



Report of the Directors

1. SUPPLEMENTARY INFORMATION ON PRODUCTION AND OPERATIONS

Discussion and analysis of the Group's production and operations have been presented in detail in sections headed "Chairman's Statement" and "Management Discussion and Analysis". Other information required to be disclosed is provided as follows:

Based on PRC accounting standards, steel products accounted for 93.50% and 89.94%, respectively, of the Group's sales and profit from principal activities. Other products included coking by-products, gas products and scrap iron and steel, together accounting for 6.50% and 10.06%, respectively, of the Group's sales and profit. Sales and selling cost of steel products were RMB10,260 million and RMB8,687 million, respectively, with a gross profit ratio of 15.34%. For year 2002, the Group's steel products accounted for an approximately 3% market share in China. Analysed by markets, Anhui Province accounted for 35% of the Group's core business income, generating income of RMB3,798 million, an increase of 16% over the previous year; Jiangsu Province for 16%, generating income of RMB1,731 million, an increase of 49% over the previous year; Shanghai for 15%, generating income of RMB1,669 million, an increase of 83% over the previous year; and Zhejiang Province for 8%, generating income of RMB892 million, an increase of 6% over the previous year. Other provinces in China accounted for 22%, generating income of RMB2,395 million, a decrease of 8% over the previous year; and exports accounted for 4%, generating income of RMB489 million, a decrease of 35% over the previous year.

In 2002, the five largest suppliers of the Company accounted for RMB1,543 million or 24% of the Company's total purchases. The five largest customers accounted for RMB2,326 million or 21% of the Company's total sales. Of the aforesaid major suppliers, Magang (Group) Holding Company Limited ("Holding") is the holding company of the Company. Otherwise, none of the directors or supervisors of the Company or their associates or any of the shareholders (to the knowledge of the directors, holding 5% or more of the Company's shares) held any beneficial interest in the Company's five largest suppliers or customers.

1. SUPPLEMENTARY INFORMATION ON PRODUCTION AND OPERATIONS (continued)

The operations and results of the Group's subsidiaries were as follows: (unit: RMB'000)

Name of subsidiaries	Place of Incorporation/ registration	Percentage of shareholding		Principal activities	Registered and paid-up capital	Total assets	Net profit
		Directly held	Indirectly held				
Ma Steel International Trade and Economic Corporation	Anhui, PRC	100%	-	Import of machinery and raw materials and export of steel products	RMB50 million	723,811	-
Design & Research Institute of Maanshan Iron & Steel Company Ltd	Anhui, PRC	93.75%	6.25%	Planning and design of metallurgical, construction and environmental protection projects	RMB8 million	24,840	1,908
MG Trading and Development GmbH	Germany	100%	-	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	5,077	26
Ningbo Chang Yi Company Limited	Zhejiang, PRC	20%	80%	Trading of equipment, iron and steel products and provision of technology services	RMB1 million	14,119	(97)
Shanghai Zhong Ma Company Limited	Shanghai, PRC	90%	10%	Trading of steel and pig iron products	RMB1 million	35,109	2,577
Maanshan Iron & Steel (HK) Limited	Hong Kong, PRC	80%	20%	Trading of steel and pig iron products	HK\$4.80 million	11,468	690
MG Control Technique Company Limited	Anhui, PRC	93.75%	6.25%	Planning and design of automation system; purchase, installation and repairs of computers and communication systems	RMB8 million	8,884	58
Anhui Masteel K. Wah New Building Materials Co Ltd	Anhui, PRC	70%	-	Production, sales and transportation of slag products and provision of related consultation services	USD4.29 million	-	-

Note: As at 31 December 2002, the Company did not inject any capital into Anhui Masteel K. Wah New Building Materials Co., Ltd. (the "Joint Venture Company"). On 29 January 2003, the Company injected RMB24,854,930, equivalent to US\$3,003,000 and representing 70% of the registered share capital of the Joint Venture Company, as paid-in capital of the Joint Venture Company in accordance with the joint venture agreement. The current year's consolidated financial statements of the Group have not included the Joint Venture Company as the latter had no operation during 2002 and therefore has had no impact on the Group's financial status and operating results.

Report of the Directors (continued)

2. DAILY WORK OF THE BOARD OF DIRECTORS

- (1) Eight board meetings were convened during the reporting period and with the following major resolutions:

Approval of the Company's financial budget and fixed asset investment budget for 2002;

Approval of the annual report and the Directors' Report for 2001, the 2001 audited accounts, proposed profit appropriation for 2001 and profit distribution plan for 2002 for submission to the Annual General Meeting;

Approval of the entrusted investment plan;

Approval of the 2002 first quarterly report of the Company;

Approval of the "Internal Investigation Report on the Establishment of A Modern Corporate Regime at Magang";

Approval of the Company's interim report and financial report for 2002;

Approval of the additional investment plan for the structural adjustment scheme in accordance with the Tenth Five-year Plan;

Approval of the business plans for 2003;

Formulation of proposals for amendments to the Company's Articles of Association for submission to the Annual General Meeting and the State Economic and Trade Commission for approval;

Election of Chairman, Vice Chairman and appointment of General Manager, Deputy General Manager and Board Secretary for the Fourth Session of the Board of Directors;

Approval of the Rules Governing Proceedings for Board of Directors Meetings, the Rules Governing the Office of Independent Directors; the Regulations Governing Operations of the Audit Committee; the Internal Financial and Accounting Control System; and the Rules Governing Information Disclosure for the Fourth Board of Directors;

Approval of the 2002 third quarterly report of the Company;

Approval of the Agreement on Insurance for Directors' Duties.

- (2) The Board of Directors completed the implementation of the profit distribution plan approved by the shareholders' meeting. Cash dividends of RMB0.02 (tax inclusive) per share was paid out to all shareholders based on a total share capital of 6,455,300,000 shares as at the end of 2001. Dividends for H Shares were paid in HK dollars. The plan was approved by the shareholders' meeting held on 18 June 2002. Dividend payments for A Shares and H Shares were fully completed on schedule.
- (3) The Board of Directors determined the auditors' remunerations pursuant to the mandate of the shareholders' meeting.

3. PROFIT DISTRIBUTION PROPOSAL FOR THE CURRENT PERIOD

The Board of Directors recommends payment of a final dividend of RMB0.035 (tax inclusive) per share for the year 2002. No transfer to share capital from capital reserve will be conducted.

As audited by the domestic and international auditors, net profit of the Company for 2002 amounted to RMB401.90 million under PRC accounting standards and RMB306.67 million under Hong Kong accounting standards. After appropriating 10% from the Company's net profit prepared under PRC accounting standards for contribution to the statutory surplus reserve and another 10% to the statutory public welfare fund and together with the retained profit as at the end of 2001, the total profit attributable to shareholders for year 2002 amounted to RMB269.13 million under PRC accounting standards, and RMB451.85 million under Hong Kong accounting standards. In accordance with the Articles of Association, the Company distributed profits based on the lower of the respective profit amounts reported in the two financial statements. As a result, profit attributable to shareholders for year 2002 was RMB269.13 million. In view of the Company's good annual results in 2002, a dividend of RMB0.035 per share (tax included) was recommended, thereby resulting in a total dividend payment of RMB225.94 million. The remaining amount of profit not appropriated would be carried forward to 2003.

4. For information analysed by business segment for the year ended 31 December 2002, please refer to Note 4 to the financial statements prepared under Hong Kong accounting standards.
5. The Group's profit for the year ended 31 December 2002 and its operating status as at that date are set out on pages 87 to 152 of the financial statements prepared under PRC accounting standards and pages 43 to 85 of the financial statements prepared under Hong Kong accounting standards.

6. FIXED ASSETS

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2002 are set out in note V (11) to the financial statements prepared under the PRC accounting standards and note 16 to the financial statements under Hong Kong accounting standards, respectively.

7. PRE-EMPTIVE RIGHTS

Neither the Articles of Association of the Company nor the Laws of the PRC provide for any pre-emptive rights.

8. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 2002, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

Report of the Directors (continued)

9. RESERVES

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2002 are set out in notes V(29) to V(31) to the financial statements prepared under PRC accounting standards, note 31 to the financial statements prepared under Hong Kong accounting standards and the consolidated statement of capital movement.

10. CHARITABLE DONATIONS

Charitable donations made by the Group during the year totalled RMB200,000.

11. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The current Board of Directors and the Supervisory Committee were elected at the Extraordinary General Meeting held on 31 August 2002 with a term of office of three years commencing from 1 September 2002. Directors and Supervisors so elected entered into service contracts with the Company with the same term of office of three years.

None of the Directors has any service contract with the Company that is not terminable by the Company within one year without payment other than statutory compensation.

12. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year, none of the Directors or Supervisors had material interests in any contract to which the Company, its subsidiaries, Holding or any of the subsidiaries of Holding was a party during the year.

13. DIRECTORS' INTERESTS IN COMPETITIVE BUSINESSES

During the year and up to the latest practicable date for disclosure in this annual report, none of the Directors were or had been deemed, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be directly or indirectly interested in any business that was competing or in possible competition with Holding, except for being appointed to directorships in other businesses for the interests of the Company or Holding.

14. DIRECTORS' COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with "The Code of Best Practice" as set out in Appendix 14 of the Listing Rules throughout 2002.

15. AUDIT COMMITTEE

Pursuant to the Listing Rules, the Board of Directors established an audit committee (the "Audit Committee") on 1 September 1999, comprising independent directors Madam Cheng Shaoxiu, Mr. Dong Yuanchi, and Mr. Wu Junnian, to review and supervise of the Group's financial and internal controls. The Company elected a new Board of Directors on 31 August 2002, and the Audit Committee was also reshuffled to comprise Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing. During the year, the Audited Committee convened two meetings to review the 2001 annual accounts and the 2002 interim accounts of the Company.