of 30 June have been accrued and charged to the profit and loss account for the first half-year of 2002.



## VI. FINANCIAL REPORTS

### CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2002

	Note (V)	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and balances with financial institutions	1	<b>1,648,696,972</b>	1,322,172,382
Short term investments	3	<b>112,884,593</b>	111,796,803
Bills receivable	4	<b>915,980,716</b>	878,498,188
Trade receivables	5	<b>211,867,397</b>	319,069,657
Other receivables	6	<b>862,148,170</b>	576,535,198
Prepayments	7	<b>459,420,330</b>	466,885,316
Inventories	8	<b>1,830,316,468</b>	1,775,084,709
Long term debt investments, current portion	9	<b>—</b>	1,600,000
Total current assets		<b>6,041,314,646</b>	5,451,642,253
LONG TERM INVESTMENTS:			
Long term equity investments	10	<b>6,417,035</b>	6,417,035
Long term debt investments	10	<b>21,558,870</b>	21,558,870
Total long term investments		<b>27,975,905</b>	27,975,905
FIXED ASSETS:			
Cost	11	<b>15,140,501,252</b>	14,964,186,811
Less: Accumulated depreciation	11	<b>(5,120,833,749)</b>	(4,790,914,536)
Net book value	11	<b>10,019,667,503</b>	10,173,272,275
Less: Impairment	11	<b>(232,431,412)</b>	(125,431,412)
Net book value, net of impairment	11	<b>9,787,236,091</b>	10,047,840,863
Construction in progress	12	<b>530,866,932</b>	315,159,819
Total fixed assets		<b>10,318,103,023</b>	10,363,000,682
INTANGIBLE ASSETS:			
Intangible assets	13	<b>870,111,515</b>	880,394,034
TOTAL ASSETS		<b>17,257,505,089</b>	16,723,012,874

The attached notes are components of the financial statements.



## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2002

	Note (V)	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
CURRENT LIABILITIES:			
Short term loans	14	947,448,120	985,930,885
Trade payables	15	985,217,143	806,247,188
Deposits received	16	729,733,614	549,656,178
Wages payable	17	110,496,157	500,175
Staff welfare payable	18	19,268,848	11,950,910
Dividend payable	19	94,552,624	129,106,000
Tax payable	20	36,021,488	259,548,893
Other taxes payable	21	18,500,120	16,860,319
Other payables	22	332,560,731	198,957,610
Accrued charges	23	338,627,170	235,172,949
Long term loans, current portion	24	172,904,655	246,733,508
Total current liabilities		3,785,330,670	3,440,664,615
LONG TERM LIABILITIES:			
Long term loans	25	861,695,826	837,333,288
Specific payables	26	525,840,000	485,840,000
Other long term liabilities	27	169,181,751	182,067,859
Total long term liabilities		1,556,717,577	1,505,241,147
DEFERRED CREDIT	45	—	1,373,630,913
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	4,864,975,395	3,491,344,482
Surplus reserves	30	420,709,943	420,709,943
including: statutory public welfare fund	30	210,304,166	210,304,166
Retained profits	31	174,471,504	36,121,774
Total shareholders' funds		11,915,456,842	10,403,476,199
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		17,257,505,089	16,723,012,874

The attached notes are components of the financial statements.

Company Representative:  
**Gu Jianguo**  
15 August 2002

Chief Accountant:  
**Su Jiangang**  
15 August 2002

Head of Accounting Department:  
**Guang Yagang**  
15 August 2002



## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared under PRC accounting standards)

Period ended 30 June 2002

	Note (V)	For the six months ended 30 June	
		2002 Unaudited RMB	2001 Unaudited RMB
Principal operating income	32	<b>5,154,672,651</b>	4,721,611,167
Less: Cost of sales	32	<b>(4,441,733,291)</b>	(3,958,205,275)
Sales tax and surcharges	33	<b>(44,906,841)</b>	(44,613,208)
Profit from principal operating activities		<b>668,032,519</b>	718,792,684
Add: Other operating profit	34	<b>6,449,141</b>	4,223,779
Less: Selling expenses		<b>(32,386,420)</b>	(42,487,935)
Administrative expenses	35	<b>(212,938,755)</b>	(302,442,996)
Financial expenses	36	<b>(43,682,227)</b>	(70,474,827)
Operating profit		<b>385,474,258</b>	307,610,705
Add: Investment income	37	<b>7,087,790</b>	7,412,505
Subsidies income	38	<b>-</b>	1,932,937
Non-operating income	39	<b>2,995,362</b>	8,451,080
Less: Non-operating expenses	40	<b>(201,844,906)</b>	(172,215,598)
Profit before tax		<b>193,712,504</b>	153,191,629
Less: Tax		<b>(29,299,719)</b>	(22,978,745)
Net profit		<b>164,412,785</b>	130,212,884
Add: Retained profits at beginning of period		<b>36,121,774</b>	187,891,056
Less: Staff housing subsidies charged to retained profits	41	<b>(26,063,055)</b>	(17,507,191)
Loss from sales of staff quarters charged to opening retained profits	42	<b>-</b>	(105,600,289)
Profit available for distribution		<b>174,471,504</b>	194,996,460
Less: Transfers to statutory surplus reserve	30	<b>-</b>	-
Transfers to statutory public welfare fund	30	<b>-</b>	-
Profit available for distribution to shareholders		<b>174,471,504</b>	194,996,460
Less: Ordinary shares dividend payable		<b>-</b>	-
Retained profits at end of period		<b>174,471,504</b>	194,996,460

The attached notes are components of the financial statements.

Company Representative:

**Gu Jianguo**

15 August 2002

Chief Accountant:

**Su Jiangang**

15 August 2002

Head of Accounting Department:

**Guang Yagang**

15 August 2002



## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2002

		For the six months ended 30 June	
	Note (V)	2002 Unaudited RMB	2001 Unaudited RMB
1. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		6,547,938,051	5,492,441,830
Cash received from taxes refund		38,376,683	20,642,459
Other cash received relating to operating activities		2,995,362	10,384,017
Sub-total of cash inflows		6,589,310,096	5,523,468,306
Cash paid for goods and services		(4,247,909,619)	(3,610,453,832)
Cash paid to and on behalf of employees		(576,200,654)	(534,010,662)
Other taxes paid		(761,119,492)	(522,096,130)
Other cash paid relating to operating activities	43	(105,175,107)	(155,304,132)
Sub-total of cash outflows		(5,690,404,872)	(4,821,864,756)
Net cash flows from operating activities		898,905,224	701,603,550
2. Cash flows from investing activities:			
Cash received from sales of investments		101,600,000	—
Cash received from returns on investments		16,865,387	7,412,505
Net cash received from disposal of fixed assets, intangible assets and other long term assets		1,962,942	378,857
Cash received from retrieval of pledged deposits and overdue deposits		—	21,810,941
Cash received from returns on other investments		—	12,000,480
Sub-total of cash inflows		120,428,329	41,602,783
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		(453,609,818)	(317,634,656)
Increase in pledged deposits and overdue deposits		(325,000)	—
Cash paid for purchase of investment		(100,000,000)	(101,000,000)
Sub-total of cash outflows		(553,934,818)	(418,634,656)
Net cash flows from investing activities		(433,506,489)	(377,031,873)
3. Cash flows from financing activities:			
Proceeds from borrowings		512,207,506	506,303,550
Other cash received relating to financing activities	44	40,000,000	204,000,000
Sub-total of cash inflows		552,207,506	710,303,550
Cash repayments of amounts borrowed		(602,050,474)	(843,184,010)
Cash paid for appropriation of dividend and profit or payment of interest		(89,526,938)	(87,435,338)
Sub-total of cash outflows		(691,577,412)	(930,619,348)
Net cash flows from financing activities		(139,369,906)	(220,315,798)
4. Effect of foreign exchange rate changes on cash		170,761	976,200
5. Net increase in cash and cash equivalents		326,199,590	105,232,079

The attached notes are components of the financial statements.



## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2002

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Supplementary information		
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	164,412,785	130,212,884
Add: Staff housing subsidies charged to retained profits	(26,063,055)	(17,507,191)
Provision for doubtful debts	6,028,720	95,550,000
Reversal of provision for impairment of investments	(1,087,790)	—
Provision for impairment of fixed assets	107,000,000	82,955,500
Provision for impairment of construction in progress	—	75,000,000
Depreciation of fixed assets	420,734,026	391,985,229
Amortisation of intangible assets	10,282,519	9,272,352
Increase in accrued charges	99,899,862	145,954,325
Loss on disposal and write-off of fixed assets, intangible assets and other long term assets	83,605,281	1,132,522
Financial expenses	40,530,889	70,143,882
Investment income	(6,000,000)	(7,412,505)
Increase in inventories	(55,231,759)	(129,851,801)
Increase in receivables from operating activities	(214,456,974)	(464,051,101)
Increase in payables from operating activities	269,250,720	318,219,454
Net cash flows from operating activities	<u>898,905,224</u>	<u>701,603,550</u>
2. Investing and financing activities that do not involve cash receipts and payments:	<u>—</u>	<u>—</u>
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	1,597,885,579	1,634,374,515
Less: Cash and balances with financial institutions at beginning of period	(1,271,685,989)	(1,529,142,436)
Add: Balance of cash equivalents at end of period	—	—
Less: Balance of cash equivalents at beginning of period	—	—
Net increase in cash and cash equivalents	<u>326,199,590</u>	<u>105,232,079</u>

The attached notes are components of the financial statements.

Company Representative:

**Gu Jianguo**

15 August 2002

Chief Accountant:

**Su Jiangang**

15 August 2002

Head of Accounting Department:

**Guang Yagang**

15 August 2002



## VI. FINANCIAL REPORTS (continued)

### BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2002

	Note (V)	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and balances with financial institutions		1,572,148,403	1,184,277,534
Short term investments		112,884,593	111,796,803
Bills receivable		910,407,481	878,198,188
Trade receivables	5	233,575,280	303,515,418
Other receivables	6	210,278,713	288,305,136
Prepayments		456,333,292	466,195,316
Inventories		1,787,846,776	1,768,864,682
Long term debt investments, current portion		—	1,600,000
Total current assets		5,283,474,538	5,002,753,077
LONG TERM INVESTMENTS:			
Long term equity investments	10	679,085,378	409,133,363
Long term debt investments	10	21,558,870	21,558,870
Total long term investments		700,644,248	430,692,233
FIXED ASSETS:			
Cost		15,117,260,627	14,947,024,173
Less: Accumulated depreciation		(5,111,064,024)	(4,783,866,830)
Net book value		10,006,196,603	10,163,157,343
Less: Impairment		(232,431,412)	(125,431,412)
Net book value, net of impairment		9,773,765,191	10,037,725,931
Construction in progress		530,864,932	315,159,819
Total fixed assets		10,304,630,123	10,352,885,750
INTANGIBLE ASSETS:			
Intangible assets		870,111,515	880,394,034
TOTAL ASSETS		17,158,860,424	16,666,725,094

The attached notes are components of the financial statements.



## VI. FINANCIAL REPORTS (continued)

### BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2002

	Note (V)	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
CURRENT LIABILITIES:			
Short term loans		940,904,165	985,930,885
Trade payables		980,596,952	799,292,764
Deposits received		703,999,916	540,367,958
Wages payable		110,069,963	500,175
Staff welfare payable		19,195,886	11,877,086
Dividend payable	19	94,552,624	129,106,000
Tax payable		35,462,721	258,528,426
Other taxes payable		18,499,153	16,834,518
Other payables		307,303,271	192,431,871
Accrued charges		338,144,967	235,172,949
Long term loans, current portion		171,890,479	245,826,493
Total current liabilities		3,720,620,097	3,415,869,125
LONG TERM LIABILITIES:			
Long term loans		844,961,926	821,914,033
Specific payables		525,840,000	485,840,000
Other long term liabilities		169,181,751	182,067,859
Total long term liabilities		1,539,983,677	1,489,821,892
DEFERRED CREDIT	45	—	1,373,630,913
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	4,864,975,395	3,491,344,482
Surplus reserves	30	420,370,310	420,370,310
including: statutory public welfare fund	30	210,185,155	210,185,155
Retained profits		157,610,945	20,388,372
Total shareholders' funds		11,898,256,650	10,387,403,164
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		17,158,860,424	16,666,725,094

The attached notes are components of the financial statements.

Company Representative:  
**Gu Jianguo**  
15 August 2002

Chief Accountant:  
**Su Jiangang**  
15 August 2002

Head of Accounting Department:  
**Guang Yagang**  
15 August 2002





## VI. FINANCIAL REPORTS (continued)

### PROFIT AND LOSS ACCOUNT

(Prepared under PRC accounting standards)

Period ended 30 June 2002

		For the six months ended 30 June	
	Note (V)	2002 Unaudited RMB	2001 Unaudited RMB
Principal operating income	32	5,143,234,071	4,402,686,029
Less: Cost of sales	32	(4,434,949,008)	(3,657,729,712)
Sales tax and surcharges		(44,391,316)	(44,285,249)
Profit from principal operating activities		663,893,747	700,671,068
Add: Other operating profit/(loss)		(1,175,090)	4,201,937
Less: Selling expenses		(31,523,822)	(29,404,258)
Administrative expenses		(207,064,384)	(298,256,801)
Financial expenses		(40,148,395)	(72,028,437)
Operating profit		383,982,056	305,183,509
Add: Investment income	37	7,087,790	7,412,505
Non-operating income		2,995,362	8,451,080
Less: Non-operating expenses		(201,717,764)	(172,215,148)
Profit before tax		192,347,444	148,831,946
Less: Tax		(29,061,816)	(22,324,792)
Net profit		163,285,628	126,507,154
Add: Retained profits at beginning of period		20,388,372	176,847,899
Less: Staff housing subsidies charged to retained profits	41	(26,063,055)	(17,507,191)
Loss from sales of staff quarters charged to opening retained profits	42	-	(105,600,289)
Profit available for distribution		157,610,945	180,247,573
Less: Transfers to statutory surplus reserve	30	-	-
Transfers to statutory public welfare fund	30	-	-
Profit available for distribution to shareholders		157,610,945	180,247,573
Less: Ordinary shares dividend payable		-	-
Retained profits at end of period		157,610,945	180,247,573

The attached notes are components of the financial statements.

Company Representative:  
**Gu Jianguo**  
15 August 2002

Chief Accountant:  
**Su Jiangang**  
15 August 2002

Head of Accounting Department:  
**Guang Yagang**  
15 August 2002



## VI. FINANCIAL REPORTS (continued)

### CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2002

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
1. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	6,172,172,560	5,081,934,069
Cash received from taxes refund	–	20,642,459
Other cash received relating to operating activities	2,995,362	8,451,080
Sub-total of cash inflows	6,175,167,922	5,111,027,608
Cash paid for goods and services	(3,767,135,001)	(3,368,103,685)
Cash paid to and on behalf of employees	(574,991,521)	(533,964,558)
Other taxes paid	(760,404,929)	(521,479,582)
Other cash paid relating to operating activities	(111,942,579)	(42,950,203)
Sub-total of cash outflows	(5,214,474,030)	(4,466,498,028)
Net cash flows from operating activities	960,693,892	644,529,580
2. Cash flows from investing activities:		
Cash received from sales of investments	101,600,000	–
Cash received from returns on investments	16,632,177	7,412,505
Net cash received from disposal of fixed assets, intangible assets and other long term assets	1,962,942	378,857
Cash received from returns on other investments	–	11,625,030
Sub-total of cash inflows	120,195,119	19,416,392
Cash paid for acquisition of fixed assets, intangible assets and other long term assets	(447,529,832)	(317,634,656)
Cash paid for purchase of investment	(100,000,000)	(101,000,000)
Sub-total of cash outflows	(547,529,832)	(418,634,656)
Net cash flows from investing activities	(427,334,713)	(399,218,264)
3. Cash flows from financing activities:		
Proceeds from borrowings	505,663,550	506,303,550
Other cash received relating to financing activities	40,000,000	204,000,000
Sub-total of cash inflows	545,663,550	710,303,550
Cash repayments of amounts borrowed	(601,599,990)	(820,796,394)
Cash paid for appropriation of dividend and profit or payment of interest	(89,518,559)	(87,238,646)
Sub-total of cash outflows	(691,118,549)	(908,035,040)
Net cash flows from financing activities	(145,454,999)	(197,731,490)
4. Effect of foreign exchange rate changes on cash	(33,311)	99,540
5. Net increase in cash and cash equivalents	387,870,869	47,679,366

The attached notes are components of the financial statements.



## VI. FINANCIAL REPORTS (continued)

### CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2002

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Supplementary information		
1. Reconciliation of net profit to net cash flows from operating activities:		
Net profit	163,285,628	126,507,154
Add: Staff housing subsidies charged to retained profits	(26,063,055)	(17,507,191)
Provision for doubtful debts	11,328,720	95,550,000
Reversal of provision for impairment of investments	(1,087,790)	–
Provision for impairment of fixed assets	107,000,000	82,955,500
Provision for impairment of construction in progress	–	75,000,000
Depreciation of fixed assets	418,012,008	391,748,323
Amortisation of intangible assets	10,282,519	9,272,352
Increase in accrued charges	99,417,659	145,954,325
Loss on disposal and write-off of fixed assets, intangible assets and other long term assets	83,605,281	1,132,522
Financial expenses	39,087,503	71,891,923
Investment income	(6,000,000)	(7,412,505)
Increase in inventories	(18,982,094)	(189,635,711)
Increase in receivables from operating activities	(155,661,443)	(475,982,020)
Increase in payables from operating activities	236,468,956	335,054,908
Net cash flows from operating activities	<u>960,693,892</u>	<u>644,529,580</u>
2. Investing and financing activities that do not involve cash receipts and payments:	<u>–</u>	<u>–</u>
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	1,534,743,454	1,527,587,949
Less: Cash and balances with financial institutions at beginning of period	(1,146,872,585)	(1,479,908,583)
Add: Balance of cash equivalents at end of period	–	–
Less: Balance of cash equivalents at beginning of period	–	–
Net increase in cash and cash equivalents	<u>387,870,869</u>	<u>47,679,366</u>

The attached notes are components of the financial statements.

Company Representative:

**Gu Jianguo**

15 August 2002

Chief Accountant:

**Su Jiangang**

15 August 2002

Head of Accounting Department:

**Guang Yagang**

15 August 2002



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2002

#### (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.

##### 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.

##### 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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 7. Cash equivalents

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

#### 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 period. 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.

Provisions are made for those doubtful debts that have not yet been approved, using the provision method and these doubtful debts will be offset against the corresponding trade and other receivables when they 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 the 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%



## **VI. FINANCIAL REPORTS (continued)**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

(Prepared under PRC accounting standards)

30 June 2002

### **(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.

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 period.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 12. Fixed assets and depreciation

Fixed assets represent buildings and structure, plant and machinery, transportation vehicles, other equipment 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:

Categories	Estimated useful life	Annual depreciation rate
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%

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.

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.



## **VI. FINANCIAL REPORTS (continued)**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

(Prepared under PRC accounting standards)

30 June 2002

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

#### **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.

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

#### **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.





## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

### (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 period 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.

### (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 surcharge

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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

#### (III) TAX (continued)

##### 6. Income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15% to 33%, on their estimated assessable profits for the period 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 period. No provision for income tax for other overseas subsidiary has been made as there were no assessable profits during the period.

#### (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	Anhui, PRC	Planning and design of metallurgical, construction and environmental protection projects	RMB8,000,000	7,500,000	93.75	6.25
MG Control Technique Company Limited (Note 1)	Anhui, PRC	Planning and design of automation system; purchase, install, repairs of computers and communications systems	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
Total				<u>71,775,454</u>		

Note 1: Newly incorporated during the period

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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

### (V) MAJOR NOTES TO FINANCIAL STATEMENTS

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

		As at 30 June 2002 Unaudited			As at 31 December 2001 Audited		
	Note	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand		<b>RMB109,847</b>	<b>1.00</b>	<b>109,847</b>	RMB72,302	1.00	72,302
Balances with		<b>RMB1,520,289,188 (Note)</b>	<b>1.00</b>	<b>1,520,289,188</b>	RMB1,093,362,992	1.00	1,093,362,992
financial institutions	2	<b>HK\$82,363,663</b>	<b>1.0606</b>	<b>87,354,834</b>	HK\$116,330,237	1.0613	123,266,526
		<b>US\$4,579,302 (Note)</b>	<b>8.2771</b>	<b>37,891,567</b>	US\$4,934,124	8.2766	40,837,776
		<b>EUR 364,858</b>	<b>8.1987</b>	<b>2,991,361</b>	DM561,165	3.5352	1,984,167
		<b>JPY 870,124</b>	<b>0.069</b>	<b>60,175</b>	JPY994,343,605	0.063	62,648,619
Total				<b><u>1,648,696,972</u></b>			<b><u>1,322,172,382</u></b>

Note: Fixed deposits of US\$1,039,000 have been pledged to the Hongkong and Shanghai Banking Corporation Limited and fixed deposits of US\$580,703 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, and fixed deposits of RMB6,560,262 have been pledged to the Industrial and Commercial Bank of China, Maanshan Branch as securities for loans from the Bank.

#### 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 (31 December 2001: RMB202 million).

	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	<b>26,327</b>	26,327
China Venturetech Investment Corporation ("China Venturetech")	<b>9,954</b>	9,954
SEG International Trust & Investment Corporation ("SEG")	<b>46,545</b>	46,545
CITIC Ningbo Inc. ("Ningbo CITIC")	<b>45,112</b>	45,112
Shenzhen Leasing Co. Ltd. ("SLCL")	<b>74,242</b>	74,242
	<b><u>202,180</u></b>	202,180
Provision for overdue deposits	<b><u>(175,000)</u></b>	(175,000)
	<b><u>27,180</u></b>	<u>27,180</u>

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

GITIC, China Venturetech and Ningbo CITIC are now in liquidation and the Company has registered its debts with their respective liquidators. For the six months period ended 30 June 2002, no repayment was received from GITIC, China Venturetech and Ningbo CITIC. 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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

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

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. As it is unable to estimate the further amount that the Company is able to recover upon the repayment date, the Company maintained the balance of provision brought forward from last year.

Based on the above factors, the directors maintain the provision of RMB175 million, brought forward from 2001, against these five overdue fixed deposits, and to continue to account for any interest income arising from these deposits on a receipts basis.

#### 3. Short term investments

Items		As at 30 June 2002 Unaudited		As at 31 December 2001 Audited	
		Investment cost RMB	Provision for impairment RMB	Investment cost RMB	Provision for impairment RMB
Designated investment	(i)	100,000,000	—	100,000,000	—
Equity investment	(ii)	13,568,593	684,000	13,568,593	1,771,790
Total		<u>113,568,593</u>	<u>684,000</u>	<u>113,568,593</u>	<u>1,771,790</u>

(i) On 17 April 2002, the Company entered into a designated investment agreement with Anhui International Trust & Investment Corporation ("AITIC") whereby AITIC 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 1 year, from 17 April 2002 to 17 April 2003.

Name of enterprise	Number of shares held	Investment cost RMB	Closing market unit price	Market price at period end
			RMB	RMB
China Petroleum & Chemical Corporation	1,800,000	7,596,000	3.90	7,020,000
Baoshan Iron & Steel Company Limited	1,428,850	5,972,593	4.64	6,629,864
Total		<u>13,568,593</u>		<u>13,649,864</u>

The period end market prices of the shares were the closing market prices as at 28 June 2002 as disclosed in China Securities Journal.

There is no material restriction on realisation of investments.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 4. Bills receivable

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Bank bills receivable	<u>915,980,716</u>	<u>878,498,188</u>

As at 30 June 2002 and 31 December 2001, the Group did not have any pledged bills receivable.

#### 5. Trade receivables

Trade receivables ageing analysis:

	Group			As at 31 December 2001 Audited		
	As at 30 June 2002 Unaudited					
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	234,965,751	35	(38,772,897)	313,544,939	41	(38,069,444)
One to two years	22,768,900	4	(12,541,228)	32,924,310	4	(14,736,178)
Two to three years	52,596,620	8	(47,149,749)	66,139,368	9	(40,857,417)
Over three years	355,622,394	53	(355,622,394)	354,518,588	46	(354,394,509)
Total	<u>665,953,665</u>	<u>100</u>	<u>(454,086,268)</u>	<u>767,127,205</u>	<u>100</u>	<u>(448,057,548)</u>

  

	Company			As at 31 December 2001 Audited		
	As at 30 June 2002 Unaudited					
	Balance RMB	Ratio %	Provision for doubtful debts RMB	Balance RMB	Ratio %	Provision for doubtful debts RMB
Within one year	253,421,913	38	(37,626,253)	286,510,072	39	(26,588,816)
One to two years	30,320,848	4	(12,541,228)	32,924,310	5	(14,736,178)
Two to three years	41,702,877	6	(41,702,877)	66,139,368	9	(40,857,417)
Over three years	350,215,910	52	(350,215,910)	348,699,216	47	(348,575,137)
Total	<u>675,661,548</u>	<u>100</u>	<u>(442,086,268)</u>	<u>734,272,966</u>	<u>100</u>	<u>(430,757,548)</u>

The decrease in the Group's trade receivables, net of provision by 34% is mainly attributable to the increase in collection ability and the receipt of more bank bills.

As at 30 June 2002, the five largest trade receivables amounted to RMB225,170,637, which accounted for 34% 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 RMB46.7 million (31 December 2001: RMB12.8 million) which principally arose from normal trading activities.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 6. Other receivables

Other receivables ageing analysis:

	Group			Group		
	As at 30 June 2002			As at 31 December 2001		
	Unaudited			Audited		
	Balance	Ratio	Provision for	Balance	Ratio	Provision for
	RMB	%	doubtful	RMB	%	doubtful
			debts			debts
			RMB			RMB
Within one year	856,923,105	93	(8,150,949)	582,523,115	91	(6,466,984)
One to two years	12,478,234	2	(1,833,882)	3,519,243	1	(3,168,024)
Two to three years	3,328,484	–	(1,996,790)	1,241,290	–	(1,113,442)
Over three years	49,641,095	5	(48,241,127)	49,474,298	8	(49,474,298)
Total	<u>922,370,918</u>	<u>100</u>	<u>(60,222,748)</u>	<u>636,757,946</u>	<u>100</u>	<u>(60,222,748)</u>

  

	Company			Company		
	As at 30 June 2002			As at 31 December 2001		
	Unaudited			Audited		
	Balance	Ratio	Provision for	Balance	Ratio	Provision for
	RMB	%	doubtful	RMB	%	doubtful
			debts			debts
			RMB			RMB
Within one year	214,337,514	80	(8,150,949)	294,293,553	85	(6,466,984)
One to two years	4,594,836	2	(1,833,882)	3,519,243	1	(3,168,024)
Two to three years	3,327,984	1	(1,996,790)	1,240,790	–	(1,113,442)
Over three years	48,241,127	17	(48,241,127)	49,474,298	14	(49,474,298)
Total	<u>270,501,461</u>	<u>100</u>	<u>(60,222,748)</u>	<u>348,527,884</u>	<u>100</u>	<u>(60,222,748)</u>

The increase in the Group's other receivables, net of provision by 50%, is mainly attributable to the increase in purchases of imported raw materials.

As at 30 June 2002, the five largest other receivables amounted to RMB309,035,323, which accounted for 34% 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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 7. Prepayments

Prepayments ageing analysis:

	As at 30 June 2002 Unaudited		As at 31 December 2001 Audited	
	Balance RMB	Ratio %	Balance RMB	Ratio %
Within one year	453,436,250	99	461,870,051	99
One to two years	5,424,985	1	4,400,818	1
Two to three years	559,095	–	614,447	–
Total	459,420,330	100	466,885,316	100

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

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

	As at 30 June 2002 Unaudited		As at 31 December 2001 Audited	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	680,061,708	–	623,146,667	–
Work in progress	358,356,976	(3,000,000)	403,306,453	(3,000,000)
Finished goods	234,829,601	(4,150,000)	141,452,756	(4,150,000)
Spare parts	631,131,224	(66,913,041)	681,241,874	(66,913,041)
Total	1,904,379,509	(74,063,041)	1,849,147,750	(74,063,041)

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.

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

The balance of current portion of the Group's long term debt investments is nil because of the retrieval of debt investments.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 10. Long term investments

Item	Group			As at 30 June 2002 Unaudited RMB
	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Decrease during the period Unaudited RMB	
Long term equity investments				
Equity investments (ii)	6,417,035	—	—	6,417,035
Long term debt investments				
Other debt investments (iii)	21,558,870	—	—	21,558,870
Total	<u>27,975,905</u>	<u>—</u>	<u>—</u>	<u>27,975,905</u>

  

Item	Company			As at 30 June 2002 Unaudited RMB
	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Decrease during the period Unaudited RMB	
Long term equity investments				
Interests in subsidiaries (i)	402,716,328	269,952,015	—	672,668,343
Equity investments (ii)	6,417,035	—	—	6,417,035
	409,133,363	269,952,015	—	679,085,378
Long term debt investments				
Other debt investments (iii)	21,558,870	—	—	21,558,870
Total	<u>430,692,233</u>	<u>269,952,015</u>	<u>—</u>	<u>700,644,248</u>

The increase in the Company's long term investments by 63% is mainly attributable to the increase in investment in a subsidiary and the increase in amounts due from subsidiaries.

(i) *Interests in subsidiaries*

	Company	
	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Unlisted investments, at cost	71,775,454	64,275,454
Amounts due from subsidiaries	600,892,889	338,440,874
Total	<u>672,668,343</u>	<u>402,716,328</u>





## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

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

##### (ii) Equity investments

Equity investments accounted for using the cost method:

Name of enterprise	Nature of investments	Number of shares held Unaudited	Percentage of equity held by the Company %	Investments cost Unaudited 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
Total				<u>6,417,035</u>

##### (iii) Other debt investments

Debtor	Annual principal amount Unaudited RMB	Annual interest rate %	Maturity date	Interest for the period Unaudited RMB	Accumulated interest received/receivable Unaudited RMB	Carrying value Unaudited RMB
安徽省電子開發總公司	<u>21,558,870</u>	Nil	2002 – 2009	<u>–</u>	<u>–</u>	<u>21,558,870</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 11. Fixed assets

	<b>Buildings and structure Unaudited RMB</b>	<b>Plant, machinery and equipment Unaudited RMB</b>	<b>Transportation vehicles and equipment Unaudited RMB</b>	<b>Total Unaudited RMB</b>
Cost				
At 1 January 2002	6,560,023,602	7,927,139,269	477,023,940	14,964,186,811
Additions	1,495,613	3,054,051	3,140,766	7,690,430
Transferred from construction in progress (note 12)	15,885,607	324,996,843	4,124,597	345,007,047
Reclassifications	387,311	(399,698)	12,387	–
Disposals	(11,155,114)	(164,527,837)	(700,085)	(176,383,036)
At 30 June 2002	<u>6,566,637,019</u>	<u>8,090,262,628</u>	<u>483,601,605</u>	<u>15,140,501,252</u>
Accumulated depreciation				
At 1 January 2002	1,512,710,925	2,992,455,975	285,747,636	4,790,914,536
Provided during the period	130,873,766	270,790,624	19,069,636	420,734,026
Reclassifications	215,962	(227,977)	12,015	–
Disposals	(3,958,257)	(86,674,680)	(181,876)	(90,814,813)
At 30 June 2002	<u>1,639,842,396</u>	<u>3,176,343,942</u>	<u>304,647,411</u>	<u>5,120,833,749</u>
Net book value				
At 30 June 2002				
Net book value	4,926,794,623	4,913,918,686	178,954,194	10,019,667,503
Less: Impairment	(68,752,257)	(163,679,155)	–	(232,431,412)
Net book value, net of impairment	<u>4,858,042,366</u>	<u>4,750,239,531</u>	<u>178,954,194</u>	<u>9,787,236,091</u>
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)
Net book value, net of impairment	<u>4,985,748,286</u>	<u>4,870,816,273</u>	<u>191,276,304</u>	<u>10,047,840,863</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 30 June 2002:

Name of project		Budgeted cost RMB'000	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Transferred to fixed assets (note 11) Unaudited RMB	As at 30 June 2002 Unaudited RMB	Source of fund	Percentage of completion %
1.	No. 1 Steel Making Plant Converter Furnace Project	740,000	116,139,696	231,928,331	(282,517,201)	65,550,826	Internally generated funds and loans from financial institutions	90
	<i>Including interest capitalised</i>		4,866,960	8,811,594	(10,025,650)	3,652,904		
2.	220t/h Boiler Project	54,000	54,356,089	-	(54,356,089)	-	Internally generated funds	100
3.	300m <sup>3</sup> Sintering Machine	298,000	83,158	30,368,200	-	30,451,358	Internally generated funds	10
4.	2500m <sup>3</sup> Blast Furnace	795,000	4,114,342	35,837,693	-	39,952,035	Internally generated funds	5
5.	No.9 Furnace	39,540	14,400,971	19,970,307	-	34,371,278	Internally generated funds	100
6.	Thin Plate Project	5,200,000	3,793,956	17,599,496	-	21,393,452	Internally generated funds and loans from financial institutions	-
7.	No.1 Steel Making Plant Converter Furnace Project Phase 2	500,000	3,439,810	25,989,128	-	29,428,938	Internally generated funds and loans from financial institutions	5
8.	Wire Rod Mill of No.2 Steel Making Plant	132,000	788,308	13,250,337	-	14,038,645	Internally generated funds	10
9.	Public Assistance Facility	440,000	1,966,431	23,766,874	-	25,733,305	Internally generated funds	5
10.	No.1 Sintering Machine	22,000	6,962,569	12,710,716	-	19,673,285	Internally generated funds	100
11.	Materials Mixing Ground Construction Project	16,500	12,589,141	4,317,501	-	16,906,642	Internally generated funds	100
12.	Other projects		96,525,348	144,975,577	(8,133,757)	233,367,168	Internally generated funds and loans from financial institutions	N/A
	<i>Including interest capitalised</i>		-	43,178	(43,178)	-		
	Total		315,159,819	560,714,160	(345,007,047)	530,866,932		

The increase in the Group's construction in progress by 68% is attributable to the increase in the number of construction projects.

The capitalisation rates of interests are 5.76% – 6.21% per annum.

#### 13. Intangible assets

	Original amount RMB	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Amortisation during the period Unaudited RMB	Accumulated amortisation Unaudited RMB	As at 30 June 2002 Unaudited RMB	Remaining year of amortisation
Land use rights	1,028,251,518	880,394,034	-	(10,282,519)	(158,140,003)	870,111,515	40 to 49 years



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 14. Short term loans

Type	Annual interest rate %	Maturity date	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Guaranteed loans	3	June 2003	6,543,955	–
Unsecured loans	3.375 – 5.850	July 2002 – June 2003	940,904,165	985,930,885
Total			<u>947,448,120</u>	<u>985,930,885</u>

#### 15. 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.

#### 16. Deposits received

The increase in the Group's deposits received by 33% 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.

#### 17. Wages payable

The increase in the Group's wages payable by 220 times is mainly attributable to the increase in unpaid balance of wages payable during the period.

#### 18. Welfare payable

The increase in the Group's welfare payable by 61% mainly attributable to the expected increase in welfare expenditure.

#### 19. Dividend payable

	Group and Company As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
2001 final dividend payable – RMB2 cents	<u>94,552,624</u>	<u>129,106,000</u>

The Group's and the Company's dividend payable at the end of period is unpaid dividends for the year of 2001.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 20. Tax payable

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Income tax	(2,694,565)	(9,704,786)
VAT	37,275,976	268,581,097
Business tax	139,499	111,552
Other taxes	1,300,578	561,030
Total	<u>36,021,488</u>	<u>259,548,893</u>

The Group's tax payable decreased by 86% is mainly attributable to settlement of VAT payables for prior years during the period.

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

#### 21. Other taxes payable

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Education surcharge	619,924	319,389
Flood prevention fund	17,879,229	16,515,129
Other taxes	967	25,801
Total	<u>18,500,120</u>	<u>16,860,319</u>

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

#### 22. Other payables

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Labour costs and staff welfare	85,456,115	27,375,779
Construction fee	194,011,935	125,008,384
Maintenance and inspection fee	13,142,914	17,202,686
Others	39,949,767	29,370,761
Total	<u>332,560,731</u>	<u>198,957,610</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 22. Other payables (continued)

The increase in the Group's other payables by 67% is mainly attributable to the increase in labour costs payable and construction fee payable.

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 interest.

Certain of the Group's other payables are aged over three years because part of the construction fee has not been settled.

#### 23. Accrued charges

	<b>As at 30 June 2002 Unaudited RMB</b>	As at 31 December 2001 Audited RMB
Loan interests	<b>72,909,610</b>	47,695,984
Freight charges	<b>48,725,962</b>	64,085,423
Retirement benefits payable to early retired employees	<b>72,760,728</b>	73,142,630
Repair and maintenance costs	<b>85,858,478</b>	21,862,632
Others	<b>58,372,392</b>	28,386,280
Total	<b><u>338,627,170</u></b>	<u>235,172,949</u>

The increase in the Group's accrued charges by 44% is mainly attributable to the increase in unsettled repair and maintenance costs.

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

Lender	Currency	As at 30 June 2002 Unaudited		Currency	As at 31 December 2001 Audited		Maturity date	Annual interest rate %	Conditions of borrowings
		Original currency	RMB		Original currency	RMB			
The Industrial and Commercial Bank of China – Magang Branch	RMB	27,700,000	27,700,000	RMB	103,940,000	103,940,000	2/2003 – 6/2003	2.88 – 5.49	Unsecured
China Construction Bank – Maanshan Branch	N/A	-	-	RMB	2,700,000	2,700,000	N/A	N/A	N/A
China Construction Bank – Metallurgical Branch	RMB	65,000,000	65,000,000	RMB	60,000,000	60,000,000	12/2002–6/2003	5.76 – 6.21	Guaranteed by Holding
China Construction Bank – Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	6/2003	2.4	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,990,479	USD	7,972,657	65,986,493	4/2003	4.6	Guaranteed by Holding
Bank of China – Maanshan Branch	EUR	123,947	1,014,176	EUR	123,947	907,015	9/2002 – 3/2003	0.25	Unsecured
Total			<u>172,904,655</u>			<u>246,733,508</u>			

The decrease in Group's long term loans, current portion by 30% is attributable to the decrease in loan borrowings and increase in loan repayments.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 25. Long term loans

Lender	As at 30 June 2002 Unaudited			As at 31 December 2001 Audited			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	N/A	-	-	RMB	20,000,000	20,000,000	N/A	N/A	N/A
China Construction Bank – Metallurgical Branch	RMB	581,000,000	581,000,000	RMB	505,000,000	505,000,000	8/2003–12/2007	5.76–6.21	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	31,890,629	263,961,926	USD	35,876,958	296,914,033	10/2003–10/2007	4.6	Guaranteed by Holding
Bank of China – Maanshan Branch	EUR	2,045,121	16,733,900	EUR	2,107,089	15,419,255	9/2003–9/2019	0.25	Unsecured
Total			<u>861,695,826</u>			<u>837,333,288</u>			

#### 26. Specific payables

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Government subsidies for specific construction projects	<u>525,840,000</u>	<u>485,840,000</u>

#### 27. Other long term liabilities

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB
Accrued charges for furnace relining	125,598,721	120,343,721
Retirement benefits payable to early retired employees	<u>43,583,030</u>	<u>61,724,138</u>
Total	<u>169,181,751</u>	<u>182,067,859</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 28. 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:

		<b>Group and Company</b>	
		<b>As at</b>	<b>As at</b>
		<b>30 June</b>	<b>31 December</b>
		<b>2002</b>	<b>2001</b>
		<b>Unaudited</b>	<b>Audited</b>
		<b>RMB</b>	<b>RMB</b>
A.	Unlisted shares		
1.	Shares held by promoter:		
(1)	State-owned shares	4,034,560,000	4,034,560,000
(2)	Shares owned by domestic legal persons	-	-
(3)	Shares owned by foreign	-	-
(4)	Others	-	-
2.	Legal person A shares	87,810,000	87,810,000
3.	Shares held by employees	-	-
4.	Preferred shares and others	-	-
	Total unlisted shares	<u>4,122,370,000</u>	<u>4,122,370,000</u>
B.	Listed shares		
1.	A shares	600,000,000	600,000,000
2.	B shares	-	-
3.	H shares	1,732,930,000	1,732,930,000
4.	Others	-	-
	Total listed shares	<u>2,332,930,000</u>	<u>2,332,930,000</u>
C.	Total share capital	<u><u>6,455,300,000</u></u>	<u><u>6,455,300,000</u></u>

There was no change in share capital during the period.

#### 29. Capital reserve

		<b>Group and Company</b>		
		<b>As at</b>	<b>Additions</b>	<b>Decrease</b>
		<b>1 January</b>	<b>during the</b>	<b>during the</b>
		<b>2002</b>	<b>period</b>	<b>period</b>
		<b>Audited</b>	<b>Unaudited</b>	<b>Unaudited</b>
		<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Share premium		<u>3,491,344,482</u>	<u>1,373,630,913</u>	<u>-</u>
				<u>4,864,975,395</u>

The increase in the Group's and the Company's capital reserves by 39% is attributable to the transfer in of deferred credit.





## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 30. Surplus reserves

	Group			
	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Decrease during the period Unaudited RMB	As at 30 June 2002 Unaudited RMB
Statutory surplus reserve	210,405,777	–	–	210,405,777
Statutory public welfare fund	210,304,166	–	–	210,304,166
Total	<u>420,709,943</u>	<u>–</u>	<u>–</u>	<u>420,709,943</u>

  

	Company			
	As at 1 January 2002 Audited RMB	Additions during the period Unaudited RMB	Decrease during the period Unaudited RMB	As at 30 June 2002 Unaudited RMB
Statutory surplus reserve	210,185,155	–	–	210,185,155
Statutory public welfare fund	210,185,155	–	–	210,185,155
Total	<u>420,370,310</u>	<u>–</u>	<u>–</u>	<u>420,370,310</u>

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.

The Company did not allocate any SSR and PWF for the period.

#### 31. Retained profits

	Note	Group amount Unaudited RMB
Retained profits at beginning of period		36,121,774
Less: Staff housing subsidies payment charged to retained profits	41	(26,063,055)
Add: Net profit for the period		<u>164,412,785</u>
Retained profits at end of period		<u>174,471,504</u>

The Company did not distribute any profits for the period.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

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

Items	Group			Group		
	For the six months ended			For the six months ended		
	30 June 2002			30 June 2001		
	Operating income Unaudited RMB	Cost of sales Unaudited RMB	Profit from operating activities Unaudited RMB	Operating income Unaudited RMB	Cost of sales Unaudited RMB	Profit from operating activities Unaudited RMB
Sale of steel products	4,808,637,802	4,175,371,367	633,266,435	4,365,433,480	3,669,827,987	695,605,493
Sale of pig iron	14,053,594	10,937,996	3,115,598	10,733,756	7,775,854	2,957,902
Sale of steel billets	22,575,518	23,908,425	(1,332,907)	20,224,402	20,838,008	(613,606)
Others	309,405,737	231,515,503	77,890,234	325,219,529	259,763,426	65,456,103
Total	<u>5,154,672,651</u>	<u>4,441,733,291</u>	<u>712,939,360</u>	<u>4,721,611,167</u>	<u>3,958,205,275</u>	<u>763,405,892</u>

  

Items	Company			Company		
	For the six months ended			For the six months ended		
	30 June 2002			30 June 2001		
	Operating income Unaudited RMB	Cost of sales Unaudited RMB	Profit from operating activities Unaudited RMB	Operating income Unaudited RMB	Cost of sales Unaudited RMB	Profit from operating activities Unaudited RMB
Sale of steel products	4,804,644,155	4,174,244,435	630,399,720	4,091,271,783	3,411,615,312	679,656,471
Sale of pig iron	14,053,594	10,937,996	3,115,598	10,733,756	7,775,854	2,957,902
Sale of steel billets	22,575,518	23,908,425	(1,332,907)	20,224,402	20,838,008	(613,606)
Others	301,960,804	225,858,152	76,102,652	280,456,088	217,500,538	62,955,550
Total	<u>5,143,234,071</u>	<u>4,434,949,008</u>	<u>708,285,063</u>	<u>4,402,686,029</u>	<u>3,657,729,712</u>	<u>744,956,317</u>

The sales to the five major customers amounted to RMB1,156,972,208, which accounted for 22% of the total Group's and Company's turnover 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 period.

#### 33. Sales tax and surcharges

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
City construction and maintenance tax	31,298,937	31,070,946
Education surcharge	13,417,757	13,316,120
Other taxes	190,147	226,142
Total	<u>44,906,841</u>	<u>44,613,208</u>

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



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 34. Other operating profit

The other operating profit of the Group increased by 53% is mainly attributable to other operating income being greater than other operating expenses.

#### 35. Administrative expenses

The decrease in the Group's administrative expenses by 30% is mainly attributable to the decrease in bad debts provision.

#### 36. Financial expenses

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Interest expenses	49,673,149	81,410,706
Less: Interest income	(10,865,387)	(9,534,234)
Exchange loss	2,261,194	416,434
Less: Exchange gain	(538,067)	(2,149,024)
Others	3,151,338	330,945
Total	<u>43,682,227</u>	<u>70,474,827</u>

The Group's financial expense decreased by 38% is mainly attributable to the decrease in interest expense.

#### 37. Investment income

	Group and Company For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Equity investment income	<u>7,087,790</u>	<u>7,412,505</u>

#### 38. Subsidies income

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Government subsidies income	<u>-</u>	<u>1,932,937</u>

The Group's subsidies income is nil as the export of steel products decreased during the period.

#### 39. Non-operating income

The decrease in the Group's non-operating income by 65% is mainly attributable to the decrease in exemption on repayment of environmental protection loans.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 40. Non-operating expenses

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Provision for impairment of construction in progress	–	75,000,000
Provision for impairment of fixed assets	107,000,000	82,955,500
Staff children education expenses	12,663,064	12,814,702
Loss on disposals of fixed assets, net	80,823,298	–
Others	1,358,544	1,445,396
Total	<u>201,844,906</u>	<u>172,215,598</u>

#### 41. 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 RMB26,063,055 (six months ended 30 June 2001: RMB17,507,191) during the period have been charged to the retained profits accounts.

#### 42. Loss on sales of staff quarters charged to retained profits

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

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

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Real estate tax	13,787,174	14,179,767
Environmental protection fee	13,202,303	10,563,963
Welfare and support service	39,397,506	42,417,507
Transportation cost	7,216,153	12,784,001
Unloading cost	3,910,159	5,094,828
Packing fee	5,343,033	3,069,127
Staff children education expenses	12,663,064	12,814,702
Warehouse fee	1,087,588	1,081,904
Stamp duty	2,010,392	1,834,071
Export related cost	–	8,954,026
Sewage system cost	–	3,960,000
Others	6,557,735	38,550,236
Total	<u>105,175,107</u>	<u>155,304,132</u>

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

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Government subsidies for specific construction projects	<u>40,000,000</u>	<u>204,000,000</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 45. Deferred credit

On 1 January 1994, the PRC government abolished the dual exchange rate system by unifying the official and swap centre rate systems which resulted in an unified exchange rate as quoted by the People's Bank of China. The deferred credit arose from the retranslation of the proceeds received from the issue of H shares before and after the unification of the exchange rates on 31 December 1993 and 1 January 1994, respectively. In accordance with the directives issued by the Ministry of Finance and recommendations from the officials of the Ministry of Finance and the China Securities Regulatory Commission, this exchange difference is recorded as a deferred credit on the balance sheet. Pursuant to a directive issued by the Ministry of Finance on 2 March 1994, the directors determined that the Group should retain the deferred credit to offset future losses, or retain the amount until liquidation. The deferred credit balance as at 31 December 2001 represented deferred credit brought forward from 1994 onwards on an annual basis. On 27 May 2002, the Ministry of Finance issued a directive and approved the deferred credit balance to be transferred to capital reserve. Accordingly, the Company has reclassified the deferred credit to capital reserve during the period (please refer to Note (V)(29) for details).

#### 46. Differences in financial statements prepared under PRC and 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:

		For the period ended 30 June 2002 Unaudited RMB'000
Difference in net profit	Notes	
Net profit under Hong Kong accounting standards		143,423
Add back:		
Amortisation of deferred staff cost	(i)	8,800
Staff housing subsidies to current employees	(ii)	17,444
Deduct:		
Provision for furnace relining costs	(iii)	(5,255)
Net profit under PRC accounting standards		<u>164,412</u>
		As at 30 June 2002 Unaudited RMB'000
Difference in shareholders' funds	Notes	
Shareholders' funds under Hong Kong accounting standards		12,125,698
Add back:		
Staff housing subsidies charged to profit and loss account:		
Current employees	(ii)	87,218
Retired employees	(ii)	38,843
Deduct:		
Unamortised deferred staff cost	(i)	(79,200)
Staff housing subsidies charged to retained profits	(ii)	(131,503)
Provision for furnace relining costs recorded as liability	(iii)	(125,599)
Shareholders' funds under PRC accounting standards		<u>11,915,457</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 46. 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 period treatment still follows the aforesaid accounting policies and the required amortisation of approximately RMB8.80 million was charged to the profit and loss account during the period. As at 30 June 2002, the unamortised deferred staff cost was approximately RMB79.20 million.

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.

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 RMB17.44 million have been accrued and charged to the profit and loss account during the period. The cumulative effect thereof on the shareholders' funds at 30 June 2002 was approximately RMB87.22 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 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 30 June 2002 was approximately RMB38.84 million.

Under PRC accounting standards, the subsidies paid to eligible current and retired employees aggregating approximately RMB26.06 million during the period have been charged directly to the retained profits account. The cumulative effect thereof on the shareholders' funds at 30 June 2002 was approximately RMB132 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 RMB5.26 million has been charged to the profit and loss account during the period. As at 30 June 2002, the balance of provision thereof was approximately RMB126 million.

According to Hong Kong accounting standards, 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.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

### (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 30 June 2002, 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.

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

Name	As at 1 January 2002 Audited RMB'000	Increase during the period Unaudited RMB'000	Decrease during the period Unaudited RMB'000	As at 30 June 2002 Unaudited RMB'000
Holding	6,298,290	—	—	6,298,290

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

Name	As at 1 January 2002 Audited RMB'000	Ratio %	Increase during the period Unaudited RMB'000	Ratio %	Decrease during the period Unaudited RMB'000	Ratio %	As at 30 June 2002 Unaudited RMB'000	Ratio %
Holding	4,082,330	63.24	—	—	—	—	4,082,330	63.24



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

#### 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

#### 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 period:

	For the six months ended 30 June	
	2002 Unaudited RMB	2001 Unaudited RMB
Transactions with ultimate holding company		
Purchases of iron ore and limestone	364,348,102	357,177,011
Fees received for the supply of utilities, services and other consumable goods	(12,349,099)	(20,970,545)
Fees paid for welfare, support services and other services	115,043,118	95,463,995
Purchases of fixed assets and provision of construction services	48,503,954	50,809,862
Sale of steel products	(4,298,093)	(2,119,451)
Transactions with subsidiaries and associates of Holding		
Sale of steel products		
馬鋼合力金屬製品有限公司	(935,683)	(548,202)
馬鞍山市黑馬交通器材公司	(15,547,231)	—
	(16,482,914)	(548,202)





## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

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 15 April 2002 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 15 April 2002 between the Company and Holding.

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

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

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

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB	Details
Trade receivables:			
Holding	–	1,110,948	Trade
馬鋼合力金屬製品有限公司	5,514,727	–	Trade
馬鞍山市黑馬交通器材公司	–	180,600	Trade
馬鞍山市馬鋼合力公司工貿分公司	–	4,664,217	Trade
上海江南物資聯合經銷公司	–	2,790,048	Trade
馬鞍山市凱馬螺絲製造有限公司	117,217	117,217	Trade
馬鞍山黑馬鋼筋焊網公司	2,800	–	Trade
巨龍公司	2,184,749	2,004,149	Trade
Total	7,819,493	10,867,179	
Other receivables:			
Holding	193,949	251,348,686	Trade
馬鞍山市凱馬螺絲製造有限公司	159,657	–	Trade
馬鋼三聯鐵廠	2,600,447	2,600,447	Trade
深圳市粵海馬鋼實業有限公司	–	159,657	Trade
巨龍公司	–	47,318	Trade
Total	2,954,053	254,156,108	
Trade payables:			
Holding	16,894,365	30,317,426	Trade
馬鞍山市聯營乙炔廠	–	1,302,990	Trade
馬鋼法蘭環件製造聯合公司	–	157,679	Trade
上海江南物資聯合經銷公司	22,722	–	Trade
安徽神馬冶金有限責任公司	–	918,541	Trade
馬鋼三聯鐵廠	–	251,342	Trade
來得省租賃公司	–	45,789	Trade
巨龍公司	–	54,398	Trade
Total	16,917,087	33,048,165	



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

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

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

	As at 30 June 2002 Unaudited RMB	As at 31 December 2001 Audited RMB	Details
Other payables:			
Holding	1,153,799	2,653,290	Trade
馬鞍山市聯營乙炔廠	1,311,032	—	Trade
馬鋼三聯鐵廠	—	250,777	Trade
馬鋼法蘭環件製造聯合公司	50,000	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
Total	<u>2,514,831</u>	<u>3,061,935</u>	
Deposit received:			
Holding	7,651,828	20,621,897	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	1,281	Trade
巨龍公司	1,868	1,748	Trade
馬鞍山黑馬鋼筋焊網公司	51,086	—	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
Total	<u>7,706,063</u>	<u>21,379,514</u>	

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

### (VII) CONTINGENT LIABILITIES

As at 30 June 2002 and 31 December 2001, the Group and Company had no significant contingent liabilities.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2002

### (VIII) CAPITAL COMMITMENTS

The commitments for capital expenditure as at 30 June 2002 were as follows:

	<b>Group and Company</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2002</b>	<b>2001</b>
	<b>Unaudited</b>	<b>Audited</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Contracted, but not provided for:		
Thin Plate Project	2,110,758	975,271
2500 m <sup>3</sup> Blast Furnace	185,170	4,070
No. 1 Steel Making Plant Converter Furnace Project	79,692	40,981
40000 m <sup>3</sup> Oxygenator	157,961	–
Modification of Train Wheel Rolling System	172,567	158,956
300 m <sup>3</sup> Sintering Machine	114,365	–
Coke Dry Quenching Project	16,808	–
No. 2 Coke Furnace	76,038	–
Revamping of High Speed Wire and Rolling Mill Project	117,812	99,704
Wire Rod Mill of No. 2 Steel Making Plant	40,275	491
Reformation of the Dock and Stock Storage Ground	42,091	–
No. 1 Steel Making Plant Converter Furnace Project Phase 2	77,764	–
Public Assistance Facility	58,425	–
No. 3 Electricity Generator Project	25,980	–
Other projects	58,066	768
	<b>3,333,772</b>	<b>1,280,241</b>
Authorised, but not contracted for:		
Thin Plate Project	2,642,990	4,044,859
2500 m <sup>3</sup> Blast Furnace	563,741	788,678
No. 1 Steel Making Plant Converter Furnace Project	58,685	298,586
40000 m <sup>3</sup> Oxygenator	164,962	340,000
Modification of Train Wheel Rolling System	90,015	118,244
300 m <sup>3</sup> Sintering Machine	122,797	298,000
Coke Dry Quenching Project	145,590	175,000
No. 2 Coke Furnace	91,351	172,000
Revamping of High Speed Wire and Rolling Mill Project	31,252	55,016
Wire Rod Mill of No. 2 Steel Making Plant	86,364	130,752
Reformation of the Dock and Stock Storage Ground	60,180	109,510
No.1 Steel Making Plant Converter Furnace Project Phase 2	380,089	–
Public Assistance Facility	271,104	–
Reclaiming System of the Coke Oven	170,000	–
Water Purification System Project	153,000	–
No. 3 Electricity Generator Project	100,020	–
Other projects	135,875	78,040
	<b>5,268,015</b>	<b>6,608,685</b>
Total capital commitments	<b>8,601,787</b>	<b>7,888,926</b>

### (IX) COMPARATIVE AMOUNTS

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

### (X) APPROVAL OF THE FINANCIAL STATEMENTS

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



## VI. FINANCIAL REPORTS (continued)

The Board of Directors of the Company hereby announces that the unaudited interim results of the Group for the six months ended 30 June 2002 together with comparative figures for the corresponding period in 2001. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2002

	Notes	For the six months ended 30 June	
		2002 Unaudited RMB'000	2001 Unaudited RMB'000
TURNOVER	3	<b>5,154,673</b>	4,721,611
Cost of sales		<b>(4,453,922)</b>	(3,975,649)
Gross profit		<b>700,751</b>	745,962
Other revenue and gains	3	<b>27,397</b>	32,957
Selling and distribution costs		<b>(77,293)</b>	(87,101)
Administrative expenses		<b>(223,610)</b>	(229,953)
Other operating expenses		<b>(204,849)</b>	(253,506)
PROFIT FROM OPERATING ACTIVITIES	4	<b>222,396</b>	208,359
Finance costs	5	<b>(49,673)</b>	(81,411)
PROFIT BEFORE TAX		<b>172,723</b>	126,948
Tax	6	<b>(29,300)</b>	(22,979)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>143,423</b>	103,969
EARNINGS PER SHARE	9		
Basic		<b>2.22 cents</b>	1.61 cents
Diluted		<b>N/A</b>	N/A



## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

30 June 2002

	Share capital Unaudited RMB'000	Share premium Unaudited RMB'000	Statutory surplus reserve Unaudited RMB'000	Statutory public welfare fund Unaudited RMB'000	Retained profits Unaudited RMB'000	Total Unaudited RMB'000
At 1 January 2002	6,455,300	4,864,976	210,406	210,304	241,289	11,982,275
Net profit attributable to shareholders	—	—	—	—	143,423	143,423
At 30 June 2002	<u>6,455,300</u>	<u>4,864,976</u>	<u>210,406</u>	<u>210,304</u>	<u>384,712</u>	<u>12,125,698</u>
At 1 January 2001:						
As previously reported	6,455,300	4,864,976	189,934	189,884	135,034	11,835,128
Prior year adjustment: SSAP 28 – derecognition of provision for furnace relining costs ( <i>Note</i> )	—	—	—	—	123,972	123,972
As restated	<u>6,455,300</u>	<u>4,864,976</u>	<u>189,934</u>	<u>189,884</u>	<u>259,006</u>	<u>11,959,100</u>
Net profit attributable to shareholders	—	—	—	—	103,969	103,969
At 30 June 2001 (as restated)	<u>6,455,300</u>	<u>4,864,976</u>	<u>189,934</u>	<u>189,884</u>	<u>362,975</u>	<u>12,063,069</u>

*Note:* In prior year, 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 Hong Kong Statements of Standard Accounting Practice ("SSAP") No.28 "Provisions, contingent liabilities and contingent assets", there was a provision for furnace relining costs, amounting to approximately RMB123,972,000, which was recognised as a liability as at 31 December 2000, not qualifying for recognition as a provision under SSAP 28, due to the situation not fulfilling present obligation criteria set out in SSAP 28 as at 31 December 2000. This liability has been retrospectively derecognised by a prior year adjustment, resulting in an increase in the Group's net assets of approximately RMB123,972,000 as at 31 December 2000. Starting from 1 January 2001, furnace relining costs are recognised as and when incurred.



## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2002

	Notes	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>10,657,348</b>	10,928,235
Construction in progress		<b>530,867</b>	315,160
Long term investments		<b>6,417</b>	6,417
Other long term asset		<b>79,200</b>	88,000
		<b>11,273,832</b>	11,337,812
<b>CURRENT ASSETS</b>			
Inventories		<b>1,830,316</b>	1,775,085
Trade receivables	10	<b>1,127,848</b>	1,197,568
Prepayments, deposits and other receivables		<b>1,346,596</b>	1,076,753
Short term investments		<b>112,885</b>	111,797
Pledged time deposits		<b>19,961</b>	13,081
Cash and cash equivalents		<b>1,628,736</b>	1,309,091
		<b>6,066,342</b>	5,483,375
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>985,217</b>	806,247
Tax payable		<b>681</b>	469
Other payables and accruals		<b>1,515,234</b>	1,209,209
Bank borrowings		<b>1,120,353</b>	1,232,664
Provisions		<b>67,319</b>	76,320
Dividend payable		<b>94,553</b>	–
		<b>3,783,357</b>	3,324,909
<b>NET CURRENT ASSETS</b>		<b>2,282,985</b>	2,158,466
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,556,817</b>	13,496,278
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		<b>861,696</b>	837,333
Deferred income		<b>525,840</b>	485,840
Provisions		<b>43,583</b>	61,724
		<b>1,431,119</b>	1,384,897
		<b>12,125,698</b>	12,111,381
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>6,455,300</b>	6,455,300
Reserves		<b>5,670,398</b>	5,526,975
Proposed final dividend		<b>–</b>	129,106
		<b>12,125,698</b>	12,111,381



## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2002

	For the six months ended 30 June	
	2002 Unaudited RMB'000	2001 Unaudited RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	898,904	701,604
INVESTING ACTIVITIES	(39,099)	(531,222)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	859,805	170,382
FINANCING ACTIVITIES	(139,370)	(220,315)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	720,435	(49,933)
Cash and cash equivalents at beginning of period	731,731	1,374,346
Effect of foreign exchange rate changes, net	172	976
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>1,452,338</u>	<u>1,325,389</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and balances with financial institutions, net of provision	1,648,697	1,702,424
Less: Time deposits with maturities of more than three months	(176,398)	(349,899)
Pledged time deposits	(19,961)	(27,136)
	<u>1,452,338</u>	<u>1,325,389</u>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

30 June 2002

#### 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with SSAP 25 "Interim financial reporting" and Appendix 16 of the Listing Rules.

The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2001, except for the following new/revised SSAPs which have been adopted for the first time in the preparation of the current period's condensed consolidated interim financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for current interim period and the comparative figures have been presented with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has not had any material impact on these condensed consolidated interim financial statements.

#### 2. SEGMENT INFORMATION

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 period. Over 90% of the Group's turnover was derived from customers in the PRC.

#### 3. TURNOVER, REVENUE AND GAINS

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, revenue and gains is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover – sale of goods	<b>5,154,673</b>	4,721,611
Interest income	<b>10,865</b>	9,534
Others	<b>16,532</b>	23,423
	<b><u>5,182,070</u></b>	<b><u>4,754,568</u></b>





## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2002

#### 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2002	2001
	Unaudited	Unaudited
	RMB'000	RMB'000
Depreciation	431,016	391,985
Amortisation of deferred staff cost	8,800	8,800
Interest income	(10,865)	(9,534)
Environmental loans waived	(2,700)	(8,398)
Investment income from listed investments	(6,000)	(7,413)

#### 5. FINANCE COSTS

	For the six months ended 30 June	
	2002	2001
	Unaudited	Unaudited
	RMB'000	RMB'000
Interest on bank loans	58,528	89,251
Less: Interest capitalised	(8,855)	(7,840)
	49,673	81,411

#### 6. TAX

	For the six months ended 30 June	
	2002	2001
	Unaudited	Unaudited
	RMB'000	RMB'000
Hong Kong profits tax	–	497
PRC income tax	29,300	22,482
Tax charge for the period	29,300	22,979

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2002. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits which were earned in or derived from Hong Kong during the six months ended 30 June 2001.

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 period 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 period.

There was no material unprovided deferred tax in respect of the period or at 30 June 2002 (2001: Nil).



## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

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#### 7. STATUTORY SURPLUS RESERVE AND STATUTORY PUBLIC WELFARE FUND

No appropriation was made to the statutory surplus reserve and statutory public welfare fund by the Company for the period ended 30 June 2002. Such appropriation will be made at the year end in accordance with the Company Law of the PRC and the Company's Articles of Association.

#### 8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

#### 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately RMB143,423,000 (2001: approximately RMB103,969,000) and 6,455,300,000 (2001: 6,455,300,000) ordinary shares in issue during the period.

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

#### 10. TRADE RECEIVABLES

	Note	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Accounts receivable, net of provision	(a)	211,867	319,070
Bills receivable		915,981	878,498
		<u>1,127,848</u>	<u>1,197,568</u>

- (a) 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:

	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Within three months	120,347	221,414
Four to six months	73,973	49,381
Seven to twelve months	1,872	4,680
One to two years	10,228	18,188
Two to three years	5,447	25,283
Over three years	—	124
	<u>211,867</u>	<u>319,070</u>

Included in the Group's trade receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating approximately RMB7,819,000 (2001: approximately RMB10,867,000). Such balances principally arose from normal trading activities.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2002

#### 11. TRADE PAYABLES

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

	<b>As at 30 June 2002 Unaudited RMB'000</b>	As at 31 December 2001 Audited RMB'000
Within one year	<b>935,541</b>	763,330
One to two years	<b>27,804</b>	33,925
Two to three years	<b>13,739</b>	403
Over three years	<b>8,133</b>	8,589
	<b><u>985,217</u></b>	<b><u>806,247</u></b>

Included in the Group's trade payables are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB16,917,000 (2001: approximately RMB33,048,000). Such balances principally arose from normal trading activities.

#### 12. CONTINGENT LIABILITIES

At 30 June 2002, the Group did not have any significant contingent liabilities.

#### 13. CAPITAL COMMITMENTS

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

	<b>As at 30 June 2002 Unaudited RMB'000</b>	As at 31 December 2001 Audited RMB'000
Contracted, but not provided for	<b>3,333,772</b>	1,280,241
Authorised, but not contracted for	<b>5,268,015</b>	6,608,685
	<b><u>8,601,787</u></b>	<b><u>7,888,926</u></b>



## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2002

#### 14. RELATED PARTY TRANSACTIONS

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

	<b>For the six months ended 30 June</b>	
	<b>2002</b>	2001
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
Purchases of iron ore and limestone	<b>364,348</b>	357,177
Fees received for the supply of utilities, services and other consumable goods	<b>(12,349)</b>	(20,971)
Fees paid for welfare, support services and other services	<b>115,043</b>	95,464
Purchases of fixed assets and provision of construction services	<b>48,504</b>	50,810
Sale of steel products	<b>(20,781)</b>	(2,668)

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 15 April 2002 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 15 April 2002 between the Company and Holding.

The other related party transactions were conducted on terms determined between the Company 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 10 to 11 to the condensed consolidated interim financial statements.

#### 15. COMPARATIVE AMOUNTS

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

## VII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Original copy of the Interim Report signed by the Chairman;
2. Financial statements of the Company stamped and signed by the Department Head, the Chief Accountant and Head of the Accounting Department;
3. Original copies of all announcements released by the Company in newspapers designated by China Securities Regulatory Commission during the report period;
4. The Articles of Association of the Company;
5. Original copies of the Company's interim reports published in Shanghai Securities Journal, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong).

#### Notes: Definition of Names

1. the Group: Maanshan Iron & Steel Company Limited and its subsidiaries
2. the Company: Maanshan Iron & Steel Company Limited, excluding its subsidiaries
3. Holding: Magang (Group) Holding Company Limited, originally named as Maanshan Magang Holding Company, which is the holding company of Maanshan Iron & Steel Company Limited. In September 1998, Maanshan Magang Holding Company was restructured to become Magang (Group) Holding Company Limited according to laws.

By Order of the Board of Directors  
**Gu Jianguo**  
 Chairman