

# Report of the Directors

## 1. THE OPERATING RESULTS OF THE GROUP PREPARED UNDER PRC ACCOUNTING STANDARDS ARE AS FOLLOWS

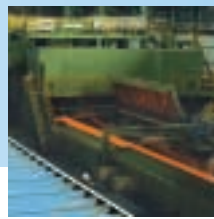
Steel represented 92.75% and other products represented 7.25% of the Group's principal operating income. Steel also represents 91% and other products represented 9% of the Group's profit from principal operating activities, respectively (UNIT: RMB million):

Segment	Principal operating income	Cost of sales from principal operating activities	Gross profit margin (%)	Increase/ (decrease) of principal operating income as compared to the previous year (%)	Increase/ (decrease) of cost of sales from principal operating activities as compared to the previous year (%)	Increase/ (decrease) of gross profit margin as compared to the previous year (%)
Steel	14,599	10,905	25.30	42.29	25.54	9.96
Including: connected transactions	14	10.63	24.07	-68.36	-72.09	8.73

### Geographical analysis of the Group's principal operating income (UNIT: RMB million)

Region	Percentage (%)	Principal operating income	Increase/(decrease) of principal operating income as compared to the previous year (%)
Anhui	28	4,466	18
Jiangsu	24	3,794	119
Shanghai	17	2,636	58
Zhejiang	8	1,224	37
Other PRC regions	18	2,870	20
Exports	5	750	54

During the reporting period, the Group's profit margin of principal operating activities was 25.71%, an increase of 9.77 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the higher growth rate of the selling prices of steel products over that of the purchasing costs of raw materials.



## 2. MAJOR SUPPLIERS AND CUSTOMERS

In 2003, the Company's purchase from the five largest suppliers amounted to RMB1,787 million, accounting for 17% of the Company's total purchase amount. The Company's sale to the five largest customers amounted to RMB3,488 million, representing 22% of the total sale revenue of the Company. Of the above-mentioned major suppliers, Magang (Group) Holding Company Limited (the "Holding") is a controlling shareholder of the Company. Other than that, none of the directors, supervisors, their connected parties and other shareholders (to the knowledge of the Board of Directors holding 5% or more of the Company's shares) held any beneficial interest in the Company's five largest suppliers or customers.

## 3. THE OPERATION AND RESULTS OF THE GROUP'S MAJOR CONTROLLING SUBSIDIARIES AND ASSOCIATES (RMB'000)

Investing entity	Shareholding		Scope of business	Registered and paid-up capital	Total assets	Net profit/(loss)
	Direct equity interest	Indirect equity interest				
Ma Steel International Trade and Economic Corporation	100%	-	Import of machinery and raw materials and export of steel products	RMB50,000,000	1,032,844	3,594
Design & Research Institute of Maanshan Iron & Steel Company Limited	58.96%	7.86%	Planning and design of metallurgical, construction and environmental protection projects	RMB12,720,000	70,160	5,413
MG Trading and Development GmbH	100%	-	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	12,684	38
Maanshan Iron & Steel (HK) Limited	80%	20%	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	HK\$4,800,000	38,307	1,245
MG Control Technique Company Limited	93.75%	4.18%	Planning and design of automation system; purchase, installation and repairs of computers and communication systems	RMB8,000,000	21,040	486

## Report of the Directors (continued)

### 3. THE OPERATION AND RESULTS OF THE GROUP'S MAJOR CONTROLLING SUBSIDIARIES AND ASSOCIATES (RMB'000) (CONTINUED)

Investing entity	Shareholding		Scope of business	Registered and paid-up capital	Total assets	Net profit/(loss)
	Direct equity interest	Indirect equity interest				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	70%	–	Production, sale and transportation of slag products and provision of related consultation services	US\$4,290,000	36,008	–
Ma Steel (Wuhu) Processing and Distribution Co., Ltd.	70%	30%	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products	US\$850,000	224,522	6,978
濟源市金馬焦化有限公司	40%	–	Production and sale of coke, tar, benzene, coal gas	RMB200,000,000	269,271	–
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd.	66.67%	–	Production, processing and sale of steel products, provision of storage, transportation and after-sales services	RMB120,000,000	98,795	–
滕州盛隆煤焦化有限公司	32%	–	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services	RMB208,800,000	238,050	–

### 4. CHANGES IN ACCOUNTING ESTIMATE

In view of technological improvement of the iron and steel industry and the rapid replacement of technological equipment in recent years, the Board of Directors of the Company has decided to adjust the depreciation rate of the Company's fixed assets. After adjustment, the Company's overall depreciation rate of fixed assets was raised from 5.6% to 6.5%. The new depreciation rate has been effective from 1 January 2003. The adjustment of fixed assets depreciation rate has increased the depreciation cost by RMB130 million for the year 2003.

## 5. DAILY WORK OF THE BOARD OF DIRECTORS

- (1) 10 board meetings were convened during the reporting period and with the following major resolutions:
- Approval on the Company's 2002 annual report and its summary;
  - Approval on the adjustment scheme under the 10-5 Plan, the 2000 Work Report of the Board of Directors, the 2002 audited accounts and proposed profit appropriation for 2002, and submissions to the Annual General Meeting for approval;
  - Approval on the Company's fixed asset investment plan for 2002;
  - Approval on the Company's adjustment plan on the fixed assets depreciation rate for 2003;
  - Approval on the 2003 first quarterly report of the Company;
  - Approval on the Company's interim report and its summary for 2003;
  - Approval on the Company's financial report for the first half of 2003;
  - Approval on the establishment of Independent Directors Committee;
  - Approval on the contracts entered into with the Holding, the controlling shareholder, in respect of the 2004-2006 "Sale and Purchase of Iron Ore Agreement" and the "Service Agreement", and submissions to the Extraordinary General Meeting for approval;
  - Approval on the 2003 third quarterly report of the Company;
  - Approval on the "Implementation Details in respect of Connected Transactions of Maanshan Iron & Steel Company Limited";
  - Approval on the financial budget for 2004;
- (2) The Board of Directors completed the implementation of the profit appropriation approved at the Annual General Meeting held on 10 June 2003.
- (3) The Board of Directors determined the auditors' remunerations pursuant to the mandate of the shareholders' general meeting.

## Report of the Directors (continued)

6. Profit appropriation proposal for the current period: The Board of Directors recommends payment of a final dividend of RMB0.21 (tax inclusive) per share for the year 2003. No transfer to share capital from capital reserve will be conducted.

As audited by the domestic and international auditors, the net profit of the Company for 2003 amounted to RMB2,803 million under PRC Accounting Standards and RMB2,665 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit prepared under PRC Accounting Standards for contribution to the statutory surplus reserve and another 10% to the statutory public welfare fund and together with the retained profit as at the end of 2002, the total profit available for distribution to shareholders for the year 2003 amounted to RMB2,285 million under PRC Accounting Standards, and RMB2,395 million under Hong Kong Accounting Standards. In accordance with the Articles of the Association of the Company, the Company distributed profits based on the lower of the respective profit amounts reported in the two financial statements. As a result, profit available for distribution to shareholders for year 2003 was RMB2,285 million. In view of significant increase in the Company's profit for 2003, a dividend of RMB0.21 (incl. tax) per share was recommended, thereby resulting in a total dividend payment of RMB1,356 million. The remaining amount of profit not appropriated would be carried forward to 2004.

7. Pursuant to the Circular Zheng Jian Fa [2003] No.56 on "Notice to Regularise the Fund Transfer Between Listed Companies and Other Related Parties and Issues on Guarantees Provided by Listed Companies" issued by the China Securities Regulatory Commission ("CSRC"), the auditors have issued a specific statement on the utilisation of funds by the controlling shareholder of the Company and other related parties as follows:

**Specific Statement on the Utilisation of Funds by the Substantial Shareholder of  
Maanshan Iron & Steel Company Limited and Other Related Parties and the Issue  
on Guarantees Provided to the Controlling Shareholder and the  
Corporate Entities of the Controlling Shareholder**

TO THE MEMBERS OF MAANSHAN IRON & STEEL COMPANY LIMITED:

We were engaged to audit the balance sheet and the consolidated balance sheet of Maanshan Iron & Steel Company Limited (the "Company") as at 31 December 2003, the statement of income and profit appropriation and the consolidated statement of income and profit appropriation of the Company and the cash flow statement and the consolidated cash flow statement of the Company for the year then ended. An audit report with unqualified opinion was issued on 13 April 2004. Our audit was conducted in accordance with the "Independent Auditing Standards for Chinese Certified Public Accountants" issued by the Ministry of Finance of the People's Republic of China.

According to the financial and accounting information of the Company for the year 2003, we hereby issue a specific statement on the Company's receivables due from the substantial shareholder and other related parties, and on the guarantees provided to the controlling shareholder of the Company and the corporate entity of the controlling shareholder by the Company and subsidiaries of the Company for the year 2003. The Company's management is responsible for the accurate disclosure of these particulars and their authenticity, legitimacy and completeness. All of the following information and data were extracted from the financial and accounting information of the Company for the year 2003. Other than the audit procedures for the issuance of the auditors' report covering the financial statements of the aforesaid accounting period, we have not carried out any other audit procedures on the following information and data.

## I. Receivables due from the substantial shareholder and other related parties

### 1. Funds between the Company and the substantial shareholder and other related parties for the year ended 31 December 2003 (in RMB).

Name of related parties	Relationship with the Company	Account	Balance at beginning of the year	Increase during the year	Decrease during the year	Balance at end of the year
The Holding	Parent company	Prepayments	76,712,633	1,481,325,567	1,491,347,280	66,690,920
馬鋼集團建設 有限責任公司	Under the Holding	Trade receivables	2,040,093	4,833,180	5,262,598	1,610,675
		Prepayments	610,674	255,294	163,247	702,721
馬鋼集團建築路橋 有限責任公司	Under the Holding	Trade receivables	996,532	1,194,199	1,813,023	377,708
		Prepayments	–	110,220	110,220	–
馬鋼嘉華商品混凝土 有限公司	Under the Holding	Trade receivables	87,264	115,293	118,741	83,816
馬鋼集團南山礦業 有限責任公司	Under the Holding	Trade receivables	234,036	3,004,125	2,947,967	290,194
馬鋼集團姑山礦業 有限責任公司	Under the Holding	Trade receivables	50,556	393,932	393,932	50,556
馬鋼(集團)控股 有限公司	Under the Holding	Trade receivables	983	9,710,414	9,710,414	983
桃沖礦業公司						
馬鋼集團設計研究院 有限責任公司	Under the Holding	Trade receivables	11,820	111,835	111,835	11,820
		Prepayments	–	364,672	364,672	–
馬鞍山黑馬鋼筋焊網 有限公司	Under the Holding	Trade receivables	195,316	258,149	412,154	41,311
馬鋼集團鋼渣 綜合利用 有限責任公司	Under the Holding	Trade receivables	–	2,179	2,179	–
馬鋼易凡工貿 有限公司	Under the Holding	Prepayments	1,593,521	1,509,104	2,614,371	488,254
馬鞍山市聯營乙炔廠	Under the Holding	Prepayments	2,244,849	2,094,375	2,474,943	1,864,281
馬鋼實業生興爐料 加工有限責任公司	Under the Holding	Trade receivables	11,630	340,806	346,963	5,473
馬鋼運動用品 有限責任公司	Under the Holding	Trade receivables	9,527	97,479	78,173	28,833
馬鞍山凱馬螺絲 製造公司	Under the Holding	Trade receivables	2,327	27,634	25,355	4,606
馬鋼集團力生 有限責任公司	Under the Holding	Trade receivables	36,396	466,363	431,141	71,618

## Report of the Directors (continued)

### 1. Receivables due from the substantial shareholder and other related parties (continued)

### 2. Settlements made by the substantial shareholder and other related parties during 2003 (in RMB)

Name of debtors	Settlements made during the year	Settlement method
The Holding	102,998,137	Offset against retirement fund
	1,388,349,143	Provision of iron ore and support services
馬鋼集團建設有限責任公司	183,247	Offset against payable balances
	5,242,598	Provision of construction services
馬鋼集團建築路橋有限責任公司	1,660,023	Cash or bank balances
	153,000	Offset against payable balances
	110,220	Provision of construction services
馬鋼嘉華商品混凝土有限公司	118,741	Cash or bank balances
馬鋼集團南山礦業有限責任公司	2,947,967	Offset against payable balances
馬鋼集團姑山礦業有限責任公司	393,932	Offset against payable balances
馬鋼(集團)控股有限公司桃沖礦業公司	9,710,414	Offset against payable balances
馬鋼集團設計研究院有限責任公司	111,835	Offset against payable balances
	364,672	Provision of construction services
馬鋼山黑馬鋼筋焊網有限公司	412,154	Cash or bank balances
馬鋼集團鋼渣綜合利用有限責任公司	2,179	Cash or bank balances
馬鋼易凡工貿有限公司	2,614,371	Provision of materials
馬鋼山市聯營乙炔廠	2,474,943	Provision of materials
馬鋼實業生興爐料加工有限責任公司	346,963	Offset against payable balances
馬鋼運動用品有限責任公司	78,173	Offset against payable balances
馬鋼山凱馬螺絲製造公司	25,355	Cash
馬鋼集團力生有限責任公司	431,141	Cash or bank balances

**I. Receivables due from the substantial shareholder and other related parties (continued)**

**3. New additions of receivables from the substantial shareholder and other related parties during 2003 (in RMB)**

Name of debtors	Increase in receivables during the year	Means of happening	Reason
The Holding	93,712,816	Cash and bills	Prepayment of retirement fund
	1,387,612,751	Cash and bills	Prepayment of iron ore and support services
馬鋼集團建設有限責任公司	2,465,106	Business	Electricity income
	463,418	Business	Sales revenue
	2,159,950	Cash or bank balances	Prepayment of construction fee
馬鋼集團建築路橋有限責任公司	921,651	Business	Electricity income
	272,548	Business	Sales revenue
	110,220	Cash or bank balances	Prepayment of construction fee
馬鋼嘉華商品混凝土有限公司	115,293	Business	Electricity income
馬鋼集團南山礦業有限責任公司	2,969,125	Business	Electricity income
	35,000	Business	Sales revenue
馬鋼集團姑山礦業有限責任公司	393,932	Business	Sales revenue
馬鋼(集團)控股有限公司桃沖礦業公司	9,710,414	Business	Sales revenue
馬鋼集團設計研究院有限責任公司	111,835	Business	Electricity income
	364,672	Cash or bank balances	Prepayment of construction fee
馬鋼山黑馬鋼筋焊網有限公司	258,149	Business	Electricity income
馬鋼集團鋼渣綜合利用有限責任公司	2,179	Business	Sales revenue
馬鋼易凡工貿有限公司	1,509,104	Cash or bank balances	Prepayment of purchases
馬鋼山市聯營乙炔廠	2,094,375	Cash or bank balances	Prepayment of purchases
馬鋼實業生興爐料加工有限責任公司	340,806	Business	Electricity income
馬鋼運動用品有限責任公司	97,479	Business	Electricity income
馬鋼山凱馬螺絲製造公司	27,634	Business	Electricity income
馬鋼集團力生有限責任公司	451,363	Business	Electricity income
	15,000	Business	Sales revenue

**II. Guarantees provided to the controlling shareholder of the Company and the corporate entities of the controlling shareholder by the Company and subsidiaries of the Company**

According to the information provided by the Company and subsidiaries of the Company, as at the end of 2003, the Company and subsidiaries of the Company had not provided any guarantee to the controlling shareholder of the Company and the corporate entities of the controlling shareholder.

This Specific Statement is intended solely for the Company to submit to the relevant authorities under the CSRC and stock exchange(s) for filing purpose. This Statement shall not be released to the public or available for public inspection in any form or for any other purposes without our consent in writing.

**Ernst & Young Hua Ming**  
Beijing, The People's Republic of China

**Jin Xin**  
Chinese Certified Public Accountant

**Qin Tongzhou**  
Chinese Certified Public Accountant

13 April 2004



## Report of the Directors (continued)

8. In accordance with Zheng Jian Fa [2003]56, Madam Cheng Shaoxiu, Mr Wu Junnian, Mr Shi Jianjun and Mr Chan Yuk Sing, Independent Directors of the Company, have furnished their independent opinions in respect of the Company's accumulated and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:
- (1) For the year ended 31 December 2003, the Company's cumulative and current year's of external guarantees amounted to RMB2,417.17 million, which included guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, in respect of daily operating loans and issuance of letter of credit of special project, amounting to RMB600 million and RMB1,748.47 million respectively; as well as guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, in respect of daily operating loans amounting to RMB68.70 million. The above-mentioned guarantees have been approved by the Board of Directors.
  - (2) For the year ended 31 December 2003, as to the Company's cumulative and current year's external guarantees, no guarantees were provided to controlling controllers and other connected parties, non-legal person entities or individuals holding less than 50% of the Company's shares.
  - (3) For the year ended 31 December 2003, total amount of the Company's cumulative and current year's of external guarantees was below 50% of net assets of the Company' 2003 consolidated financial statements.
9. For information analysed by business segments for the year ended 31 December 2003, please refer to Note 4 to the Accounting Statements prepared under Hong Kong Accounting Standards.
10. The Group's profit for the year ended 31 December 2003 and its operating status as at that date are set out on pages 101 to 168 of the Accounting Statements prepared under PRC Accounting Standards and pages 50 to 99 of the Accounting Statements prepared under Hong Kong Accounting Standards.

### 11. FIXED ASSETS

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2003 are set out in Note V (10) to the financial statements prepared under the PRC Accountings Standards and note 14 to the financial statements under Hong Kong Accounting Standards, respectively.

### 12. PRE-EMPTIVE RIGHTS

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

### 13. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 2003, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

#### 14. RESERVES

Details of the movements in the various reverses of the Company and the Group for the year ended 31 December 2003 are set out in Note V (28) to (30) to the financial statements prepared under PRC Accounting Standards, note 31 to the financial statements prepared under Hong Kong Accounting Standards and the consolidated statement of capital movement.

#### 15. CHARITABLE DONATIONS

Charitable donations made by the Group during the year totalled RMB2,500,000.

#### 16. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

#### 17. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

#### 18. DIRECTORS' INTERESTS IN COMPETITIVE BUSINESSES

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

#### 19. DIRECTORS' COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with "The Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules") throughout 2003.