Notes to Financial Statements

(Prepared under Hong Kong accounting standards)
31 December 2003

1. CORPORATE INFORMATION

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

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

SSAP 12 prescribes the 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 carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- a deferred tax asset has been recognised for asset provisions made in the current/prior periods;
- a deferred tax asset has been recognised for the difference between actual payment and the accrual of early retirement benefits and housing subsidies;
- a deferred tax liability has been recognised for the recognition and utilisation of furnace relining costs; and
- a deferred tax liability has been recognised for the recognition and amortisation of deferred staff costs.

Disclosure:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 20 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 20 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance.

The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants, however, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

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

Joint venture companies

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

A joint venture company is treated as:

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

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

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

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

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Company's investments in associates are treated as long term assets and are stated at cost less any impairment losses.

Related parties

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

Impairment of assets

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

(Prepared under Hong Kong accounting standards)
31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

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

Land use rights	Over the lease terms of 50 years
Buildings and structures	15 to 40 years
Plant, machinery and equipment	6 to 16 years
Transportation vehicles and equipment	7 to 10 years

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

During the year, the Group 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 RMB130,178,000 for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in progress

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

Long term investments

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

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

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

Held-to-maturity securities

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

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

Short term investments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

Deferred staff costs

Losses arising from the disposal of staff quarters to employees at preferential prices are capitalised as deferred staff costs and are amortised over the estimated remaining average service life of the relevant employees, commencing from the dates of sale of the staff quarters. Further details are set out in note 19 to the financial statements.

Housing subsidies

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

Cash and cash equivalents

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

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

Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

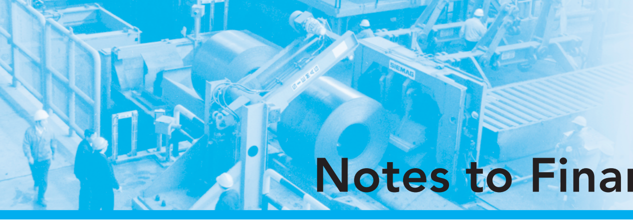
- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.



(Prepared under Hong Kong accounting standards)
31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

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

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

Borrowing costs

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

Dividends

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

Pension benefits

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

Pension benefits payable to early retired employees prior to such employees joining the government-organised pension scheme upon normal retirement were assumed by the Company commencing from 1 January 2000. Such benefits payable are related to past services of such employees, and were previously charged to the profit and loss account on an one-off basis.

4. SEGMENT INFORMATION

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

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

(Prepared under Hong Kong accounting standards)
31 December 2003

5. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2003 RMB'000	2002 RMB'000
Turnover – sale of goods	**15,740,348**	10,973,917
Interest income	**15,528**	19,150
Others	**26,442**	27,868
	15,782,318	11,020,935

6. PROFIT FROM OPERATING ACTIVITIES

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

	2003 RMB'000	2002 RMB'000
Cost of inventories sold *	**11,722,592**	9,355,715
Depreciation	**1,067,207**	862,514
Provision for doubtful debts **	**9,570**	41,360
Auditors' remuneration	**4,601**	4,601
Staff costs (excluding directors' and supervisors' remuneration):		
Wages and salaries	**1,142,118**	951,713
Welfare and benefits	**398,622**	329,552
Pension scheme contributions	**237,034**	197,851
Housing subsidies for current employees (note 29)	**244,213**	34,887
Amortisation of deferred staff costs	**70,400**	17,600
Loss on deemed disposal of a subsidiary	**1,491**	–
Loss on disposal of subsidiaries	**9,139**	–
Exchange difference:		
Exchange loss/(gain), net	**249,741**	(2,628)
Less: exchange difference capitalised in construction in progress	**(196,949)**	–
	52,792	(2,628)

(Prepared under Hong Kong accounting standards)
31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES (continued)

	2003 RMB'000	2002 RMB'000
Loss on disposal of fixed assets, net	**47,260**	222,087
Impairment/(reversal of impairment) of fixed assets **	**(63,554)**	236,247
Interest income	**(15,528)**	(19,150)
Investment income from listed investments	**–**	(6,836)
Unrealised loss/(gain) on changes in fair values of short term investments	**(2,263)**	492
Transfer of deferred income ***	**(3,606)**	–

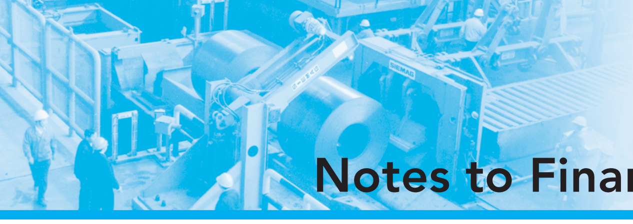
* Included in the cost of inventories sold for the year is provision for inventories of approximately RMB6,602,000 (2002: approximately RMB72,446,000).

** The provision for doubtful debts and impairment/(reversal of impairment) of fixed assets are included in "Other operating expenses" on the face of the consolidated profit and loss account.

*** Various government grants have been received for the construction of specific projects and included in deferred income in the balance sheet. Upon completion of the construction of specific projects and the transferal to fixed assets, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the fixed assets. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

	Group	
	2003 RMB'000	2002 RMB'000
Interest on bank loans	**177,578**	138,851
Less: Interest capitalised in construction in progress	**(72,551)**	(36,949)
	105,027	101,902



8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	RMB'000	RMB'000
Fees	**96**	30
Other emoluments:		
Salaries, allowances and benefits in kind	**209**	201
Performance related bonuses	**3,786**	2,207
Pension scheme contributions	**839**	506
	4,834	2,914
	4,930	2,944

Fees include RMB96,000 (2002: RMB30,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil to RMB1,000,000	**18**	18

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all directors (2002: all directors), details of whose remuneration are set out in note 8 above.

10. TAX

	2003 RMB'000	2002 RMB'000 (Restated)
Group:		
Current – PRC		
Charge for the year	**183,363**	95,183
Underprovision in prior years	**10,144**	–
Current – Hong Kong	**263**	78
Deferred (note 20)	**10,091**	(31,796)
Total tax charge for the year	**203,861**	63,465

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

Except for the Hong Kong subsidiary, no provision for overseas profits tax has been made for the Group as there were no assessable profits for the year. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

10. TAX (continued)

	Group			
	2003		2002	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,864,232**		403,194	
Tax at the applicable tax rate	**429,635**	**15**	60,479	15
Income not subject to tax	**(616)**	**–**	(1,228)	–
Expenses not deductible for tax	**14,781**	**1**	17,363	4
Tax concessions in respect of purchases of PRC manufactured plant, machinery and equipment *	**(238,421)**	**(8)**	–	–
Other tax concessions	**(14,382)**	**(1)**	(14,042)	(3)
Adjustments in respect of current tax of previous periods	**10,144**	**–**	–	–
Effect of different tax rates of subsidiaries	**2,720**	**–**	893	–
Tax charge at the Group's effective rate	**203,861**	**7**	63,465	16

* The amount represented tax concession, approved by Maanshan City tax bureau, in respect of the purchases of PRC manufactured plant, machinery and equipment. The tax concession is calculated as 40% of current year's purchases of PRC manufactured plant, machinery and equipment, and limited to the amount of increase in income tax for the current year in which the plant, machinery and equipment are acquired as compared with the tax amount of the preceding year.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was approximately RMB2,664,743,000 (2002 (restated): approximately RMB338,466,000) (note 31).

12. DIVIDEND

	2003	2002
	RMB'000	RMB'000
Proposed final – RMB21 cents (2002: RMB3.5 cents) per ordinary share	**1,355,613**	225,936

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately RMB2,659,198,000 (2002 (restated): approximately RMB339,729,000) and 6,455,300,000 (2002: 6,455,300,000) ordinary shares in issue during the year.

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

14. FIXED ASSETS

	Group				
	Land use rights RMB'000	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	1,028,252	6,489,570	7,771,583	494,054	15,783,459
Additions	24,737	2,848	10,060	789	38,434
Transferred from construction in progress (note 15)	–	1,498,730	3,884,087	53,979	5,436,796
Reclassifications	–	139,864	(145,113)	5,249	–
Disposals/write-off	–	(56,566)	(296,687)	(48,710)	(401,963)
At 31 December 2003	1,052,989	8,074,446	11,223,930	505,361	20,856,726
Accumulated depreciation and impairment:					
At beginning of year	168,423	1,759,200	3,341,320	305,056	5,573,999
Depreciation provided during the year	20,757	310,335	700,101	36,014	1,067,207
Reversal of impairment during the year recognised in the profit and loss account	–	(29,140)	(34,414)	–	(63,554)
Write-off of impairment provision	–	(6,757)	(25,490)	–	(32,247)
Reclassifications	–	27,309	(27,393)	84	–
Disposals/write-off	–	(26,695)	(237,539)	(42,432)	(306,666)
At 31 December 2003	189,180	2,034,252	3,716,585	298,722	6,238,739
Net book value:					
At 31 December 2003	863,809	6,040,194	7,507,345	206,639	14,617,987
At 31 December 2002	859,829	4,730,370	4,430,263	188,998	10,209,460

(Prepared under Hong Kong accounting standards)
31 December 2003

14. FIXED ASSETS (continued)

	Company				
	Land use rights	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At beginning of year	1,028,252	6,477,435	7,764,073	489,087	15,758,847
Additions	192	1,542	1,263	–	2,997
Transferred from construction in progress (note 15)	–	1,496,308	3,884,087	53,979	5,434,374
Reclassifications	–	139,864	(145,113)	5,249	–
Disposals/write-off	–	(56,265)	(296,079)	(48,329)	(400,673)
At 31 December 2003	1,028,444	8,058,884	11,208,231	499,986	20,795,545
Accumulated depreciation and impairment:					
At beginning of year	168,423	1,755,068	3,337,231	302,713	5,563,435
Depreciation provided during the year	20,565	309,256	698,777	35,566	1,064,164
Reversal of impairment during the year recognised in the profit and loss account	–	(29,140)	(34,414)	–	(63,554)
Write-off of impairment provision	–	(6,757)	(25,490)	–	(32,247)
Reclassifications	–	27,310	(27,394)	84	–
Disposals/write-off	–	(26,481)	(237,263)	(42,217)	(305,961)
At 31 December 2003	188,988	2,029,256	3,711,447	296,146	6,225,837
Net book value:					
At 31 December 2003	839,456	6,029,628	7,496,784	203,840	14,569,708
At 31 December 2002	859,829	4,722,367	4,426,842	186,374	10,195,412

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

15. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
Cost:		
At beginning of year	2,733,246	2,733,246
Additions	6,001,123	6,027,440
Transferred to fixed assets (note 14)	(5,436,796)	(5,434,374)
At 31 December 2003	3,297,573	3,326,312
Accumulated impairment:		
At beginning of year and 31 December 2003	74,000	74,000
Net book value:		
At 31 December 2003	3,223,573	3,252,312
At 31 December 2002	2,659,246	2,659,246

Prior to its transfer to fixed assets, the carrying amount of construction in progress included capitalised interest and exchange difference of approximately RMB52,730,000 and RMB144,638,000 respectively (31 December 2002: approximately RMB10,639,000 and RMB21,109,000 respectively).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	RMB'000	RMB'000
Unlisted investments, at cost	**183,756**	70,925
Provision for impairment	**–**	(200)
	183,756	70,725

(Prepared under Hong Kong accounting standards)
31 December 2003

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel International Trade and Economic Corporation (note ii)	PRC	RMB50,000,000	100	–	Import of machinery and raw materials and export of steel products
Design & Research Institute of Maanshan Iron & Steel Company Limited (note ii)	PRC	RMB12,720,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects
MG Control Technique Company Limited (note ii)	PRC	RMB8,000,000	93.75	4.18	Planning and design of automation systems; purchase, installation and repairs of computers and communication systems
Anhui Masteel K. Wah New Building Materials Co., Ltd. (note iii)	PRC	US$4,290,000	70	–	Production, sale and transportation of slag products and provision of related consultation services
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK$4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
MG Trading and Development GmbH	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes i and iii)	PRC	US$850,000	70	30	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (notes i and iii)	PRC	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services

Notes:

(i) Newly incorporated during the year

(ii) Registered as limited companies under the PRC law

(iii) Registered as Sino-foreign joint ventures under the PRC law

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

(Prepared under Hong Kong accounting standards)
31 December 2003

17. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**146,976**	–
Share of net assets	**146,976**	–	**–**	–
	146,976	–	**146,976**	–

Particulars of the Company's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
濟源市金馬焦化有限公司 (notes i and ii)	Corporate	PRC	40	Production and sale of coke, tar, benzene and coal gas
滕州盛隆煤焦化有限公司 (notes i and ii)	Corporate	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
馬鞍山市五環報廢汽車回收拆解有限責任公司 (note ii)	Limited company	PRC	40	Recycling and dismantling of scrap motor vehicle and trading of steel products

Notes:

(i) Newly incorporated during the year

(ii) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

(Prepared under Hong Kong accounting standards)
31 December 2003

18. LONG TERM INVESTMENTS

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**16,417**	6,517
Other debt investment	**16,239**	21,558
	32,656	28,075

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

19. OTHER LONG TERM ASSET

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Deferred staff costs	–	70,400

The deferred staff costs of 2002 relates to the loss of approximately RMB163.8 million in 1997 resulting from the disposal of staff quarters to the Company's employees at preferential prices, net of accumulated amortisation. The disposal was made in accordance with the regulations issued by the Maanshan Municipal Government which sets out the rules and conditions governing the sale and purchase of staff quarters in Maanshan, including the quantum of the price discount to be given to the Company's employees.

As a result of the rapid economic growth in the PRC in recent years, more privately owned enterprises and foreign investment enterprises were established/set-up. These companies offered favourable and attractive salary packages to employee, which outweighed the stability offered by State-Owned Enterprises. Staff mobility increased and management could no longer ascertain that these staff would continue to provide service to the Company. As the recoverability of the prepaid staff benefits is impaired, the whole balance is charged to the profit and loss account in the current year.

20. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group and Company 2003

Deferred tax assets

	Asset provisions RMB'000	Early retirement benefits and housing subsidies RMB'000	Total RMB'000
At 1 January 2003			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	79,910	9,648	89,558
As restated	79,910	9,648	89,558
Deferred tax credited/(charged) to the profit and loss account during the year	(25,107)	1,183	(23,924)
Gross deferred tax assets at 31 December 2003	54,803	10,831	65,634

Deferred tax liabilities

	Deferred staff costs RMB'000	Furnace relining costs RMB'000	Total RMB'000
At 1 January 2003			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	10,560	14,448	25,008
As restated	10,560	14,448	25,008
Deferred tax credited to the profit and loss account during the year	(10,560)	(3,273)	(13,833)
Gross deferred tax liabilities at 31 December 2003	–	11,175	11,175
Net deferred tax charged to the profit and loss account during the year (note 10)			(10,091)
Net deferred tax assets at 31 December 2003			54,459

(Prepared under Hong Kong accounting standards)
31 December 2003

20. DEFERRED TAX (continued)

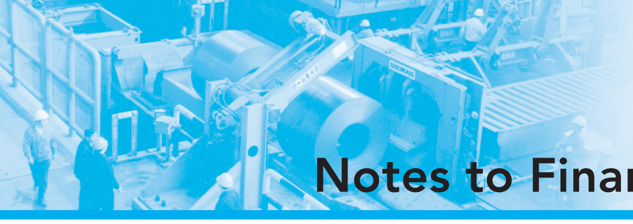
Deferred tax assets

	Group and Company 2002		
	Asset provisions RMB'000	Early retirement benefits and housing subsidies RMB'000	Total RMB'000
At 1 January 2002			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	43,299	20,707	64,006
As restated	43,299	20,707	64,006
Deferred tax credited/(charged) to the profit and loss account during the year	36,611	(11,059)	25,552
Gross deferred tax assets at 31 December 2002	79,910	9,648	89,558

Deferred tax liabilities

	Deferred staff costs RMB'000	Furnace relining costs RMB'000	Total RMB'000
At 1 January 2002			
As previously reported	–	–	–
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	13,200	18,052	31,252
As restated	13,200	18,052	31,252
Deferred tax credited to the profit and loss account during the year	(2,640)	(3,604)	(6,244)
Gross deferred tax liabilities at 31 December 2002	10,560	14,448	25,008
Net deferred tax credited to the profit and loss account during the year (note 10)			31,796
Net deferred tax assets at 31 December 2002			64,550

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.



(Prepared under Hong Kong accounting standards)
31 December 2003

20. DEFERRED TAX (continued)

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by approximately RMB54,459,000 and RMB64,550,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased by approximately RMB10,091,000 and increased by approximately RMB31,796,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by approximately RMB64,550,000 and RMB32,754,000, respectively, as detailed in note 31 to the financial statements.

21. INVENTORIES

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**1,123,971**	687,066	**1,123,971**	687,066
Work in progress	**413,073**	326,558	**401,140**	322,040
Finished goods	**345,519**	190,059	**252,234**	143,680
Spare parts	**494,937**	437,405	**494,937**	437,405
	2,377,500	1,641,088	**2,272,282**	1,590,191

The carrying amount of the inventories of the Group and the Company carried at net realisable value included in the above balances was approximately RMB57,520,000 (2002: approximately RMB30,183,000) as at the balance sheet date.

(Prepared under Hong Kong accounting standards)
31 December 2003

22. TRADE AND BILL RECEIVABLES

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

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

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**175,748**	120,317	**136,182**	130,861
Four to six months	**9,020**	10,312	**5,701**	10,312
Seven to twelve months	**13,485**	11,667	**13,483**	11,667
One to two years	**4,727**	29,632	**4,727**	29,097
Two to three years	**8,692**	4,502	**8,692**	5,409
Over three years	**20**	437	**20**	436
	211,692	176,867	**168,805**	187,782
Bills receivable	**2,121,202**	666,033	**2,118,402**	665,983
	2,332,894	842,900	**2,287,207**	853,765

Bills receivable have maturity dates within one year.

Included in both the Group's and the Company's trade and bill receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating approximately RMB2,578,000 (2002: approximately RMB3,763,000). Such balances principally arose from normal trading activities.

Included in the Company's trade and bill receivables are amounts due from subsidiaries of the Company of approximately RMB39,621,000 (2002: approximately RMB37,484,000). Such balances principally arose from normal trading activities.

(Prepared under Hong Kong accounting standards)
31 December 2003

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding, and subsidiaries and associates of Holding aggregating approximately RMB72,755,000 (2002: approximately RMB83,319,000) for the purchase of raw materials and the provision of support services from Holding.

24. SHORT TERM INVESTMENTS

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Equity investments listed in the PRC, at market value	**13,568**	11,305

(Prepared under Hong Kong accounting standards)
31 December 2003

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,262,835**	917,968	**1,564,901**	697,785
Time deposits and balances with financial institutions, net of provision	**155,459**	156,136	**146,822**	147,505
	2,418,294	1,074,104	**1,711,723**	845,290
Less: Pledged deposits for trading facilities	**(9,843)**	(36,073)	**–**	(25,020)
Cash and cash equivalents	**2,408,451**	1,038,031	**1,711,723**	820,270

The balances with financial institutions included the following overdue fixed deposit principal amounts with five non-bank financial institutions, aggregating approximately RMB169 million (2002: approximately RMB202 million).

	Notes	**2003** **RMB'000**	2002 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**24,730**	26,327
China Venturetech Investment Corporation ("China Venturetech")	(i)	**9,954**	9,954
CITIC Ningbo Inc. ("Ningbo CITIC")	(i)	**45,112**	45,112
SEG International Trust & Investment Corporation ("SEG")	(ii)	**46,545**	46,545
Shenzhen Leasing Co. Ltd. ("SLCL")	(iii)	**42,530**	74,242
		168,871	202,180
Provision for overdue deposits		**(126,341)**	(175,000)
		42,530	27,180

(Prepared under Hong Kong accounting standards)
31 December 2003

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

Notes:

(i) GITIC, China Venturetech and Ningbo CITIC are now in liquidation and the Company has registered its debts with their respective liquidators. On 28 February 2003, the People's High Court of the Guangdong Province declared an end to the bankruptcy proceedings in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. During the year, the Company received repayment from GITIC amounting to approximately RMB1,597,000, but no repayment was received from China Venturetech and Ningbo CITIC. The directors are unable to estimate, as at the date on which these financial statements were approved, the principal amounts of the outstanding deposits the Company will be able to recover from these three companies.

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

(iii) On 16 March 2000, the Company reached an agreement with SLCL for the repayment of an amount of RMB84.8 million (HK$80 million) over five years, in settlement of the deposit and accrued interest. In 2000, an amount of RMB10.6 million (HK$10 million) was repaid by SLCL in accordance with the agreement. The remaining RMB74.2 million (HK$70 million) was agreed to be repaid 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. As no repayment was received from SLCL during 2003, subsequent to the year end, the Company signed a new agreement with SLCL on 30 March 2004. The Company agreed SLCL to repay HK$40 million in respect of the outstanding overdue fixed deposit and waived the remaining balances. During the period from 31 March 2004 to 9 April 2004, repayment of approximately RMB42.5 million (HK$40 million) was received from SLCL.

Based on the above factors, except for SLCL, the directors maintain the provision made for the remaining four overdue fixed deposits of RMB126 million, which is brought forward from 2002, and to continue to account for any interest income arising from these deposits on a receipt basis.

26. TRADE PAYABLES

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

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,207,468**	1,020,006	**2,010,921**	958,773
One to two years	**98,676**	20,712	**60,009**	20,677
Two to three years	**2,107**	5,373	**2,107**	5,373
Over three years	**11,430**	5,624	**9,930**	3,986
	2,319,681	1,051,715	**2,082,967**	988,809

Included in the Group's and the Company's trade payables are amounts due to Holding, and subsidiaries and associates of Holding, aggregating approximately RMB54,648,000 (2002: approximately RMB30,701,000). Such balances principally arose from normal trading activities.

(Prepared under Hong Kong accounting standards)
31 December 2003

27. OTHER PAYABLES AND ACCRUALS

Included in the Group's and the Company's other payables and accruals are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB52,216,000 (2002: approximately RMB30,809,000). Such balances principally arose from normal trading activities.

28. BANK BORROWINGS

	Group		Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans repayable:				
Within one year	**2,005,211**	1,134,522	**2,003,930**	1,133,449
In the second year	**67,269**	67,064	**65,988**	65,992
In the third to fifth years, inclusive	**3,770,812**	689,197	**3,766,968**	685,980
Beyond five years	**131,096**	12,869	**117,000**	–
	5,974,388	1,903,652	**5,953,886**	1,885,421
Portion classified as current liabilities	**(2,005,211)**	(1,134,522)	**(2,003,930)**	(1,133,449)
Long term portion	**3,969,177**	769,130	**3,949,956**	751,972

All the bank loans are unsecured and bear interest at rates ranging from 0.24% to 5.76% per annum (2002: 0.25% to 6.21% per annum). Certain of the Company's bank loans of approximately RMB4,015,942,000 (2002: approximately RMB922,964,000) are guaranteed by Holding.

29. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees	**Housing subsidies** (note 35(ii))	**Total**
	RMB'000	RMB'000	RMB'000
At beginning of year	99,034	(34,716)	64,318
Additional provision	–	244,213	244,213
Amounts utilised during the year	(26,825)	(34,399)	(61,224)
At 31 December 2003	72,209	175,098	247,307
Portion classified as current liabilities	(20,006)	(175,098)	(195,104)
Long term portion	52,203	–	52,203

30. SHARE CAPITAL

		Group and Company	
		2003	2002
		RMB'000	RMB'000
Registered, issued and fully paid:			
4,034,560,000	State A shares of RMB1.00 each	**4,034,560**	4,034,560
87,810,000	Legal person A shares of RMB1.00 each	**87,810**	87,810
600,000,000	Individual A shares of RMB1.00 each	**600,000**	600,000
1,732,930,000	H shares of RMB1.00 each	**1,732,930**	1,732,930
6,455,300,000		**6,455,300**	6,455,300

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

(Prepared under Hong Kong accounting standards)
31 December 2003

31. RESERVES

Group

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2002:								
As previously reported		4,864,976	210,406	210,304	–	–	241,289	5,526,975
Prior year adjustment:								
SSAP 12 – restatement of deferred tax	20	–	–	–	–	–	32,754	32,754
As restated		4,864,976	210,406	210,304	–	–	274,043	5,559,729
Net profit for the year (as restated)		–	–	–	–	–	339,729	339,729
Transfer from/(to) reserves		–	41,236	40,808	–	–	(82,044)	–
Proposed final 2002 dividend	12	–	–	–	–	–	(225,936)	(225,936)
At 31 December 2002		4,864,976	251,642	251,112	–	–	305,792	5,673,522
At 1 January 2003:								
As previously reported		4,864,976	251,642	251,112	–	–	241,242	5,608,972
Prior year adjustment:								
SSAP 12 – restatement of deferred tax	20	–	–	–	–	–	64,550	64,550
As restated		4,864,976	251,642	251,112	–	–	305,792	5,673,522
Net profit for the year		–	–	–	–	–	2,659,198	2,659,198
Transfer from/(to) reserves		–	282,055	282,055	698	348	(565,156)	–
Realisation of reserves on disposal of subsidiaries		–	(587)	(328)	–	–	915	–
Proposed final 2003 dividend	12	–	–	–	–	–	(1,355,613)	(1,355,613)
At 31 December 2003		4,864,976	533,110	532,839	698	348	1,045,136	6,977,107

31. RESERVES (continued)

Company

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2002:						
As previously reported		4,864,976	210,185	210,185	225,555	5,510,901
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	20	–	–	–	32,754	32,754
As restated		4,864,976	210,185	210,185	258,309	5,543,655
Net profit for the year (as restated)		–	–	–	338,466	338,466
Transfer from/(to) reserves		–	40,190	40,190	(80,380)	–
Proposed final 2002 dividend	12	–	–	–	(225,936)	(225,936)
At 31 December 2002		4,864,976	250,375	250,375	290,459	5,656,185
At 1 January 2003:						
As previously reported		4,864,976	250,375	250,375	225,909	5,591,635
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	20	–	–	–	64,550	64,550
As restated		4,864,976	250,375	250,375	290,459	5,656,185
Net profit for the year		–	–	–	2,664,743	2,664,743
Transfer from/(to) reserves		–	280,278	280,278	(560,556)	–
Proposed final 2003 dividend	12	–	–	–	(1,355,613)	(1,355,613)
At 31 December 2003		4,864,976	530,653	530,653	1,039,033	6,965,315

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 (the "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.

31. RESERVES (continued)

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 (the "PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company. PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Company.

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB280.3 million (2002: approximately RMB40.2 million) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of approximately RMB2,803 million (2002: approximately RMB402 million) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the subsidiaries' aggregate appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, as dealt with in the Group's financial statements, were approximately RMB1,777,000 (2002: approximately RMB1,046,000), approximately RMB1,777,000 (2002: approximately RMB618,000), approximately RMB698,000 (2002: Nil) and approximately RMB348,000 (2002: Nil), respectively.

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

As at 31 December 2003, the Company had retained profits of approximately RMB930 million (31 December 2002: approximately RMB43 million) after the appropriation of proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC accounting standards and regulations or the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2003, in accordance with the Company Law of the PRC, an amount of approximately RMB5.17 billion (2002: approximately RMB4.86 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

(Prepared under Hong Kong accounting standards)
31 December 2003

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Note	**2003** **RMB'000**	2002 RMB'000
Net assets disposed of:			
Fixed assets		**229**	–
Cash and cash equivalents		**8,561**	–
Trade receivables		**16,544**	–
Prepayments, deposits and other receivables		**448**	–
Inventories		**156**	–
Trade payables		**(7,920)**	–
Other payables and accruals		**(760)**	–
Tax payable		**(1,597)**	–
		15,661	–
Loss on disposal of subsidiaries	6	**(9,139)**	–
		6,522	–
Satisfied by:			
Cash		**6,522**	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2003 **RMB'000**	2002 RMB'000
Cash consideration	**6,522**	–
Cash and bank balances disposed of	**(8,561)**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(2,039)**	–

The results of the subsidiaries disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

(Prepared under Hong Kong accounting standards)
31 December 2003

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Restricted cash and cash equivalent balances

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

(c) The overdue fixed deposits amounting to approximately RMB169 million as at 31 December 2003 (2002: approximately RMB202 million) were not included as part of the cash and cash equivalents in the consolidated cash flow statement. Further details of the overdue fixed deposits are set out in note 25 to the financial statements.

33. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills discounted with recourse	**403,430**	–	**403,430**	–
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**2,417,167**	1,913,572
	403,430	–	**2,820,597**	1,913,572

(Prepared under Hong Kong accounting standards)
31 December 2003

34. CAPITAL COMMITMENTS

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

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Contracted, but not provided for:		
Thin Plate Project	**193,275**	2,118,456
H-Beam Production Line	**166,970**	–
Coil Coating Lines Project	**62,768**	–
850m^3 Blast Furnace	**62,584**	–
Auxiliary Facilities	**57,086**	28,470
Continuous Rod Production Line of No.2 Steel Making Plant	**54,839**	–
No.4 Converter of No.3 Steel Making Plant	**49,163**	–
The Recovery Engineering of Coke Making Plant	**48,970**	3,646
40000m^3 Oxygenerator	**40,473**	186,451
Modification of Train Wheel Rolling System	**40,384**	69,854
RH Furnace of No.1 Steel Making Plant	**31,304**	–
2.2 million t/a Technology Revamping of No.1 Iron Making Plant	**23,805**	–
Coke Dry Quenching Project	**18,195**	14,567
No. 3 Generator Group of Thermal Power Plant	**18,186**	7,794
Small Profiled Ingot Continuous Casting Machine	**11,000**	–
2500m^3 Blast Furnace	**–**	205,046
300m^2 Sintering Machine	**–**	72,141
Revamping of High Speed Wire and Rolling Mill Project	**–**	42,061
No. 3 Converter of No. 1 Steel Making Plant	**–**	36,031
Wire Rod Mill of No. 2 Steel Making Plant	**–**	30,453
No. 2 Coke Furnace	**–**	18,279
Reformation of Dock and Stock Storage Ground	**–**	17,765
Other projects	**38,812**	18,300
	917,814	2,869,314

The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR23 million (equivalent to approximately RMB237 million), approximately US$0.22 million (equivalent to approximately RMB1.80 million) and approximately JPY1.08 billion (equivalent to approximately RMB83.51 million).

34. CAPITAL COMMITMENTS (continued)

	Group and Company	
	2003	2002
	RMB'000	RMB'000
Authorised, but not contracted for:		
H-Beam Production Line	**732,560**	–
Thin Plate Project	**276,699**	1,865,274
2.2 million t/a Technology Revamping of No.1 Iron Making Plant	**254,990**	–
Auxiliary Facilities	**233,400**	223,369
Small Profiled Ingot Continuous Casting Machine	**212,500**	–
Coil Coating Lines Project	**165,113**	–
Continuous Rod Production Line of No.2 Steel Making Plant	**145,536**	–
No.4 Converter of No.3 Steel Making Plant	**132,494**	–
850m^3 Blast Furnace	**102,929**	–
Coke Dry Quenching Project	**90,098**	145,590
RH Furnace of No.1 Steel Making Plant	**82,635**	–
The Recovery Engineering of Coke Making Plant	**64,960**	164,791
40000m^3 Oxygenerator	**62,945**	108,271
No. 3 Generator Group of Thermal Power Plant	**25,834**	100,020
Modification of Train Wheel Rolling System	**4,228**	88,031
2500m^3 Blast Furnace	**–**	415,929
300m^2 Sintering Machine	**–**	134,602
No. 2 Coke Furnace	**–**	85,748
Ma Steel Health Recovery Centre	**–**	58,202
No. 3 Converter of No. 1 Steel Making Plant	**–**	46,388
Reformation of Dock and Stock Storage Ground	**–**	42,063
Wire Rod Mill of No. 2 Steel Making Plant	**–**	36,869
70t VD Oven of No. 3 Steel Making Plant	**–**	17,265
Revamping of High Speed Wire and Rolling Mill Project	**–**	12,007
Other projects	**45,837**	84,470
	2,632,758	3,628,889
Total capital commitments	**3,550,572**	6,498,203

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

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

	Notes	**2003** **RMB'000**	2002 RMB'000 (Restated)
Net profit			
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		**2,659,198**	339,729
Add back:			
Amortisation of deferred staff costs	(i)	**70,400**	17,600
Staff housing subsidies to current employees	(ii)	**34,716**	34,887
Provision for furnace relining costs utilised	(iii)	**21,824**	24,021
Deferred tax expenses/(income)	(iv)	**10,091**	(31,796)
Employee bonus and welfare fund	(v)	**348**	–
Deduct:			
Transfer of deferred income	(vi)	**(3,606)**	–
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		**2,792,971**	384,441

(Prepared under Hong Kong accounting standards)
31 December 2003

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

	Notes	2003 RMB'000	2002 RMB'000 (Restated)
Shareholders' equity			
Shareholders' equity under Hong Kong accounting standards		**14,788,020**	12,354,758
Add back:			
Amortisation of deferred staff costs	(i)	**70,400**	17,600
Staff housing subsidies charged to the profit and loss account:			
Current employees	(ii)	**139,377**	104,661
Retired employees	(ii)	**38,843**	38,843
Deferred income	(vi)	**304,890**	–
Deduct:			
Unamortised deferred staff costs charged to opening retained profits	(i)	**(70,400)**	(88,000)
Staff housing subsidies charged to retained profits	(ii)	**(178,220)**	(178,220)
Provision for furnace relining costs	(iii)	**(74,499)**	(96,323)
Deferred tax assets	(iv)	**(54,459)**	(64,550)
Transfer of deferred income	(vi)	**(3,606)**	–
Shareholders' equity under PRC accounting standards		**14,960,346**	12,088,769

(i) Deferred staff costs

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

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

(i) Deferred staff costs (continued)

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

Under PRC accounting standards and regulations, starting from 1 January 2001, the Company implemented the rules of directive No. 2001(5) issued by the Ministry of Finance in January 2001 to fully charge the unamortised deferred staff costs of approximately RMB105.6 million as brought forward from 31 December 2000, to the opening retained profits account.

Under Hong Kong accounting standards, the current year treatment should follow the aforesaid accounting policies and the required amortisation over the estimated remaining average service life of the relevant employees. However, as disclosed in note 19 to the financial statements, the deferred staff costs are impaired and unamortised deferred staff costs of approximately RMB70.4 million are fully charged to the current year's profit and loss 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. In prior years, each eligible employee entitled to the subsidies was required to continue to provide service to the Company for a stipulated period, or to the date on which they reach their respective normal retirement ages, whichever is the earlier. The directors estimated the aggregate subsidies payable to all eligible current and retired employees to be approximately RMB349 million and RMB38.8 million, respectively. The subsidies payable to current and retired employees will be on a batch basis upon application from eligible employees during the coming years.

In prior 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. As at 31 December 2002, the cumulative present value of the housing subsidies earned by present employees amounted to approximately RMB105 million. The aggregate subsidies of approximately RMB38.8 million payable to all eligible retired employees during the future years have already been fully charged to the profit and loss account during the year ended 31 December 2000, since such subsidies are related to past services of eligible retired employees.

Whereas in the prior year, under PRC accounting standards and regulations, the subsidies paid to eligible current and retired employees during the year were charged directly to the retained profits account. As at 31 December 2002, the cumulative subsidies paid to eligible current and retired employees amounted to approximately RMB178.2 million.

(Prepared under Hong Kong accounting standards)
31 December 2003

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

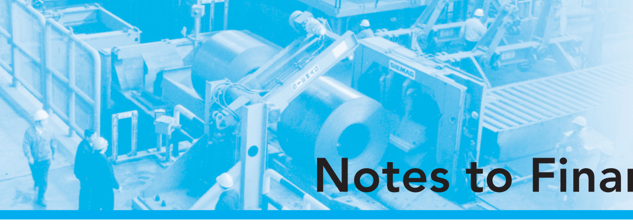
(ii) Staff housing subsidies (continued)

In the current year, the Company amended its salary and welfare policy, and sped up the implementation of the scheme. With the approval of the Maanshan Municipal Government, the Company revised the scheme. The Company abolished the pre-requisition that all present employees entitled to the subsidies should serve the Company for a stipulated period, or to the date on which they reach their respective normal retirement ages, whichever is the earlier. With the approval of the Maanshan Ministry of Finance Bureau, the Company charged the remaining unpaid housing subsidies amounting to approximately RMB209 million to the profit and loss account under PRC accounting standards in the current year. Under Hong Kong accounting standards, the subsidies, which were going to be earned by the present employees over the remaining vesting period, i.e., seven years (counting from 31 December 2002), become immediately payable. Thus, the Company has charged the remaining unaccrued housing subsidies, amounting to approximately RMB244 million, to the profit and loss account in the current year in accordance with Hong Kong accounting standards.

(iii) Furnace relining costs

Under PRC accounting standard "Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on fixed assets should be charged to the profit and loss account as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, provision for furnace relining costs of approximately RMB21.8 million was utilised, and the remaining provision as at 31 December 2003 amounting to approximately RMB74.5 million (2002: approximately RMB96.3 million).

Under SSAP 28, furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment. Relining costs incurred during the year amounting to approximately RMB21.8 million (2002: approximately RMB28.4 million) have been charged to the profit and loss account.



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

(iv) Deferred tax

Under the newly implemented SSAP 12 (Revised), as disclosed in note 2 to the financial statements, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 31 December 2003 amounted to approximately RMB54.5 million (2002: RMB64.6 million recognised retrospectively). The movement in the deferred tax assets resulted in a deferred tax expense of approximately RMB10.1 million in the current year (2002: deferred tax income of approximately RMB31.8 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing difference on income tax. Thus, no deferred tax is recognised as at 31 December 2002 and 31 December 2003.

(v) Employee bonus and welfare fund

Pursuant to the articles of association and the resolution of the board of directors of a subsidiary of the Company, the subsidiary has to make appropriations to the employee bonus and welfare fund. During the year, the subsidiary made an appropriation of approximately RMB348,000 to the employee bonus and welfare fund.

Under PRC accounting standards and regulations, it is an appropriation of profit and is deducted from net profit for the year.

Under Hong Kong accounting standards, the appropriation to the employee bonus and welfare fund is accounted for as a staff cost and is charged to the current year's profit and loss account.

(vi) Deferred income

Deferred income represents government grants for specific construction projects.

Under SSAP 35, upon completion of the subsidised construction projects, deferred income is released to the profit and loss account over the expected useful life of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB305 million received in prior years, were completed and deferred income of approximately RMB3.6 million (2002: Nil) was released to current year's profit and loss account.

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as fixed assets and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2003, utilised portion of specific payables transferred to the capital reserve amounted to approximately RMB305 million (2002: Nil).

(Prepared under Hong Kong accounting standards)
31 December 2003

36. RELATED PARTY TRANSACTIONS

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

	2003	2002
	RMB'000	RMB'000
Purchases of iron ore and limestone	**844,579**	816,320
Fees paid for welfare, support services and other services	**337,689**	223,802
Purchases of fixed assets and construction services	**227,531**	176,812
Agency fee	**5,327**	–
Fees received for the supply of utilities, services and other consumable goods	**(41,751)**	(30,365)
Sale of steel products	**(14,123)**	(44,637)

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, 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.

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

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

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2004.