1. CORPORATE INFORMATION

The registered office of Maanshan Iron & Steel Company Limited (the "Company") is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the People's Republic of China (the "PRC").

During the year, the Company and its subsidiaries (the "Group") was principally engaged in the manufacture and sale of iron and steel products.

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

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following revised SSAPs are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised 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 principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 45 of the Annual Report in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Renminbi at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Renminbi at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 32(a) to the financial statements.

SSAP 34 (Revised) prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

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

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Land use rights	Over the lease terms of 50 years
Buildings and structures	16 to 50 years
Plant, machinery and equipment	7 to 20 years
Transportation vehicles and equipment	7 to 11 years

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

Construction in progress

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

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

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Held-to-maturity securities

Investments in dated debt securities which are intended to be held to maturity are stated at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for impairment in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account in the period in which they arise.

Short term investments

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

Inventories

Inventories, other than spare parts, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Spare parts are stated at cost less provision for obsolescence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred staff costs

Losses arising from the disposal of staff quarters to employees at preferential prices are capitalised as deferred staff costs and are amortised over 10 years, which approximates the estimated remaining average service life of the relevant employees, commencing from the dates of sale of the staff quarters. Further details are set out in note 20 to the financial statements.

Housing subsidies

The Company's housing subsidies obligations payable to current employees pursuant to a staff housing subsidies scheme are stated at the present value of the estimated amounts of the obligation earned at the balance sheet date, less the amounts which have been paid. The subsidies are earned by the employees over the vesting period. Housing subsidies obligations payable to retired employees under the same staff housing subsidies scheme are accrued for and charged to the profit and loss account immediately, since such subsidies are payable for past services of retired employees.

Deferred income

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

Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Renminbi, except for overseas subsidiaries which use their respective currencies.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates as quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date as quoted by the People's Bank of China.

Foreign currency translation differences relating to interest charges on funds borrowed to finance the construction of fixed assets are capitalised during the construction period. All other exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Renminbi using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Renminbi at the weighted average exchange rates for the year, and their balance sheets are translated to Renminbi at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Renminbi at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Renminbi at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated to Renminbi at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension benefits

The contributions to a defined contribution central pension scheme operated by the local municipal government are charged to the profit and loss account as they become payable in accordance with the rules of the pension scheme.

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 were previously charged to the profit and loss account on an one-off basis.

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

5. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of turnover and revenue is as follows:

	2002 **RMB'000**	2001 RMB'000
Turnover – sale of goods	**10,973,917**	9,547,929
Interest income	**19,150**	22,308
Others	**27,868**	31,881
	11,020,935	9,602,118

6. OTHER OPERATING EXPENSES

	2002 RMB'000	2001 RMB'000
Provision for impairment of fixed assets	**236,247**	104,887
Provision for impairment of construction in progress, net	**–**	7,000
Provision for doubtful debts	**41,360**	95,550
Loss on disposal of fixed assets	**222,087**	62,994
Write-off of construction in progress	**–**	95,834
Others	**37**	1,994
	499,731	368,259

7. PROFIT FROM OPERATING ACTIVITIES

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

	2002 RMB'000	2001 RMB'000
Cost of inventories sold *	**9,355,715**	8,229,867
Depreciation	**862,514**	830,207
Provision for doubtful debts	**41,360**	95,550
Auditors' remuneration	**4,601**	4,300
Staff costs (excluding directors' and supervisors' remuneration):		
Wages and salaries	**951,713**	786,415
Pension scheme contributions	**197,851**	190,319
Housing subsidies for current employees (Note 29)	**34,887**	34,887
Loss on disposal of fixed assets	**222,087**	62,994
Write-off of construction in progress	**–**	95,834
Provision for impairment of fixed assets	**236,247**	104,887
Provision for impairment of construction in progress, net	**–**	7,000
Unrealised loss on changes in fair values of short term investments	**492**	1,772
Amortisation of deferred staff costs	**17,600**	17,600
Interest income	**(19,150)**	(22,308)
Investment income from listed investments	**(6,836)**	(2,442)
Exchange gains, net	**(2,628)**	(797)

* Included in the cost of inventories sold for the year is provision for inventories of approximately RMB72,446,000 (2001: Nil)

8. FINANCE COSTS

	Group	
	2002	2001
	RMB'000	RMB'000
Interest on bank loans	**138,851**	164,146
Less: Interest capitalised	**(36,949)**	(13,384)
	101,902	150,762

9. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	RMB'000	RMB'000
Fees	**30**	30
Other emoluments:		
Salaries, allowances and benefits in kind	**201**	163
Performance related bonuses	**2,207**	964
Pension scheme contributions	**506**	237
	2,914	1,364
	2,944	1,394

Fees include RMB30,000 (2001: RMB30,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	Number of directors	
	2002	2001
Nil to RMB1,000,000	**18**	17

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all directors (2001: all directors), details of whose remuneration are set out in note 9 above.

11. TAX

	2002	2001
	RMB'000	RMB'000
PRC income tax	**95,183**	64,669
Underprovision of PRC income tax in prior year	**–**	23,550
Hong Kong profits tax	**78**	516
Tax charge for the year	**95,261**	88,735

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

Except for the Hong Kong subsidiary, no provision for overseas profits tax has been made for the Group as there were no assessable profits for the year. Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

There was no material unprovided deferred tax in respect of the year or at the balance sheet date (2001: Nil).

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is approximately RMB306,670,000 (2001: approximately RMB147,403,000).

13. TRANSFERS TO RESERVES

	Group	
	2002	2001
	RMB'000	RMB'000
Transfer to statutory surplus reserve	**41,236**	20,472
Transfer to statutory public welfare fund	**40,808**	20,420
	82,044	40,892

14. DIVIDEND

	2002	2001
	RMB'000	RMB'000
Proposed final – RMB3.5 cents (2001: RMB2.0 cents) per ordinary share	**225,936**	129,106

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

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately RMB307,933,000 (2001: approximately RMB152,281,000) and 6,455,300,000 (2001: 6,455,300,000) ordinary shares in issue during the year.

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

16. FIXED ASSETS

Group

	Land use rights RMB'000	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	1,028,252	6,560,023	7,927,139	477,024	15,992,438
Additions	–	4,488	7,274	1,054	12,816
Transferred from construction in progress (Note 17)	–	86,812	506,039	36,915	629,766
Transferred to construction in progress (Note 17)	–	(31,254)	(5,983)	(771)	(38,008)
Reclassifications	–	62,843	(58,074)	(4,769)	–
Disposal/write-off	–	(193,342)	(604,812)	(15,399)	(813,553)
At 31 December 2002	1,028,252	6,489,570	7,771,583	494,054	15,783,459
Accumulated depreciation and impairment:					
At beginning of year	147,858	1,574,275	3,056,323	285,747	5,064,203
Depreciation provided during the year	20,565	259,138	546,040	36,771	862,514
Transferred to construction in progress (Note 17)	–	(10,192)	(5,066)	(433)	(15,691)
Impairment during the year recognised in the profit and loss account	–	33,022	203,225	–	236,247
Write-off of impairment provision	–	(21,099)	(44,212)	–	(65,311)
Reclassifications	–	(325)	4,032	(3,707)	–
Disposal/write-off	–	(75,619)	(419,022)	(13,322)	(507,963)
At 31 December 2002	168,423	1,759,200	3,341,320	305,056	5,573,999
Net book value:					
At 31 December 2002	859,829	4,730,370	4,430,263	188,998	10,209,460
At 31 December 2001	880,394	4,985,748	4,870,816	191,277	10,928,235

16. FIXED ASSETS (continued)

Company

	Land use rights RMB'000	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	1,028,252	6,550,166	7,923,048	473,809	15,975,275
Additions	–	3,706	6,638	–	10,344
Transferred from construction in progress (Note 17)	–	86,812	506,039	36,915	629,766
Transferred to construction in progress (Note 17)	–	(31,254)	(5,983)	(771)	(38,008)
Reclassifications	–	62,843	(58,074)	(4,769)	–
Disposal/write-off	–	(194,838)	(607,595)	(16,097)	(818,530)
At 31 December 2002	1,028,252	6,477,435	7,764,073	489,087	15,758,847
Accumulated depreciation and impairment:					
At beginning of year	147,858	1,571,066	3,054,343	283,888	5,057,155
Depreciation provided during the year	20,565	258,728	545,430	36,468	861,191
Transferred to construction in progress (Note 17)	–	(10,192)	(5,066)	(433)	(15,691)
Impairment during the year recognised in the profit and loss account	–	33,022	203,225	–	236,247
Write-off of impairment provision	–	(21,099)	(44,212)	–	(65,311)
Reclassifications	–	(325)	4,032	(3,707)	–
Disposal/write-off	–	(76,132)	(420,521)	(13,503)	(510,156)
At 31 December 2002	168,423	1,755,068	3,337,231	302,713	5,563,435
Net book value:					
At 31 December 2002	859,829	4,722,367	4,426,842	186,374	10,195,412
At 31 December 2001	880,394	4,979,100	4,868,705	189,921	10,918,120

16. FIXED ASSETS (continued)

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

	Notes	RMB'000
Ferrous Powder Production Line	(i)	50,000
Steel Wire Plant	(ii)	35,113
No. 1 Steel Rolling Plant	(ii)	12,000
No. 3 Steel Rolling Plant	(iii)	45,168
No. 3 Steel Making Plant	(iv)	44,768
No. 1 Iron Making Plant	(iv)	15,887
No. 2 Iron Making Plant	(iv)	25,513
Coke Making Plant	(iii)	7,798
		236,247

Notes:

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

(ii) The existing production lines in these plants are being upgraded in order to produce higher quality products that meet the market demand. Fixed assets that cannot be reassembled in the new production lines have been written down to their recoverable amounts, determined by the estimated net selling prices, which are based on the scrap value of the fixed assets.

(iii) Certain fixed assets in these factories are expected to be replaced or revamped in the next major overhaul. Their carrying amounts are thus written down to their recoverable amounts. For the No. 3 Steel Rolling Plant, its recoverable amount is based on its value in use, with a 9% per annum discount rate being used. For the Coke Making Plant, its recoverable amount is based on its net selling price, which is the scrap value of the fixed assets.

(iv) The Group plans to enhance the capacity of the furnaces in these production plants to meet the increase in demand for molten iron and molten steel. Certain existing facilities will be revamped or replaced and they have been written down to their recoverable amounts based on their value in use. The discount rate used in determining the value in use is 9% per annum.

Prior to its transfer to fixed assets, the carrying amount of construction in progress included capitalised interest of approximately RMB31,748,000 (31 December 2001: RMB4,867,000).

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

17. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
Cost:		
At beginning of year	719,097	719,097
Additions	2,621,598	2,155,366
Transferred from fixed assets (Note 16)	22,317	22,317
Transferred to fixed assets (Note 16)	(629,766)	(629,766)
At 31 December 2002	2,733,246	2,267,014
Accumulated impairment:		
At beginning of year and 31 December 2002	74,000	74,000
Net book value:		
At 31 December 2002	2,659,246	2,193,014
At 31 December 2001	645,097	645,097

18. INTERESTS IN SUBSIDIARIES

	Company	
	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost	**70,925**	64,275
Due from subsidiaries	**845,938**	340,732
Due to subsidiaries	**(7,284)**	(2,291)
	909,579	402,716
Provision for impairment	**(200)**	–
	909,379	402,716

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

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel International Trade and Economic Corporation	PRC	RMB50,000,000	100	–	Import of machinery and raw materials and export of steel products
Design & Research Institute of Maanshan Iron & Steel Company Limited	PRC	RMB8,000,000	93.75	6.25	Planning and design of metallurgical, construction and environmental protection projects
MG Control Technique Company Limited (Note i)	PRC	RMB8,000,000	93.75	6.25	Planning and design of automation system; purchase, installation and repairs of computers and communication systems
Anhui Masteel K. Wah New Building Materials Co., Ltd. (Note ii)	PRC	US$4,290,000	70	–	Production, sale and transportation of slag products and provision of related consultation services
Ningbo Chang Yi Company Limited (Note iii)	PRC	RMB1,000,000	20	80	Trading of steel and pig iron products
Shanghai Zhong Ma Company Limited	PRC	RMB1,000,000	90	10	Trading of steel and pig iron products
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK$4,800,000	80	20	Trading of steel and pig iron products
MG Trading and Development GmbH	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services

18. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(i) Newly incorporated during the year

(ii) Anhui Masteel K. Wah New Building Materials Co., Ltd. (the "Joint Venture Company") is a Sino-foreign joint venture enterprise newly incorporated during the year. 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 operations during the year and therefore has had no impact on the Group's financial status and operating results.

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

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

19. LONG TERM INVESTMENTS

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**6,517**	6,417
Other debt investment	**21,558**	21,558
	28,075	27,975

Other debt investment represents electricity debentures issued by Anhui Provincial Electricity Supply Authority. The debt investment was acquired by the Company in 1994 and is interest-free and collectable by 10 annual instalments starting from 2000. The investment amount will be fully collected by December 2009.

20. OTHER LONG TERM ASSET

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Deferred staff costs	**70,400**	88,000

The deferred staff cost of RMB70.4 million (2001: approximately RMB88.0 million) relates to the loss of approximately RMB163.8 million in 1997 resulting from the disposal of staff quarters to the Company's employees at preferential prices, net of accumulated amortisation. The disposals were made in accordance with the regulations issued by the Maanshan Municipal Government which sets out the rules and conditions governing the sale and purchase of staff quarters in Maanshan, including the quantum of the price discount to be given to the Company's employees.

21. INVENTORIES

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**687,066**	623,147	**687,066**	623,147
Work in progress	**326,558**	400,306	**322,040**	400,306
Finished goods	**190,059**	137,303	**143,680**	131,083
Spare parts	**437,405**	614,329	**437,405**	614,329
	1,641,088	1,775,085	**1,590,191**	1,768,865

The carrying amount of inventories of the Group and the Company carried at net realisable value included in the above balances was approximately RMB30,183,000 (2001: approximately RMB47,116,000) as at the balance sheet date.

22. TRADE AND BILL RECEIVABLES

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

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

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**120,317**	221,414	**130,861**	205,860
Four to six months	**10,312**	49,381	**10,312**	49,381
Seven to twelve months	**11,667**	4,680	**11,667**	4,680
One to two years	**29,632**	18,188	**29,097**	18,188
Two to three years	**4,502**	25,283	**5,409**	25,283
Over three years	**437**	124	**436**	124
	176,867	319,070	**187,782**	303,516
Bill receivables	**666,033**	878,498	**665,983**	878,198
	842,900	1,197,568	**853,765**	1,181,714

Bill receivables all have maturity dates within 1 year.

22. TRADE AND BILL RECEIVABLES (continued)

Included in both the Group's and the Company's trade and bill receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating approximately RMB4,265,000 (2001: approximately RMB10,867,000). Such balances principally arose from normal trading activities.

Included in the Company's trade and bill receivables are amounts due from subsidiaries of the Company of approximately RMB37,484,000 (2001: approximately RMB12,797,000). Such balances principally arose from normal trading activities.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding, and subsidiaries and associates of Holding aggregating approximately RMB80,636,000 (2001: approximately RMB254,156,000) for the purchase of raw materials and the provision of support services from Holding.

24. SHORT TERM INVESTMENTS

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Equity investments listed in the PRC, at market value	**11,305**	11,797
Other investment	–	100,000
	11,305	111,797

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

On 15 April 2002, the Company entered into a designated investment agreement with Anhui International Trust & Investment Corp., whereby the latter agreed to invest an amount of RMB100,000,000, on behalf of the Company, on short term investment portfolios comprising listed securities, government bonds and various funds. The agreement was for a period of 1 year, from 17 April 2002 to 17 April 2003, both dates inclusive. In September 2002, the Company terminated the agreement early and fully collected the designated investment amount and its related investment income amounting to RMB100,000,000 and approximately RMB833,000, respectively.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**917,968**	651,731	**697,785**	527,630
Time deposits and balances with financial institutions, net of a provision of RMB175 million (2001: RMB175 million)	**156,136**	670,441	**147,505**	656,647
	1,074,104	1,322,172	**845,290**	1,184,277
Less: Pledged deposits for trading facilities	**(36,073)**	(13,081)	**(25,020)**	–
Cash and cash equivalents	**1,038,031**	1,309,091	**820,270**	1,184,277

The balances with financial institutions included the following overdue fixed deposit principal amounts with five non-bank financial institutions, aggregating approximately RMB202 million (2001: approximately RMB202 million).

	Notes	**2002** **RMB'000**	2001 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**26,327**	26,327
China Venturetech Investment Corporation ("China Venturetech")	(i)	**9,954**	9,954
SEG International Trust & Investment Corporation ("SEG")	(ii)	**46,545**	46,545
CITIC Ningbo Inc. ("Ningbo CITIC")	(i)	**45,112**	45,112
Shenzhen Leasing Co. Ltd. ("SLCL")	(iii)	**74,242**	74,242
		202,180	202,180
Provision for overdue deposits		**(175,000)**	(175,000)
		27,180	27,180

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

Notes:

(i) GITIC, China Venturetech and Ningbo CITIC are now in liquidation and the Company has registered its debts with their respective liquidators. No repayment was received during the year. On 28 February 2003, the People's High Court of the Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. The directors are unable to estimate, as at the date on which these financial statements were approved, the amount of the outstanding deposit principal the Company will be able to recover from these three companies.

(ii) The Company has obtained court judgements against SEG for the principal amounts of those fixed deposits and interest thereon. However, SEG is currently in the process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed.

(iii) On 16 March 2000, the Company reached an agreement with SLCL for the repayment of an amount of RMB84.8 million (HK$80 million) over five years, in settlement of the deposit and accrued interest. In 2000, an amount of RMB10.6 million (HK$10 million) was repaid by SLCL in accordance with the agreement. The remaining RMB74.2 million (HK$70 million) will be paid by instalments of RMB24.4 million (HK$23 million) on both 31 December 2003 and 31 December 2004, and RMB25.4 million (HK$24 million) on 30 June 2005, with interest being charged only from 1 January 2003. In light of the long term repayment schedule, certain provision thereof has continued to be made by the Company.

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 receipt basis.

26. TRADE PAYABLES

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

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,020,006**	763,330	**958,773**	757,944
One to two years	**20,712**	33,925	**20,677**	33,794
Two to three years	**5,373**	403	**5,373**	403
Over three years	**5,624**	8,589	**3,986**	7,152
	1,051,715	806,247	**988,809**	799,293

Included in the Group's and the Company's trade payables are amounts due to Holding, and subsidiaries and associates of Holding, aggregating approximately RMB72,149,000 (2001: approximately RMB36,110,000). Such balances principally arose from normal trading activities.

27. OTHER PAYABLES AND ACCRUALS

Included in the Group's and the Company's other payables and accruals are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB39,200,000 (2001: approximately RMB21,380,000). Such balances principally arose from normal trading activities.

28. BANK BORROWINGS

	Group		Company	
	2002 RMB'000	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
Bank loans repayable:				
Within one year	**1,134,522**	1,232,664	**1,133,449**	1,231,757
In the second year	**67,064**	191,893	**65,992**	190,987
In the third to fifth years, inclusive	**689,197**	600,681	**685,980**	597,959
	1,890,783	2,025,238	**1,885,421**	2,020,703
Over five years	**12,869**	44,759	**–**	32,968
	1,903,652	2,069,997	**1,885,421**	2,053,671
Portion classified as current liabilities	**(1,134,522)**	(1,232,664)	**(1,133,449)**	(1,231,757)
Long term portion	**769,130**	837,333	**751,972**	821,914

All the bank loans are unsecured and bear interest rates ranging from 0.25% to 6.21% per annum (2001: 0.25% to 6.21% per annum). Certain of the Company's bank loans of approximately RMB922,964,000 (2001: approximately RMB927,901,000) are guaranteed by Holding.

29. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees	Housing subsidies (Note 35(ii))	Total
	RMB'000	RMB'000	RMB'000
At beginning of year	134,867	3,177	138,044
Additional provision	–	34,887	34,887
Amounts utilised during the year	(35,833)	(72,780)	(108,613)
At 31 December 2002	99,034	(34,716)	64,318
Portion classified as current liabilities	(37,310)	34,716	(2,594)
Long term portion	61,724	–	61,724

30. SHARE CAPITAL

		Group and Company	
		2002	2001
		RMB'000	RMB'000
Registered, issued and fully paid:			
4,034,560,000	State A shares of RMB1.00 each	**4,034,560**	4,034,560
87,810,000	Legal person A shares of RMB1.00 each	**87,810**	87,810
600,000,000	Individual A shares of RMB1.00 each	**600,000**	600,000
1,732,930,000	H shares of RMB1.00 each	**1,732,930**	1,732,930
6,455,300,000		**6,455,300**	6,455,300

Except for dividends for H shares which are payable in Hong Kong dollars, all of the A shares and H shares rank pari passu with each other in respect of dividends and voting rights.

There was no movement in the prior year's share capital.

31. RESERVES

Group

	Notes	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001		4,864,976	189,934	189,884	259,006	5,503,800
Net profit for the year		–	–	–	152,281	152,281
Transfers from/(to) reserves	13	–	20,472	20,420	(40,892)	–
Proposed final 2001 dividend	14	–	–	–	(129,106)	(129,106)
At 31 December 2001 and beginning of year		4,864,976	210,406	210,304	241,289	5,526,975
Net profit for the year		–	–	–	307,933	307,933
Transfers from/(to) reserves	13	–	41,236	40,808	(82,044)	–
Proposed final 2002 dividend	14	–	–	–	(225,936)	(225,936)
At 31 December 2002		4,864,976	251,642	251,112	241,242	5,608,972

Company

	Notes	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001		4,864,976	189,833	189,833	247,962	5,492,604
Net profit for the year		–	–	–	147,403	147,403
Transfers from/(to) reserves		–	20,352	20,352	(40,704)	–
Proposed final 2001 dividend	14	–	–	–	(129,106)	(129,106)
At 31 December 2001 and beginning of year		4,864,976	210,185	210,185	225,555	5,510,901
Net profit for the year		–	–	–	306,670	306,670
Transfers from/(to) reserves		–	40,190	40,190	(80,380)	–
Proposed final 2002 dividend	14	–	–	–	(225,936)	(225,936)
At 31 December 2002		4,864,976	250,375	250,375	225,909	5,591,635

31. RESERVES (continued)

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company. Part of the SSR may be capitalised as the Company's share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the Company.

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after tax to its statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Company.

When the PWF is used, the lower of the cost of assets and the balance of the PWF should be transferred to the SSR. This reserve is not distributable unless the Company is dissolved. When the related assets are sold, the amount which was originally transferred from the PWF to the SSR should be transferred back.

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB40.2 million (2001: approximately RMB20.4 million) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of approximately RMB402 million (2001: approximately RMB204 million) determined in accordance with PRC accounting standards. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

In accordance with the PRC relevant regulations, the retained profits of the Company for the purpose of profit distribution are deemed to be the lower of the amount determined in accordance with PRC accounting standards and regulations, and the amount determined in accordance with generally accepted accounting principles in Hong Kong.

As at 31 December 2002, the Company had retained profits of approximately RMB43 million (31 December 2001: approximately RMB20 million) after the appropriation of proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC accounting standards and regulations or the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2002, in accordance with the Company Law of the PRC, an amount of approximately RMB4.86 billion (2001: approximately RMB3.49 billion) standing to the credit of the Company's share premium account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest received and investment income are now included in cash flows from investing activities and interest and dividend paid are now included in cash flows from financing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

(b) Major non-cash transaction

During the year, approximately RMB235 million of value added tax payable was settled by the Company by an offset against its current account with Holding according to a directive jointly issued by the state tax bureau, the local tax bureau and the Ministry of Finance to Holding and the Company and an offset agreement signed between Holding and the Company.

(c) Restricted cash and cash equivalent balances

Certain of the Group's deposits are pledged to banks to secure for trading facilities granted to the Group, as further explained in note 25 to the financial statements.

(d) The overdue fixed deposits amounting to approximately RMB202 million as at 31 December 2002 (2001: approximately RMB202 million) were not included as part of the cash and cash equivalents in the consolidated cash flow statement. Further details of the overdue fixed deposits are set out in note 25 to the financial statements.

33. CONTINGENT LIABILITIES

At 31 December 2002, neither the Group, nor the Company had any significant contingent liabilities.

34. CAPITAL COMMITMENTS

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

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Contracted, but not provided for:		
Thin Plate Project	**2,118,456**	975,271
2500m³ Blast Furnace	**205,046**	4,070
40000m³ Oxygenerator	**186,451**	–
300m³ Sintering Machine	**72,141**	–
Modification of Train Wheel Rolling System	**69,854**	158,956
Revamping of High Speed Wire and Rolling Mill Project	**42,061**	99,704
No. 3 Converter of No. 1 Steel Making Plant	**36,031**	–
Wire Rod Mill of No. 2 Steel Making Plant	**30,453**	491
Auxiliary Facilities	**26,677**	–
No. 2 Coke Furnace	**18,279**	–
Reformation of Dock and Stock Storage Ground	**17,765**	–
Coke Dry Quenching Project	**14,567**	–
No. 3 Generator Group of Thermal Power Plant	**7,794**	–
No. 1 Steel Making Plant Converter Furnace Project	**7,373**	40,981
The Recovery Engineering of Coke Making Plant	**3,646**	–
70t VD Oven of No. 3 Steel Making Plant	**3,966**	–
Ma Steel Health Recovery Centre	**2,775**	–
Water Purification System Project	**1,793**	–
Other projects	**4,186**	768
	2,869,314	1,280,241

34. CAPITAL COMMITMENTS (continued)

	Group and Company	
	2002	2001
	RMB'000	RMB'000
Authorised, but not contracted for:		
Thin Plate Project	**1,865,274**	4,044,859
2500m^3 Blast Furnace	**415,929**	788,678
The Recovery Engineering of Coke Making Plant	**164,791**	–
Coke Dry Quenching Project	**145,590**	175,000
Water Purification System Project	**140,808**	–
300m^3 Sintering Machine	**134,602**	298,000
40000m^3 Oxygenerator	**108,271**	340,000
No. 3 Generator Group of Thermal Power Plant	**100,020**	–
Modification of Train Wheel Rolling System	**88,031**	118,244
No. 2 Coke Furnace	**85,748**	172,000
Auxiliary Facilities	**82,561**	–
Ma Steel Health Recovery Centre	**58,202**	–
No. 3 Converter of No. 1 Steel Making Plant	**46,388**	–
Reformation of Dock and Stock Storage Ground	**42,063**	109,510
Wire Rod Mill of No. 2 Steel Making Plant	**36,869**	130,752
70t VD Oven of No. 3 Steel Making Plant	**17,265**	–
Revamping of High Speed Wire and Rolling Mill Project	**12,007**	55,016
No. 1 Steel Making Plant Converter Furnace Project	**–**	298,586
Other projects	**84,470**	78,040
	3,628,889	6,608,685
Total capital commitments	**6,498,203**	7,888,926

The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR140 million (equivalent to approximately RMB1.23 billion), approximately US$11.63 million (equivalent to approximately RMB96.29 million) and approximately JPY5.93 billion (equivalent to approximately RMB 410 million).

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

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

	Notes	2002 RMB'000	2001 RMB'000
Net profit			
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		**307,933**	152,281
Add back:			
Amortisation of deferred staff costs	(i)	**17,600**	17,600
Staff housing subsidies to current employees	(ii)	**34,887**	34,887
Furnace relining costs incurred	(iii)	**–**	9,119
Provision for furnace relining costs utilised	(iii)	**24,021**	–
Deduct:			
Provision for furnace relining costs	(iii)	**–**	(5,491)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		**384,441**	208,396
Shareholders' equity			
Shareholders' equity under Hong Kong accounting standards		**12,290,208**	12,111,381
Add back:			
Amortisation of deferred staff costs	(i)	**17,600**	17,600
Staff housing subsidies charged to profit and loss account:			
Current employees	(ii)	**104,661**	69,774
Retired employees	(ii)	**38,843**	38,843
Deduct:			
Unamortised deferred staff costs charged to opening retained profits	(i)	**(88,000)**	(105,600)
Staff housing subsidies charged to retained profits	(ii)	**(178,220)**	(105,440)
Provision for furnace relining costs	(iii)	**(96,323)**	(120,344)
Proposed final dividend	(iv)	**(225,936)**	(129,106)
Deferred credit	(v)	**–**	(1,373,631)
Shareholders' equity under PRC accounting standards		**11,862,833**	10,403,477

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

(i) Deferred staff costs

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

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

Under Hong Kong accounting standards, the current year treatment still follows the aforesaid accounting policies and the required amortisation of approximately RMB17.6 million was charged to the profit and loss account during the year. As at 31 December 2002, unamortised deferred staff costs were approximately RMB70.4 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 costs of approximately RMB105.6 million as brought forward from 31 December 2000, to the opening retained profits account.

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

(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 the aggregate subsidies payable to all eligible current and retired employees to be approximately RMB349 million and RMB38.8 million, respectively. The subsidies payable to current and retired employees will be on a batch basis upon application from eligible employees during the coming years.

Under Hong Kong accounting standards, the Company recognised the present value of the housing subsidies which were already earned at the balance sheet date, after deducting the amounts already paid, as a liability. The subsidies are earned by the employees over the vesting period. The estimated remaining average vesting period of the relevant employees as at 31 December 2002 is estimated to be 7 years. Accordingly, subsidies for current employees of approximately RMB34.9 million (2001: approximately RMB34.9 million) have been accrued and charged to the profit and loss account during the year. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2002 was approximately RMB104.7 million (31 December 2001: approximately RMB69.8 million).

The aggregate subsidies of approximately RMB38.8 million payable to all eligible retired employees during the future years have already been fully charged to the profit and loss account during the year ended 31 December 2000, since such subsidies are related to past services of eligible retired employees. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2002 was approximately RMB38.8 million (31 December 2001: approximately RMB38.8 million).

Under PRC accounting standards and related regulations, the subsidies paid to eligible current and retired employees aggregating approximately RMB72.8 million (2001: approximately RMB84.6 million) during the year have been charged directly to the retained profits account. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2002 was approximately RMB178.2 million (31 December 2001: approximately RMB105.4 million). No accrual for the subsidies payable to current employees or retired employees has been made in the financial statements.

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

(iii) Furnace relining costs

Under newly issued PRC accounting standards, repair and maintenance costs incurred on fixed assets should be charged to the profit and loss account as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. In 2001, the Company accrued for approximately RMB5.49 million for provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, provision for furnace relining costs of approximately RMB24.0 million was utilised, and the remaining provision as at 31 December 2002 amounted to approximately RMB96.3 million (31 December 2001: approximately RMB120.3 million).

Under SSAP 28, furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment. Relining costs incurred during the year amounting to approximately RMB28.4 million (2001: approximately RMB9.1 million) have been charged to the profit and loss account.

(iv) Proposed final dividend

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

Under SSAP 9 (Revised), proposed final dividends, which are not declared and approved until after the balance sheet date, are no longer recognised as a liability at the balance sheet date, but disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. Accordingly, proposed final dividend for the year of approximately RMB225,936,000 was disclosed under the capital and reserves section in the balance sheet as at 31 December 2002.

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

(v) Deferred credit

Under PRC accounting standards, the Hong Kong dollar share proceeds received from the issue of H shares during 1993 were required to be recorded in Renminbi at the official exchange rate ruling at the transaction date. Accordingly, in preparing the 31 December 1993 PRC statutory financial statements, the Hong Kong dollar share proceeds were translated at the official exchange rate prevailing at that date.

Following the unification of the Renminbi exchange rates on 1 January 1994, under PRC accounting standards, the Group realised an exchange gain of approximately RMB1,374 million which was recorded as a deferred credit on the balance sheet. Pursuant to a directive issued by the Ministry of Finance on 2 March 1994, the directors determined that the Group should retain the deferred credit either to offset future losses, or to retain the amount until liquidation. The deferred credit balance as at 31 December 2001 represented the balance as at 1994 carried forward.

Under Hong Kong accounting standards, the rates of exchange used to record foreign currency transactions and for the translation of foreign currency assets at 31 December 1993 are those rates quoted by the Foreign Exchange Adjustment Centre in Shenzhen, and no material gain or loss has resulted from the Renminbi exchange rate unification.

On 27 May 2002, the Ministry of Finance issued a directive and approved the deferred credit balance to be reclassified as capital reserve and hence, the Company has reclassified the deferred credit to capital reserve during the year. As at 31 December 2002, there were no differences arising from deferred credit between the consolidated financial statements as prepared under PRC and Hong Kong accounting standards.

36. RELATED PARTY TRANSACTIONS

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

	2002 RMB'000	2001 RMB'000
Purchases of iron ore and limestone	**816,320**	742,249
Fees received for the supply of utilities, services and other consumable goods	**(30,365)**	(35,328)
Fees paid for welfare, support services and other services	**223,802**	249,866
Purchases of fixed assets and construction services	**176,812**	80,204
Sale of steel products	**(44,637)**	(24,656)

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 Group and Holding.

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

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

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 2 April 2003.