

## I. COMPANY PROFILE

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

## I. COMPANY PROFILE (continued)

### Major Financial Data and Indices

(Prepared under PRC accounting standards)

	<i>Unit: RMB</i>	
	30 June 2003	31 December 2002
Current assets ('000)	6,454,559	4,241,729
Current liabilities ('000)	5,826,432	3,822,660
Total assets ('000)	22,010,119	17,138,511
Shareholders' fund (excluding minority interests) ('000)	12,815,993	11,862,833
Net assets per share (RMB)	1.99	1.84
Adjusted net assets per share (RMB)	1.99	1.84
	January – June 2003	January – June 2002
Net profit ('000)	953,852	164,412
Net profit after extraordinary items ('000)	956,537	328,335
Earnings per share (RMB)	0.1478	0.0255
Return on net assets (%)	7.443	1.380
Net cash flow from operating activities ('000)	1,322,989	898,905

### Items and amounts of extraordinary items, net of corporate income tax effect, for the reporting period

(Prepared under PRC accounting standards)

	<i>Unit: RMB'000</i>
Extraordinary item	Amount
Non-operating income	3,479
Non-operating expenses	(6,164)
Net extraordinary items	(2,685)

Effects on net profit of major differences in the consolidated accounting statements prepared under PRC and Hong Kong accounting standards are summarised as follows:

	<i>Unit: RMB'000</i>
	January – June 2003
Net profit under Hong Kong accounting standards	929,595
Add: Amortisation of deferred staff costs	8,800
Staff housing subsidies to current employees	17,444
Deduct: Deferred income tax	(1,987)
Net profit under PRC accounting standards	953,852

## II. MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDING STRUCTURE

1. During the reporting period, there was no movement in the share capital of the Company.
2. Number of shareholders and major shareholding structure:

As at the end of the reporting period, the Company had a total of 186,767 shareholders, of whom 180,317 were A-share shareholders and 6,450 were H-share shareholders.

Shareholding of the Company's top 10 largest shareholders as at the end of the reporting period:

Name of shareholder	Class of shares	Shareholding (share)	As a percentage of total share capital (%)	Increase/decrease compared to the beginning of the period (share)	Nature of shareholder
Magang (Group) Holding Company Limited	Non-circulating	4,082,330,000	63.240	–	State owned
HKSCC (Nominees) Limited	Circulating H shares	1,582,258,997	24.511	21,585,000	Foreign shareholder
HSBC (Nominees) Limited	Circulating H shares	30,414,000	0.471	814,000	Foreign shareholder
漢興證券投資基金	Circulating A shares	18,196,517	0.282	Unknown	N/A
銀豐證券投資基金	Circulating A shares	10,668,353	0.165	Unknown	N/A
上海全隆實業有限公司	Non-circulating	9,800,000	0.152	–	N/A
隆元證券投資基金	Circulating A shares	9,499,780	0.147	7,049,851	N/A
久嘉證券投資基金	Circulating A shares	6,900,000	0.107	Unknown	N/A
華夏成長證券投資基金	Circulating A shares	4,489,209	0.070	Unknown	N/A
China People's Insurance Company, Anhui Branch	Non-circulating	3,000,000	0.046	–	N/A

There are no connected relationships between the Holding and the other 9 largest shareholders. However, the Company does not know if there are any connected relationships amongst the other 9 largest shareholders.

During the reporting period, no shares held by the Holding were pledged, held in lien or placed in custody, but the Company is not aware whether shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody.

HKSCC (Nominees) Limited held 1,582,258,997 H shares of the Company on behalf of multiple clients.

## III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

During the reporting period, Mr. Wang Rangmin requested to resign from the office of Deputy General Manager of the Company because he has reached his retirement age. After discussion, the Board of Directors of the Company accepted Mr. Wang's resignation. There were no other new appointments nor release from appointments of other directors, supervisors and senior management.

## IV. MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of this year, the national economy continued to grow rapidly as China continued to adopt policies to expand internal demand. Increase in fixed capital investment resulted in increasing demand for steel products, causing prices of these products to increase. Meanwhile, there was also a recovery in the international steel market. In view of business opportunities derived from the strong demand for iron and steel products, our Group has increased its sales and production by strengthening its production structure, improving the production processes and upgrading facilities. The Group has also put forward technological improvement and innovation, strengthened its management and improved the operations to further improve technical economic benchmarks. During the reporting period, although there were large increases in domestic production capacity and import of iron and steel, as well as increases in raw material and fuel costs including iron ore and coal, the increase in demand for iron and steel products was greater while the overall cost increases in raw material and fuel were lower than the price increase of iron and steel products. As a result, the Group's operating results in the reporting period recorded a significant growth when compared to the same period last year.

One specific highlight is that increased domestic market demand in iron and steel in recent years has resulted in a new tide of investment from domestic iron and steel corporations, and increase in steel production has given rise to a greater total supply of steel products. Meanwhile, there has been a shortage of supply of iron ore and coal with a price uptrend, thereby driving up production costs for iron and steel products. In the medium and long run, the Group's production and operation faces a certain degree of challenges in this regard.

### 1. Principal Operating Activities and Operating Conditions

The Group's principal operating activities are the production and sales of steel products including steel sections, wire rods, medium or thick steel plates and train wheels and tyres. More than 90% of these products were sold in the domestic market, with a small amount of exports.

During the reporting period, the Group produced 2,620,000 tonnes of pig iron, 2,980,000 tonnes of steel and 2,690,000 tonnes of steel products, representing year-on-year increases of 6.12%, 12.28% and 6.53%, respectively. The sales of steel products amounted to 2,690,000 tonnes, including exports of 160,000 tonnes, representing year-on-year increases of 6.75% and 38%, respectively. The production to sales ratio of principal products was 100% and its market share was about 3%. In accordance with PRC accounting standards, income from principal operating activities amounted to RMB7,062 million, cost of sales was RMB5,566 million, and net profit was RMB954 million, representing year-on-year increases of 36.99%, 25.30%, and 482%, respectively.

## IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 1. Principal Operating Activities and Operating Conditions (continued)

#### Analysis of the Industry and Product Segments of Principal Operating Activities

*Unit: RMB (million)*

	Income from principal operating activities	Cost of sales from principal operating activities	Profit margin (%)	Increase/decrease of income from principal operating activities compared to the same period last year (%)	Increase/decrease of cost of sales compared to the same period last year (%)	Increase/decrease of profit margin compared to the same period last year (%)
Steel products	6,549	5,221	20.28	36.18	25.05	53.99
Of which: connected transactions	45	36	19.89	114.29	100	50.91

Principle of price setting for connected transactions:

Based on market price standard, terms in such transactions were at least the same as those under normal business transactions.

#### Geographical Analysis of Principal Operating Activities

*Unit: RMB'000*

Region	Weighting (%)	Income from principal operating activities	Increase/decrease of income from principal operating activities compared to the same period last year (%)
Anhui	33	2,327,066	42
Jiangsu	23	1,609,131	83
Shanghai	15	1,048,783	143
Zhejiang	8	549,978	32
Other regions	16	1,171,968	-25
Export	5	354,780	64

## IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 1. Principal Operating Activities and Operating Conditions (continued)

Profit structure and changes in earnings capacity of principal operating activities

Item	Unit: RMB'000	
	January to June 2003	2002
Income from principal operating activities	7,061,706	10,973,917
Cost of sales of principal operating activities	5,565,936	9,224,361
Profit from principal operating activities	1,434,794	1,663,360
Periodic expenses	318,744	719,636
Non operating expenses, net	4,586	485,230
Total profit	1,133,579	479,702

Profit from principal operating activities accounted for 126.57% of total profit, 63.50% down from last year. This was mainly attributed to the increase in total profit of the Company during the reporting period.

Periodic expenses during the period accounted for 28.12% of the total profit, 81.26% down from last year. This was mainly attributed to improvement in total profit of the Company during the reporting period.

Net non-operating expenses accounted for 0.40% of total profit, 99.60% down from last year. This was mainly attributed to the provision for impairment of fixed assets, decrease in net loss on disposal of fixed assets and increase in total profit of the Company.

During the reporting period, gross profit margin was 21.18%, an increase of 5.24 percentage points as compared to last year. This was mainly attributed to increase in selling prices of principal products.

### 2. Financial Conditions during the Reporting Period

The Group's capital structure comprised mainly shareholders' equity and bank loans. As at 30 June 2003, the Group's total bank loans amounted to RMB4,289 million, including loans for working capital of RMB1,480 million and project loans of RMB2,809 million. Movements of the Group's bank loans were subject to developments in our production and construction projects. The Group has been able to repay all loans on due dates, or ahead of due dates after negotiating with banks. No overdue payments have been recorded.

As at 30 June 2003, under PRC accounting standards, the Group's total liabilities amounted to RMB9,183 million, and owners' equity of RMB12,816 million, with a gearing ratio (total debt/total assets) of 41.72%. Under Hong Kong accounting standards, the Group's total liabilities amounted to RMB9,071 million, and owners' equity of RMB13,072 million, with a gearing ratio (total debt/total assets) of 40.95%. The Group did not have any significant contingent liabilities.

## IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 2. Financial Conditions during the Reporting Period (continued)

During the reporting period, the Company continued to implement its Tenth Five-Year (“10-5”) structural adjustment plan, and capital expenditure increased. Other than internal resources, construction projects were financed by bank loans. As at 30 June 2003, banks promised to lend the amounts for the following projects: RMB3,000 million for the thin plate project; RMB117 million for the dry-quenched coking project; RMB200 million for the renovation project of the train wheel rolling system; RMB84 million for the high furnace gas integration project; RMB12 million for the management information phase II project; RMB110 million for the water resources integration project; RMB57 million for the converter furnace gas recovery project; and RMB250 million for the casting production and hot zinc coating production line.

As at 30 June 2003, there was a net increase of RMB612 million for the Group’s cash and cash equivalents. Cash balance was RMB1,695 million. Bank bills receivable among bills receivable due within three months amounted to RMB1,065 million. Cash balances and bank bills receivable comprised mainly sales prepayments for next month.

The Group’s bank borrowings included US\$115.04 million, EUR158.04 million and JPY2,400 million, with the remaining amount in Renminbi. Among the borrowings, an amount of US\$31.89 million carried an interest rate of LIBOR (fixed on the agreement signature date) plus 0.5%, an amount of EUR141 million carried an interest rate of LIBOR (fixed on the agreement signature date) plus 1.25% as loan interest rate at maturity, the amount of JPY2,400 million carried an interest rate of LIBOR (fixed on the agreement signature date) plus 1.25% as loan interest rate at maturity, an amount of US\$24 million carried an interest rate of LIBOR (fixed on the agreement signature date) plus 1% as loan interest rate at maturity, and an amount of US\$18 million carried an interest rate of LIBOR (fixed on the agreement signature date) plus 1.25% as loan interest rate at maturity. The remainder carried the fixed interest rates prescribed by the State.

In the first half of this year, the Group imported US\$304.98 million worth of raw materials and spare parts required for production, while foreign exchange income generated from exports amounted to US\$43.09 million. Both the Company’s import and export operations were settled in US dollars, and the shortfall in US dollar payment was covered by the purchase of additional US dollar with Renminbi. Given that the exchange rate between US dollar and Renminbi fluctuates less, changes in the above rates did not have any significant impact on the Company’s profitability for the period.

The Group’s 10-5 structural adjustment plan required the import of equipment, which was mostly purchased from Europe and Japan. The purchase was settled in Euro and Yen. In view of lower interest rates for Euro and Yen loans, as at 30 June 2003, the Group borrowed EUR156 million and JPY2,400 million from banks to pay for import of equipment and spare parts. By the time the import contracts of equipment are fully exercised, it is expected that EUR84.7 million and JPY2,575 million will be required to settle the payment of the imported equipment. The Group is subject to foreign exchange risks due to the volatility in Euro and Yen. The Company will continue to negotiate with banks to identify different means of reducing foreign exchange risks as permissible under the State’s policies. Meanwhile, the Company also studied and implemented measures to reduce project costs so that total expenditure would always be contained within budget limits.

## IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### 3. The Company's Investment Status

Before 31 December 1999, the Company spent all capital raised in 1993 in accordance with the plans cited in its A-share and H-share listing prospectus.

During the reporting period, the Company made use of its own resources and bank loans to invest a total of RMB3,045 million in projects under construction. Major investment projects and progress were as follows:

- (1) The Thin Plate Project: its hot-rolled plant had fully entered into the facility installation stage and some of the facilities have started individual testing; its cold-rolled plant had completed the installation of concrete structures and foundational facilities and major equipment installation has commenced.
  - (2) The Train Wheel Rolling System Upgrade Project had entered into the facility installation stage, with some of the imported facilities already being used.
  - (3) The High Speed Wire and Rolling Mill Project and the Wire Rod Mill of No. 2 Steel Making Plant were completed in March 2003 and commenced operation.
  - (4) The No. 3 Converter of No. 1 Steel Making Plant has completed the foundational works and concrete structure formation. Equipment installation would be carried out.
  - (5) Under the Pre-iron System Upgrade Project, a 300m<sup>2</sup> Sintering Machine completed trial production in May 2003. The 2500m<sup>3</sup> high furnace has entered into the installation stage.
  - (6) The Reformation of the Stock Storage Ground was completed in May 2003 and commenced operation.
  - (7) The Coking Plant: of which the No.2 coking furnace has completed the installation of base platform facilities; part of the foundation work has commenced; and the dry-quenched coking facility has started with the major structure installation.
  - (8) The construction of the 40,000m<sup>3</sup> Oxygenerator has completed the foundation work, and would enter into the equipment installation stage.
  - (9) 850m<sup>3</sup> High Furnace Project commenced construction in May 2003.
4. If the price of iron and steel does not fall substantially in the third quarter, and if major raw material and fuel costs do not rise visibly, the Group expects an over 50% year-on-year increase in net profit from January to September this year.



## V. SIGNIFICANT MATTERS

### 1. Corporate Governance

The Company has established a modernised corporate regime including a standardised corporate governance structure in accordance with relevant rules and regulations promulgated by the relevant cities and all requirements of the stock exchanges where the company's shares were listed. The Company has a sound basic management system with clearly defined delegations and duties for each of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the management.

The Company will continue to strengthen its corporate governance structure in accordance with relevant rules and regulations.

### 2. Profit Distribution Plan and its Implementation

- (1) Profit distribution plan of the Company for the preceding year and its implementation: A dividend of RMB0.035 per share was paid in cash to shareholders on the basis of a total of 6,455,300,000 shares at the end of 2002. The dividends for H shares were paid in Hong Kong dollar. The recommendation was passed by the Annual General Meeting convened on 10 June 2003, and announced in both the PRC and Hong Kong on 11 June 2003. In respect of A shares, the share right registration date was 3 July 2003, the ex-dividend date was 4 July 2003, and the dividend payment date was 10 July 2003. In respect of H shares, the register of members was closed from 9 May 2003 through 10 June 2003 (both days inclusive). The cheques in payment of H-share dividends were mailed to holders of the H shares on 10 July 2003. The distribution of dividends for A shares and H shares has been completed as scheduled.
- (2) The Company will not implement profit distribution and will not increase its share capital by transferring any amount from reserve funds during the first half of 2003.

### 3. Material Litigations and Arbitrations

- (1) There was no material litigations and arbitrations of the Company during the reporting period.
- (2) Material litigations of the Company that had been settled in the past but lasting until the reporting period were as follows:

As regards the three litigations against CITIC Ningbo Inc., Shenzhen Leasing Co. Ltd and SEG International Trust & Investment Corporation, their judgments and enforcements were disclosed in the 2002 Annual Report and published in Shanghai Securities Journal, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the Shanghai Stock Exchange Website (<http://www.sse.com.cn>) on 3 April 2003. There has been no change during the reporting period.

## V. SIGNIFICANT MATTERS (continued)

4. In 1995, the Company deposited HK\$9.32 million with the representative office of China Venturetech Investment Corporation ("CVIC") in Shenzhen for the term of one year. The liquidation team of People's Bank of China ("PBOC") which has closed down CVIC (hereinafter called "the Liquidation Team") confirmed that CVIC still owed to the Company the principal of HK\$7.138 million and an interest amount of HK\$2.296 million after deduction of an interest payment that the company had previously received. The Company received from the Liquidation Team a "Negotiation Letter of Debt Repayment Proposal" in May 2003. Currently, the Company has not been informed by the Liquidation Team regarding the final judgment decision on debt repayment.
5. In 1996, the Company deposited HK\$30 million with Guangdong International Trust & Investment Corporation for the term of one year. The liquidation team confirmed that the Company's claim included the principal and interest of the deposit totalling RMB36.46 million. In August 2000, the liquidation team conducted the first distribution of assets with a distribution ratio of 5.48%, in which the Company received RMB1,998,182. In December 2001, the liquidation team conducted the second distribution of the assets with a distribution ratio of 9.62%, in which the Company received RMB3,507,758. In February 2003, the Company was notified by the liquidation team that a third distribution will be conducted with a distribution ratio of 4.38%. The amount distributed to the Company was RMB1,597,087. The total amount of the three distributions amounted to RMB7,103,027.
6. There were no significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed securities of the Company.

## 7. Connected Transactions

The business transactions between the Company and the Holding, its controlling shareholder, from 1 January 2003 to 30 June 2003 were as follows:

- (1) Details of the amounts received and paid by the Company and the Holding from 1 January 2003 to 30 June 2003 in respect of the Service Agreement and its supplementary agreement are as follows:

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

Major items	Pricing basis	Total value	<i>Unit: RMB'000</i> Ratio of similar transactions (%)
Primary, secondary and kindergarten education	Actual costs	12,176	90.94
Canteens, baths and nurseries	Actual costs	35,448	100
Renting of staff quarters	Actual costs	16,841	100
Landscaping of factory districts, sanitation, maintenance and repairs of roads	State prices	13,152	100
Others	Market prices	16,950	100
<b>Total</b>		<b>94,567</b>	

## V. SIGNIFICANT MATTERS (continued)

### 7. Connected Transactions (continued)

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

Major items	Pricing basis	Total value	<i>Unit: RMB'000</i>
			Ratio of similar transactions (%)
Water supply	Market prices	264	20.09
Electricity supply	Market prices	4,540	30.87
Telephone connection	Market prices	1,140	49.39
Total		5,944	

The Directors are of the opinion that the amounts paid or received by the Company for those services based on market prices were not substantially different from what would be necessitated from the market prices that prevailed at the time the "Supplementary Service Agreement" for 2003 was made.

- (2) Amounts paid by the Company to the Holding from 1 January 2003 to 30 June 2003 in respect of the "Sale and Purchase of Iron Ore Agreement" and its supplementary agreement are as follows:

	Amount	<i>Unit: RMB'000</i>
		Ratio of similar transactions (%)
Purchase of iron ore and limestone	424,899	35.96

The Directors are of the opinion that the above-mentioned amount paid in respect of the "Sale and Purchase of Iron Ore Agreement" and its supplementary agreement were not substantially different from what would be necessitated from the market prices that prevailed at the time the supplementary agreement for 2003 was made.

## V. SIGNIFICANT MATTERS (continued)

### 7. Connected Transactions (continued)

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

	Amount	<i>Unit: RMB'000</i> Ratio of similar transactions (%)
Steel products purchased by the Holding from the Company	4,534	0.07
Other services acquired by the Holding from the Company	24,278	100
Payment by the Company for fixed assets and construction services	107,136	3.60
Payment by the Company for other services provided by the Holding	34,374	100

- (4) Amounts due to/from the Company and connected parties, as well as the cash inflow and outflow generated from normal production and operations with associates, are as follows:

#### Amounts due to the Company from the connected parties

Connected parties	Amount	<i>Unit: RMB'000</i> Balance
Magang (Group) Holding Company Limited	34,756	51,789
Other connected parties	40,397	2,295
<b>Total</b>	<b>75,153</b>	<b>54,084</b>

#### Amounts due from the Company to the connected parties

Connected parties	Amount	<i>Unit: RMB'000</i> Balance
Magang (Group) Holding Company Limited	660,976	46,600
Other connected parties	–	2,014
<b>Total</b>	<b>660,976</b>	<b>48,614</b>

## V. SIGNIFICANT MATTERS (continued)

### 7. Connected transactions (continued)

- (5) The connected transactions between the Company and the Holding were carried out in the form of cash payment.

The daily business transactions between the Company and the Holding were calculated based on market price standard. Terms in those transactions were at least the same as those under normal business transactions. As a result, those transactions will not have an impact on the Company's earnings.

- (6) Major Contracts with controlling shareholders

Save for the "Supplementary Service Agreement" for 2003 and "Iron Ore Sales and Purchase Supplementary Agreement" for 2003 as disclosed above, neither the Company nor any of its subsidiaries has entered into any material contract with controlling shareholder at any time during the six months ended 30 June 2003.

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

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

9. During the reporting period or any time in the past but lasting until the reporting period, neither the Company nor any shareholders interested in 5% or more of the Company's shares made any commitments that might significantly affect the Company's operating results or financial conditions.

10. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young as the PRC and international auditors of the Company, respectively.

### 11. Code of Best Practice

In the opinion of the Directors, the Company has complied with "The Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the reporting period.

## V. SIGNIFICANT MATTERS (continued)

### 12. Audit Committee

In accordance with the listing rules of Shanghai and Hong Kong, the Board of Directors has set up an audit committee (the "Audit Committee"). On 31 August 2002, new members of the new session of the Audit Committee were elected. The new session of the Audit Committee comprised independent directors Ms. Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun, and Mr. Chan Yuk Sing, who would review and supervise the Group's financial reporting procedures and internal controls.

During the reporting period, the Audit Committee has convened one meeting to review the Company's 2002 financial statements.

### 13. Unification of Income Tax Rate and Cancellation of Tax Rebates

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

### 14. Sale of Staff Quarters

From 1994 to 1997, the Company paid approximately RMB190 million for the purchase of certain staff quarters for its employees. From January 1997, the Company commenced the sale of staff quarters to its employees in accordance with the government's regulations. Loss arising from the sale of such staff quarters at preferential prices is accounted for as a deferred staff cost and amortised over 10 years. By the end of 2000, the Group recorded a deferred staff cost of approximately RMB163,780,000, and the aggregate amortisation related thereto amounted to approximately RMB58,180,000. The Ministry of Finance stipulated the accounting treatment of loss on disposal of staff quarters. As a move to comply with this directive, the remaining sum of the unamortised deferred staff cost of RMB105,600,000 as at 1 January 2001 was all dealt with as opening retained profit. As a result, no provision for such cost was made in the financial statements since 2001. Under Hong Kong accounting standards, the loss arising thereof would still be amortised over 10 years, commencing from the dates of sale of the respective staff quarters. For the six months ended 30 June 2003, the amortised loss of staff quarters, as presented in the profit and loss account, amounted to approximately RMB8.8 million. As at 30 June 2003, unamortised deferred staff costs amounted to approximately RMB62 million.

## V. SIGNIFICANT MATTERS (continued)

### 15. Index of Provisional Announcements during the Reporting Period

- (1) On 29 January 2003, the Company disclosed the "Notice of Substantial Growth of Operating Results" announcement. Such announcement was published on page 35 of the Shanghai Securities Journal, page B4 of the South China Morning Post (Hong Kong), and page A15 of Wen Wei Po (Hong Kong) as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).
- (2) On 3 April 2003, the Company disclosed the "Resolutions Passed at the Board of Directors and Resolutions Passed at the Supervisory Committee" announcements. Such announcements were published on page 22 of the Shanghai Securities Journal, page B7 of the South China Morning Post (Hong Kong), and page A12 of Wen Wei Po (Hong Kong) as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).
- (3) On 23 April 2003, the Company disclosed the "Notice of Annual General Meeting and Resolutions Passed at the Board of Directors" announcements. Such announcements were published on page 30 of the Shanghai Securities Journal, page B12 of the South China Morning Post (Hong Kong), and page A22 of Wen Wei Po (Hong Kong) as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).
- (4) On 11 June 2003, the Company disclosed the "Resolutions Passed at the Annual General Meeting and Resolutions Passed at the Board of Directors" announcements. Such announcements were published on page 18 of the Shanghai Securities Journal, page B8 of the South China Morning Post (Hong Kong), and page A14 of Wen Wei Po (Hong Kong) as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).
- (5) On 30 June 2003, the Company published the "Implementation of Dividend Distribution" announcement. Such announcement was published on page 12 of the Shanghai Securities Journal as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

## VI. FINANCIAL REPORTS

### CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2003

RMB

ASSETS	Note (V)	As at 30 June 2003 Unaudited	As at 31 December 2002 Audited
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions	1	1,694,987,345	1,074,104,316
Short term investments	3	12,704,593	11,304,862
Bills receivable	4	1,349,178,719	666,033,907
Trade receivables	5	196,081,600	176,866,554
Other receivables	6	221,123,881	84,740,291
Prepayments	7	838,100,654	587,590,405
Inventories	8	2,142,382,582	1,641,088,387
<b>Total current assets</b>		<b>6,454,559,374</b>	<b>4,241,728,722</b>
<b>LONG TERM INVESTMENTS:</b>			
Long term equity investments	9	130,293,035	6,517,035
Long term debt investments	9	18,898,870	21,558,870
<b>Total long term investments</b>		<b>149,191,905</b>	<b>28,075,905</b>
<b>FIXED ASSETS:</b>			
Cost	10	15,456,787,862	14,755,206,643
Less: Accumulated depreciation	10	(5,580,005,807)	(5,109,209,319)
Net book value	10	9,876,782,055	9,645,997,324
Less: Impairment provision	10	(269,367,100)	(296,367,100)
Fixed assets, net	10	9,607,414,955	9,349,630,224
Construction materials	11	832,790,342	838,980,700
Construction in progress	12	4,112,553,285	1,820,266,051
<b>Total fixed assets</b>		<b>14,552,758,582</b>	<b>12,008,876,975</b>
<b>INTANGIBLE AND OTHER ASSETS:</b>			
Intangible assets	13	853,609,197	859,828,996
<b>TOTAL ASSETS</b>		<b>22,010,119,058</b>	<b>17,138,510,598</b>

The accompanying notes form an integral part of the financial statements.



## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2003

RMB

LIABILITIES AND SHAREHOLDERS' FUNDS	Note (V)	As at 30 June 2003 Unaudited	As at 31 December 2002 Audited
<b>CURRENT LIABILITIES:</b>			
Short term loans	14	1,479,400,750	918,977,295
Trade payables	15	1,529,386,382	1,051,715,048
Deposits received	16	1,201,750,934	833,054,825
Wages payable	17	87,225,098	26,980,185
Staff welfare payable	18	12,442,391	22,784,919
Dividend payable	19	225,935,500	225,935,500
Tax payable	20	119,557,359	95,227,957
Other taxes payable	21	22,058,568	20,872,712
Other payables	22	299,042,100	219,220,433
Accrued charges	23	687,486,963	192,346,971
Long term loans due within a year	24	162,146,005	215,544,450
<b>Total current liabilities</b>		<b>5,826,432,050</b>	<b>3,822,660,295</b>
<b>LONG TERM LIABILITIES:</b>			
Long term loans	25	2,646,973,952	769,130,264
Specific payables	26	562,020,000	525,840,000
Other long term liabilities	27	148,047,887	158,047,270
<b>Total long term liabilities</b>		<b>3,357,041,839</b>	<b>1,453,017,534</b>
<b>Total liabilities</b>		<b>9,183,473,889</b>	<b>5,275,677,829</b>
<b>MINORITY INTERESTS</b>		<b>10,652,113</b>	–
<b>SHAREHOLDERS' FUNDS:</b>			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	4,864,975,395	4,864,975,395
Surplus reserves	30	502,062,880	502,754,193
including: statutory public welfare fund	30	250,882,208	251,112,646
Retained profits	31	993,654,781	39,803,181
<b>Total shareholders' funds</b>		<b>12,815,993,056</b>	<b>11,862,832,769</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>22,010,119,058</b>	<b>17,138,510,598</b>

The accompanying notes form an integral part of the financial statements.

Company Representative:  
**Gu Jianguo**  
19 August 2003

Chief Accountant:  
**Su Jiangan**  
19 August 2003

Head of Accounting Department:  
**Guan Yagang**  
19 August 2003

## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	Note (V)	For the six months ended 30 June	
		2003 Unaudited	2002 Unaudited
Principal operating income	32	7,061,706,316	5,154,672,651
Less: Cost of sales	32	(5,565,935,778)	(4,441,733,291)
Taxes and surcharges	33	(60,976,727)	(44,906,841)
Profit from principal operating activities		1,434,793,811	668,032,519
Add: Other operating profit	34	27,140,756	6,449,141
Less: Selling expenses		(33,607,752)	(32,386,420)
Administrative expenses		(241,309,714)	(212,938,755)
Financial expenses	35	(43,826,371)	(43,682,227)
Operating profit		1,143,190,730	385,474,258
Add: Investment income/(loss)	36	(5,025,841)	7,087,790
Non-operating income	37	4,092,951	2,995,362
Less: Non-operating expenses	38	(8,678,830)	(201,844,906)
Profit before tax		1,133,579,010	193,712,504
Less: Tax	39	(179,727,410)	(29,299,719)
Net profit		953,851,600	164,412,785
Add: Retained profits at beginning of period		39,803,181	36,121,774
Less: Staff housing subsidies charged to retained profits		–	(26,063,055)
Profit available for distribution		993,654,781	174,471,504
Less: Transfers to statutory surplus reserve		–	–
Transfers to statutory public welfare fund		–	–
Profit available for distribution to shareholders		993,654,781	174,471,504
Less: Ordinary shares dividend payable		–	–
Retained profits at end of period		993,654,781	174,471,504

The accompanying notes form an integral part of the financial statements.

Company Representative:  
**Gu Jianguo**  
19 August 2003

Chief Accountant:  
**Su Jiangang**  
19 August 2003

Head of Accounting Department:  
**Guan Yagang**  
19 August 2003

## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	Note (V)	For the six months ended 30 June	
		2003 Unaudited	2002 Unaudited
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		8,697,725,158	6,547,938,051
Refunds of taxes		7,332,042	38,376,683
Cash received relating to other operating activities		853,436	2,995,362
Sub-total of cash inflows		8,705,910,636	6,589,310,096
Cash paid for goods and services		(5,687,522,513)	(4,247,909,619)
Cash paid to and on behalf of employees		(731,549,667)	(576,200,654)
Cash paid for all taxes		(846,989,355)	(761,119,492)
Cash paid relating to other operating activities	40	(116,860,506)	(105,175,107)
Sub-total of cash outflows		(7,382,922,041)	(5,690,404,872)
Net cash flows from operating activities		1,322,988,595	898,905,224
2. Cash flows from investing activities:			
Cash received from sale of investments		2,660,000	101,600,000
Cash received from returns on investments		5,379,046	16,865,387
Net cash received from disposal of fixed assets, intangible assets and other long term assets		7,811,093	1,962,942
Cash received from retrieval of overdue deposits		1,597,087	–
Sub-total of cash inflows		17,447,226	120,428,329
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(2,885,745,791)	(453,609,818)
Increase in pledged deposit		(10,347,484)	(325,000)
Cash paid for acquisitions of investments		(123,776,000)	(100,000,000)
Cash paid relating to other investing activities		(17,041)	–
Sub-total of cash outflows		(3,019,886,316)	(553,934,818)
Net cash flows from investing activities		(3,002,439,090)	(433,506,489)

The accompanying notes form an integral part of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

		For the six months ended 30 June	
	Note (V)	2003 Unaudited	2002 Unaudited
3.	Cash flows from financing activities:		
	Cash received from investments by others	10,652,113	–
	Cash received from borrowings	2,993,746,100	512,207,506
	Cash received from increase in import loans	161,150,340	–
	Cash received relating to other financing activities	41	36,180,000
	Sub-total of cash inflows	3,201,728,553	552,207,506
	Cash repayments of borrowings	(841,210,202)	(602,050,474)
	Cash paid for distribution of dividend or profits and for interests expenses	(35,931,533)	(89,526,938)
	Cash paid relating to other financing activities	(25,590,691)	–
	Sub-total of cash outflows	(902,732,426)	(691,577,412)
	Net cash flows from financing activities	2,298,996,127	(139,369,906)
4.	Effect of foreign exchange rate changes on cash	(7,432,726)	170,761
5.	Net increase in cash and cash equivalents	612,112,906	326,199,590

The accompanying notes form an integral part of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	Note (V)	For the six months ended 30 June	
		2003 Unaudited	2002 Unaudited
Supplementary information			
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit		953,851,600	164,412,785
Add: Staff housing subsidies charged to retained profits		–	(26,063,055)
Provision for bad debts		569,217	6,028,720
Provision for inventories		38,822,092	–
Reversal of provision for impairment of investments		(1,399,731)	(1,087,790)
Provision/(reversal of provision) for impairment of fixed assets		(8,584,026)	107,000,000
Depreciation of fixed assets		501,463,938	420,734,026
Amortisation of intangible assets		10,282,519	10,282,519
Increase in accrued charges		488,569,403	99,899,862
Loss/(gain) on disposal of fixed assets, intangible assets and other long term assets		(3,239,515)	83,605,281
Financial expenses		40,831,931	40,530,889
Investment loss/(income)		6,425,572	(6,000,000)
Increase in inventories		(540,272,302)	(55,231,759)
Increase in receivables from operating activities		(1,115,362,723)	(214,456,974)
Increase in payables from operating activities		951,030,620	269,250,720
<b>Net cash flows from operating activities</b>		<b>1,322,988,595</b>	<b>898,905,224</b>
2. Investing and financing activities that do not involve cash receipts and payments:		–	–
3. Net increase in cash and cash equivalents:			
Cash and balances with financial institutions at end of period		1,612,639,319	1,597,885,579
Less: Cash and balances with financial institutions at beginning of period		(1,000,526,413)	(1,271,685,989)
Add: Balance of cash equivalents at end of period		–	–
Less: Balance of cash equivalents at beginning of period		–	–
<b>Net increase in cash and cash equivalents</b>		<b>612,112,906</b>	<b>326,199,590</b>

Company Representative:  
**Gu Jianguo**  
19 August 2003

Chief Accountant:  
**Su Jianguang**  
19 August 2003

Head of Accounting Department:  
**Guan Yagang**  
19 August 2003

## VI. FINANCIAL REPORTS (continued)

### BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2003

RMB

ASSETS	Note (V)	As at 30 June 2003 Unaudited	As at 31 December 2002 Audited
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions		1,171,690,340	845,289,976
Short term investments		12,704,593	11,304,862
Bills receivable		1,339,178,719	665,983,907
Trade receivables	5	157,278,045	187,781,966
Other receivables	6	99,203,637	39,054,269
Prepayments		1,112,089,274	1,155,315,826
Inventories		1,897,478,816	1,590,190,565
<b>Total current assets</b>		<b>5,789,623,424</b>	<b>4,494,921,371</b>
<b>LONG TERM INVESTMENTS:</b>			
Long term equity investments	9	240,647,310	95,964,625
Long term debt investments	9	18,898,870	21,558,870
<b>Total long term investments</b>		<b>259,546,180</b>	<b>117,523,495</b>
<b>FIXED ASSETS:</b>			
Cost		15,430,883,339	14,730,595,218
Less: Accumulated depreciation		(5,568,441,259)	(5,098,645,065)
<b>Net book value</b>		<b>9,862,442,080</b>	<b>9,631,950,153</b>
Less: Impairment provision		(269,367,100)	(296,367,100)
<b>Fixed assets, net</b>		<b>9,593,074,980</b>	<b>9,335,583,053</b>
Construction materials		832,790,342	372,747,226
Construction in progress		4,110,031,033	1,820,266,051
<b>Total fixed assets</b>		<b>14,535,896,355</b>	<b>11,528,596,330</b>
<b>INTANGIBLE AND OTHER ASSETS:</b>			
Intangible assets		849,546,477	859,828,996
<b>TOTAL ASSETS</b>		<b>21,434,612,436</b>	<b>17,000,870,192</b>

The accompanying notes form an integral part of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2003

RMB

LIABILITIES AND SHAREHOLDERS' FUNDS	Note (V)	As at 30 June 2003 Unaudited	As at 31 December 2002 Audited
<b>CURRENT LIABILITIES:</b>			
Short term loans		1,318,250,410	918,977,295
Trade payables		1,322,949,959	988,809,099
Deposits received		1,057,390,768	785,645,584
Wages payable		86,248,101	26,898,416
Staff welfare payable		12,449,110	22,711,728
Dividend payable	19	225,935,500	225,935,500
Tax payable		119,841,586	96,182,914
Other taxes payable		22,058,568	20,870,970
Other payables		268,380,508	207,998,183
Accrued charges		686,996,267	192,290,163
Long term loans due within a year		160,972,871	214,472,075
<b>Total current liabilities</b>		<b>5,281,473,648</b>	<b>3,700,791,927</b>
<b>LONG TERM LIABILITIES:</b>			
Long term loans		2,628,790,419	751,972,264
Specific payables		562,020,000	525,840,000
Other long term liabilities		148,047,887	158,047,270
<b>Total long term liabilities</b>		<b>3,338,858,306</b>	<b>1,435,859,534</b>
<b>Total liabilities</b>		<b>8,620,331,954</b>	<b>5,136,651,461</b>
<b>SHAREHOLDERS' FUNDS:</b>			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	4,864,975,395	4,864,975,395
Surplus reserves	30	500,750,288	500,750,288
including: statutory public welfare fund	30	250,375,144	250,375,144
Retained profits		993,254,799	43,193,048
<b>Total shareholders' funds</b>		<b>12,814,280,482</b>	<b>11,864,218,731</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>21,434,612,436</b>	<b>17,000,870,192</b>

The accompanying notes form an integral part of the financial statements.

Company Representative:

**Gu Jianguo**

19 August 2003

Chief Accountant:

**Su Jiangang**

19 August 2003

Head of Accounting Department:

**Guan Yagang**

19 August 2003

## VI. FINANCIAL REPORTS (continued)

### STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	Note (V)	For the six months ended 30 June	
		2003 Unaudited	2002 Unaudited
Principal operating income	32	7,041,761,876	5,143,234,071
Less: Cost of sales	32	(5,562,045,628)	(4,434,949,008)
Taxes and surcharges		(59,884,053)	(44,391,316)
Profit from principal operating activities		1,419,832,195	663,893,747
Add: Other operating profit/(loss)		23,529,232	(1,175,090)
Less: Selling expenses		(32,750,829)	(31,523,822)
Administrative expenses		(234,405,012)	(207,064,384)
Financial expenses		(40,254,265)	(40,148,395)
Operating profit		1,135,951,321	383,982,056
Add: Investment income/(loss)	36	(3,080,563)	7,087,790
Non-operating income		4,125,100	2,995,362
Less: Non-operating expenses		(8,634,819)	(201,717,764)
Profit before tax		1,128,361,039	192,347,444
Less: Tax		(178,299,288)	(29,061,816)
Net profit		950,061,751	163,285,628
Add: Retained profits at beginning of period		43,193,048	20,388,372
Less: Staff housing subsidies charged to retained profits		–	(26,063,055)
Profit available for distribution		993,254,799	157,610,945
Less: Transfers to statutory surplus reserve		–	–
Transfers to statutory public welfare fund		–	–
Profit available for distribution to shareholders		993,254,799	157,610,945
Less: Ordinary shares dividend payable		–	–
Retained profits at end of period		993,254,799	157,610,945

The accompanying notes form an integral part of the financial statements.

Company Representative:  
**Gu Jianguo**  
19 August 2003

Chief Accountant:  
**Su Jiangang**  
19 August 2003

Head of Accounting Department:  
**Guan Yagang**  
19 August 2003



## VI. FINANCIAL REPORTS (continued)

### CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	For the six months ended 30 June	
	2003 Unaudited	2002 Unaudited
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	8,365,898,071	6,172,172,560
Cash received relating to other operating activities	853,436	2,995,362
Sub-total of cash inflows	8,366,751,507	6,175,167,922
Cash paid for goods and services	(5,463,652,698)	(3,767,135,001)
Cash paid to and on behalf of employees	(730,228,424)	(574,991,521)
Cash paid for all taxes	(843,267,073)	(760,404,929)
Cash paid relating to other operating activities	(104,077,547)	(111,942,579)
Sub-total of cash outflows	(7,141,225,742)	(5,214,474,030)
Net cash flows from operating activities	1,225,525,765	960,693,892
2. Cash flows from investing activities:		
Cash received from sale of investments	2,660,000	101,600,000
Cash received from returns on investments	4,846,241	16,632,177
Net cash received from disposal of fixed assets, intangible assets and other long term assets	7,510,193	1,962,942
Cash received from retrieval of overdue deposits	1,597,087	–
Sub-total of cash inflows	16,613,521	120,195,119
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(2,877,121,570)	(447,529,832)
Increase in pledged deposits	(91,157)	–
Cash paid for acquisitions of investments	(157,707,183)	(100,000,000)
Sub-total of cash outflows	(3,034,919,910)	(547,529,832)
Net cash flows from investing activities	(3,018,306,389)	(427,334,713)

## VI. FINANCIAL REPORTS (continued)

### CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	For the six months ended 30 June	
	2003 Unaudited	2002 Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	2,993,746,100	505,663,550
Cash received relating to other financing activities	36,180,000	40,000,000
Sub-total of cash inflows	3,029,926,100	545,663,550
Cash repayments of borrowings	(840,623,636)	(601,599,990)
Cash paid for distribution of dividend or profits and for interests expenses	(35,906,877)	(89,518,559)
Cash paid relating to other financing activities	(25,590,691)	–
Sub-total of cash outflows	(902,121,204)	(691,118,549)
Net cash flows from financing activities	2,127,804,896	(145,454,999)
4. Effect of foreign exchange rate changes on cash	(7,137,704)	(33,311)
5. Net increase in cash and cash equivalents	327,886,568	387,870,869

## VI. FINANCIAL REPORTS (continued)

### CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2003

RMB

	For the six months ended 30 June	
	2003 Unaudited	2002 Unaudited
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	950,061,751	163,285,628
Add: Staff housing subsidies charged to retained profits	–	(26,063,055)
Provision for bad debts	6,569,217	11,328,720
Provision for inventories	38,822,092	–
Reversal of provision for impairment of investments	(1,399,731)	(1,087,790)
Provision/(reversal of provision) for impairment of fixed assets	(8,584,026)	107,000,000
Depreciation of fixed assets	500,279,072	418,012,008
Amortisation of intangible assets	10,282,519	10,282,519
Increase in accrued charges	488,135,515	99,417,659
Loss/(gain) on disposal of fixed assets, intangible assets and other long term assets	(3,271,664)	83,605,281
Financial expenses	39,332,200	39,087,503
Investment loss/(income)	4,480,294	(6,000,000)
Increase in inventories	(346,110,343)	(18,982,094)
Increase in receivables from operating activities	(1,123,872,194)	(155,661,443)
Increase in payables from operating activities	670,801,063	236,468,956
Net cash flows from operating activities	1,225,525,765	960,693,892
2. Investing and financing activities that do not involve cash receipts and payments:	–	–
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	1,110,651,254	1,534,743,454
Less: Cash and balances with financial institutions at beginning of period	(782,764,686)	(1,146,872,585)
Add: Balance of cash equivalents at end of period	–	–
Less: Balance of cash equivalents at beginning of period	–	–
Net increase in cash and cash equivalents	327,886,568	387,870,869

Company Representative:  
**Gu Jianguo**  
19 August 2003

Chief Accountant:  
**Su Jiangang**  
19 August 2003

Head of Accounting Department:  
**Guan Yagang**  
19 August 2003

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2003

#### (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.

##### 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".

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 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 income statement.

##### 6. Basis of consolidation

The consolidated financial statements of the Group have been prepared in accordance with the rules of directive No.(1995)11 "Provisional 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.

##### 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 period. Provision for impairment in short term investments is made for any reduction of cost to market value, and charged to the income statement in the period in which they arise.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 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.

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 income statement 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. Inventories are accounted for using perpetual inventory system.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 10. Inventories (continued)

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.

##### 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. If the initial cost of the investment is greater than the investor's share of the owner's equity in the investee company, the difference is amortised over the investing period stipulated in the contract; or amortised over a period of not more than 10 years (including 10 years) if there is no investing period. If the initial cost of the investment is smaller than the investor's share of the owner's equity in the investee company, the difference is credit to the capital reserves.

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 period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 the PRC accounting standards issued in 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. 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 income statement 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	15 to 42 years	2.4% – 6.65%
Plant, machinery and equipment	6.5 to 17 years	6% – 15.29%
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.

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 income statement. Impairment provision is made on an individual basis.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

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.

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 income statement. Provision for impairment of construction in progress is calculated on an individual basis.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 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;
- (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.

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 income statement in the current period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 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 income statement 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 income statement on an one-off basis.

##### 19. Specific payables

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

##### 20. 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.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 21. Income tax

Income tax is provided using the tax payable method. 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.

##### 22. 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.

##### 23. Change in accounting estimate

In recent years, the iron and steel industry has undergone a quickened pace in both its technological improvement and the replacement of its plant and machinery and, hence, according to the actual usage of its fixed assets, the Company has raised its average annual depreciation rate for metallurgical equipment, industrial furnaces, transportation equipment and automated meters; and its buildings and structures by 2% and 0.4% respectively. The Company's revised average annual depreciation rate has thus increased from the original rate of 5.6% to 6.5%.

	Before revision	After revision
Depreciation charge for the period	RMB435,190,105	RMB500,279,072
Anticipated depreciation charge for the year	RMB870,380,210	RMB1,000,558,144

The Company adopts the change in accounting estimate prospectively. The change in accounting estimate resulted in a decrease of net profit by RMB65,088,967 in current period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 period based on existing legislation, interpretations and practice in respect thereof. No provision for income tax for Hong Kong and overseas subsidiaries has been made as there were no assessable profits during the period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (IV) SUBSIDIARIES AND ASSOCIATES

Name of investee	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	Anhui, PRC	Planning and design of automation system; purchase, installation and repairs of computers and communications systems	RMB8,000,000	7,500,000	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	US\$4,290,000	24,854,930	70	–
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (Notes 1, 2)	Anhui, PRC	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products	US\$850,000	8,225,885	70	30
Maanshan Iron & Steel (HK) Limited	Hong Kong, PRC	Trading of steel and pig iron products	HK\$4,800,000	4,101,688	80	20

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (IV) SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee	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 %
MG Trading and Development GmbH	Germany	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	1,573,766	100	–
濟源市金馬焦化有限公司 (Note 1)	Henan, PRC	Production and sale of coke, tar, benzene and coal gas	RMB200,000,000	80,000,000	40	–
滕州盛隆煤焦化有限公司 (Note 1)	Shandong, PRC	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistic services	RMB136,800,000	43,776,000	32	–
<b>Total</b>				<b>227,532,269</b>		

Note 1: Newly incorporated during the period

Note 2: Ningbo Chang Yi Company Limited, a subsidiary of the Company, has completed liquidation during the period. Shanghai Zhong Ma Company Limited, another subsidiary of the Company, is in the process of liquidation. They are excluded from the scope of consolidation.

Anhui Masteel K.Wah New Building Materials Co., Ltd. and Ma Steel (Wuhu) Processing and Distribution Co., Ltd., subsidiaries incorporated in 2002 and in current period respectively, are included in current period consolidated financial statements.

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

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

	Note	30 June 2003			31 December 2002		
		Original currency	Unaudited Exchange rate	RMB	Original currency	Audited Exchange rate	RMB
Cash on hand		RMB93,073	1.0000	93,073	RMB107,988	1.0000	107,988
Balances with financial institutions	2	RMB1,229,467,557 (i)	1.0000	1,229,467,557	RMB814,181,933	1.0000	814,181,933
		HK\$86,505,562	1.0612	91,799,702	HK\$81,054,627	1.0611	85,974,085
		US\$13,435,981 (ii)	8.2774	111,214,988	US\$17,527,675	8.2773	145,080,879
		EUR14,244,860	9.4649	133,562,377	EUR1,923,246	8.6360	16,016,803
		JPY1,862,706,431	0.06928	128,849,648	JPY184,582,131	0.069035	12,742,628
<b>Total</b>				<b>1,694,987,345</b>			<b>1,074,104,316</b>

(i) Fixed deposit of RMB25,111,364 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 deposits of US\$1,039,000 (equivalent to RMB8,600,177) have been pledged to the Hongkong and Shanghai Banking Corporation Limited and fixed deposit of US\$1,535,357 (equivalent to RMB12,708,763) has 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.

The increase in the Group's cash and balances with financial institutions by 58% is mainly attributable to the increase in bank loans and receipt of sales income.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 RMB200 million (31 December 2002: RMB202 million).

	30 June 2003 Unaudited RMB'000	31 December 2002 Audited RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	24,730	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
	200,583	202,180
Provision for overdue deposits	(175,000)	(175,000)
	25,583	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 6 months ended at 30 June 2003, the Company has received the repayment from GITIC amounted to approximately RMB1,597,000 but no repayment was received from 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.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 2002, 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

Item	30 June 2003 Unaudited		31 December 2002 Audited		
	Investment cost RMB	Provision for impairment RMB	Investment cost RMB	Provision for impairment RMB	
Equity investment	(i)	13,568,593	864,000	13,568,593	2,263,731
(i)	Name of enterprise	Number of shares held	Investment cost Unaudited RMB	Closing market unit price RMB	Market price at period end RMB
	China Petroleum & Chemical Corporation	1,800,000	7,596,000	3.74	6,732,000
	Baoshan Iron & Steel Company Limited	1,428,850	5,972,593	5.11	7,301,424
	Total		13,568,593		14,033,424

The period end market prices of the shares were the closing market prices as at 30 June 2003 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 movement of provision for impairment of short term investments for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 4. Bills receivable

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Bank bills receivable	1,349,178,719	665,937,577
Commercial bills receivable	–	96,330
	<b>1,349,178,719</b>	<b>666,033,907</b>

The increase in the Group's bills receivable by 103% is mainly attribute to the increase in sales and sales settled by bank bills.

As at 30 June 2003 and 31 December 2002, the Group did not have any discounted 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.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 5. Trade receivables

Trade receivables ageing analysis:

	Group							
	30 June 2003				31 December 2002			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
RMB	%	bad debts	%	RMB	%	bad debts	%	
		RMB	%			RMB	%	
Within one year	175,865,930	58	(918,163)	1	143,591,853	51	(1,296,286)	1
One to two years	8,623,041	3	(2,155,760)	25	41,107,940	14	(11,475,524)	28
Two to three years	39,998,346	13	(25,331,794)	63	16,513,217	6	(12,011,159)	73
Over three years	77,951,229	26	(77,951,229)	100	82,811,641	29	(82,375,128)	100
<b>Total</b>	<b>302,438,546</b>	<b>100</b>	<b>(106,356,946)</b>		<b>284,024,651</b>	<b>100</b>	<b>(107,158,097)</b>	

	Company							
	30 June 2003				31 December 2002			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
RMB	%	bad debts	%	RMB	%	bad debts	%	
		RMB	%			RMB	%	
Within one year	137,062,375	52	(918,163)	1	154,136,294	53	(1,296,286)	1
One to two years	8,623,041	3	(2,155,760)	25	39,800,275	14	(10,703,494)	27
Two to three years	39,998,346	15	(25,331,794)	63	12,634,501	4	(7,225,837)	57
Over three years	77,951,229	30	(77,951,229)	100	82,368,993	29	(81,932,480)	100
<b>Total</b>	<b>263,634,991</b>	<b>100</b>	<b>(106,356,946)</b>		<b>288,940,063</b>	<b>100</b>	<b>(101,158,097)</b>	

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 5. Trade receivables (continued)

An analysis of the amount of bad debts provision written off in current period:

Reason	Group	
	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Bankrupt/liquidated debtors	–	98,499,976
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	1,370,368	283,759,475
<b>Total</b>	<b>1,370,368</b>	<b>382,259,451</b>

Reason	Company	
	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Bankrupt/liquidated debtors	–	93,617,039
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	1,370,368	277,342,412
<b>Total</b>	<b>1,370,368</b>	<b>370,959,451</b>

As at 30 June 2003, the five largest trade receivables of the Group and the Company amounted to RMB170,612,313 and RMB164,360,368 respectively, which accounted for 56% and 62% 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.

The movement of bad debts provision for trade receivables for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 6. Other receivables

Other receivables ageing analysis:

	Group							
	30 June 2003				31 December 2002			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
RMB	%	bad debts	%	RMB	%	bad debts	%	
		RMB		RMB		RMB		
Within one year	226,957,927	81	(6,213,531)	3	86,495,352	60	(4,665,829)	5
One to two years	5,632,022	2	(5,350,038)	95	9,638,048	6	(7,083,444)	73
Two to three years	4,613,097	1	(4,515,596)	98	1,106,311	1	(750,147)	68
Over three years	44,098,807	16	(44,098,807)	100	47,717,328	33	(47,717,328)	100
<b>Total</b>	<b>281,301,853</b>	<b>100</b>	<b>(60,177,972)</b>		<b>144,957,039</b>	<b>100</b>	<b>(60,216,748)</b>	

	Company							
	30 June 2003				31 December 2002			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
RMB	%	bad debts	%	RMB	%	bad debts	%	
		RMB		RMB		RMB		
Within one year	105,037,683	66	(6,213,531)	6	40,809,330	41	(4,665,829)	11
One to two years	5,632,022	3	(5,350,038)	95	9,638,048	10	(7,083,444)	73
Two to three years	4,613,097	3	(4,515,596)	98	1,106,311	1	(750,147)	68
Over three years	44,098,807	28	(44,098,807)	100	47,717,328	48	(47,717,328)	100
<b>Total</b>	<b>159,381,609</b>	<b>100</b>	<b>(60,177,972)</b>		<b>99,271,017</b>	<b>100</b>	<b>(60,216,748)</b>	

The increase in the Group's and Company's other receivables, net of provision by 161% and 154% respectively is mainly attributable to the increase in unsettled amounts of other transactions.

As at period end, the Group's and Company's five largest other receivables amounted to RMB98,574,934 and RMB45,704,291 respectively. This accounted for 35% and 29% of the Group and Company's gross other receivables respectively.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 6. Other receivables (continued)

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 period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

##### 7. Prepayments

The increase in the Group's prepayment by 43% is mainly attributable to the increase in prepayment for the purchase of raw materials.

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 Company's equity interest.

##### 8. Inventories

	30 June 2003		31 December 2002	
	Unaudited		Audited	
	Balance	Provision	Balance	Provision
	RMB	RMB	RMB	RMB
Raw materials	971,555,593	(24,923,392)	687,066,210	–
Work in progress	367,049,886	(3,000,000)	329,557,802	(3,000,000)
Finished goods	396,299,155	(9,656,900)	199,716,241	(9,656,900)
Spare parts	592,808,695	(147,750,455)	571,256,789	(133,851,755)
Total	2,327,713,329	(185,330,747)	1,787,597,042	(146,508,655)

The increase in the Group's inventories, net by 31% is mainly attributable to the increase in inventory balance of raw materials and finished goods.

The movement of provision for inventories for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 9. Long term investments

Items	Group			
	At	Additions	Decrease	At
	1 January	during	during	30 June
	2003	the period	the period	2003
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Long term equity investments				
Investments in associates (ii)	–	123,776,000	–	123,776,000
Other equity investments (iii)	6,517,035	–	–	6,517,035
	6,517,035	123,776,000	–	130,293,035
Long term debt investments				
Other debt investment (iv)	21,558,870	–	(2,660,000)	18,898,870
<b>Total</b>	<b>28,075,905</b>	<b>123,776,000</b>	<b>(2,660,000)</b>	<b>149,191,905</b>

Items	Company			
	At	Additions	Decrease	At
	1 January	during	during	30 June
	2003	the period	the period	2003
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Long term equity investments				
Interests in subsidiaries (i)	89,447,590	40,390,286	(19,483,601)	110,354,275
Investments in associates (ii)	–	123,776,000	–	123,776,000
Other equity investments (iii)	6,517,035	–	–	6,517,035
	95,964,625	164,166,286	(19,483,601)	240,647,310
Long term debt investments				
Other debt investment (iv)	21,558,870	–	(2,660,000)	18,898,870
<b>Total</b>	<b>117,523,495</b>	<b>164,166,286</b>	<b>(22,143,601)</b>	<b>259,546,180</b>

The increase in the Group's and Company's long term investments by 431% and 121% is mainly attributable to the increase in investments in associates.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

###### (i) Interests in subsidiaries

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Company Investment amount				Profit/(loss) adjustment				Closing balance	
				Opening balance	Additions during the period	Reduction during the period	Closing balance	Opening balance	Increase during the period	Decrease during the period	Accumulated increase/ (decrease)		
				Unaudited Audited	Unaudited Unaudited	Unaudited Unaudited	Unaudited Audited	Unaudited Unaudited	Unaudited Unaudited	Unaudited Unaudited			
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Ma Steel International Trade and Economic Corporation	N/A	100	50,000,000	50,000,000	-	-	50,000,000	-	-	(4,444,121)	(4,444,121)	45,555,879	
Design & Research Institute of Maanshan Iron & Steel Co. Ltd.	N/A	93.75	7,500,000	7,500,000	-	-	7,500,000	2,082,380	1,931,183	-	4,013,563	11,513,563	
MG Control Technique Co. Ltd.	4 years	93.75	6,649,632	6,649,632	850,368	-	7,500,000	58,011	-	(378,391)	(320,380)	7,179,620	
Shanghai Zhong Ma Co. Ltd.	-	-	-	900,000	-	(900,000)	-	5,671,805	3,626,658	(9,298,463)	-	-	
Ningbo Chang Yi Co. Ltd.	-	-	-	200,000	-	(200,000)	-	4,462,626	-	(4,462,626)	-	-	
Anhui Masteel K. Wah New Building Materials Co., Ltd.	30 years	70	24,854,930	-	24,854,930	-	24,854,930	-	-	-	-	24,854,930	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd	30 years	70	8,225,885	-	8,225,885	-	8,225,885	-	6,807	-	6,807	8,232,692	
Maanshan Iron & Steel (HK) Ltd.	N/A	80	4,101,688	4,101,688	-	-	4,101,688	6,239,402	853,706	-	7,093,108	11,194,796	
MG Trading and Development GmbH	N/A	100	1,573,766	1,573,766	-	-	1,573,766	208,280	40,749	-	249,029	1,822,795	
				70,925,086	33,931,183	(1,100,000)	103,756,269	18,722,504	6,459,103	(18,583,601)	6,598,006	110,354,275	
Less: Impairment provision				(200,000)		200,000	-					-	
Total				70,725,086			103,756,269					110,354,275	

###### (ii) Investments in associates

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Group and Company Investment amount				Profit/(loss) adjustment				Closing balance
				Opening balance	Additions during the period	Reduction during the period	Closing balance	Opening balance	Increase during the period	Decrease during the period	Accumulated increase/ (decrease)	
				Unaudited Audited	Unaudited Unaudited	Unaudited Unaudited	Unaudited Audited	Unaudited Unaudited	Unaudited Unaudited	Unaudited Unaudited		
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
濟源市金馬焦化有限公司	50 years	40	80,000,000	-	80,000,000	-	80,000,000	-	-	-	-	80,000,000
滕州盛隆煤焦化有限公司	50 years	32	43,776,000	-	43,776,000	-	43,776,000	-	-	-	-	43,776,000
Total				-	123,776,000	-	123,776,000	-	-	-	-	123,776,000

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

###### (iii) Other equity investments

Other equity investments accounted for using the cost method:

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

###### (iv) Other debt investment

Debtor	Principal amount Unaudited RMB	Annual interest rate %	Maturity date	Interest for the period Unaudited RMB	Accumulated interest received/receivable Unaudited RMB	Carrying value Unaudited RMB
安徽省電力開發總公司	18,898,870	Nil	2003-2009	-	-	18,898,870

The movement of provision for long term investments for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 10. Fixed assets

	Buildings and structures Unaudited RMB	Plant, machinery and equipment Unaudited RMB	Transportation vehicles and equipment Unaudited RMB	Total Unaudited RMB
<b>Cost</b>				
At 1 January 2003	6,489,570,226	7,771,582,486	494,053,931	14,755,206,643
Additions	1,305,649	456,097	1,023,166	2,784,912
Transferred from construction in progress (Note 12)	151,657,890	601,021,949	–	752,679,839
Reclassifications	(90,762,025)	85,361,626	5,400,399	–
Disposal	(8,220,263)	(35,353,430)	(10,309,839)	(53,883,532)
At 30 June 2003	6,543,551,477	8,423,068,728	490,167,657	15,456,787,862
<b>Accumulated depreciation</b>				
At 1 January 2003	1,685,712,670	3,118,439,583	305,057,066	5,109,209,319
Provided during the period	140,595,535	340,483,392	20,385,011	501,463,938
Reclassifications	(35,869,064)	35,416,708	452,356	–
Disposal	(7,486,398)	(14,007,429)	(9,173,623)	(30,667,450)
At 30 June 2003	1,782,952,743	3,480,332,254	316,720,810	5,580,005,807
<b>Net book value</b>				
At 30 June 2003				
Net book value	4,760,598,734	4,942,736,474	173,446,847	9,876,782,055
Less: Impairment	(62,458,200)	(206,908,900)	–	(269,367,100)
Net book value, net of impairment	4,698,140,534	4,735,827,574	173,446,847	9,607,414,955
<b>At 31 December 2002</b>				
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

The movement of provision for impairment of fixed assets for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 11. Construction materials

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Prepayment for equipment used in construction projects	832,790,342	838,980,700

##### 12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 30 June 2003:

Name of project	Budgeted cost RMB'000	At 1 January 2003 Audited RMB	Additions during the period Unaudited RMB	Transferred to fixed assets (Note 10) Unaudited RMB	At 30 June 2003 Unaudited RMB	Source of fund	Percentage of completion %
1. Thin Plate Project	5,200,000	649,266,073	1,758,217,527	-	2,407,483,600	Internally generated funds	46
<i>Including borrowing costs capitalised</i>		27,790,666	93,160,596	-	120,951,262	and loans from financial institution	
2. 2500m <sup>3</sup> Blast Furnace	795,000	160,449,840	225,701,044	-	386,150,884	Internally generated funds	49
3. Modification of Train Wheel Rolling System	320,000	153,398,640	52,002,487	-	205,401,127	Internally generated funds	64
<i>Including borrowing costs capitalised</i>		304,050	5,792,000	-	6,096,050	and loans from financial institution	
4. 300m <sup>2</sup> Sintering Machine	298,000	91,567,668	203,452,332	(295,020,000)	-	Internally generated funds	99
5. No. 3 Converter of No. 1 Steel Making Plant	250,000	50,509,635	23,956,570	-	74,466,205	Internally generated funds	30
6. Auxiliary Facilities	200,000	146,475,734	84,223,681	-	230,699,415	Internally generated funds	115
7. Revamping of High Speed Wire and Rolling Mill Project	177,400	110,188,007	63,257,949	(173,330,000)	115,956	Internally generated funds	98
8. 40000m <sup>3</sup> Oxygenerator	340,000	2,221,094	192,832,397	-	195,053,491	Internally generated funds	57

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

Name of project	Budgeted cost RMB'000	At 1 January 2003 Audited RMB	Additions during the period Unaudited RMB	Transferred to fixed assets (Note 10) Unaudited RMB	At 30 June 2003 Unaudited RMB	Source of fund	Percentage of completion %
9. No.2 Coke Furnace	342,000	17,185,935	47,345,542	–	64,531,477	Internally generated funds	19
10. 70t VD Oven of No. 3 Steel Making Plant	26,480	14,898,450	10,625,147	–	25,523,597	Internally generated funds	96
11. 20000m <sup>3</sup> Oxygenator of Gas and Steam Supply Plant	118,340	809,082	47,475,561	–	48,284,643	Internally generated funds	41
12. Ma Steel Health Recovery Centre	62,000	23,070,188	17,625,135	–	40,695,323	Internally generated funds	66
13. Coke Dry Quenching Project	168,000	20,856,085	14,394,370	–	35,250,455	Internally generated funds	21
<i>Including borrowing costs capitalised</i>		–	1,067,200	–	1,067,200	and loans from financial institution	
14. 50000m <sup>3</sup> Gas Chamber of Gas and Steam Supply Plant	24,000	21,594,880	625,209	–	22,220,089	Internally generated funds	93
15. No. 3 Unit Engineering of Blast Furnace Gas Utilisation Project	120,000	8,810,808	19,075,480	–	27,886,288	Internally generated funds and loans from financial institution	23
<i>Including borrowing costs capitalised</i>		–	457,500	–	457,500	financial institution	
16. Major Repair of the No. 2 Machine of No. 2 Sinter Plant	16,520	19,875,578	335,281	–	20,210,859	Internally generated funds	122
17. No. 5 Gas Combustion Boiler	54,000	8,498,000	24,681,659	–	33,179,659	Internally generated funds	61
18. Other projects		320,590,354	259,139,702	(284,329,839)	295,400,217	Internally generated funds	
<i>Including borrowing costs capitalised</i>		3,652,904	–	–	3,652,904	and loans from financial institution	
		1,820,266,051	3,044,967,073	(752,679,839)	4,112,553,285		

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

The increase in the Group's construction in progress by 126% is attributable to the increase in the number of construction projects.

The capitalisation rates of interests are 1.32% – 5.76% per annum.

The movement of provision for impairment of construction in progress for the period ended 30 June 2003 is disclosed in the supplementary information of the financial statements.

##### 13. Intangible assets

	Original amount	Accumulated amortisation Audited	At 1 January 2003 Audited	Additions during the period Unaudited	Amortisation during the period Unaudited	At 30 June 2003 Unaudited	Remaining year of amortisation
	RMB	RMB	RMB	RMB	RMB	RMB	
Land use rights	1,028,251,518	(168,422,522)	859,828,996	4,062,720	(10,282,519)	853,609,197	39 to 50 years

The addition of land use rights in current period is obtained from purchase.

##### 14. Short term loans

Type	Annual interest rate %	Maturity date	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Unsecured loans	2.376 – 5.310	7/2003 – 6/2004	1,318,250,410	918,977,295
Import loans	3	7/2003 – 9/2003	161,150,340	–
			1,479,400,750	918,977,295

The increase in the Group's short term loans by 61% is mainly attributable to the increase in purchase of raw materials and spare parts.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 15. Trade payables

The increase in the Group's trade payables by 45% 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.

##### 16. Deposits received

The increase in the Group's deposits received by 44% is mainly attributable to the increase in sales deposits received.

The ageing of deposits received is within one year.

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

##### 17. Wages payable

The increase in the Group's wages payable by 223% is mainly attributable to the increase in wages payable not yet paid.

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

##### 18. Staff welfare payable

The decrease in the Group's staff welfare payable by 45% is mainly attributable to the increase in staff welfare utilised during the period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 19. Dividend payable

	Group and Company	
	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
2002 final dividend payable – RMB3.5 cents per share	225,935,500	225,935,500

The Group's and the Company's dividend payable at the period is the unpaid dividends for the year of 2002.

##### 20. Tax payable

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Income tax	66,183,669	40,518,550
VAT	51,003,802	43,003,405
Business tax	365,483	1,296,520
Other taxes	2,004,405	10,409,482
Total	119,557,359	95,227,957

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

##### 21. Other taxes payable

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Education surcharge	1,026,267	1,631,156
Flood prevention fund	21,032,301	19,239,814
Other taxes	–	1,742
Total	22,058,568	20,872,712

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



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 22. Other payables

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Labour costs	73,673,816	38,184,062
Construction fee	152,023,665	112,174,244
Maintenance and inspection fee	35,729,181	29,229,943
Others	37,615,438	39,632,184
Total	299,042,100	219,220,433

The increase in the Group's other payables by 36% is mainly attributable to the increase in labour costs and construction fee.

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

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Loan interests	60,004,653	53,434,064
Freight charges	54,111,829	24,269,000
Retirement benefits payable to early retired employees	34,309,422	37,310,039
Maintenance fee	103,626,797	19,294,159
Salary and allowance	124,890,000	–
Price variance of raw materials purchase	49,170,958	–
Major overhaul expenses	121,990,000	–
Others	139,383,304	58,039,709
Total	687,486,963	192,346,971

The increase in the Group's accrued charges by 257% is mainly attributable to the increase in accrued salary, bonus, maintenance fee and price variance of raw materials purchase.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 24. Long term loans due within a year

Lender	Currency	30 June 2003		31 December 2002			Maturity date	Annual interest rate %	Conditions of borrowings
		Unaudited Original currency	RMB	Currency	Audited Original currency	RMB			
The Industrial and Commercial Bank of China - Magang Branch	RMB	11,780,000	11,780,000	RMB	10,280,000	10,280,000	9/2003-3/2004	2.88	Unsecured
The Industrial and Commercial Bank of China - Maanshan Branch	-	-	-	RMB	20,000,000	20,000,000	N/A	N/A	N/A
China Construction Bank - Metallurgical Branch	RMB	70,000,000	70,000,000	RMB	105,000,000	105,000,000	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	6/2004	2.4	Unsecured
China Construction Bank - Anhui Branch	US\$	7,972,657	65,992,871	US\$	7,972,657	65,992,075	10/2003-4/2004	LIBOR (6 months) + 0.5	Guaranteed by Holding
Bank of China - Maanshan Branch	EUR	123,947	1,173,134	EUR	123,947	1,072,375	9/2003-3/2004	0.25	Unsecured
<b>Total</b>			<b>162,146,005</b>			<b>215,544,450</b>			

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 25. Long term loans

Lender	Currency	30 June 2003		31 December 2002			Maturity date	Annual interest rate %	Conditions of borrowings
		Unaudited Original currency	RMB	Currency	Audited Original currency	RMB			
China Construction Bank - Metallurgical Branch	RMB	751,000,000	751,000,000	RMB	521,000,000	521,000,000	11/2006-1/2010	5.76	Guaranteed by Holding
China Construction Bank - Anhui Branch	US\$	23,917,971	197,978,619	US\$	27,904,300	230,972,264	10/2004-10/2007	LIBOR (6 months) + 0.5	Guaranteed by Holding
Bank of China - Maanshan Branch	EUR	1,921,175	18,183,533	EUR	1,983,142	17,158,000	10/2004-10/2019	0.25	Unsecured
Bank of China - Maanshan Branch	RMB	50,000,000	50,000,000	-	-	-	5/2006	5.49	Guaranteed by Holding
Bank of China - Maanshan Branch	EUR	77,000,000	727,898,000	-	-	-	1/2006-6/2008	2.94-5.49	Guaranteed by Holding
Agriculture Bank of China - Maanshan Branch	RMB	30,000,000	30,000,000	-	-	-	2/2006-5/2006	5.49	Guaranteed by Holding
The Industrial and Commercial Bank of China - Magang Branch	RMB	100,000,000	100,000,000	-	-	-	5/2006-6/2006	5.49	Guaranteed by Holding
The Industrial and Commercial Bank of China - Magang Branch	JPY	2,400,000,000	166,272,000	-	-	-	3/2006-5/2006	1.32-5.49	Guaranteed by Holding
The Industrial and Commercial Bank of China - Magang Branch	EUR	64,000,000	605,641,800	-	-	-	1/2006-5/2006	3.57-4.01	Guaranteed by Holding
<b>Total</b>			<b>2,646,973,952</b>			<b>769,130,264</b>			

The increase in the Group's long term loans by 244% is mainly attributable to the increase in repayment for construction fee.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 26. Specific payables

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Government subsidies for specific construction projects	562,020,000	525,840,000

##### 27. Other long term liabilities

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB
Accrued charges for furnace relining	96,323,132	96,323,132
Retirement benefits payable to early retired employees	51,724,755	61,724,138
Total	148,047,887	158,047,270

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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	
	30 June 2003 Unaudited RMB	31 December 2002 Audited 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 period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 29. Capital reserve

	At 1 January 2003 Audited RMB	Group and Company		At 30 June 2003 Unaudited RMB
		Additions during the period Unaudited RMB	Reduction during the period Unaudited RMB	
Share premium	4,864,975,395	–	–	4,864,975,395

##### 30. Surplus reserves

	At 1 January 2003 Audited RMB	Group		At 30 June 2003 Unaudited RMB
		Additions during the period Unaudited RMB	Reduction during the period Unaudited RMB	
Statutory surplus reserve	251,641,547	–	(460,875)	251,180,672
Statutory public welfare fund	251,112,646	–	(230,438)	250,882,208
Total	502,754,193	–	(691,313)	502,062,880

	At 1 January 2003 Audited RMB	Company		At 30 June 2003 Unaudited RMB
		Additions during the period Unaudited RMB	Reduction during the period Unaudited RMB	
Statutory surplus reserve	250,375,144	–	–	250,375,144
Statutory public welfare fund	250,375,144	–	–	250,375,144
Total	500,750,288	–	–	500,750,288

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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.

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

##### 31. Retained profits

	Group Amount Unaudited RMB
Retained profits at beginning of period	39,803,181
Add: Consolidated net profit for the period	953,851,600
Retained profits at end of period	993,654,781

The Company did not distributed any profits for the current period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

Items	Group					
	For the six months ended 30 June 2003			For the six months ended 30 June 2002		
	Unaudited			Unaudited		
	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	6,548,948,393	5,220,621,070	1,328,327,323	4,808,637,802	4,175,371,367	633,266,435
Sale of pig iron	13,633,277	9,896,075	3,737,202	14,053,594	10,937,996	3,115,598
Sale of steel billet	142,683,230	102,864,884	39,818,346	22,575,518	23,908,425	(1,332,907)
Others	356,441,416	232,553,749	123,887,667	309,405,737	231,515,503	77,890,234
<b>Total</b>	<b>7,061,706,316</b>	<b>5,565,935,778</b>	<b>1,495,770,538</b>	<b>5,154,672,651</b>	<b>4,441,733,291</b>	<b>712,939,360</b>

Items	Company					
	For the six months ended 30 June 2003			For the six months ended 30 June 2002		
	Unaudited			Unaudited		
	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	6,548,948,393	5,220,621,070	1,328,327,323	4,804,644,155	4,174,244,435	630,399,720
Sale of pig iron	13,633,277	9,896,075	3,737,202	14,053,594	10,937,996	3,115,598
Sale of steel billets	142,683,230	102,864,884	39,818,346	22,575,518	23,908,425	(1,332,907)
Others	336,496,976	228,663,599	107,833,377	301,960,804	225,858,152	76,102,652
<b>Total</b>	<b>7,041,761,876</b>	<b>5,562,045,628</b>	<b>1,479,716,248</b>	<b>5,143,234,071</b>	<b>4,434,949,008</b>	<b>708,285,063</b>

Sales to the five major customers of the Group and the Company for the period amounted to RMB1,609,957,265, which accounted for 23% of the total Group's and Company's sales amount respectively.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

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

The increase in the Group's principal operating income by 37% is mainly attributable to the increase in selling price of steel products and quantity sold.

#### 33. Taxes and surcharges

	For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB
City construction and maintenance tax	42,305,213	31,298,937
Education surcharge	18,150,068	13,417,757
Other taxes	521,446	190,147
<b>Total</b>	<b>60,976,727</b>	<b>44,906,841</b>

The increase in the Group's tax and surcharges by 36% is mainly attributable to the increase in VAT payable as a result of the increase in sales.

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

#### 34. Other operating profit

The increase in the Group's other operating profit by 321% is mainly attributable to the increase in other sales.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 35. Financial expenses

	For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB
Interest expenses	42,502,122	49,673,149
Less: Interest income	(5,379,046)	(10,865,387)
Exchange loss	8,929,056	2,261,194
Less: Exchange gain	(5,220,201)	( 538,067)
Others	2,994,440	3,151,338
<b>Total</b>	<b>43,826,371</b>	<b>43,682,227</b>

##### 36. Investment income/(loss)

	Group For the six months ended 30 June		Company For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB	2003 Unaudited RMB	2002 Unaudited RMB
Loss on disposal of equity investment	(6,425,572)	–	(6,116,885)	–
Equity investment income	–	6,000,000	1,636,591	6,000,000
Reversal of provision for impairment of short term investments	1,399,731	1,087,790	1,399,731	1,087,790
	<b>(5,025,841)</b>	<b>7,087,790</b>	<b>(3,080,563)</b>	<b>7,087,790</b>

The Group's investment loss is attributable to the loss on disposal of equity investment.

There is no material restriction on of the retrieval of Group's investment income.

##### 37. Non-operating income

The increase in the Group's non-operating income by 37% is mainly attributable to the increase in gain on disposal of fixed assets.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 38. Non-operating expenses

	For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB
Provision/(reversal of provision) for impairment of fixed assets	(8,584,026)	107,000,000
Staff children education expenses	12,724,530	12,663,064
Loss on disposal of fixed assets, net	–	80,823,298
Penalties	3,996,786	–
Others	541,540	1,358,544
<b>Total</b>	<b>8,678,830</b>	<b>201,844,906</b>

The decrease in the Group's non-operating expenses by 96% is mainly attributable to the decrease in the provision for impairment of fixed assets and the net loss on disposal of fixed assets.

##### 39. Tax

The increase in the Group's tax by 513% is mainly attributable to the increase in profit.

##### 40. Cash paid relating to other operating activities

	For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB
Real estate tax	13,414,813	13,787,174
Environmental protection fee	13,159,946	13,202,303
Welfare and support services	39,217,506	39,397,506
Transportation cost	5,728,954	7,216,153
Unloading cost	5,181,611	3,910,159
Packing fee	7,237,543	5,343,033
Staff children education expenses	12,724,530	12,663,064
Warehouse fee	658,491	1,087,588
Stamp duty	2,310,588	2,010,392
Others	17,226,524	6,557,735
<b>Total</b>	<b>116,860,506</b>	<b>105,175,107</b>

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

##### 41. Cash received relating to other financing activities

	For the six months ended 30 June	
	2003 Unaudited RMB	2002 Unaudited RMB
Government subsidies for specific construction projects	36,180,000	40,000,000

##### 42. 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:

Net profit	Notes	For the six months ended 30 June 2003 Unaudited RMB'000
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		929,595
Add back:		
Amortisation of deferred staff costs	(i)	8,800
Staff housing subsidies to current employees charged to income statement	(ii)	17,444
Deduct:		
Deferred tax income	(iv)	(1,987)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		953,852

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

	Notes	30 June 2003 Unaudited RMB'000
Shareholders' equity		
Shareholders' equity under Hong Kong accounting standards		13,072,142
Add back:		
Staff housing subsidies charged to income statement:		
Current employees	(ii)	122,105
Retired employees	(ii)	38,843
Deduct:		
Unamortised deferred staff costs	(i)	(61,600)
Staff housing subsidies charged to retained profits	(ii)	(178,220)
Provision for furnace relining costs	(iii)	(96,323)
Deferred tax asset	(iv)	(80,954)
Shareholders' equity under PRC accounting standards		12,815,993

(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.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

(i) *Deferred staff costs (continued)*

Under Hong Kong accounting standards, the current period treatment still follows the aforesaid accounting policies and the required amortisation of approximately RMB8.8 million was charged to the income statement during the period. As at 30 June 2003, the unamortised deferred staff costs were approximately RMB61.6 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 2001 opening retained profits account.

(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 distributed 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 is estimated to be 6 years. Accordingly, subsidies for current employees of approximately RMB17.44 million (Year ended 31 December 2002: approximately RMB34.89 million) have been accrued and charged to the income statement during the period. The cumulative effect thereof on the Company's shareholders' equity at 30 June 2003 was approximately RMB122.11 million (31 December 2002: approximately RMB104.67 million).

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

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

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 income statement 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 30 June 2003 was approximately RMB38.84 million (31 December 2002: approximately RMB38.84 million).

Under PRC accounting standards and related regulations, the subsidies paid to eligible current and retired employee is charged directly to the retained profits account. The cumulative effect thereof on the Company's shareholders' equity at 30 June 2003 was approximately RMB178 million (31 December 2002: approximately RMB178 million). No accrual for the subsidies payable to current employees or retired employees has been made in the financial statements.

##### (iii) Furnace relining costs

Under the PRC accounting standards "Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the 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. As at 30 June 2003, the unutilised furnace relining cost amounted to approximately RMB96.32 million (31 December 2002: approximately RMB96.32 million).

Under SSAP 28, furnace relining costs are recognised as and when incurred starting from 1 January 2001. Hence, the Company no longer accrued for the provision for furnace relining costs. 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 in 2001. No furnace relining cost was incurred in current period.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

*(iv) Deferred tax*

Under the PRC accounting standards, the Company adopted 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.

With the implementation of the new SSAP12 (Revised), deferred tax is provided using the liability method and the Company recognised all temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

A prior year adjustment has been made to recognise the deferred tax and a deferred tax asset of approximately RMB78.96 million was retrospectively recognised as at 31 December 2002. Deferred tax income of RMB1.99 million was recognised in current period and a deferred tax asset of approximately RMB80.95 million was recognised as at 30 June 2003.



## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 30 June 2003, 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 2003 Audited RMB'000	Increase during the period Unaudited RMB'000	Decrease during the period Unaudited RMB'000	At 30 June 2003 Unaudited RMB'000
Holding	6,298,290	–	–	6,298,290

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

Name	At 1 January 2003 Audited RMB'000	Ratio %	Increase during the period Unaudited RMB'000	Ratio %	Decrease during the period Unaudited RMB'000	Ratio %	At 30 June 2003 Unaudited RMB'000	Ratio %
Holding	4,082,330	63.24	–	–	–	–	4,082,330	63.24

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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	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
馬鞍山黑馬鋼筋焊網有限公司	Subsidiary/associate of Holding
馬鞍山市聯營乙炔廠	Subsidiary/associate of Holding

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

	Note	For the six months ended 30 June	
		2003 Unaudited RMB	2002 Unaudited RMB
<b>Transactions with Holding</b>			
Purchases of iron ore and limestone		424,899,158	364,348,102
Fees received for the supply of utilities, services and other consumable goods		( 30,222,042)	( 12,349,099)
Fees paid for welfare, support services and other services		128,940,632	115,043,118
Purchases of fixed assets and construction services		107,136,166	48,503,954
Sale of steel products		( 4,534,390)	( 4,298,093)
<b>Transactions with subsidiaries of Holding</b>			
Sale of steel products, including:			
馬鋼合力金屬製品有限公司	(i)	–	( 935,683)
馬鞍山黑馬交通器材公司	(i)	–	( 15,547,231)
馬鞍山黑馬鋼筋焊網有限公司		( 36,216,942)	–
集團公司桃沖礦業公司		( 1,916,030)	–
集團公司姑山礦業公司		( 2,264,296)	–
		( 40,397,268)	( 16,482,914)

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

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (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 period:  
(continued)**

The terms for the purchases of iron ore and limestone from Holding were in accordance with an agreement dated 14 October 1993 and a supplementary agreement dated 2 April 2003 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 2 April 2003 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.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

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

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

	30 June 2003 Unaudited RMB	31 December 2002 Audited RMB	Details
Trade receivables:			
Holding	3,439,060	4,265,477	Utilities & trade
Prepayments:			
Holding	48,349,461	78,390,869	Supporting services & iron ore fee
馬鞍山市聯營乙炔廠	2,295,547	2,244,849	Trade
Total	50,645,008	80,635,718	
Trade payables:			
Holding	45,279,432	70,368,794	Trade
馬鞍山市聯營乙炔廠	2,014,206	1,780,489	Trade
Total	47,293,638	72,149,283	
Deposits received:			
Holding	1,320,829	39,199,800	Trade

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

#### (VII) CONTINGENT LIABILITIES

As at 30 June 2003 and 31 December 2002, the Group and Company had no significant contingent liabilities.

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (VIII) CAPITAL COMMITMENTS

The commitments for capital expenditure as at 30 June 2003 were as follows:

	Group and Company	
	30 June 2003 Unaudited RMB'000	31 December 2002 Audited RMB'000
Contracted, but not provided for:		
Thin Plate Project	1,000,552	2,118,456
2500m <sup>3</sup> Blast Furnace	141,571	205,046
Auxiliary Facilities	119,915	26,677
40000m <sup>3</sup> Oxygenerator	85,603	186,451
No.2 Coke Furnace	69,449	18,279
Modification of Train Wheel Rolling System	48,761	69,854
850m <sup>3</sup> Blast Furnace Project	36,962	–
No. 3 Converter of No. 1 Steel Making Plant	36,253	36,031
Coil Coating Lines Project	19,580	–
Ma Steel Health Recovery Centre	4,113	2,775
Coke Dry Quenching Project	2,241	14,567
Water Purification System Project	1,851	1,793
70t VD Oven of No. 3 Steel Making Plant	1,183	3,966
The Recovery Engineering of Coke Making Plant	–	3,646
Other projects	86,103	181,773
	<b>1,654,137</b>	<b>2,869,314</b>

Note: The commitments for contracted, but not provided for capital expenditure denominated in foreign currencies included approximately EUR48.68 million (equivalent to approximately RMB460 million), approximately US\$8.98 million (equivalent to approximately RMB74.33 million) and approximately JPY2.06 billion (equivalent to approximately RMB140 million).

## VI. FINANCIAL REPORTS (continued)

### NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2003

#### (VIII) CAPITAL COMMITMENTS (continued)

The commitments for capital expenditure as at 30 June 2003 were as follows:

	Group and Company	
	30 June 2003 Unaudited RMB'000	31 December 2002 Audited RMB'000
Authorised, but not contracted for:		
Thin Plate Project	1,585,847	1,865,274
2500m <sup>3</sup> Blast Furnace	303,884	415,929
Coil Coating Lines Project	264,775	–
850m <sup>3</sup> Blast Furnace Project	247,091	–
Coke Dry Quenching Project	145,590	145,590
Water Purification System Project	140,808	140,808
40000m <sup>3</sup> Oxygenerator	84,404	108,271
Modification of Train Wheel Rolling System	61,180	88,031
Ma Steel Health Recovery Centre	53,363	58,202
Auxiliary Facilities	49,967	82,561
No. 3 Converter of No. 1 Steel Making Plant	46,388	46,388
No. 2 Coke Furnace	29,585	85,748
70t VD Oven of No. 3 Steel Making Plant	15,755	17,265
The Recovery Engineering of Coke Making Plant	–	164,791
Other projects	381,614	410,031
	3,410,251	3,628,889
Total capital commitments	5,064,388	6,498,203

#### (IX) COMPARATIVE AMOUNTS

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

#### (X) APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 August 2003.

## VI. FINANCIAL REPORTS (continued)

### SUPPLEMENTARY INFORMATION RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2003

Profit during the period	Return on net assets		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	11.20%	11.63%	0.222	0.222
Operating profit	8.92%	9.26%	0.177	0.177
Net profit	7.44%	7.73%	0.148	0.148
Net profit after extraordinary items	7.46%	7.75%	0.148	0.148

Return on net assets and earnings per share are computed based on the formula stipulated in the "Regulation for the preparation of information disclosure by listed securities companies (No. 9)" issued by China Securities Regulatory Commission on 19 January 2001.

## VI. FINANCIAL REPORTS (continued)

### SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE

30 June 2003

Items	1 January 2003 Audited RMB	Group		30 June 2003 Unaudited RMB
		Additions Unaudited RMB	Reversal/ write offs Unaudited RMB	
1. Provision for bad debts:	167,374,845	569,217	(1,409,144)	166,534,918
including: Trade receivables	107,158,097	569,217	(1,370,368)	106,356,946
Other receivables	60,216,748	–	(38,776)	60,177,972
2. Provision for impairment of short term investments:	2,263,731	–	(1,399,731)	864,000
including: Equity investment	2,263,731	–	(1,399,731)	864,000
3. Provision for inventories:	146,508,655	38,822,092	–	185,330,747
including: Raw materials	–	24,923,392	–	24,923,392
Work in progress	3,000,000	–	–	3,000,000
Finished goods	9,656,900	–	–	9,656,900
Spare parts	133,851,755	13,898,700	–	147,750,455
4. Provision for impairment of long term investment	–	–	–	–
5. Provision for impairment of fixed assets:	296,367,100	–	(27,000,000)	269,367,100
including: Buildings and structures	73,486,600	–	(11,028,400)	62,458,200
Plant, machinery and equipments	222,880,500	–	(15,971,600)	206,908,900
6. Provision for impairment of intangible assets	–	–	–	–
7. Provision for impairment of construction in progress	74,000,000	–	–	74,000,000
8. Provision for impairment of designated loan	–	–	–	–



## VI. FINANCIAL REPORTS (continued)

### SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE (continued)

30 June 2003

Items	1 January 2003 Audited RMB	Company		30 June 2003 Unaudited RMB
		Additions Unaudited RMB	Reversal/ write offs Unaudited RMB	
1. Provision for bad debts:	161,374,845	6,569,217	(1,409,144)	166,534,918
including: Trade receivables	101,158,097	6,569,217	(1,370,368)	106,356,946
Other receivables	60,216,748	–	(38,776)	60,177,972
2. Provision for impairment of short term investments:	2,263,731	–	(1,399,731)	864,000
including: Equity investment	2,263,731	–	(1,399,731)	864,000
3. Provision for inventories:	146,508,655	38,822,092	–	185,330,747
including: Raw materials	–	24,923,392	–	24,923,392
Work in progress	3,000,000	–	–	3,000,000
Finished goods	9,656,900	–	–	9,656,900
Spare parts	133,851,755	13,898,700	–	147,750,455
4. Provision for impairment of long term investments:	200,000	–	(200,000)	–
including: Interests in subsidiaries	200,000	–	(200,000)	–
5. Provision for impairment of fixed assets:	296,367,100	–	(27,000,000)	269,367,100
including: Buildings and structures	73,486,600	–	(11,028,400)	62,458,200
Plant, machinery and equipments	222,880,500	–	(15,971,600)	206,908,900
6. Provision for impairment of intangible assets	–	–	–	–
7. Provision for impairment of construction in progress	74,000,000	–	–	74,000,000
8. Provision for impairment of designated loan	–	–	–	–

## VI. FINANCIAL REPORTS (continued)

The Board of Directors of the Company hereby announces that the unaudited interim results of the Group for the six months ended 30 June 2003 together with comparative figures for the corresponding period in 2002. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2003

	Notes	For the six months ended 30 June	
		2003 Unaudited RMB'000	2002 Unaudited RMB'000 (Restated)
TURNOVER	3	7,061,706	5,154,673
Cost of sales		(5,622,201)	(4,453,922)
Gross profit		1,439,505	700,751
Other revenue and gains	3	27,878	27,397
Selling and distribution costs		(94,585)	(77,293)
Administrative expenses		(231,003)	(223,610)
Other operating income/(expenses), net		8,042	(204,849)
PROFIT FROM OPERATING ACTIVITIES	4	1,149,837	222,396
Finance costs	5	(42,502)	(49,673)
PROFIT BEFORE TAX		1,107,335	172,723
Tax	6	(177,740)	(32,051)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		929,595	140,672
EARNINGS PER SHARE	9		
Basic		14.40 cents	2.18 cents
Diluted		N/A	N/A

## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2003

	Notes	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Fixed assets		10,461,024	10,209,460
Construction in progress		4,945,344	2,659,246
Investments in associates		123,776	–
Long term investments		25,416	28,075
Other long term asset		61,600	70,400
Deferred tax asset		80,954	78,967
		<b>15,698,114</b>	<b>13,046,148</b>
<b>CURRENT ASSETS</b>			
Inventories		2,142,383	1,641,088
Trade and bill receivables	10	1,545,260	842,900
Prepayments, deposits and other receivables		1,059,945	674,091
Short term investments		12,704	11,305
Pledged deposits		46,420	36,073
Cash and cash equivalents		1,648,567	1,038,031
		<b>6,455,279</b>	<b>4,243,488</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	11	1,529,386	1,051,715
Tax payable		66,184	40,518
Other payables and accruals		2,329,790	1,334,418
Bank borrowings		1,641,547	1,134,522
Provisions		17,038	2,594
Dividend payable		225,936	–
		<b>5,809,881</b>	<b>3,563,767</b>
<b>NET CURRENT ASSETS</b>		<b>645,398</b>	<b>679,721</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>16,343,512</b>	<b>13,725,869</b>

## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(Prepared under Hong Kong accounting standards)

30 June 2003

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000 (Restated)
<b>NON-CURRENT LIABILITIES</b>		
Bank borrowings	2,646,974	769,130
Deferred income	562,020	525,840
Provisions	51,724	61,724
	<b>3,260,718</b>	<b>1,356,694</b>
<b>MINORITY INTERESTS</b>	<b>10,652</b>	<b>–</b>
	<b>13,072,142</b>	<b>12,369,175</b>
<b>CAPITAL AND RESERVES</b>		
Issued capital	6,455,300	6,455,300
Reserves	6,616,842	5,687,939
Proposed final dividend	–	225,936
	<b>13,072,142</b>	<b>12,369,175</b>

## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2003

	Share capital Unaudited RMB'000	Share premium Unaudited RMB'000	Statutory surplus reserve Unaudited RMB'000	Statutory public welfare fund Unaudited RMB'000	Retained profits Unaudited RMB'000	Proposed final dividend Unaudited RMB'000	Total Unaudited RMB'000
At 1 January 2003:							
As previously reported	6,455,300	4,864,976	251,642	251,112	241,242	225,936	12,290,208
Prior year adjustment:							
SSAP12 – recognition of deferred tax asset (Note 1)	–	–	–	–	78,967	–	78,967
As restated	6,455,300	4,864,976	251,642	251,112	320,209	225,936	12,369,175
Net profit attributable to shareholders	–	–	–	–	929,595	–	929,595
Final 2002 dividend declared	–	–	–	–	–	(225,936)	(225,936)
Reserves realised on disposal of subsidiaries	–	–	(462)	(230)	–	–	(692)
At 30 June 2003	6,455,300	4,864,976	251,180	250,882	1,249,804	–	13,072,142
At 1 January 2002:							
As previously reported	6,455,300	4,864,976	210,406	210,304	241,289	129,106	12,111,381
Prior year adjustment:							
SSAP12 – recognition of deferred tax asset (Note 1)	–	–	–	–	48,054	–	48,054
As restated	6,455,300	4,864,976	210,406	210,304	289,343	129,106	12,159,435
Net profit attributable to shareholders (as restated)	–	–	–	–	140,672	–	140,672
Final 2001 dividend declared	–	–	–	–	–	(129,106)	(129,106)
At 30 June 2002	6,455,300	4,864,976	210,406	210,304	430,015	–	12,171,001

## VI. FINANCIAL REPORTS (continued)

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2003

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,322,989	898,904
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(3,002,086)	(39,099)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES	(1,679,097)	859,805
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	2,298,997	(139,370)
NET INCREASE IN CASH AND CASH EQUIVALENTS	619,900	720,435
Cash and cash equivalents at beginning of period	890,172	731,731
Effect of foreign exchange rate changes, net	(7,433)	172
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,502,639	1,452,338
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,502,639	1,452,338
RECONCILIATION OF BALANCES OF CASH AND CASH EQUIVALENTS TO CASH AND BANK BALANCES		
Cash and balances with financial institutions, net of provision	1,694,987	1,648,697
Less: Non-pledged time deposits with original maturities of more than three months when acquired	(145,928)	(176,398)
Pledged deposits	(37,820)	–
Pledged time deposits	(8,600)	(19,961)
	1,502,639	1,452,338

## VI. FINANCIAL REPORTS (continued)

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

30 June 2003

#### 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with SSAP 25 "Interim financial reporting" and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2002 except for the adoption of the following new/revised SSAPs and the change in the following accounting estimate:

##### Adoption of the new/revised SSAPs

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

SSAP 12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these condensed consolidated interim financial statements is that a deferred tax asset has been recognised for provisions arising in the prior period and the related note disclosures are now more extensive than previously required. These disclosures are presented in note 6 to these condensed consolidated interim financial statements and include a reconciliation between the accounting profit and the tax expense for the period.

The SSAP has no specific transitional arrangement and therefore the provisions in SSAP 2 should be applied, which requires the changes to be applied retrospectively. Thus comparative amounts for 2002 have been restated accordingly. The opening retained earnings at 1 January 2002 and 2003 have been increased by approximately RMB48 million and RMB79 million respectively, which represented the cumulative effect of the change in accounting policy. Tax expense for the six months ended 30 June 2002 was increased by approximately RMB2.8 million.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has had no major impact on these condensed consolidated interim financial statements.

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)

30 June 2003

#### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Change in accounting estimate

During the period, the Group has revised the estimated useful lives of certain fixed assets. In the opinion of the directors, the revised useful lives of such assets reflect more fairly the current estimate of their useful lives. The change of estimated useful lives has the effect of increasing the Group's depreciation charge by approximately RMB65,089,000 for the current period and an estimated amount of approximately RMB130,178,000 for the year.

#### 2. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of iron and steel products, and therefore, no business segment information is presented.

No geographical segment information is presented as the Group's operations were substantially carried out in the People's Republic of China (the "PRC") during the period. Over 90% of the Group's turnover was derived from customers in the PRC.

#### 3. TURNOVER, REVENUE AND GAINS

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

An analysis of turnover, revenue and gains is as follows:

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Turnover – sale of goods	7,061,706	5,154,673
Interest income	5,379	10,865
Others	22,499	16,532
	<b>7,089,584</b>	<b>5,182,070</b>



## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)

30 June 2003

#### 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Depreciation	511,746	431,016
Amortisation of deferred staff cost	8,800	8,800
Loss/(gain) on disposal of fixed assets	(3,240)	80,823
Loss on disposal of subsidiaries	6,425	–
Interest income	(5,379)	(10,865)
Environmental loans waived	–	(2,700)
Investment income from listed investments	–	(6,000)

#### 5. FINANCE COSTS

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Interest on bank loans	68,093	58,528
Less: Interest capitalised	(25,591)	(8,855)
	42,502	49,673

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)  
30 June 2003

#### 6. TAX

Group	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
PRC income tax:		
Tax charge for the period	170,636	29,300
Under provision in prior year	9,091	–
Deferred tax expense/(income)	(1,987)	2,751
	<b>177,740</b>	<b>32,051</b>
Accounting profit before tax	<b>1,107,335</b>	<b>172,723</b>
Tax at the applicable tax rate of 15%	166,100	25,909
Tax effect of expenses that are not deductible in determining taxable profit	1,950	6,109
Adjustments in respect of current tax of previous periods	9,091	–
Effect of different tax rates of subsidiaries	599	33
Tax expense	<b>177,740</b>	<b>32,051</b>

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

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2003 and 30 June 2002.

No provision for overseas profits tax has been made for the Group as there were no assessable profits for the period.

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)  
30 June 2003

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

No appropriation was made to the statutory surplus reserve and statutory public welfare fund by the Company for the six months ended 30 June 2003. Such appropriation will be made at the year end in accordance with the Company Law of the PRC and the Company's Articles of Association.

#### 8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

#### 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately RMB929,595,000 (2002: approximately RMB140,672,000 as restated) and 6,455,300,000 (2002: 6,455,300,000) ordinary shares in issue during the period.

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

#### 10. TRADE AND BILL RECEIVABLES

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Trade receivables, net of provision	196,082	176,867
Bill receivables	1,349,178	666,033
	<b>1,545,260</b>	<b>842,900</b>

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.

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)

30 June 2003

#### 10. TRADE AND BILL RECEIVABLES (continued)

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Trade receivables:		
Within three months	152,082	120,317
Four to six months	13,970	10,312
Seven to twelve months	8,896	11,667
One to two years	6,467	29,632
Two to three years	14,667	4,502
Over three years	–	437
	196,082	176,867
Bill receivables	1,349,178	666,033
	1,545,260	842,900

Bill receivables all have maturity dates within 1 year.

Included in the Group's trade receivables are amounts due from the ultimate holding company, Magang (Group) Holding Company Limited ("Holding"), and subsidiaries and associates of Holding aggregating approximately RMB3,439,000 (2002: approximately RMB4,265,000). Such balances principally arose from normal trading activities.

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)  
30 June 2003

#### 11. TRADE PAYABLES

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Within one year	1,490,187	1,020,006
One to two years	29,279	20,712
Two to three years	9,920	5,373
Over three years	–	5,624
	<b>1,529,386</b>	<b>1,051,715</b>

Included in the Group's trade payables are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB47,294,000 (2002: approximately RMB72,149,000). Such balances principally arose from normal trading activities.

#### 12. CONTINGENT LIABILITIES

At 30 June 2003, the Group did not have any significant contingent liabilities.

#### 13. CAPITAL COMMITMENTS

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Contracted, but not provided for	1,654,137	2,869,314
Authorised, but not contracted for	3,410,251	3,628,889
	<b>5,064,388</b>	<b>6,498,203</b>

## VI. FINANCIAL REPORTS (continued)

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

(Prepared under Hong Kong accounting standards)

30 June 2003

#### 14. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Purchases of iron ore and limestone	424,899	364,348
Fees received for the supply of utilities, services and other consumable goods	(30,222)	( 12,349)
Fees paid for welfare, support services and other services	128,941	115,043
Purchases of fixed assets and provision of construction services	107,136	48,504
Sale of steel products	(44,932)	( 20,781)

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 2 April 2003 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 2 April 2003 between the Company and Holding.

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

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

Further details on balances with Holding, and the subsidiaries and associates of Holding are set out in notes 10 to 11 to the condensed consolidated interim financial statements.

#### 15. COMPARATIVE AMOUNTS

As further explained in note 1 to the condensed consolidated interim financial statements, due to the adoption of a revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current period's presentation.

## VII. DOCUMENTS AVAILABLE FOR INSPECTION

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

## VIII. DEFINITION OF NAMES

1. The Group: Maanshan Iron & Steel Company Limited and its subsidiaries
2. The Company: Maanshan Iron & Steel Company Limited, excluding its subsidiaries
3. Holding: Magang (Group) Holding Company Limited, which is the holding company of Maanshan Iron & Steel Company Limited.

Maanshan Iron & Steel Company Limited  
Gu Jianguo  
*Chairman*

19 August 2003