

Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 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 and its subsidiaries (the “Group”) are principally engaged in the manufacture and sale of iron and steel products.

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

The principal accounting policies, estimates and the preparation of consolidated financial statements, based upon which the financial statements are prepared, were selected in accordance with “Accounting Standards for Business Enterprises” and “Accounting System for Business Enterprises” and other related standards, regulations and rules as issued by the Ministry of Finance of the PRC.

1. Accounting system

The Group has implemented “Accounting Standards for Business Enterprises” and “Accounting System for Business Enterprises”.

2. Financial year

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

3. Reporting currency

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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

4. Basis of accounting

The Group's accounts have been prepared on an accrual basis. Assets are valued at actual cost when they are acquired. Subsequently, following regular inspection, the Group provides impairment provisions in accordance with "Accounting System for Business Enterprises".

5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China prevailing on the transaction dates. 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 with the exception of foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets which is capitalised during the construction period, are dealt with as financial expenses in the profit and loss account.

6. Basis of consolidation

The consolidated financial statements of the Group have been prepared in accordance with the rules of directive No. 1995(11) "Tentative Regulations of Consolidation of Financial Statements" issued by the PRC Ministry of Finance. This requires the consolidation of entities in which over 50% of equity interest is held by the Company, or entities in which the Group holds less than 50% but has, in substance, control over them. All significant inter-company transactions and balances are eliminated on consolidation.

7. Cash equivalents

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

Notes to Financial Statements (continued)

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

8. Short term investments

The Group's short term investments refer to those investments that can be realised at any time and that are intended to be held for less than one year. They include stocks, bonds and funds. Short term investments are recorded at the initial price paid on acquisition less cash dividends that are declared but not received, and interest on bonds due but not received.

Cash dividends and interest on short term investments declared by investee company during the holding period are netted off against the book value of the investment when received, except for those recorded as receivables when acquired. Upon disposal of short term investments, the difference between the book value of the short term investments and the proceeds on disposal are recorded as a gain or loss on disposal of investments for the current period. The cost of the investments is determined using the weighed average method.

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

9. Bad debts provision

Recognition criteria for bad 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, supported by evident characteristics, of a debtor who is unable to comply with the repayment obligation after the debt fell due.

Bad debts provision is made using the provision method and is offset against the corresponding trade and other receivables when those bad debts are approved.

Notes to Financial Statements (continued)

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

9. Bad debts provision (continued)

The Group adopted the provision method and specific and general provisions were made to account for bad debt losses on trade and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of trade and other receivables based on the ageing analysis. 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. The general provision was determined in accordance with the financial and cash flow status of the debtor, using the percentages below:

Ageing	Bad debts percentage (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%

10. Inventories

Inventories, which include raw materials, work-in-progress, finished goods and spare parts, are stated at the cost of purchase. Cost 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 as production cost for the period and hence included in the cost of finished goods sold. Inventories, other than spare parts, are determined on weighted average basis.

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. Net realisable value is the estimated selling prices in the ordinary course of business less any estimated costs of completion and estimated selling expenses.

Notes to Financial Statements (continued)

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

11. Long term investments

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

Long term equity investments are recorded at initial cost on acquisition. The equity method is then applied when the Company holds 20% or more of the voting capital, or less than 20% but with significant influence, while cost method is then applied for all other equity investments when the Company holds less than 20% of the voting capital, or has 20% or above but without significant influence.

When the equity method is adopted, the difference between the initial cost of the investment and the investor's share of the owner's equity in the investee company is regarded as an equity investment difference which is amortised evenly over the investing period stipulated in the contract. If the investment period is not specified in the contract, a positive difference is amortised over a period of less than 10 years; and a negative difference is amortised over a period of not less than 10 years.

Long term debt investments are recorded at the initial cost on acquisition. Interest income is computed based on the par value and par interest rate over the period. The premium and discount on long term debt investments is amortised over the period in which the investment is held and the relevant bond interest is recognised.

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 an impairment of a long term investment and an investment loss in the current year.

Notes to Financial Statements (continued)

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

12. Fixed assets and depreciation

Fixed assets represent tangible assets held for the purposes of production of products, provision of services, leasing or operational use. They are of relatively high value and have useful lives exceeding 1 year.

Fixed assets are recorded at 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. If the future economic benefits brought about by the incurrence of subsequent overhaul and technical improvement costs are greater than those originally estimated, then such costs will be capitalised as fixed assets. In the prior years, furnace relining costs were amortised, using the straight line method, over the period between relinings. 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 on a straight-line basis. As prescribed by the standard, a prior year adjustment will not be made for the balance of provision for furnace relining costs as at 31 December 2001 as the balance will be netted off against future furnace relining costs to be actually incurred. Expenditure of repair and maintenance on fixed assets should be charged to the profit and loss account as and when incurred. A gain or loss on obsolescence, inventory losses, disposal or damage to fixed assets is accounted for as non-operating income or expenses in the current period.

Depreciation is provided on fixed assets using the straight-line method. The depreciation rates are determined based on the cost, the estimated useful lives and estimated residual value (3% of original cost) of each category of fixed assets as follows:

Categories	Estimated useful life	Annual depreciation rate
Buildings and structures	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%

Fixed assets are depreciated on a monthly basis from the month following that in which the assets are used in operation. For fixed assets that are no longer used in operation, depreciation ceases from the month following that in which the assets cease to be used.

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

12. Fixed assets and depreciation (continued)

The Group reviews its fixed assets 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, technical obsolescence, damages in fixed asset or when it is persistently idle, the difference between the recoverable amount and the carrying amount of the fixed asset is recognised as an impairment provision and charged to the current period's profit and loss account. Impairment provision is made on an individual basis.

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

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

13. Construction materials

Construction materials include preparation materials for construction projects, equipment that needs to be installed and prepayment for large-scale equipment. Construction materials are recorded at actual cost.

14. 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 construction in progress 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 the asset is substantially ready for its intended use.

Notes to Financial Statements (continued)

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

14. Construction in progress (continued)

The Group reviews its construction in progress 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 an impairment provision and charged to the current period's profit and loss account. Provision for impairment of construction in progress is calculated on an individual basis.

15. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings. The costs of borrowings especially for the acquisition or construction of a fixed asset are capitalised when:

- (i) expenditures for the assets are incurred; and
- (ii) borrowing costs are incurred; and
- (iii) the acquisition and construction activities that are necessary to bring the assets to their expected usable conditions have commenced.

The capitalisation of borrowing costs is suspended during the period in which the acquisition or construction of a fixed asset is abnormally interrupted, and the interruption period is more than 3 months. Borrowing costs during the period are then treated as an expense of the current period until the acquisition or construction is resumed.

The capitalisation of borrowing costs ceases when the fixed asset being acquired or constructed is substantially ready for its intended use and borrowing costs incurred thereafter are recorded as finance costs in the period in which they are incurred.

Notes to Financial Statements (continued)

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

15. Borrowing costs (continued)

The capitalised borrowing costs for each accounting period are computed based on the accumulated weighted average expenditure incurred for the acquisition or construction of fixed assets up to the end of the period, using the related weighted average interest rate, subject to the actual borrowing costs and amortisation of discounts and premiums thereof. Exchange difference and significant specific ancillary borrowing expenses of foreign specific borrowing will be capitalised at its actual cost.

Expenses incurred in other borrowings should be recognised as financial expenses in the period in which they are incurred.

16. Intangible assets and amortisation

The Group's 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 reviews the carrying amount of its intangible assets periodically. Any excess of the carrying amount of the asset over the recoverable amount is recognised as an impairment provision and is charged to the profit and loss account in the current period.

17. Housing subsidies

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

18. 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.

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

19. Deferred staff costs

Losses arising from the disposal of staff quarters to employees at preferential prices in prior years 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. According to the rules of directive No. 2001(5) issued by the Ministry of Finance in January 2001, the unamortised deferred staff costs as at 1 January 2001 have been fully charged to opening retained profits.

20. 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 projects, the costs incurred are recognised as fixed assets and the utilised portion of specific payables thereof are transferred to capital reserve.

21. Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and when it is probable that the economic benefits associated with the transaction will flow to the Group; and the relevant amounts of revenue and costs can be measured reliably.

Revenue from the sale of goods is determined according to the invoiced value of goods sold, and excludes value added tax ("VAT"). Sales returns and allowances are recorded as a reduction of revenue in the period in which the returns and allowances occur. Cash discounts are recognised as expenses in the period in which they are incurred.

Interest income is recognised using the matching principle and after taking into account the principal outstanding and the effective interest rate applicable.

Notes to Financial Statements (continued)

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

22. Income tax

In prior years, the Company's income tax was provided using the tax-effect accounting method. Deferred tax was provided, using the liability method, on all significant timing differences. As a result of the Company investing substantially in assets as well as writing off or making impairment provisions for its fixed assets and auxiliary equipment during the implementation period of its Tenth Five-Year Plan, the reversal/deductibility of the deferred tax arising from the significant timing differences was highly judgmental. For prudence, the Company changed its accounting method for the current year and adopted the tax payable method to account for income tax. Under the tax payable method, the current period's tax payable represents the current period's income tax expense and does not recognise the effect of timing difference on income tax. The aforesaid change in accounting policy has had no effect on the current and prior years' profit and loss and hence, prior year adjustment was not required.

23. Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control or jointly 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.

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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. Flood prevention fund

Payable based on 0.06% of last year's sales or operating income.

6. Real estate tax

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

7. Income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15%-33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practice in respect thereof. Profits tax of the Hong Kong subsidiary has been provided at the rate of 16% on the estimated assessable profits which were earned in or derived from Hong Kong during the year. No provision for income tax for other overseas subsidiary has been made as there were no assessable profits during the year.

Notes to Financial Statements (continued)

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IV. SUBSIDIARIES

Name of subsidiaries	Place of incorporation and 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, installation and repairs of computers and communications systems	RMB8,000,000	6,649,632	93.75	6.25
Anhui Masteel K. Wah New Building Materials Co., Ltd. (Note 2)	Anhui, PRC	Production, sale and transportation of slag products and provision of related consultation services	USD4,290,000	–	70	–
Ningbo Chang Yi Company Limited (Note 3)	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
MG Trading and Development GmbH	Germany	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	1,573,766	100	–
Total				<u>70,925,086</u>		

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IV. SUBSIDIARIES (continued)

Note 1: Newly incorporated during the year

Note 2: 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 operations during the year and therefore has no impact on the Group's financial status and operating results.

Note 3: 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.

V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	Note	2002			2001		
		Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand		RMB107,988	1.0000	107,988	RMB72,302	1.0000	72,302
Balances with financial institutions	2	RMB814,181,933 (i) HK\$81,054,627 US\$17,527,675 (ii) EUR1,923,246 JPY184,582,131	1.0000 1.0611 8.2773 8.6360 0.069035	814,181,933 85,974,085 145,080,879 16,016,803 12,742,628	RMB1,093,362,992 HK\$116,330,237 US\$4,934,124 DM561,165 JPY994,343,605	1.0000 1.0613 8.2766 3.5352 0.063005	1,093,362,992 123,266,526 40,837,776 1,984,167 62,648,619
Total				<u>1,074,104,316</u>			<u>1,322,172,382</u>

(i) Fixed deposit of RMB25,020,207 has been pledged to the Industrial and Commercial Bank of China, Maanshan Branch Huitong Office as securities for the provision of banking facilities to Maanshan Iron & Steel (HK) Limited.

(ii) Fixed deposit of US\$1,039,000 (equivalent to RMB8,599,367) has been pledged to the Hongkong and Shanghai Banking Corporation Limited and fixed deposits of US\$296,382 (equivalent to RMB2,453,246) have been pledged to the 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.

Notes to Financial Statements (continued)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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 (2001: RMB202 million).

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

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. During the year, no repayment was received from GITIC, China Venturetech and Ningbo CITIC. On 28 February 2003, the People's High Court of the Guangdong Province declared an end to the bankruptcy proceeding in relation to 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, how much of the outstanding deposit principal, if any, the Company will be able to recover from these three companies.

The Company initiated legal proceedings against SEG in December 1998 and has obtained court judgements against SEG on 19 March 1999 for the principal amounts of those fixed deposits and interest thereon. However, SEG is currently in 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.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

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

Based on the above factors, the directors consider it prudent to 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.

3. Short term investments

Items	2002		2001	
	Investment cost RMB	Provision for impairment RMB	Investment cost RMB	Provision for impairment RMB
Designated investment (i)	–	–	100,000,000	–
Equity investment (ii)	13,568,593	2,263,731	13,568,593	1,771,790
Total	13,568,593	2,263,731	113,568,593	1,771,790

(i) In 2001, the Company entrusted Shanghai Anshen Investment & Administration Co., Ltd. to invest an amount of RMB100,000,000 on its behalf and on 3 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.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

3. Short term investments (continued)

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 operation is under the supervision of the Company's personnel. The agreement was for a period of 12 months, from 17 April 2002 to 17 April 2003. In September 2002, the Company early terminated the agreement and fully collected the designated investment amount and its related investment income amounting to RMB100,000,000 and RMB833,300 respectively.

(ii)	Name of enterprise	Number of shares held	Closing	Market	price at year end RMB
			Investment cost RMB	market unit price RMB	
	China Petroleum & Chemical Corporation	1,800,000	7,596,000	3.01	5,418,000
	Baoshan Iron & Steel Company Limited	1,428,850	5,972,593	4.12	5,886,862
	Total		13,568,593		11,304,862

The year end market prices of the shares were the closing market prices as at 31 December 2002 as disclosed in China Securities Journal.

According to the Group's opinion, there is no material restriction on realisation of investments as at the balance sheet date.

The Group's short term investments decreased by 90% because of the retrieval of designated investment.

The movement of provision for impairment of short term investments for the year 2002 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

4. Bills receivable

	2002 RMB	2001 RMB
Bank bills receivable	665,937,577	878,498,188
Commercial bills receivable	96,330	–
	666,033,907	878,498,188

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

The balance of bills receivable does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

5. Trade receivables

Trade receivables ageing analysis:

	Group							
	2002				2001			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	143,591,853	51	(1,296,286)	1	313,544,939	41	(38,069,444)	12
One to two years	41,107,940	14	(11,475,524)	28	32,924,310	4	(14,736,178)	45
Two to three years	16,513,217	6	(12,011,159)	73	66,139,368	9	(40,857,417)	62
Over three years	82,811,641	29	(82,375,128)	100	354,518,588	46	(354,394,509)	100
Total	284,024,651	100	(107,158,097)		767,127,205	100	(448,057,548)	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

	Company							
	2002				2001			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	154,136,294	53	(1,296,286)	1	286,510,072	39	(26,588,816)	9
One to two years	39,800,275	14	(10,703,494)	27	32,924,310	5	(14,736,178)	45
Two to three years	12,634,501	4	(7,225,837)	57	66,139,368	9	(40,857,417)	62
Over three years	82,368,993	29	(81,932,480)	100	348,699,216	47	(348,575,137)	100
Total	288,940,063	100	(101,158,097)		734,272,966	100	(430,757,548)	

The amount of bad debts provision written off in current year analysis:

Reason	Group	
	2002 RMB	2001 RMB
Bankrupt debtors	98,499,976	–
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	283,759,475	–
Total	382,259,451	–

Reason	Company	
	2002 RMB	2001 RMB
Bankrupt debtors	93,617,039	–
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	277,342,412	–
Total	370,959,451	–

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

The decrease in the Group and the Company's trade receivables, net of provision by 45% and 38%, respectively, is mainly attributable to the increase in collection ability.

As at 31 December 2002, the five largest trade receivables of the Group and the Company amounted to RMB162,653,378 and RMB162,341,950, respectively, which accounted for 57% and 56% of total trade receivables of the Group and the Company respectively.

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 subsidiaries of RMB37.48 million (2001: RMB12.8 million) which principally arose from normal trading activities.

The movement of bad debts provision for trade receivables for the year 2002 is disclosed in the supplementary information of the financial statements.

6. Other receivables

Other receivables ageing analysis:

	Group							
	2002				2001			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	86,495,352	60	(4,665,829)	5	146,602,915	73	(6,466,984)	4
One to two years	9,638,048	6	(7,083,444)	73	3,519,243	1	(3,168,024)	90
Two to three years	1,106,311	1	(750,147)	68	1,241,290	1	(1,113,442)	90
Over three years	47,717,328	33	(47,717,328)	100	49,474,298	25	(49,474,298)	100
Total	144,957,039	100	(60,216,748)		200,837,746	100	(60,222,748)	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

	Company							
	2002				2001			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	40,809,330	41	(4,665,829)	11	40,137,445	43	(6,466,984)	16
One to two years	9,638,048	10	(7,083,444)	73	3,519,243	4	(3,168,024)	90
Two to three years	1,106,311	1	(750,147)	68	1,240,790	1	(1,113,442)	90
Over three years	47,717,328	48	(47,717,328)	100	49,474,298	52	(49,474,298)	100
Total	99,271,017	100	(60,216,748)		94,371,776	100	(60,222,748)	

The decrease in the Group's other receivables, net of provision by 40% is mainly attributable to the receipt of export tax refund.

As at 31 December 2002, the Group and Company's five largest other receivables amounted to RMB58,109,538 and RMB45,704,291, respectively. This accounted for 40% and 46% of the Group and Company's gross other receivables, respectively.

The balance of other receivables does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

The movement of bad debts provision for other receivables for the year 2002 is disclosed in the supplementary information of the financial statements.

7. Prepayments

The ageing of prepayments is within one year.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

8. Inventories

	2002		2001	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	687,066,210	–	623,146,667	–
Work in progress	329,557,802	(3,000,000)	403,306,453	(3,000,000)
Finished goods	199,716,241	(9,656,900)	141,452,756	(4,150,000)
Spare parts	571,256,789	(133,851,755)	681,241,874	(66,913,041)
Total	1,787,597,042	(146,508,655)	1,849,147,750	(74,063,041)

The movement of provision for inventories for the year 2002 is disclosed in the supplementary information of the financial statements.

9. Long term debt investments due within a year

The decrease in the Group's long term debt investments due within a year by 100% is attributable to the retrieval of debt investments.

10. Long term investments

Items	Group			
	At 1 January 2002 RMB	Additions during the year RMB	Decrease during the year RMB	At 31 December 2002 RMB
Long term equity investments				
Equity investments (ii)	6,417,035	100,000	–	6,517,035
Long term debt investments				
Other debt investment (iii)	21,558,870	–	–	21,558,870
Total	27,975,905	100,000	–	28,075,905

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Long term investments (continued)

Items	Company			At 31 December 2002 RMB
	At 1 January 2002 RMB	Additions during the year RMB	Decrease during the year RMB	
Long term equity investments				
Interests in subsidiaries (i)	402,716,328	525,385,571	–	928,101,899
Equity investments (ii)	6,417,035	100,000	–	6,517,035
	409,133,363	525,485,571	–	934,618,934
Long term debt investments				
Other debt investment (iii)	21,558,870	–	–	21,558,870
Total	430,692,233	525,485,571	–	956,177,804

The increase in the Company's long term investments by 122% is mainly attributable to the increase in amounts due from subsidiaries.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Long term investments (continued)

(i) Interests in subsidiaries

Name of investee companies	Investment period	Percentage of equity held by the Company %	Initial investment cost RMB	Company				Closing balance RMB
				Opening investment cost RMB	Additions during the year RMB	Adjustment for income		
						Additions during the year RMB	Accumulated additions RMB	
Ma Steel								
International Trade and Economic Corporation								
	N/A	100	50,000,000	50,000,000	-	-	-	50,000,000
Design & Research Institute of Maanshan Iron & Steel Co. Ltd.								
	N/A	93.75	7,500,000	7,500,000	-	2,082,380	2,082,380	9,582,380
MG Control Technique Co. Ltd.								
	4 years	93.75	6,649,632	-	6,649,632	58,011	58,011	6,707,643
Ningbo Chang Yi Co. Ltd.								
	10 years	20	200,000	200,000	-	4,462,626	4,462,626	4,662,626
Shanghai Zhong Ma Co. Ltd.								
	10 years	90	900,000	900,000	-	5,671,805	5,671,805	6,571,805
Maanshan Iron & Steel (HK) Ltd.								
	N/A	80	4,101,688	4,101,688	-	6,239,402	6,239,402	10,341,090
MG Trading and Development GmbH								
	N/A	100	1,573,766	1,573,766	-	208,280	208,280	1,782,046
				64,275,454				89,647,590
Less: Impairment provision								
				-				(200,000)
				64,275,454				89,447,590
Amount due from subsidiaries								
				338,440,874				838,654,309
Total								
				402,716,328				928,101,899

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 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 investee companies	Nature of investments	Number of shares held	Percentage of equity held by the Company %	Investment cost RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
Others				1,150,000
Total				6,517,035

(iii) Other debt investment

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the year RMB	Accumulated interest received/receivable RMB	Carrying value RMB
安徽省電子開發總公司	21,558,870	Nil	2003-2009	-	-	21,558,870

The movement of provision for long term investments for the year 2002 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

11. Fixed assets

	Buildings and structures RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
Cost				
At 1 January 2002	6,560,023,602	7,927,139,269	477,023,940	14,964,186,811
Additions	4,487,962	7,274,192	1,052,638	12,814,792
Transferred from construction in progress (Note 13)	86,811,904	506,039,219	36,915,027	629,766,150
Reclassifications	62,843,346	(58,073,629)	(4,769,717)	-
Disposal	(193,342,542)	(604,813,520)	(15,397,389)	(813,553,451)
Transferred to construction in progress (Note 13)	(31,254,046)	(5,983,045)	(770,568)	(38,007,659)
At 31 December 2002	6,489,570,226	7,771,582,486	494,053,931	14,755,206,643
Accumulated depreciation				
At 1 January 2002	1,512,710,925	2,992,455,975	285,747,636	4,790,914,536
Provided during the year	259,138,036	546,040,273	36,770,096	841,948,405
Reclassifications	(325,098)	4,031,554	(3,706,456)	-
Disposal	(75,618,854)	(419,022,166)	(13,321,465)	(507,962,485)
Transferred to construction in progress (Note 13)	(10,192,339)	(5,066,053)	(432,745)	(15,691,137)
At 31 December 2002	1,685,712,670	3,118,439,583	305,057,066	5,109,209,319
Net book value				
At 31 December 2002				
Net book value	4,803,857,556	4,653,142,903	188,996,865	9,645,997,324
Less: Impairment	(73,486,600)	(222,880,500)	-	(296,367,100)
Net book value, net of impairment	4,730,370,956	4,430,262,403	188,996,865	9,349,630,224
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	4,985,748,286	4,870,816,273	191,276,304	10,047,840,863

The movement of provision for impairment of fixed assets for the year 2002 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction materials

	2002 RMB	2001 RMB
Prepayment for equipment used in construction projects	838,980,700	329,936,821

The increase in the Group's construction materials by 154% is attributable to the increase in prepayment for equipment used in construction projects.

13. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2002:

Name of project	Budgeted cost RMB'000	At 1 January 2002 RMB	Additions during the year RMB	Transferred		At 31 December 2002 RMB	Source of fund	Percentage of completion %
				fixed assets (Note 11) RMB	fixed assets (Note 11) RMB			
1. Thin Plate Project <i>Including interest capitalised</i>	5,200,000	8,479,556	618,469,995	22,316,522	-	649,266,073	Internally generated funds and loans from financial institution	12
		-	27,790,666	-	-	27,790,666		
2. 2500m ³ Blast Furnace	795,000	4,114,342	156,335,498	-	-	160,449,840	Internally generated funds	20
3. No. 1 Steel Making Plant Converter Furnace Project <i>Including interest capitalised</i>	740,000	116,139,696	225,841,317	-	(270,068,840)	71,912,173	Internally generated funds and loans from financial institution	91
		4,866,960	8,811,595	-	(10,025,651)	3,652,904		
4. Modification of Train Wheel Rolling System <i>Including interest capitalised</i>	320,000	2,724,355	150,749,285	-	(75,000)	153,398,640	Internally generated funds and loans from financial institution	48
		-	304,050	-	-	304,050		
5. 300m ³ Sintering Machine	298,000	83,158	91,484,510	-	-	91,567,668	Internally generated funds	31

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

13. Construction in progress (continued)

Name of project	Budgeted cost RMB'000	At 1 January 2002 RMB	Additions during the year RMB	Transferred		At 31 December 2002 RMB	Source of fund	Percentage of completion %
				from fixed assets (Note 11) RMB	Transferred to fixed assets (Note 11) RMB			
6. No. 3 Converter of No. 1 Steel Making Plant	250,000	-	50,509,635	-	-	50,509,635	Internally generated funds	20
7. Auxiliary Facilities	200,000	1,982,687	154,293,047	-	(9,800,000)	146,475,734	Internally generated funds	78
8. Revamping of High Speed Wire and Rolling Mill Project	177,400	3,999,997	106,188,010	-	-	110,188,007	Internally generated funds	62
9. Wire Rod Mill of No. 2 Steel Making Plant	132,000	788,308	64,594,018	-	-	65,382,326	Internally generated funds	50
10. Reformation of Dock and Stock Storage Ground	109,500	-	31,326,056	-	-	31,326,056	Internally generated funds	29
11. 220t/h Boiler Project	54,000	54,356,089	-	-	(54,356,089)	-	Internally generated funds	100
12. MaSteel Health Recovery Centre	62,000	461,532	22,608,656	-	-	23,070,188	Internally generated funds	37
13. Coke Dry Quenching Project	168,000	439,711	20,416,374	-	-	20,856,085	Internally generated funds and loans from financial institution	12
14. 50000m ³ Gas Chamber of Gas and Steam Supply Plant	24,000	-	21,594,880	-	-	21,594,880	Internally generated funds	90
15. The Bedding Field of No. 2 Sinter Plant	19,450	12,589,141	7,677,621	-	-	20,266,762	Internally generated funds	104
16. Major Repair of the No. 2 Machine of No. 2 Sinter Plant	16,520	19,875,578	-	-	-	19,875,578	Internally generated funds	120

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

15. Short term loans

Type	Annual interest rate %	Maturity date	2002 RMB	2001 RMB
Unsecured loans	2.90 – 5.85	1/2003 – 12/2003	918,977,295	985,930,885

16. Trade payables

The increase in the Group's trade payables by 30% is mainly attributable to the increase in account payables for raw materials and spare parts.

The ageing of trade payables is within three years.

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

17. Deposits received

The increase in the Group's deposits received by 52% is mainly attributable to the increase in sales deposits received.

The ageing of deposits received is within one year.

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

18. Wages payable

The increase in the Group's wages payable by 53 times because the 2002 bonus was not fully paid during the year.

Current year balance included RMB500,175 which was performance related wages brought forward from prior years.

19. Staff welfare payable

The increase in the Group's staff welfare payable by 91% is mainly attributable to the increase in staff welfare provided during the year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

20. Tax payable

	2002 RMB	2001 RMB
Income tax	40,518,550	(9,704,786)
VAT	43,003,405	268,581,097
Business tax	1,296,520	111,552
Other taxes	10,409,482	561,030
Total	95,227,957	259,548,893

The decrease in the Group's tax payable by 63% is mainly attributable to the settlement of VAT payable for the previous year.

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

The movement of VAT for the year 2002 is disclosed in the supplementary information of the financial statements.

21. Other taxes payable

	2002 RMB	2001 RMB
Education surcharge	1,631,156	319,389
Flood prevention fund	19,239,814	16,515,129
Other taxes	1,742	25,801
Total	20,872,712	16,860,319

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Other payables

	2002 RMB	2001 RMB
Labour costs	38,184,062	27,375,779
Construction fee	112,174,244	121,946,449
Maintenance and inspection fee	29,229,943	17,202,686
Others	39,632,184	29,370,761
Total	219,220,433	195,895,675

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

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.

23. Accrued charges

	2002 RMB	2001 RMB
Loan interests	53,434,064	47,695,984
Freight charges	24,269,000	64,085,423
Retirement benefits payable to early retired employees	37,310,039	73,142,630
Maintenance fee	19,294,159	5,942,632
Others	58,039,709	44,306,280
Total	192,346,971	235,172,949

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Long term loans due within a year

Lender	2002			2001			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency	Original currency	RMB	Currency	Original currency	RMB			
The Industrial and Commercial Bank of China – Maanshan Branch	RMB	20,000,000	20,000,000	-	-	-	2/2003	5.49	Unsecured
The Industrial and Commercial Bank of China – Magang Branch	RMB	10,280,000	10,280,000	RMB	103,940,000	103,940,000	3/2003 – 9/2003	2.88	Unsecured
China Construction Bank – Maanshan Branch	RMB	-	-	RMB	2,700,000	2,700,000	N/A	N/A	N/A
China Construction Bank – Metallurgical Branch	RMB	105,000,000	105,000,000	RMB	60,000,000	60,000,000	8/2003 – 12/2003	5.76	Guaranteed by Holding
China Construction Bank – Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2003	2.4	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,992,075	USD	7,972,657	65,986,493	10/2003	3.64	Guaranteed by Holding
Bank of China – Maanshan Branch	EUR	123,947	1,072,375	EUR	123,947	907,015	9/2003	0.25	Unsecured
Total			<u>215,544,450</u>			<u>246,733,508</u>			

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Long term loans

Lender	2002			2001			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency	Original currency	RMB	Currency	Original currency	RMB			
The Industrial and Commercial Bank of China – Magang Branch	RMB	-	-	RMB	20,000,000	20,000,000	N/A	N/A	N/A
China Construction Bank – Metallurgical Branch	RMB	521,000,000	521,000,000	RMB	505,000,000	505,000,000	11/2006 – 12/2007	5.76 – 6.21	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	27,904,300	230,972,264	USD	35,876,958	296,914,033	4/2004 – 10/2007	3.64	Guaranteed by Holding
Bank of China – Maanshan Branch	EUR	1,983,142	17,158,000	EUR	2,107,089	15,419,255	3/2004 – 10/2019	0.25	Unsecured
Total			<u>769,130,264</u>			<u>837,333,288</u>			

26. Specific payables

	2002 RMB	2001 RMB
Government subsidies for specific construction projects	<u>525,840,000</u>	<u>485,840,000</u>

27. Other long term liabilities

	2002 RMB	2001 RMB
Accrued charges for furnace relining	<u>96,323,132</u>	<u>120,343,721</u>
Retirement benefits payable to early retired employees	<u>61,724,138</u>	<u>61,724,138</u>
Total	<u>158,047,270</u>	<u>182,067,859</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 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:

	Group and Company	
	2002 RMB	2001 RMB
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 legal persons	–	–
(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	4,122,370,000	4,122,370,000
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	2,332,930,000	2,332,930,000
C. Total share capital	6,455,300,000	6,455,300,000

There was no change in share capital during the year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

29. Capital reserve

	Group and Company			
	At	Additions	Decrease	At
	1 January	during	during	31 December
	2002	the year	the year	2002
	RMB	RMB	RMB	RMB
Share premium	3,491,344,482	1,373,630,913	–	4,864,975,395

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

30. Surplus reserves

	Group			
	At	Additions	Decrease	At
	1 January	during	during	31 December
	2002	the year	the year	2002
	RMB	RMB	RMB	RMB
Statutory surplus reserve	210,405,777	41,235,770	–	251,641,547
Statutory public welfare fund	210,304,166	40,808,480	–	251,112,646
Total	420,709,943	82,044,250	–	502,754,193

	Company			
	At	Additions	Decrease	At
	1 January	during	during	31 December
	2002	the year	the year	2002
	RMB	RMB	RMB	RMB
Statutory surplus reserve	210,185,155	40,189,989	–	250,375,144
Statutory public welfare fund	210,185,155	40,189,989	–	250,375,144
Total	420,370,310	80,379,978	–	500,750,288

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. Surplus reserves (continued)

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

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

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

After the balance sheet date, the directors determined that the Company should transfer RMB40,189,989 (2001: RMB20,351,839) to each of the SSR and the PWF, respectively. This represents 10% of the Company's profit after tax of RMB401,899,898 (2001: RMB203,518,387) determined in accordance with PRC accounting standards. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

31. Retained profits

	Notes	Group Amount RMB
Retained profits at beginning of year		36,121,774
Less: Staff housing subsidies payment charged to retained profits	39	(72,779,744)
Add: Group's net profit for the year		384,440,901
Less: Transfer to statutory surplus reserve	30	(41,235,770)
Transfer to statutory public welfare fund	30	(40,808,480)
Dividend payable for the year ended 2002	41	(225,935,500)
Retained profits at end of year		39,803,181

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

31. Retained profits (continued)

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

As at 31 December 2002, the Company had retained profits of approximately RMB43.19 million (2001: approximately RMB20.39 million), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, 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 capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue. At the same date, the Company did not have any capitalisation issue.

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

Items	Group					
	2002			2001		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	10,260,190,340	8,686,743,090	1,573,447,250	8,848,110,853	7,637,851,253	1,210,259,600
Sale of pig iron	22,740,587	18,151,754	4,588,833	26,812,279	20,638,626	6,173,653
Sale of steel billets	34,361,798	35,004,230	(642,432)	46,492,338	48,523,412	(2,031,074)
Others	656,624,436	484,461,885	172,162,551	626,513,262	484,338,051	142,175,211
Total	10,973,917,161	9,224,360,959	1,749,556,202	9,547,928,732	8,191,351,342	1,356,577,390

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Principal operating income, cost of sales and profit from principal operating activities (continued)

Items	Company					
	2002			2001		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
	RMB	RMB	RMB	RMB	RMB	RMB
Sale of steel products	10,269,168,330	8,699,926,741	1,569,241,589	8,775,293,899	7,583,387,862	1,191,906,037
Sale of pig iron	22,740,587	18,151,754	4,588,833	26,812,279	20,638,626	6,173,653
Sale of steel billets	34,361,798	35,004,230	(642,432)	46,492,338	48,523,412	(2,031,074)
Others	641,676,648	486,266,568	155,410,080	563,605,218	432,766,462	130,838,756
Total	10,967,947,363	9,239,349,293	1,728,598,070	9,412,203,734	8,085,316,362	1,326,887,372

Sales to the five major customers of the Group and the Company for the year amounted to RMB2,325,830,428, which accounted for 21% of the total Group's and Company's sales amount respectively.

The Group has only one business segment, which is the manufacture and sale of iron and steel products, and therefore, no business segment information is presented. No geographical segment information is presented as the Group's operations were substantially carried out in the PRC during the year.

33. Taxes and surcharges

	2002 RMB	2001 RMB
City construction and maintenance tax	59,992,138	52,138,116
Education surcharge	25,710,917	22,344,907
Other taxes	493,346	247,310
Total	86,196,401	74,730,333

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

34. Financial expenses

	2002 RMB	2001 RMB
Interest expenses	101,902,205	150,762,519
Less: Interest income	(19,150,188)	(22,308,192)
Exchange loss	9,328,860	2,315,332
Less: Exchange gain	(11,956,737)	(3,112,346)
Others	5,155,748	2,732,618
Total	85,279,888	130,389,931

The decrease in the Group's financial expenses by 35% is attributable to the decrease in interest expenses incurred in year 2002.

35. Investment income

	Group		Company	
	2002 RMB	2001 RMB	2002 RMB	2001 RMB
Equity investment income	6,836,100	2,441,727	25,558,604	2,441,727
Less: Provision for impairment of long term investments	-	-	(200,000)	-
Provision for impairment of short term investments	(491,941)	(1,771,790)	(491,941)	(1,771,790)
Total	6,344,159	669,937	24,866,663	669,937

The increase in the Group's investment income by 8 folds is attributable to the increase in equity investment income. The increase in the Company's investment income by 36 folds is mainly attributable to the use of equity accounting method to account for investment income.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

36. Subsidies income

	2002 RMB	2001 RMB
Subsidies income for steel export	1,431,000	4,942,320

The decrease in the Group's subsidies income by 71% is attributable to the decrease in subsidies income for steel export.

37. Non-operating income

The decrease in the Group's non-operating income by 53% is mainly attributable to the decrease in exemption on repayment of environmental protection loans.

38. Non-operating expenses

	2002 RMB	2001 RMB
Provision for impairment of construction in progress	–	7,000,000
Provision for impairment of fixed assets	236,247,100	104,886,515
Staff children education expenses	25,552,453	25,731,857
Loss on disposal of fixed assets, net	222,086,787	62,994,520
Loss on disposal of construction in progress	–	95,834,093
Penalties	5,337,831	6,181,470
Others	37,290	2,204,196
Total	489,261,461	304,832,651

The increase in the Group's non-operating expenses by 61% is mainly attributable to the increase in the provision for impairment of fixed assets and the net loss on disposal of fixed assets.

39. 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 RMB72,779,744 (2001: RMB84,567,947) during the year have been charged to the retained profits accounts.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

40. Loss from sale of staff quarters charged to opening 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.

41. Dividend payable

	Group and Company	
	2002 RMB	2001 RMB
Proposed final dividend – RMB3.5 cents (2001: RMB2 cents) per ordinary share	225,935,500	129,106,000

Proposed final dividend is determined based on the profit appropriation plan for the year ended 2002 as approved by the board of directors. Dividend payable to legal person shares, A shares and H shares amounted to RMB144,282,950, RMB21,000,000 and RMB60,652,550 respectively. The proposed final dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

42. Cash paid relating to other operating activities

	2002 RMB	2001 RMB
Real estate tax	27,574,348	28,359,534
Environmental protection fee	26,380,726	29,852,294
Welfare and support services	78,615,013	77,588,345
Export related cost	10,543,079	18,921,753
Transportation cost	14,628,948	21,228,913
Unloading cost	11,550,914	10,443,474
Packing fee	13,467,740	12,302,760
Staff children education expenses	25,552,453	25,731,857
Warehouse fee	2,856,601	3,389,810
Flood prevention fund	5,726,402	4,911,413
Stamp duty	5,141,921	4,379,903
Rental fee	5,545,306	6,024,440
Repair and maintenance	6,853,366	8,144,238
Others	77,418,994	54,048,190
Total	311,855,811	305,326,924

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

43. Cash received relating to other financing activities

	2002 RMB	2001 RMB
Government subsidies for specific construction projects	40,000,000	426,920,000

44. Deferred credit

On 1 January 1994, the PRC government abolished the dual exchange rate system by unifying the official and swap centre rate systems which resulted in a unified exchange rate as quoted by the People's Bank of China. The deferred credit arose from the retranslation of the proceeds received from the issue of H shares using two different exchange rates, the official and swap centre rates, 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 share premium in capital reserve. Accordingly, the Company reclassified the deferred credit to share premium in capital reserve during the year (please refer to Note V point 29 for details).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

Net profit	Notes	2002 RMB'000	2001 RMB'000
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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Shareholders' equity	Notes	2002 RMB'000	2001 RMB'000
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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

45. 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 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 costs 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 costs net of amortisation were approximately RMB106 million.

Under Hong Kong accounting standards, the current year treatment still follows the aforesaid accounting policies and the required amortisation of approximately RMB17.6 million was charged to the profit and loss account during the year. As at 31 December 2002, the 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 RMB106 million as brought forward from 31 December 2000 to the opening retained profits account.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(ii) Staff housing subsidies

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 RMB38.84 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 RMB34.89 million (2001: approximately RMB34.89 million) have been accrued and charged to the profit and loss account during the year. The cumulative effect thereof on the Company's shareholders' equity at 31 December 2002 was approximately RMB104.67 million (31 December 2001: approximately RMB69.78 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' equity at 31 December 2002 was approximately RMB38.84 million (31 December 2001: approximately RMB38.84 million).

Under PRC accounting standards and related regulations, the subsidies paid to eligible current and retired employees aggregating approximately RMB72.78 million (2001: approximately RMB84.57 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 million (31 December 2001: approximately RMB105 million). No accrual for the subsidies payable to current employees or retired employees has been made in the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(iii) Furnace relining costs

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 RMB120.34 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 RMB24.02 million was utilised, and the remaining provision as at 31 December 2002 amounted to approximately RMB96.32 million (31 December 2001: approximately RMB120.34 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 RMB9.12 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, is recognised as a liability at the balance sheet date.

Under the 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 RMB225,935,500 was disclosed under the capital and reserves section of the balance sheet as at 31 December 2002.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

45. 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 rate ruling at the transaction date. Accordingly, in preparing the 31 December 1993 PRC statutory financial statements, the Hong Kong dollar share proceeds were translated at the official rate prevailing at that date.

Following the unification of the Renminbi exchange rates on 1 January 1994, under PRC accounting standards, the Group realised an exchange gain of approximately RMB1,374 million which was recorded as a deferred credit on the balance sheet. Pursuant to a directive issued by the Ministry of Finance on 2 March 1994, the directors determined that the Group should retain the deferred credit either to offset future losses, or to retain the amount until liquidation. 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 (please refer to Note V point 29 for details). 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 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	Mining & sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food & beverages; production services; mechanical & electrical equipment manufacturing and metal products manufacturing	Ultimate holding company	Limited company	Gu Jianguo

As at 31 December 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	At 1 January 2002 RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	At 31 December 2002 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	At 1 January 2002 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2002 RMB'000	Ratio %
Holding	4,082,330	63.24	–	–	–	–	4,082,330	63.24

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship

Information on related parties who carried out related party transactions with the Company and do not involve any control relationship:

Name of related companies	Note	Relationship with the Company
集團公司桃沖礦業公司		Subsidiary/associate of Holding
集團公司姑山礦業公司		Subsidiary/associate of Holding
馬鋼集團公司力生有限責任公司		Subsidiary/associate of Holding
鋼渣綜合利用公司		Subsidiary/associate of Holding
安徽神馬冶金有限責任公司		Subsidiary/associate of Holding
馬鞍山馬鋼易凡工貿有限責任公司		Subsidiary/associate of Holding
永固公司		Subsidiary/associate of Holding
馬鞍山黑馬鋼筋焊網有限公司		Subsidiary/associate of Holding
馬鋼運動用品公司		Subsidiary/associate of Holding
深圳市粵海馬鋼實業有限公司		Subsidiary/associate of Holding
上海江南物資聯合經銷公司(江南集團)		Subsidiary/associate of Holding
馬鞍山市聯營乙炔廠		Subsidiary/associate of Holding
馬鋼三聯鐵廠	(i)	Subsidiary/associate of Holding
馬鋼法蘭環件製造聯合公司	(i)	Subsidiary/associate of Holding
馬鋼金屬製品聯合公司	(i)	Subsidiary/associate of Holding
馬鞍山市黑馬交通器材公司	(i)	Subsidiary/associate of Holding
馬鋼合力金屬製品有限公司	(i)	Subsidiary/associate of Holding
來得省租賃公司	(i)	Subsidiary/associate of Holding
馬鞍山市馬鋼合力公司工貿分公司	(i)	Subsidiary/associate of Holding
馬鞍山市凱馬螺絲製造有限公司	(i)	Subsidiary/associate of Holding
巨龍公司	(i)	Subsidiary/associate of Holding
上海聯安製造公司	(i)	Subsidiary/associate of Holding

Note (i): These companies ceased to be the Company's related parties as at 31 December 2002.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. The following is a summary of the significant transactions carried out in the normal course of business between the Group and its related parties during the year:

	Note	2002 RMB	2001 RMB
Transactions with Holding			
Purchases of iron ore and limestone		816,320,280	742,249,458
Fees received for the supply of utilities, services and other consumable goods		(30,365,162)	(35,327,534)
Fees paid for welfare, support services and other services		223,802,461	249,866,304
Purchases of fixed assets and construction services		176,811,962	80,203,988
Sale of steel products		(44,239)	–
Transactions with subsidiaries of Holding			
Sale of steel products, including:			
馬鋼合力金屬製品有限公司	(i)	(1,892,432)	(548,202)
馬鞍山黑馬鋼筋焊網有限公司		(36,300,050)	(20,137,247)
集團公司桃沖礦業公司		(2,179,018)	(1,121,616)
集團公司姑山礦業公司		(4,221,227)	(2,848,718)
		(44,592,727)	(24,655,783)

Note (i): The company ceased to be the Company's related party as at 31 December 2002.

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 Group and Holding.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties

	Note	2002 RMB	2001 RMB	Details
Trade receivables:				
Holding		4,265,477	1,110,948	Utilities & trade
馬鞍山市黑馬交通器材公司		-	180,600	Trade
上海江南物資聯合經銷公司 (江南集團)		-	2,790,048	Trade
馬鞍山市馬鋼合力公司工貿分公司	(i)	-	4,664,217	Trade
馬鞍山市凱馬螺絲製造有限公司	(i)	-	117,217	Trade
巨龍公司	(i)	-	2,004,149	Trade
Total		4,265,477	10,867,179	
Prepayments:				
Holding		78,390,869	251,348,686	Supporting services & iron ore fee
馬鞍山市聯營乙炔廠		2,244,849	-	Trade
深圳市粵海馬鋼實業有限公司		-	159,657	Trade
馬鋼三聯鐵廠	(i)	-	2,600,447	Trade
巨龍公司	(i)	-	47,318	Trade
Total		80,635,718	254,156,108	
Trade payables:				
Holding		70,368,794	32,970,716	Trade
馬鞍山市聯營乙炔廠		1,780,489	1,302,990	Trade
安徽神馬冶金有限責任公司		-	1,008,659	Trade
馬鋼法蘭環件製造聯合公司	(i)	-	207,679	Trade
馬鋼三聯鐵廠	(i)	-	502,119	Trade
巨龍公司	(i)	-	54,398	Trade
來得省租賃公司	(i)	-	45,789	Trade
馬鋼金屬製品聯合公司	(i)	-	17,750	Trade
Total		72,149,283	36,110,100	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	Note	2002 RMB	2001 RMB	Details
Deposits received:				
Holding		39,199,800	20,621,897	Trade
馬鞍山市凱馬螺絲製造有限公司		–	929	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 (江南集團)		–	34,473	Trade
馬鋼運動用品公司		–	514	Trade
來得省租賃公司	(i)	–	1,281	Trade
馬鋼法蘭環件製造聯合公司	(i)	–	6,338	Trade
馬鋼三聯鐵廠	(i)	–	326,674	Trade
巨龍公司	(i)	–	1,748	Trade
Total		39,199,800	21,379,514	

Note (i): These companies ceased to be the Company's related parties as at 31 December 2002.

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

VII. CONTINGENT LIABILITIES

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2002

VIII. CAPITAL COMMITMENTS

The commitments for capital expenditure as at 31 December 2002 were as follows:

	Group and Company	
	2002 RMB'000	2001 RMB'000
Contracted, but not provided for:		
Thin Plate Project	2,118,456	975,271
2500m ³ Blast Furnace	205,046	4,070
40000m ³ Oxygenerator	186,451	–
300m ³ 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

Note: The commitments for contracted, but not provided for capital expenditure denominated in foreign currencies included 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 RMB410 million).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2002

VIII. CAPITAL COMMITMENTS (continued)

The commitments for capital expenditure as at 31 December 2002 were as follows:

	Group and Company	
	2002 RMB'000	2001 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

IX. COMPARATIVE AMOUNTS

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

X. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 2 April 2003.