

Notes to Financial Statements

(Prepared under PRC accounting standards)
31 December 2003

I. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the "Company") was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993 as a joint stock company as part of the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang"). On the same date, the Company took over as from the effective date of the reorganisation on 1 June 1993, the principal iron and steel business undertakings (with the exception of the mine sites and other operations unrelated to iron and steel production) and two subsidiaries of Original Magang, together with the related operating assets and liabilities. The consideration for the net assets acquired of RMB4,826,547,000 was satisfied by the issue of 4,034,560,000 State A shares of RMB1.00 each, credited as fully paid, to Original Magang. At the same time, Original Magang changed its name to Maanshan Magang Holding Company. In 1998, it further changed its name to Magang (Group) Holding Company Limited ("Holding").

The Company and its subsidiaries (the "Group") are principally engaged in the manufacture and sale of iron and steel products.

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

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

1. Accounting system

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

2. Financial year

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

3. Reporting currency

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

4. Basis of accounting

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

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

5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable rates of exchange ruling at the balance sheet date as quoted by the People's Bank of China. The consequential exchange gains or losses are dealt with in the current period's income statement. Foreign currency translation differences relating to funds borrowed to finance the acquisition or construction of fixed assets are accounted for according to the requirements relating to the capitalisation of borrowing costs.

6. Cash equivalents

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

7. Short term investments

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

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

Short term investments, using the individual comparison method, are stated at the lower of cost and market value at the end of the period. Provision for decline in value of short term investments is made for any reduction of cost to market value, and charged to the income statement in the period in which they arise.

8. Bad debts provision

Recognition criteria for bad debts:

- (i) the irrecoverable amount of a bankrupt or deceased debtor who has insufficient assets or estate to repay the debt;

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

8. Bad debts provision (continued)

- (ii) the irrecoverable amount, supported by evident characteristics, of a debtor who is unable to comply with the repayment obligation after the debt fell due.

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

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

Ageing	Bad debts provision percentage (Net of post balance sheet date settlement)	
	Trade receivables	Other receivables
1 to 6 months	–	–
7 to 12 months	10%	–
13 to 24 months	25%	40%
25 to 36 months	50%	60%
over 36 months	100%	100%

9. Inventories

Inventories, which include raw materials, work in progress, finished goods and spare parts, are stated at the cost of purchase. Cost of work in progress and finished goods comprise direct materials, direct labour and an appropriate proportion of production overheads. Cost of spare parts are charged to the income statement when issued for production as production cost for the period and hence included in the cost of finished goods sold. Inventories, other than spare parts, are determined on weighted average basis. Inventories are accounted for using perpetual inventory system.

Provision is made for those inventories which cannot be recovered due to them being damaged, wholly or partly obsolete, or having their selling prices lower than cost. Provision is determined as the excess of carrying value of the inventories over its net realisable value on an individual basis. Net realisable value is the estimated selling prices in the ordinary course of business less any estimated costs of completion and estimated selling expenses.

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

10. Long term investments

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

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

When the equity method is adopted, the difference between the initial cost of the investment and the investor's share of the owner's equity in the investee company is regarded as an equity investment difference. The amount of initial cost of the investment in excess of the investor's share of the owner's equity in the investee company is amortised according to the investment period specified in the contract. If the investment period is not specified in the contract, the difference is amortised over a period of not less than 10 years (including 10 years). The amount of initial cost of the investment fall short of the investor's share of the owner's equity in the investee company is credited to the capital reserve.

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

If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee company, the difference between the recoverable amount and the carrying amount of the investment should be recognised as an impairment of a long term investment and an investment loss in the current period.

11. Fixed assets

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

Fixed assets are recorded at cost of acquisition. Interest and exchange differences arising from specific borrowings that are incurred in bringing the fixed asset to its working condition are capitalised. If the future economic benefits brought about by the incurrence of subsequent overhaul and technical improvement costs are greater than those originally estimated, then such costs will be capitalised as fixed assets. In the prior years, furnace relining costs were amortised, using the straight line method, over the period between relinings. Under the PRC accounting standards issued in 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs on a straight-line basis. As prescribed by the standard, a prior year adjustment has not been made for the balance of provision for furnace relining costs as at 31 December 2001 as the balance will be net off against future furnace relining costs to be actually incurred. Expenditure on repair and maintenance of fixed assets are charged to the income statement as and when incurred. A gain or loss on obsolescence, inventory losses, disposal or damage to fixed assets is accounted for as non-operating income or expenses in the current period.

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

11. Fixed assets (continued)

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

Category	Estimated useful life	Annual depreciation rate
Buildings and structures	15 to 40 years	2.4% – 6.65%
Plant, machinery and equipment	6 to 16 years	6% – 15.29%
Transportation vehicles and equipment	7 to 10 years	9.45% – 14.29%

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

The Group reviews its fixed assets periodically. If the recoverable amount of the fixed asset is lower than the carrying amount of the fixed asset as a result of a continuing decline in market value, technical obsolescence, damages in fixed asset or when it is persistently idle, the difference between the recoverable amount and the carrying amount of the fixed asset is recognised as an impairment provision and charged to the current period's income statement. Recoverable amount refers to the higher of the net selling price and the value in use of the fixed asset. Value in use refers to the present value of estimated future cash flows expected to arise from the continuing use of the fixed asset and from its disposal at the end of its useful life. Impairment provision is made on an individual basis.

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

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

12. Construction materials

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

13. Construction in progress

Construction in progress represents the costs incurred in the construction and installation of fixed assets in bringing construction from its preparation stage to its working condition. Cost comprises direct materials, direct labour, equipment cost, installation and management fee, as well as interest charges and exchange differences on the related borrowed funds during the periods of construction and installation. Interest charges and exchange differences arising from funds borrowed for construction in progress are capitalised when the construction in progress are not substantially ready for their intended use and charged as financial expenses when they are subsequently ready. Construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.



Notes to Financial Statements (continued)

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

13. Construction in progress (continued)

The Group reviews its construction in progress periodically. Provision for impairment should be made for construction in progress if one of the following conditions exists:

- (i) the projects are suspended for a long time and will not resume construction within three years;
- (ii) the projects are of functional and technological obsolescence and the economic benefits arising from such projects are extremely uncertain, and hence causing their recoverable amounts to be lower than their carrying values.

The difference between the recoverable amount and the carrying value of these construction in progress is recognised as an impairment provision and charged to the current period's income statement. Provision for impairment of construction in progress is calculated on an individual basis.

14. Borrowing costs

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

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

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

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

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

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

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

15. Intangible assets

The Group's intangible assets represent land use rights and are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off the cost over the lease term of 50 years.

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

16. Housing subsidies

Prior to 1 January 2003, pursuant to an implemented staff housing subsidies scheme, one-off lump sum housing subsidies for current and retired employees are charged to retained profits upon payment. Starting from 1 January 2003, as the staff housing subsidies scheme has been revised, staff housing subsidies paid in year 2003 and staff housing subsidies that will be paid to current and retired employees in future years are charged to administrative expenses in the year 2003. Please refer to Note V point 45(ii) for details.

17. Pension benefits

Contributions to a government-organised pension scheme are charged to the income statement as incurred.

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

18. Specific payables

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

19. Revenue recognition

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



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

19. Revenue recognition (continued)

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

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

20. Income tax

The Company uses tax payable method to account for income tax. Current period's profit before tax is adjusted according to relevant tax laws to arrive at the taxable profit, which is used to calculate income tax expenses.

21. Related parties

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

22. Preparation of consolidated financial statements

The Group's consolidated financial statements are prepared according to the rules of directive No. 1995(11) issued by the Ministry of Finance. The consolidated financial statements include companies in which the Group has over 50% of the equity voting rights, or companies in which the Group has less than 50% of the equity voting rights, but is able to control its financial and operating policies. All significant intercompany transactions and balances within the Group are eliminated in consolidation.

23. Change in accounting policy

Pursuant to the rules of "Accounting Standard for Business Enterprises – Events Occurring After the Balance Sheet Date" as revised by the Ministry of Finance in year 2003, profit distribution to investors proposed in a profit distribution plan declared by the board of directors between the balance sheet date and the date on which the financial statements are authorised for issuance, is presented as a separate component of shareholders' funds on the balance sheet, whereas such profit distribution was regarded as an adjusting event and recognised as dividend payable on the balance sheet date in prior years. This change in accounting policy has been retrospectively applied. Prior year adjustment resulted from the adoption of the revised Accounting Standard for Business Enterprises is detailed in Note V point 42.

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

24. Change in accounting estimate

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

	Before revision	After revision
Depreciation charge for the year	RMB913,422,534	RMB1,043,600,468

The Company adopts the change in accounting estimate prospectively. The change in accounting estimate resulted in a decrease of profit before tax by RMB130,177,934 in the current year.

III. TAX

The principal kinds of taxes and the related rates are as follows:

1. VAT

The VAT rate of the Group's principal products is 17%. The output VAT is offset against the input VAT paid on purchases. The Group has to pay VAT on the net balance.

2. Business tax

Payable based on 5% of the service income.

3. City construction and maintenance tax

Payable based on 7% of the net VAT and business tax to be paid.

4. Education surcharge

Payable based on 3% of the net VAT and business tax to be paid.

5. Flood prevention fund

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

6. Real estate tax

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

Notes to Financial Statements (continued)

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III. TAX (continued)

7. Income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practice in respect thereof. Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)") (a subsidiary of the Company) is a production foreign investment enterprise registered in Wuhu Economic and Technological Development Zone. Its corporate income tax has been provided at the rate of 15%. As Ma Steel (Wuhu) commenced its operations in the second half of year 2003, after obtaining authorisation from respective tax bureau, it is exempted from corporate income tax starting from year 2004 for two years, followed by a 50% reduction of corporate income tax for the succeeding three years. Profits tax of the Hong Kong subsidiary has been provided at the rate of 17.5% on the estimated assessable profits which were earned in or derived from Hong Kong during the year. No provision for income tax for other overseas subsidiary has been made as there were no assessable profits during the year.

IV. SUBSIDIARIES AND ASSOCIATES

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries							
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Anhui, PRC	Import of machinery and raw materials and export of steel products	RMB50,000,000	RMB50,000,000	50,000,000	100	–
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	Anhui, PRC	Planning and design of metallurgical, construction and environmental protection projects	RMB12,720,000	RMB12,720,000	7,500,000	58.96	7.86
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	Planning and design of automation system; purchase, installation and repairs of computers and communication systems	RMB8,000,000	RMB8,000,000	7,500,000	93.75	4.18

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IV. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") (Note 2)	Anhui, PRC	Production, sale and transportation of slag products and provision of related consultation services	US\$4,290,000	US\$4,290,000	24,854,930	70	–
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (Notes 1, 2)	Anhui, PRC	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	US\$850,000	US\$850,000	8,225,885	70	30
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)") (Notes 1, 2)	Guangdong, PRC	Production, processing and sale of steel plates, steel wires and steel section; provision of storage, transportation and after-sales services	RMB120,000,000	RMB97,883,480	80,000,000	66.67	–
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	HK\$4,800,000	HK\$4,800,000	4,101,688	80	20
MG Trading and Development GmbH ("MG Trading")	Germany	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	EUR153,388	1,573,766	100	–

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IV. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Associates							
濟源市金馬焦化有限公司("濟源市金馬焦化") (Note 1)	Henan, PRC	Production and sale of coke, tar, benzene and coal gas	RMB200,000,000	RMB200,000,000	80,000,000	40	–
滕州盛隆煤焦化有限公司("滕州盛隆煤焦化") (Note 1)	Shandong, PRC	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services	RMB208,800,000	RMB208,800,000	66,776,000	32	–
馬鞍山市五環報廢汽車回收拆解有限責任公司("五環汽車回收")	Anhui, PRC	Recycling and dismantling of scrap motor vehicle and trading of steel products	RMB500,000	RMB500,000	200,000	40	–
					330,732,269		

Note 1: Newly incorporated during the year

Note 2: In the current year, two subsidiaries of the Company, Ningbo Chang Yi Company Limited ("Ningbo Chang Yi") and Shanghai Zhong Ma Company Limited ("Shanghai Zhong Ma"), have completed their liquidation processes and hence are not included in the consolidated financial statements of the Group. Anhui Masteel K. Wah, which was newly incorporated in 2002, and Ma Steel (Wuhu) and Ma Steel (Guangzhou), which were newly incorporated in the current year, have been included in the consolidated financial statements of the Group in the current year.

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

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V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	31 December 2003			31 December 2002		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand	RMB95,725	1.0000	95,725	RMB107,988	1.0000	107,988
Balances with financial institutions (Note 2)	RMB1,890,641,474	1.0000	1,890,641,474	RMB740,934,364	1.0000	740,934,364
	HK\$56,384,060	1.0657	60,088,492	HK\$81,054,627	1.0611	85,974,085
	US\$23,795,575	8.2767	196,954,255	US\$3,012,401	8.2773	24,934,344
	EUR2,200,460	10.3383	22,749,008	EUR903,070	8.6360	7,798,911
	JPY5,086,217	0.077263	393,165	-	-	-
Other balances with financial institutions	RMB150,531	1.0000	150,531	RMB73,247,569	1.0000	73,247,569
	US\$20,657,897 (Note)	8.2767	171,016,375	US\$14,515,274	8.2773	120,146,535
	EUR5,173,345	10.3383	53,483,593	EUR1,020,176	8.6360	8,217,892
	JPY294,624,233	0.077263	22,721,279	JPY184,582,131	0.069035	12,742,628
Total			<u>2,418,293,897</u>			<u>1,074,104,316</u>

Note: Fixed deposits amounting to US\$1,039,000 (equivalent to RMB8,636,646) have been pledged to the Hongkong and Shanghai Banking Corporation Limited and fixed deposit of US\$145,725 (equivalent to RMB1,206,125) has been pledged to the Bank of China, Maanshan Branch as securities for the provision of banking facilities to Ma Steel (HK) and Ma Steel International Trade Corp. respectively. The deposits were not readily available for payment.

The Group's cash and balances with financial institutions increased by 125% was mainly attributable to the increase in sales and bank borrowings.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with five non-bank financial institutions, aggregating approximately RMB169 million (31 December 2002: RMB202 million).

	31 December 2003 RMB'000	31 December 2002 RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	24,730	26,327
China Venturetech Investment Corporation ("China Venturetech")	9,954	9,954
CITIC Ningbo Inc. ("Ningbo CITIC")	45,112	45,112
SEG International Trust & Investment Corporation ("SEG")	46,545	46,545
Shenzhen Leasing Co. Ltd. ("SLCL")	42,530	74,242
	<u>168,871</u>	<u>202,180</u>
Provision for overdue deposits	(126,341)	(175,000)
	<u>42,530</u>	<u>27,180</u>

Based on legal advice, the directors are satisfied that the Company's deposits with the above five non-bank financial institutions are valid fixed deposits.

GITIC, China Venturetech and Ningbo CITIC are now in liquidation and the Company has registered its debts with their respective liquidators. On 28 February 2003, the People's High Court of the Guangdong Province declared an end to the bankruptcy proceeding in relation to GITIC bankruptcy case but the liquidation process will remain in progress. During the year, the Company has received repayment from GITIC amounted 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 amount of the outstanding deposit principal, the Company will be able to recover from these three companies.

The Company initiated legal proceedings against SEG in December 1998 and has obtained court judgements against SEG on 19 March 1999 for the principal amounts of those fixed deposits and interest thereon. However, SEG is currently in the process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

On 16 March 2000, the Company reached an agreement with SLCL for the repayment of an amount of RMB84.8 million (HK\$80 million) over five years, in settlement of the deposit and accrued interest. In 2000, an amount of RMB10.6 million (HK\$10 million) was repaid by SLCL in accordance with the agreement. The remaining RMB74.2 million (HK\$70 million) 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.

3. Short term investments

Item	Note	31 December 2003		31 December 2002	
		Investment cost	Provision for decline in value	Investment cost	Provision for decline in value
		RMB	RMB	RMB	RMB
Equity investment	Note	<u>13,568,593</u>	<u>–</u>	<u>13,568,593</u>	<u>2,263,731</u>
Note:				Closing market	Market price at
Name of investee company		Number of shares held	Investment cost	unit price	year end
			RMB	RMB	RMB
China Petroleum & Chemical Corporation		1,800,000	7,596,000	4.95	8,910,000
Baoshan Iron & Steel Company Limited		1,428,850	5,972,593	7.07	10,101,970
Total			<u>13,568,593</u>		<u>19,011,970</u>

The year end market prices of the shares were the closing market prices as at 31 December 2003 as disclosed in China Securities Journal.

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

The movement of provision for decline in value of short term investments for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

4. Bills receivable

	31 December 2003 RMB	31 December 2002 RMB
Bank bills	2,121,201,173	665,937,577
Commercial bills	–	96,330
	<u>2,121,201,173</u>	<u>666,033,907</u>

The Group's bills receivable increased by 218% was mainly attributable to the increase in sales and the increase in the use of bills by customers in settling payment.

As at 31 December 2003, the Group's discounted bills amounted to RMB403.43 million, all being bank bills.

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

5. Trade receivables

Trade receivables ageing analysis:

	Group							
	31 December 2003				31 December 2002			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	198,643,026	74	(389,656)	–	143,591,853	51	(1,296,286)	1
One to two years	6,302,458	2	(1,575,615)	25	41,107,940	14	(11,475,524)	28
Two to three years	17,384,264	7	(8,692,132)	50	16,513,217	6	(12,011,159)	73
Over three years	46,572,261	17	(46,552,261)	100	82,811,641	29	(82,375,128)	100
Total	<u>268,902,009</u>	<u>100</u>	<u>(57,209,664)</u>		<u>284,024,651</u>	<u>100</u>	<u>(107,158,097)</u>	

	Company							
	31 December 2003				31 December 2002			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	155,755,999	69	(389,656)	–	154,136,294	53	(1,296,286)	1
One to two years	6,302,458	3	(1,575,615)	25	39,800,275	14	(10,703,494)	27
Two to three years	17,384,264	8	(8,692,132)	50	12,634,501	4	(7,225,837)	57
Over three years	46,572,261	20	(46,552,261)	100	82,368,993	29	(81,932,480)	100
Total	<u>226,014,982</u>	<u>100</u>	<u>(57,209,664)</u>		<u>288,940,063</u>	<u>100</u>	<u>(101,158,097)</u>	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

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

Reason	Group	
	2003 RMB	2002 RMB
Bankrupt or liquidated debtors	5,637,029	98,499,976
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	53,881,404	283,759,475
Total	<u>59,518,433</u>	<u>382,259,451</u>

Reason	Company	
	2003 RMB	2002 RMB
Bankrupt or liquidated debtors	5,637,029	93,617,039
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	47,881,404	277,342,412
Total	<u>53,518,433</u>	<u>370,959,451</u>

As at 31 December 2003, the five largest trade receivables of the Group and the Company amounted to RMB130,291,358 and RMB130,078,975, respectively, which accounted for 48% and 58% of the gross trade receivables of the Group and the Company respectively.

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

Included in the Company's trade receivables is an amount due from subsidiaries of approximately RMB39.62 million (31 December 2002: RMB37.48 million) which principally arose from normal trading activities.

The movement of bad debts provision for trade receivables for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables

Other receivables ageing analysis:

	Group								
	31 December 2003				31 December 2002				
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio	
RMB	%	bad debts	%	RMB	%	bad debts	%		
		RMB	%	RMB		RMB	%	RMB	%
Within one year	129,363,151	68	(2,984,780)	2	86,495,352	60	(4,665,829)	5	
One to two years	10,190,637	5	(4,104,425)	40	9,638,048	6	(7,083,444)	73	
Two to three years	6,743,435	4	(6,450,804)	96	1,106,311	1	(750,147)	68	
Over three years	44,996,156	23	(44,996,156)	100	47,717,328	33	(47,717,328)	100	
Total	191,293,379	100	(58,536,165)		144,957,039	100	(60,216,748)		

	Company								
	31 December 2003				31 December 2002				
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio	
RMB	%	bad debts	%	RMB	%	bad debts	%		
		RMB	%	RMB		RMB	%	RMB	%
Within one year	37,564,065	38	(2,984,780)	8	40,809,330	41	(4,665,829)	11	
One to two years	10,190,637	10	(4,104,425)	40	9,638,048	10	(7,083,444)	73	
Two to three years	6,743,435	7	(6,450,804)	96	1,106,311	1	(750,147)	68	
Over three years	44,996,156	45	(44,996,156)	100	47,717,328	48	(47,717,328)	100	
Total	99,494,293	100	(58,536,165)		99,271,017	100	(60,216,748)		

The increase in the Group's net other receivables by 57% was mainly attributable to the increase in unsettled amounts of other transactions.

As at 31 December 2003, the five largest other receivables of the Group and the Company amounted to RMB12,628,469, which accounted for 7% and 13% of the gross other receivables of the Group and the Company respectively.

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

The movement of bad debts provision for other receivables for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

7. Prepayments

The Group's prepayments increased by 80% was mainly attributable to the increase in prepayments for materials and spare parts.

The ageing of prepayments is within one year.

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

8. Inventories

	31 December 2003		31 December 2002	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	1,123,971,210	–	687,066,210	–
Work in progress	416,073,624	(3,000,000)	329,557,802	(3,000,000)
Finished goods	355,175,883	(9,656,900)	199,716,241	(9,656,900)
Spare parts	559,672,891	(64,736,350)	571,256,789	(133,851,755)
Total	<u>2,454,893,608</u>	<u>(77,393,250)</u>	<u>1,787,597,042</u>	<u>(146,508,655)</u>

The Group's inventories, net of provision, increased by 45% was mainly due to the increase in closing stock of raw materials and finished goods.

The movement of provision for inventories for the year 2003 is disclosed in the supplementary information of the financial statements.

9. Long term investments

Item	Group			
	At 1 January 2003 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2003 RMB
Long term equity investments				
Investments in associates (ii)	–	146,976,000	–	146,976,000
Other equity investments (iii)	6,517,035	10,000,000	(100,000)	16,417,035
	<u>6,517,035</u>	<u>156,976,000</u>	<u>(100,000)</u>	<u>163,393,035</u>
Long term debt investment				
Other debt investment (iv)	21,558,870	–	(5,320,000)	16,238,870
Total	<u>28,075,905</u>	<u>156,976,000</u>	<u>(5,420,000)</u>	<u>179,631,905</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

Item	Company			At 31 December 2003 RMB
	At 1 January 2003 RMB	Increase during the year RMB	Decrease during the year RMB	
Long term equity investments				
Investments in subsidiaries (i)	89,447,590	132,990,607	(15,351,562)	207,086,635
Investments in associates (ii)	–	146,976,000	–	146,976,000
Other equity investments (iii)	6,517,035	10,000,000	(100,000)	16,417,035
	<u>95,964,625</u>	<u>289,966,607</u>	<u>(15,451,562)</u>	<u>370,479,670</u>
Long term debt investment				
Other debt investment (iv)	21,558,870	–	(5,320,000)	16,238,870
	<u>21,558,870</u>	<u>–</u>	<u>(5,320,000)</u>	<u>16,238,870</u>
Total	<u>117,523,495</u>	<u>289,966,607</u>	<u>(20,771,562)</u>	<u>386,718,540</u>

The increase in the Group's long term investments by 540% was mainly attributable to the increase in investments in associates.

The increase in the Company's long term investments by 229% was mainly attributable to the increase in investments in subsidiaries and associates.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(i) Investments in subsidiaries

Name of investee company	Investment period	Percentage of equity held		Company								
		by the Company %	Initial investment cost RMB	Investment cost				Adjustment for gain or loss				
				Opening balance RMB	Increase during the year RMB	Decrease during the year RMB	Closing balance RMB	Opening balance RMB	Increase during the year RMB	Decrease during the year RMB	Accumulated increase/ (decrease) RMB	Closing balance RMB
Ma Steel International Trade Corp.	N/A	100	50,000,000	50,000,000	-	-	50,000,000	-	5,932,853	-	5,932,853	55,932,853
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	2,082,380	3,746,568	(1,257,653)	4,571,295	12,071,295
MG Control Technique	4 years	93.75	6,649,632	6,649,632	850,368	-	7,500,000	58,011	302,775	-	360,786	7,860,786
Shanghai Zhong Ma	-	-	-	900,000	-	(900,000)	-	5,671,805	3,059,478	(8,731,283)	-	-
Ningbo Chang Yi	-	-	-	200,000	-	(200,000)	-	4,462,626	-	(4,462,626)	-	-
Anhui Masteel K. Wah	30 years	70	24,854,930	-	24,854,930	-	24,854,930	-	-	-	-	24,854,930
Ma Steel (Wuhu)	30 years	70	8,225,885	-	8,225,885	-	8,225,885	-	4,640,688	-	4,640,688	12,866,573
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	-	80,000,000	-	80,000,000	-	-	-	-	80,000,000
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	6,239,402	1,339,412	-	7,578,814	11,680,502
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	208,280	37,650	-	245,930	1,819,696
				70,925,086	113,931,183	(1,100,000)	183,756,269	18,722,504	19,059,424	(14,451,562)	23,330,366	207,086,635
Less: Impairment provision				(200,000)	-	200,000	-					-
Total				70,725,086	113,931,183	(900,000)	183,756,269					207,086,635

(ii) Investments in associates

Name of investee company	Investment period	Percentage of equity held		Group and Company								
		by the Company %	Initial investment cost RMB	Investment cost				Adjustment for gain or loss				
				Opening balance RMB	Increase during the year RMB	Decrease during the year RMB	Closing balance RMB	Opening balance RMB	Increase during the year RMB	Decrease during the year RMB	Accumulated increase/ (decrease) RMB	Closing balance RMB
濟源市金馬焦化	50 years	40	80,000,000	-	80,000,000	-	80,000,000	-	-	-	-	80,000,000
滕州盛隆煤焦化	50 years	32	66,776,000	-	66,776,000	-	66,776,000	-	-	-	-	66,776,000
五環汽車回收	N/A	40	200,000	-	200,000	-	200,000	-	-	-	-	200,000
Total				-	146,976,000	-	146,976,000	-	-	-	-	146,976,000

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(iii) Other equity investments

Equity investments accounted for using the cost method:

Name of investee company	Nature of investments	Number of shares held	Percentage of equity held by the Company %	Investment cost RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
河南龍宇能源股份有限公司	Legal person shares	6,500,138	1.58	10,000,000
Others				1,050,000
Total				<u>16,417,035</u>

(iv) Other debt investment

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the year RMB	Accumulated interest received/receivable RMB	Carrying value RMB
安徽省電力開發總公司	<u>16,238,870</u>	Nil	2004-2009	<u>—</u>	<u>—</u>	<u>16,238,870</u>

The movement of provision for long term investments for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
Cost				
At 1 January 2003	6,489,570,226	7,771,582,486	494,053,931	14,755,206,643
Additions	2,848,027	10,059,964	788,800	13,696,791
Transferred from construction in progress (Note 12)	1,498,730,078	3,884,087,135	53,979,288	5,436,796,501
Reclassifications	139,863,749	(145,112,748)	5,248,999	-
Disposal	(56,566,357)	(296,686,669)	(48,710,097)	(401,963,123)
At 31 December 2003	8,074,445,723	11,223,930,168	505,360,921	19,803,736,812
Accumulated depreciation				
At 1 January 2003	1,685,712,670	3,118,439,583	305,057,066	5,109,209,319
Provided during the year	310,335,177	700,101,240	36,013,751	1,046,450,168
Reclassifications	27,309,010	(27,393,255)	84,245	-
Disposal	(26,694,964)	(237,538,890)	(42,432,317)	(306,666,171)
At 31 December 2003	1,996,661,893	3,553,608,678	298,722,745	5,848,993,316
Net book value				
At 31 December 2003				
Net book value	6,077,783,830	7,670,321,490	206,638,176	13,954,743,496
Less: Impairment provision	(37,590,200)	(162,976,100)	-	(200,566,300)
Net book value, net of impairment provision	<u>6,040,193,630</u>	<u>7,507,345,390</u>	<u>206,638,176</u>	<u>13,754,177,196</u>
At 31 December 2002				
Net book value	4,803,857,556	4,653,142,903	188,996,865	9,645,997,324
Less: Impairment provision	(73,486,600)	(222,880,500)	-	(296,367,100)
Net book value, net of impairment provision	<u>4,730,370,956</u>	<u>4,430,262,403</u>	<u>188,996,865</u>	<u>9,349,630,224</u>

The Group's fixed assets net of impairment provision increased by 47% was mainly attributable to the increase in the transfer from construction in progress.

The movement of provision for impairment of fixed assets for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

11. Construction materials

	31 December 2003 RMB	31 December 2002 RMB
Prepayments for equipment used in construction projects	<u>313,428,274</u>	<u>838,980,700</u>

The decrease in the Group's construction materials by 63% was mainly attributable to the increase in the amount of equipment put into use in construction projects.

12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2003:

Name of project	Budgeted cost RMB'000	At 1 January 2003 RMB	Additions during the year RMB	Transferred to fixed assets (Note 10) RMB	At 31 December 2003 RMB	Source of fund	Percentage of completion %
1. Thin Plate Project	5,200,000	649,266,073	3,710,110,225	(2,679,210,000)	1,680,166,298	Internally generated funds	84
<i>Including borrowing costs capitalised:</i>		27,790,666	250,855,652	(99,819,409)	178,826,909	and loans from financial institution	
2. Modification of Train Wheel Rolling System	320,000	153,398,640	102,556,670	-	255,955,310	Internally generated funds	80
<i>Including borrowing costs capitalised:</i>		304,050	11,680,000	-	11,984,050	and loans from financial institution	
3. 40000m ³ Oxygenerator	340,000	2,221,094	227,239,545	-	229,460,639	Internally generated funds	67
4. Auxiliary Facilities	623,000	146,475,734	266,839,847	(237,180,000)	176,135,581	Internally generated funds	68
5. 20000m ³ Oxygenerator of Gas and Steam Supply Plant	129,984	809,082	99,939,611	-	100,748,693	Internally generated funds	78

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Name of project	Budgeted cost RMB'000	At	Additions	Transferred to	At	Source of fund	Percentage of completion %
		1 January 2003 RMB	during the year RMB	fixed assets (Note 10) RMB	31 December 2003 RMB		
6. No.3 Generator Group of Thermal Power Plant	120,000	8,810,808	67,161,620	-	75,972,428	Internally generated funds and loans from financial institution	63
<i>Including borrowing costs capitalised:</i>		-	2,179,835	-	2,179,835		
7. Coke Dry Quenching Project	168,000	20,856,085	45,895,193	-	66,751,278	Internally generated funds and loans from financial institution	40
<i>Including borrowing costs capitalised:</i>		-	4,377,760	-	4,377,760		
8. The Recovery Engineering of Coke Making Plant	170,000	1,820,000	61,416,447	-	63,236,447	Internally generated funds	37
9. 850m ³ Blast Furnace	225,000	-	50,976,889	-	50,976,889	Internally generated funds	23
10. Coil Coating Lines Project	285,000	799,500	40,877,933	-	41,677,433	Internally generated funds and loans from financial institution	15
11. No. 4 Converter of No. 3 Steel Making Plant	212,130	-	29,296,596	-	29,296,596	Internally generated funds	14
12. RH Furnace of No. 1 Steel Making Plant	130,000	20,000	20,489,271	-	20,509,271	Internally generated funds	16
13. Revamping of High Speed Wire and Rolling Mill Project	177,400	110,188,007	68,417,256	(172,389,957)	6,215,306	Internally generated funds	100
14. 2500m ³ Blast Furnace	795,000	160,449,840	634,550,160	(795,000,000)	-	Internally generated funds	100

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Name of project	Budgeted cost RMB'000	At 1 January 2003 RMB	Additions during the year RMB	Transferred to fixed assets (Note 10) RMB	At 31 December 2003 RMB	Source of fund	Percentage of completion %
15. 300m ² Sintering Machine	298,000	91,567,668	203,452,332	(295,020,000)	–	Internally generated funds	99
16. No.3 Converter of No. 1 Steel Making Plant	250,000	50,509,635	179,490,365	(230,000,000)	–	Internally generated funds	92
17. Other projects		497,073,885	717,965,212	(1,027,996,544)	187,042,553	Internally generated funds	
<i>Including borrowing costs capitalised:</i>		3,652,904	406,718	(4,059,622)	–	and loans from financial institution	
		<u>1,894,266,051</u>	<u>6,526,675,172</u>	<u>(5,436,796,501)</u>	<u>2,984,144,722</u>		
Less: Impairment provision		<u>(74,000,000)</u>	<u>–</u>	<u>–</u>	<u>(74,000,000)</u>		
		<u>1,820,266,051</u>	<u>6,526,675,172</u>	<u>(5,436,796,501)</u>	<u>2,910,144,722</u>		

The increase in the Group's construction in progress by 60% was attributable to the increase in the amount invested in construction projects.

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

The movement of provision for impairment of construction in progress for the year 2003 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

13. Intangible assets

	Original amount RMB	Accumulated amortisation RMB	At 1 January 2003 RMB	Additions during the year RMB	Amortisation during the year RMB	At 31 December 2003 RMB	Remaining years of amortisation
Land use rights	1,028,251,518	(168,422,522)	859,828,996	24,737,133	(20,756,836)	863,809,293	39 to 50 years

Addition in land use rights was acquired through purchase.

14. Short term loans

Type	Annual interest rate %	Maturity date	31 December 2003 RMB	31 December 2002 RMB
Unsecured loans	2.34 – 4.536, LIBOR (6 months)+1	2/2004 – 12/2004	<u>1,919,932,705</u>	<u>918,977,295</u>

The Group's short term loans increased by 109% was mainly attributable to the increase in working capital loans borrowed for the purchase of materials.

15. Trade payables

The increase in the Group's trade payables by 121% was mainly attributable to the increase in construction payables and accounts payable for equipment.

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

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

16. Deposits received

The increase in the Group's deposits received by 100% was mainly attributable to the increase in sales deposits received.

The ageing of deposits received is within one year.

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

Notes to Financial Statements (continued)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

17. Wages payable

The Group's wages payable decreased by 98% as the bonus payable for the year 2002 has been fully settled during the year.

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

18. Tax payable

	31 December 2003 RMB	31 December 2002 RMB
Income tax	79,963,326	40,518,550
VAT	218,194,492	43,003,405
Business tax	2,073,991	1,296,520
City construction and maintenance tax	20,910,419	3,194,440
Other taxes	14,672,624	7,215,042
Total	<u>335,814,852</u>	<u>95,227,957</u>

The increase in the Group's tax payable by 253% was mainly attributable to the increase in VAT payable and income tax payable .

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

19. Other taxes payable

	31 December 2003 RMB	31 December 2002 RMB
Education surcharge	9,247,323	1,631,156
Flood prevention fund	23,078,326	19,239,814
Other taxes	-	1,742
Total	<u>32,325,649</u>	<u>20,872,712</u>

The Group's other taxes payable increased by 55% was mainly attributable to the increase in education surcharge and flood prevention fund.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

20. Other payables

	31 December 2003 RMB	31 December 2002 RMB
Labour costs	56,668,409	38,184,062
Construction fee	157,157,341	112,174,244
Maintenance and inspection fee	45,645,760	29,229,943
Staff housing subsidies	175,097,533	–
Others	38,518,622	39,632,184
Total	<u>473,087,665</u>	<u>219,220,433</u>

The Group's other payables increased by 116% mainly because of the recognition of unpaid staff housing subsidies.

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

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

21. Accrued charges

	31 December 2003 RMB	31 December 2002 RMB
Loan interest	67,701,604	53,434,064
Freight charges	–	24,269,000
Retirement benefits payable to early retired employees	20,006,150	37,310,039
Maintenance fee	13,282,290	19,294,159
Others	27,782,689	58,039,709
Total	<u>128,772,733</u>	<u>192,346,971</u>

The Group's accrued charges decreased by 33% was mainly attributable to the settlement of fees.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Long term loans due within a year

Lender	31 December 2003			31 December 2002			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
The Industrial and Commercial Bank of China – Maanshan Branch	-	-	-	RMB	20,000,000	20,000,000	N/A	N/A	N/A
The Industrial and Commercial Bank of China – Huashan Branch	RMB	4,810,000	4,810,000	RMB	10,280,000	10,280,000	3/2004 – 8/2004	2.88	Unsecured
China Construction Bank – Metallurgical Branch	-	-	-	RMB	105,000,000	105,000,000	N/A	N/A	N/A
	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2004	2.4	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,987,290	USD	7,972,657	65,992,075	4/2004 – 10/2004	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Hefei Branch	EUR	123,947	1,281,399	EUR	123,947	1,072,375	3/2004 – 9/2004	0.25	Guaranteed by 中國冶金進出口公司
Total		<u>85,278,689</u>			<u>215,544,450</u>				

The Group's long term loans due within a year decreased by 60% was mainly attributable to the repayment of loans.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

23. Long term loans

Lender	31 December 2003			31 December 2002			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
The Industrial and Commercial Bank of China – Maanshan Branch	RMB	707,000,000	707,000,000	-	-	-	5/2006 – 12/2006	5.49	Guaranteed by Holding
	JPY	2,400,000,000	185,431,200	-	-	-	3/2006 – 5/2006	LIBOR (6 months) +1.25	Guaranteed by Holding
	EUR	64,000,000	661,651,200	-	-	-	1/2006 – 5/2006	LIBOR (6 months) +1.25	Guaranteed by Holding
China Construction Bank – Metallurgical Branch	RMB	808,000,000	808,000,000	RMB	521,000,000	521,000,000	11/2006 – 1/2010	5.76	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	19,931,643	164,968,231	USD	27,904,300	230,972,264	4/2005 – 4/2007	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Maanshan Branch	RMB	150,000,000	150,000,000	-	-	-	5/2006 – 10/2006	5.49	Guaranteed by Holding
	EUR	115,000,000	1,188,904,500	-	-	-	1/2006 – 10/2008	LIBOR (3 months), LIBOR (6 months) +1.25, LIBOR (6 months) +1.5, Bank of China 3-year foreign currency loan floating rate (3 months)	Guaranteed by Holding

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

23. Long term loans (continued)

Lender	Currency type	31 December 2003		Currency type	31 December 2002		Maturity date	Annual interest rate %	Conditions of borrowings
		Original currency amount	RMB		Original currency amount	RMB			
Bank of China – Hefei Branch	EUR	1,859,201	19,220,982	EUR	1,983,142	17,158,000	3/2005 – 9/2019	0.25	Guaranteed by 中國冶金進出口公司
Agricultural Bank of China – Maanshan Branch	RMB	84,000,000	84,000,000	-	-	-	2/2006 – 11/2006	5.49	Guaranteed by Holding
Total			<u>3,969,176,113</u>			<u>769,130,264</u>			

The Group's long term loans increased by 416% was mainly attributable to the increase in construction loans borrowed for repayment of construction fee.

24. Specific payables

	31 December 2003 RMB	31 December 2002 RMB
Government subsidies for specific construction projects	<u>276,980,000</u>	<u>525,840,000</u>

The Group's government subsidies of specific construction projects decreased by 47% was mainly attributable to the completion of certain projects and the transfer of the respective subsidies to the capital reserve.

25. Other long term liabilities

	31 December 2003 RMB	31 December 2002 RMB
Accrued charges for furnace relining	<u>74,499,299</u>	96,323,132
Retirement benefits payable to early retired employees	<u>52,203,371</u>	61,724,138
Total	<u>126,702,670</u>	<u>158,047,270</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Minority interests

Minority interests arose because of the share of interests in certain subsidiaries by minority shareholders.

27. Share capital

The Company had registered, issued and fully paid share capital amounting to RMB6,455,300,000, with each share having a face value of RMB1. The types and structure of share capital are as follows:

	Group and Company	
	31 December 2003 RMB	31 December 2002 RMB
A. Unlisted shares		
1. Shares held by promoter:		
(1) State-owned shares	4,034,560,000	4,034,560,000
(2) Shares owned by domestic legal persons	–	–
(3) Shares owned by foreign legal persons	–	–
(4) Others	–	–
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	–	–
4. Preferred shares and others	–	–
Total unlisted shares	<u>4,122,370,000</u>	<u>4,122,370,000</u>
B. Listed shares		
1. A shares	600,000,000	600,000,000
2. B shares	–	–
3. H shares	1,732,930,000	1,732,930,000
4. Others	–	–
Total listed shares	<u>2,332,930,000</u>	<u>2,332,930,000</u>
C. Total share capital	<u><u>6,455,300,000</u></u>	<u><u>6,455,300,000</u></u>

There was no change in share capital during the year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

28. Capital reserve

	Group and Company			
	At 1 January 2003 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2003 RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	–	304,889,700	–	304,889,700
	<u>4,864,975,395</u>	<u>304,889,700</u>	<u>–</u>	<u>5,169,865,095</u>

The increase in the capital reserve of the Group and the Company during the year represented the transfer-in of government subsidies from specific payables upon the completion of certain subsidised construction projects.

29. Surplus reserves

	Group			
	At 1 January 2003 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2003 RMB
Statutory surplus reserve	251,641,547	282,054,527	(586,678)	533,109,396
Statutory public welfare fund	251,112,646	282,054,527	(327,882)	532,839,291
Reserve fund	–	697,848	–	697,848
Enterprise expansion fund	–	348,924	–	348,924
Total	<u>502,754,193</u>	<u>565,155,826</u>	<u>(914,560)</u>	<u>1,066,995,459</u>

	Company			
	At 1 January 2003 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2003 RMB
Statutory surplus reserve	250,375,144	280,277,529	–	530,652,673
Statutory public welfare fund	250,375,144	280,277,529	–	530,652,673
Total	<u>500,750,288</u>	<u>560,555,058</u>	<u>–</u>	<u>1,061,305,346</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

29. Surplus reserves (continued)

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve (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.

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"). 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 RMB280,277,529 (2002: RMB40,189,989) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of RMB2,802,775,290 (2002: RMB401,899,898) 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 RMB1,776,998 (2002: RMB1,045,781), RMB1,776,998 (2002: RMB618,491), RMB697,848 (2002: Nil) and RMB348,924 (2002: Nil), respectively.

The Group's and the Company's surplus reserves increased by 112% was mainly attributable to the increase in the current year's net profit.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. Retained profits

	Note	Group RMB
Retained profits at beginning of year		39,803,181
Add: Group's net profit for the year		2,792,971,074
Other transfers		914,560
Less: Transfer to SSR		(282,054,527)
Transfer to PWF		(282,054,527)
Transfer to reserve fund		(697,848)
Transfer to enterprise expansion fund		(348,924)
Transfer to employee bonus and welfare fund		(348,924)
Proposed ordinary share dividend for the year 2003	42	(1,355,613,000)
Retained profits at end of year		<u>912,571,065</u>

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 RMB929.80 million (31 December 2002: approximately RMB43.19 million), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2003, in accordance with the Company Law of the PRC, an amount of approximately RMB5.17 billion (31 December 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. At the same date, the Company did not have any capitalisation issue.

Other transfers in the current year mainly arose from the realisation of surplus reserves on liquidation of certain subsidiaries.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	Group					
	2003			2002		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	14,599,399,597	10,905,245,904	3,694,153,693	10,260,190,340	8,686,743,090	1,573,447,250
Sale of pig iron	30,594,546	21,810,170	8,784,376	22,740,587	18,151,754	4,588,833
Sale of steel billets	255,497,932	187,488,550	68,009,382	34,361,798	35,004,230	(642,432)
Others	854,856,333	579,621,929	275,234,404	656,624,436	484,461,885	172,162,551
Total	15,740,348,408	11,694,166,553	4,046,181,855	10,973,917,161	9,224,360,959	1,749,556,202

Category	Company					
	2003			2002		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	14,599,399,597	10,905,245,904	3,694,153,693	10,269,168,330	8,699,926,741	1,569,241,589
Sale of pig iron	30,594,546	21,810,170	8,784,376	22,740,587	18,151,754	4,588,833
Sale of steel billets	255,497,932	187,488,550	68,009,382	34,361,798	35,004,230	(642,432)
Others	761,743,516	509,641,502	252,102,014	641,676,648	486,266,568	155,410,080
Total	15,647,235,591	11,624,186,126	4,023,049,465	10,967,947,363	9,239,349,293	1,728,598,070

Sales to the five largest customers of the Group and the Company for the year amounted to RMB3,487,508,041, which accounted for 22% of the Group's and the Company's total sales amounts respectively.

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

The Group's and Company's principal operating income increased by 43% mainly because of the increase in the selling price and sales volume of steel products. The Group's and Company's gross profit margin increased principally because the increase in selling price of steel products was higher than the increase in cost of raw materials.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Taxes and surcharges

	2003 RMB	2002 RMB
City construction and maintenance tax	89,926,453	59,992,138
Education surcharge	38,539,909	25,710,917
Other taxes	1,611,820	493,346
Total	<u>130,078,182</u>	<u>86,196,401</u>

The Group's tax and surcharges increased by 51% was mainly attributable to the increase in sales which led to the increase in VAT.

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

33. Other operating profit

The Group's other operating profit increased by 369% was mainly attributable to the increase in the trading of goods not produced by the Company.

34. Administrative expenses

The Group's administrative expenses increased by 34% was mainly attributable to the recognition of unpaid staff housing subsidies.

35. Financial expenses

	2003 RMB	2002 RMB
Interest expenses	105,027,304	101,902,205
Less: Interest income	(15,528,014)	(19,150,188)
Exchange loss	75,443,392	9,328,860
Less: Exchange gain	(22,651,077)	(11,956,737)
Others	5,717,335	5,155,748
Total	<u>148,008,940</u>	<u>85,279,888</u>

The increase in the Group's financial expenses by 74% was mainly attributable to the increase in exchange loss in the year 2003.

Notes to Financial Statements (continued)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

36. Investment income/(loss)

	Group		Company	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Loss on disposal of equity investments	(10,629,765)	–	(9,629,765)	–
Investment income from equity investments	–	6,836,100	19,859,733	25,558,604
Reversal of provision/ (provision) for decline in value of short term investments	2,263,731	(491,941)	2,263,731	(491,941)
Provision for impairment of long term investments	–	–	–	(200,000)
	<u>(8,366,034)</u>	<u>6,344,159</u>	<u>12,493,699</u>	<u>24,866,663</u>

The Group incurred investment loss as a result of decrease in equity investment income and increase in loss on disposal of equity investments. The Company's investment income decreased by 50% was mainly attributable to the decrease in investment income calculated under equity method and the increase in loss on disposal of equity investments.

As at the balance sheet date, no significant restriction was imposed upon the transfer of the Group's investment income.

37. Subsidies income

	2003 RMB	2002 RMB
Subsidies income for steel export	<u>1,413,783</u>	<u>1,431,000</u>

38. Non-operating income

The increase in the Group's non-operating income by 384% was mainly attributable to the increase in amount exempted for the repayment of loans on environmental protection projects and gain on disposal of fixed assets.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

39. Non-operating expenses

	2003 RMB	2002 RMB
Provision/(reversal) for impairment of fixed assets	(63,554,141)	236,247,100
Staff children education expenses	25,660,897	25,552,453
Loss on disposal of fixed assets	55,959,281	222,086,787
Subsidies to retired employees	5,998,800	–
Penalties and charitable donations	7,486,350	5,337,831
Others	652,256	37,290
	<u>32,203,443</u>	<u>489,261,461</u>
Total	<u>32,203,443</u>	<u>489,261,461</u>

The decrease in the Group's non-operating expenses by 93% was mainly attributable to the decrease in the provision for impairment of fixed assets and the loss on disposal of fixed assets.

40. Income tax

The Group's income tax increased by 103% was mainly attributable to the increase in profits.

41. Staff housing subsidies charged to retained profits

Prior to 1 January 2003, pursuant to an implemented staff housing subsidies scheme, one-off lump sum housing subsidies for current and retired employees are charged to retained profits upon payment. Starting from 1 January 2003, as the staff housing subsidies scheme has been revised, staff housing subsidies paid in year 2003 and staff housing subsidies that will be paid to current and retired employees in future years are charged to administrative expenses in the year 2003. Please refer to point 45(ii) for details.

42. Proposed ordinary share dividend

	Group and Company	
	2003 RMB	2002 RMB
Proposed final dividend – RMB21 cents (2002: RMB3.5 cents) per ordinary share	<u>1,355,613,000</u>	<u>225,935,500</u>

Proposed ordinary share dividend is determined based on the profit appropriation plan for the year ended 2003 as approved by the board of directors after the balance sheet date. Dividend proposed for legal person shares, A shares and H shares amounted to RMB865,697,700, RMB126,000,000 and RMB363,915,300 respectively. The proposed dividend is subject to approval by the shareholders at the annual general meeting.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

42. Proposed ordinary share dividend (continued)

The Group adopted the revised "Accounting Standard for Business Enterprises – Events Occurring After the Balance Sheet Date" in the current year. To comply with this revised standard, proposed final dividend for the year ended 31 December 2002 amounted to RMB225,935,500, which was recognised as dividend payable in prior year, was retrospectively reclassified to proposed ordinary share dividend under shareholders' funds. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the shareholders' funds previously reported as at 31 December 2002, by RMB225,935,500.

43. Cash paid relating to other operating activities

	2003 RMB	2002 RMB
Real estate tax	26,829,627	27,574,348
Environmental improvement fee	26,367,906	26,380,726
Welfare and support services	78,435,031	78,615,013
Export related costs	5,937,889	10,543,079
Transportation cost	11,958,049	14,628,948
Unloading cost	15,214,810	11,550,914
Packing fee	13,733,322	13,467,740
Staff children education expenses	25,660,897	25,552,453
Warehouse fee	2,844,410	2,856,601
Flood prevention fund	6,750,772	5,726,402
Stamp duty	6,313,148	5,141,921
Rental fee	5,506,284	5,545,306
Repair and maintenance expenses	9,445,866	6,853,366
Others	127,904,020	77,418,994
Total	<u>362,902,031</u>	<u>311,855,811</u>

44. Cash received relating to other financing activities

	2003 RMB	2002 RMB
Government subsidies for specific construction projects	<u>55,980,000</u>	<u>40,000,000</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

Net profit	Notes	2003 RMB'000	2002 RMB'000 (Restated)
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 expense/(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		<u>2,792,971</u>	<u>384,441</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Shareholders' funds	Notes	31 December 2003 RMB'000	31 December 2002 RMB'000 (Restated)
Shareholders' funds 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 income statement:			
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)
Amortisation of deferred income	(vi)	(3,606)	–
Shareholders' funds 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.



Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(i) Deferred staff costs (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 at 31 December 2003, the deferred staff costs are impaired and unamortised deferred staff costs of approximately RMB70.4 million are fully charged to the current year's income statement.

(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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(ii) Staff housing subsidies (continued)

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 income statement 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.

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 income statement 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 income statement in the current year in accordance with Hong Kong accounting standards.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(iii) Furnace relining costs

Under PRC accounting standard "Accounting Standard for Business Enterprises – Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.34 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, provision for furnace relining costs of approximately RMB21.8 million was utilised, and the remaining provision as at 31 December 2003 amounted to approximately RMB74.5 million (31 December 2002: approximately RMB96.3 million).

Under Hong Kong Statement of Standard Accounting Practice ("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 income statement.

(iv) Deferred tax

Under the newly implemented Hong Kong SSAP 12 (Revised), 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 (31 December 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 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(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 income statement.

(vi) Deferred income

Government grants for specific construction projects are accounted for as deferred income under Hong Kong accounting standards. Whereas under PRC accounting standards, such grants are accounted for as specific payables.

Under Hong Kong SSAP 35, upon completion of the subsidised construction projects, deferred income is released to the income statement 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 the current year's income statement.

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 (31 December 2002: Nil).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party involving control relationship

Name	Registered address	Principal activities	Relationship with the Company	Nature	Legal representative
Holding	Maanshan City, Anhui Province	Mining & sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food & beverages; production services; mechanical & electrical equipment manufacturing and metal products manufacturing	Ultimate holding company	Limited company	Gu Jianguo

As at 31 December 2003, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries and associates of Holding become the Company's related parties.

2. Registered capital of related party involving control relationship and related changes

Name	At 1 January 2003 RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	At 31 December 2003 RMB'000
Holding	6,298,290	—	—	6,298,290

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

Name	At 1 January 2003		Increase during the year		Decrease during the year		At 31 December 2003	
	RMB'000	Ratio %	RMB'000	Ratio %	RMB'000	Ratio %	RMB'000	Ratio %
Holding	4,082,330	63.24	—	—	—	—	4,082,330	63.24

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship

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

Name	Relationship with the Company
馬鋼集團建設有限責任公司	Subsidiary/associate of Holding
馬鋼集團建築路橋有限責任公司	Subsidiary/associate of Holding
馬鋼集團南山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼集團姑山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司桃沖礦業公司	Subsidiary/associate of Holding
馬鋼集團設計研究院有限責任公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司測繪大隊	Subsidiary/associate of Holding
馬鋼集團康泰置地發展有限公司	Subsidiary/associate of Holding
馬鋼集團康泰建安實業有限公司	Subsidiary/associate of Holding
馬鋼集團力生有限責任公司	Subsidiary/associate of Holding
馬鋼集團實業發展有限責任公司	Subsidiary/associate of Holding
馬鋼集團實業發展有限責任公司潤滑油分公司	Subsidiary/associate of Holding
馬鋼易凡工貿有限公司	Subsidiary/associate of Holding
馬鋼集團鋼渣綜合利用有限責任公司	Subsidiary/associate of Holding
馬鋼實業生興爐料加工有限責任公司	Subsidiary/associate of Holding
馬鋼體育用品有限責任公司	Subsidiary/associate of Holding
馬鞍山市聯營乙炔廠	Subsidiary/associate of Holding
馬鞍山凱馬螺絲製造公司	Subsidiary/associate of Holding
馬鞍山黑馬鋼筋焊網有限公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司有綫電視中心	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司馬鋼日報社	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司職大冶金機械廠	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary/associate of Holding
馬鋼和菱包裝材料有限公司	Subsidiary/associate of Holding
馬鋼嘉華商品混凝土有限公司	Subsidiary/associate of Holding

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	Note	2003 RMB	2002 RMB
Transactions with Holding and subsidiaries of Holding			
Purchases of iron ore and limestone		844,579,190	816,320,280
Fees received for the supply of utilities, services and other consumable goods		(41,750,881)	(30,365,162)
Fees paid for welfare, support services and other services		337,686,950	223,802,461
Agency fee		5,327,428	–
Purchases of fixed assets and construction services		227,530,662	176,811,962
Sale of steel products		(14,122,621)	(44,636,966)
Including sale of steel products to subsidiaries of Holding:			
馬鋼易凡工貿有限公司		(1,923,151)	–
馬鋼集團建設有限責任公司		(7,656,722)	–
馬鋼和菱包裝材料有限公司		(919,168)	–
馬鋼合力金屬製品有限公司	(i)	–	(1,892,432)
馬鞍山黑馬鋼筋焊網有限公司		–	(36,300,050)
馬鋼(集團)控股有限公司桃沖礦業公司		(3,586,011)	(2,179,018)
馬鋼集團姑山礦業有限責任公司		(2,520)	(4,221,227)
馬鋼集團力生有限責任公司		(35,049)	–
		(14,122,621)	(44,592,727)

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

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

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties

	31 December 2003 RMB	31 December 2002 RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	1,610,675	2,102,555	Trade and electricity fee
馬鋼嘉華商品混凝土有限公司	83,816	87,264	Electricity fee
馬鋼集團建築路橋有限責任公司	377,708	996,532	Trade and electricity fee
馬鋼集團南山礦業有限責任公司	290,194	258,153	Trade and electricity fee
馬鋼集團姑山礦業有限責任公司	50,556	50,556	Trade
馬鋼(集團)控股有限公司桃沖礦業公司	983	983	Trade
馬鋼集團設計研究院有限責任公司	11,820	11,820	Electricity fee
馬鞍山黑鋼筋焊網有限公司	41,311	195,316	Electricity fee
馬鋼實業生興爐料加工有限責任公司	5,473	11,630	Electricity fee
馬鋼運動用品有限責任公司	28,833	9,527	Electricity fee
馬鞍山凱馬螺絲製造公司	4,606	2,327	Electricity fee
馬鋼集團力生有限責任公司	71,618	36,396	Trade and electricity fee
	<hr/>	<hr/>	
Total	2,577,593	3,763,059	
Prepayments:			
Holding	66,690,920	76,712,633	Iron ore costs, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	3,679,733	2,768,041	Trade and construction fee
馬鋼集團康泰建安實業有限公司	32,000	-	Construction fee
馬鋼易凡工貿有限公司	488,254	1,593,521	Trade
馬鞍山市聯營乙炔廠	1,864,281	2,244,849	Trade
	<hr/>	<hr/>	
Total	72,755,188	83,319,044	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2003 RMB	31 December 2002 RMB	Details
Trade payables:			
Holding	–	58,759	Trade
馬鋼集團建設有限責任公司	28,372,982	12,850,913	Construction and maintenance fees
馬鋼嘉華商品混凝土有限公司	507,387	542,512	Trade
馬鋼集團建築路橋有限責任公司	15,035,652	5,339,212	Construction and maintenance fees
馬鋼集團南山礦業有限責任公司	–	575,604	Trade
馬鋼(集團)控股有限公司桃沖礦業公司	429,430	4,758,497	Trade
馬鋼(集團)控股有限公司黨校	65	1,800	Material costs
馬鋼集團設計研究院有限責任公司	150,000	–	Trade
馬鋼集團冶金科技開發服務有限公司	–	68,000	Trade
馬鋼(集團)控股有限公司測繪大隊	74,276	–	Construction fee
馬鋼集團康泰置地發展有限公司	60,000	–	Maintenance fee
馬鋼集團康泰建安實業有限公司	298,245	–	Construction fee
馬鋼集團實業發展有限責任公司	464,236	88,377	Trade
馬鋼集團實業發展有限責任公司 潤滑油分公司	1,921,879	44,512	Trade
馬鞍山黑馬鋼筋焊網有限公司	357,568	187,215	Trade and construction fee
馬鋼集團鋼渣綜合利用有限責任公司	1,112,826	1,829,188	Trade
馬鋼運動用品有限責任公司	122,170	339,579	Electricity and service fee
馬鞍山市聯營乙炔廠	437,569	1,780,490	Processing fee
馬鋼(集團)控股有限公司馬鋼日報社	10,000	32,250	Advertising fee
馬鋼(集團)控股有限公司職大冶金機械廠	499,586	46,257	Trade
馬鋼集團力生有限責任公司	4,793,702	2,157,518	Construction fee
Total	54,647,573	30,700,683	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2003 RMB	31 December 2002 RMB	Details
Deposits received:			
馬鋼集團建設有限責任公司	465,607	2,000,942	Trade
馬鋼集團南山礦業有限責任公司	424	143	Trade
馬鋼集團姑山礦業有限責任公司	47,286,295	35,790,093	Trade
馬鋼(集團)控有限公司桃沖礦業公司	1,192,110	687,743	Trade
馬鋼集團康泰置地發展有限公司	60,260	60,260	Electricity fee
馬鋼集團實業發展有限責任公司	799	-	Trade
馬鞍山黑馬鋼筋焊網有限公司	2,718,170	260,288	Trade
馬鋼易凡工貿有限公司	441,167	54	Trade
馬鋼集團力生有限責任公司	8,584	9,788	Trade
馬鋼和菱包裝材料有限公司	42,839	-	Trade
Total	<u>52,216,255</u>	<u>38,809,311</u>	

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

VII. CONTINGENT LIABILITIES

As at 31 December 2003, the Company had given guarantees amounted to approximately RMB2.42 billion (31 December 2002: approximately RMB1.91 billion), in order for certain of its subsidiaries to obtain banking facilities.

Save as aforesaid, the Group and the Company had no significant contingent liabilities as at the balance sheet date.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VIII. CAPITAL COMMITMENTS

The commitments for capital expenditure as at the balance sheet date were as follows:

	Group and Company	
	31 December 2003 RMB'000	31 December 2002 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

Note: 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).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

VIII. CAPITAL COMMITMENTS (continued)

	Group and Company	
	31 December 2003 RMB'000	31 December 2002 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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)
31 December 2003

IX. NON-RECURRING GAINS OR LOSSES

	2003 RMB
Loss on disposal of long term equity investments	(10,629,765)
Loss on disposal of fixed assets, net	(47,260,768)
Subsidies income	1,413,783
Reversal of provision for decline in value of short term investments	2,263,731
Other non-operating income and expense items	(28,966,418)
Reversal of impairment provisions made in prior years	63,554,141
Income tax effect	11,374,920
Total	<u>(8,250,376)</u>

The calculation of non-recurring gains or losses is in accordance with Zheng Jian Kuaiji Zi No. (2004) 4 "Notice on issuance of 'Questions and answers on information disclosure standards of listed securities companies' No. 1 (revised 2004)" issued by China Securities Regulatory Commission.

X. COMPARATIVE AMOUNTS

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

XI. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 13 April 2004.