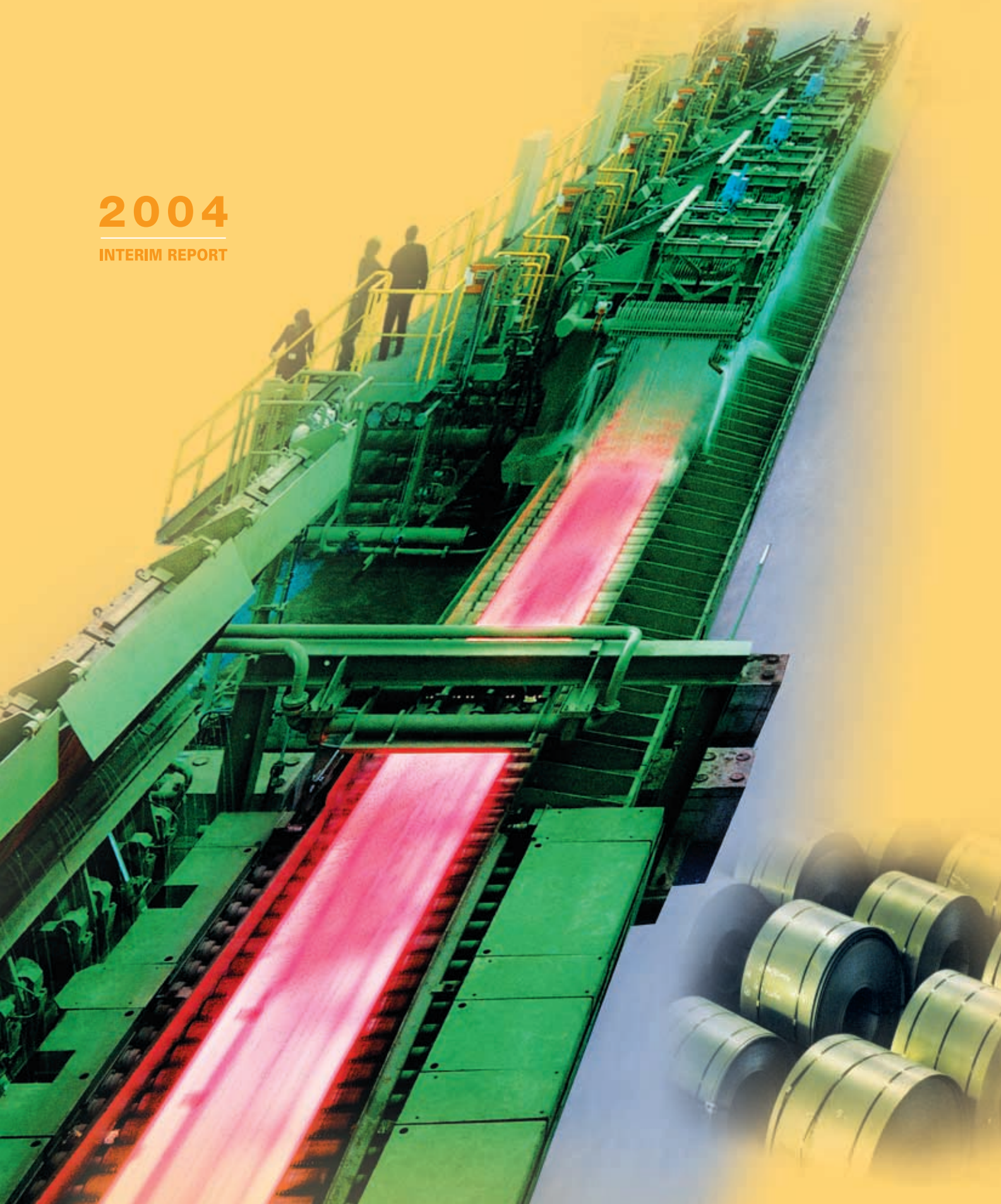




MAANSHAN IRON & STEEL COMPANY LIMITED

2004

INTERIM REPORT



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IMPORTANT

The Board of Directors and the Directors of the Company jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false records, misleading statements or material omissions in this report.

Mr. Gu Jianguo, Company Chairman, Mr. Su Jiangang, Director and Deputy General Manager overseeing the accounting operations, and Mr. Guan Yagang, Finance Manager in charge of the Accounting Department, make representation in respect of the authenticity and completeness of the financial statements contained in the interim report.

The financial statements contained in this interim report have not been audited, but have been reviewed by the Company's audit committee.

I. COMPANY INFORMATION

1. Company profile

Maanshan Iron & Steel Company Limited (the “Company”) was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint stock limited enterprises which formed the first batch of the overseas listed companies. The Company’s H shares were issued overseas during 20 – 26 October 1993 and were listed on The Stock Exchange of Hong Kong Limited on 3 November 1993. The Company issued 410 million social legal person shares and 190 million employee shares in the domestic market during 6 November and 25 December 1993. The social legal person shares were subsequently listed on the Shanghai Stock Exchange in two batches on 6 January and 4 April 1994, respectively. The employee shares were listed on the Shanghai Stock Exchange on 6 September 1994.

The Company is principally engaged in the manufacture and sale of iron and steel products. Currently, it is one of the largest iron and steel producers and marketers in the PRC. Its production process mainly comprises coking, sintering, iron smelting, steel smelting and steel rolling. The Company’s principal product is steel products that come in four major categories: plate belt, shaped steel, wire rods and train wheels and tyres, with a full range of models and specifications designed for a variety of applications. Over 90% of these products are sold in the domestic market.

I. COMPANY INFORMATION (continued)

1. Company profile (continued)

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

I. COMPANY INFORMATION (continued)

2. Major financial figures and indicators

- (1) Major financial figures and indicators of the Company and its subsidiaries (the "Group") prepared under PRC Accounting Standards (UNIT: RMB)

Index Item	30 June 2004	31 December 2003
Current assets ('000)	10,116,206	8,334,038
Current liabilities ('000)	9,520,381	6,986,606
Total assets ('000)	29,732,235	26,355,229
Shareholders' funds (excluding minority interests) ('000)	16,113,938	14,960,345
Net assets per share (RMB)	2.50	2.32
Adjusted net assets per share (RMB)	2.50	2.32
	January to June 2004	January to June 2003
Net profit ('000)	2,300,027	953,852
Net profit excluding non-recurring gains or losses ('000)	2,295,116	956,537
Earnings per share (RMB)	0.3563	0.1478
Return on net assets (%)	14.274	7.443
Net cash flows from operating activities ('000)	2,656,797	1,322,989

Items and amounts of non-recurring gains or losses during the reporting period (UNIT: RMB'000)

Item	Amount
Subsidies income	672
Other non-operating income and expenses, net	5,040
Income tax effect	(801)
Non-recurring gains or losses, net	<u>4,911</u>

- (2) Effects on net profit of differences in the consolidated accounting statements prepared under PRC Accounting Standards and Hong Kong Accounting Standards (UNIT: RMB'000)

Item	January to June 2004
Net profit under Hong Kong Accounting Standards	2,315,540
Less:	
Transfer of deferred income	<u>(15,513)</u>
Net profit under PRC Accounting Standards	<u>2,300,027</u>

II. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE

1. There was no movement in the share capital of the Company during the reporting period.

2. Shareholders

(1) As at the end of the reporting period, the Company had a total of 145,911 shareholders, including 139,301 A-Share holders and 6,610 H-Share holders.

(2) Shareholding of the 10 largest shareholders as at the end of the reporting period:

Magang (Group) Holding Company Limited (“Holding”), the state-owned controlling shareholder of the Company, held 4,082,330,000 A shares of the Company, all being non-circulating shares representing 63.24% of the total share capital of the Company, which were the same as the previous reporting period. Other shareholders who were among the 10 largest shareholders of the Company were as follows:

Name of shareholders	Class of shares	Number of shares held (shares)	As a percentage of total share capital (%)	Increase (decrease) from beginning of the period (±)	Type of shareholders
HKSCC (Nominees) Limited	Circulating H shares	1,633,930,997	25.311	18,762,000	Foreign shareholders
HSBC (Nominees) Limited	Circulating H shares	29,528,000	0.457	-3,306,000	Foreign shareholders
Tai He Securities Investment Fund	Circulating A shares	17,463,808	0.271	Unknown	Not applicable
Guo Yuan Securities Limited Liability Company	Circulating A shares	10,630,450	0.165	1,964,270	Not applicable
Shanghai Quan Long Shiye Company Limited	Non-circulating	9,800,000	0.152	0	Not applicable
The Bank of Communications – Han Xing Securities Investment Fund	Circulating A shares	7,838,527	0.121	-10,357,990	Not applicable
The Bank of Communications – Yi Fang Da 50 Index Securities Investment Fund	Circulating A shares	7,107,108	0.110	Unknown	Not applicable
Tian Hua Securities Investment Fund	Circulating A shares	6,103,900	0.095	Unknown	Not applicable
Xing He Securities Investment Fund	Circulating A shares	4,957,794	0.077	Unknown	Not applicable

(3) Shareholding of 10 largest holders of shares in circulation as at the end of the reporting period:

Name of shareholders	Class of shares	Number of shares held (shares)
HKSCC (Nominees) Limited	H shares	1,633,930,997
HSBC (Nominees) Limited	H shares	29,528,000
Tai He Securities Investment Fund	A shares	17,463,808
Guo Yuan Securities Limited Liability Company	A shares	10,630,450
The Bank of Communications – Han Xing Securities Investment Fund	A shares	7,838,527
The Bank of Communications – Yi Fang Da 50 Index Securities Investment Fund	A shares	7,107,108
Tian Hua Securities Investment Fund	A shares	6,103,900
Xing He Securities Investment Fund	A shares	4,957,794
Da Cheng Value Growth Securities Investment Fund	A shares	4,556,244
Lu Xiaolin	A shares	3,747,500

II. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE (continued)

- (4) Holding was not related to the other shareholders mentioned above, nor were they parties acting in concert. However, the Company is not aware of whether the other shareholders mentioned above were related to each other or whether they were parties acting in concert.

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

HKSCC (Nominees) Limited held 1,633,930,997 H shares of the Company on behalf of multiple clients.

III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There were no changes in the holdings of the Company's shares by directors, supervisors and senior management during the reporting period.

Mr. Ding Yi was appointed Deputy General Manager of the Company in January 2004. There were no new employment or termination of employment of other directors, supervisors or senior management during the reporting period.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2004, as the world economy continued to improve, the PRC's national economy maintained its steady and rapid growth with its GDP increased by 9.7% period-on-period. The State has made intensified macro economic control efforts with a view to regulating excessive investments in fixed assets, as well as the tendency of over-development in certain industries such as steel, cement and electrolytic aluminium industries during the first quarter. As the various macro-control measures have been carried out gradually and have taken remarkable effect, the unstable and unhealthy factors existing in economic operations have been put under control; the excessive growth of fixed-asset investment has been suppressed; and the investments and output growth rates of certain over-heated industries have clearly rolled back.

While the steel industry has gone through the process of excessive growth and then steady development during the first half of the year, steel prices have also been driven from an upsurged level to a reasonable level. The growth in national output of steel and iron products has decreased while major steel and iron enterprises have achieved steady output growth and greater industrial centralisation.

1. Production operation

For the first half of 2004, the Company has overcome difficulties of shortages of coal and power supply and tight transportation. The Company produced pig iron, crude steel and steel products amounting to 3,390,000 tonnes, 3,800,000 tonnes and 3,550,000 tonnes, respectively, up 29.39%, 27.52% and 31.97% period-on-period, respectively. Consolidated energy consumption rate of the Company was 757 kilogrammes of standard coal for each tonne of steel produced, representing a period-on-period decrease of 10 kilogrammes of standard coal for each tonne of steel produced. The Group's major products have achieved a production-sales ratio of approximately 100% and accounted for an approximately 2.4% market share in Mainland China. The Group realized a principal operating income of RMB12,808 million, representing an increase of 81.4% as compared to the corresponding period of the previous year. The Group's gross profit margin of principal operating activities was 25.58%.

The Group has achieved better operating results during the first half of the year, mainly benefiting from the Company's structural adjustment scheme in accordance with the Tenth Five-Year Plan ("10-5 Plan"):

- (1) The structural adjustment scheme has contributed to growth in the output and sales of steel products, and the Company recorded increases in sales;
- (2) The structure of the increased output has shifted to products with higher added value such as thin plates, thus improving profitability and earnings;
- (3) Both unit fixed expenses and costs were reduced with the output increase, thus generating larger profits.

Meanwhile, steel prices were still going up over the average prices of the previous year. However, the prices of raw materials and fuels also showed a larger increase during the first half of the year.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. Production operation (continued)

- (1) Under PRC Accounting Standards, the Group's principal operating income was RMB12,808 million, of which steel products accounted for 95.2% and other products accounted for 4.8% (UNIT: RMB million):

	Principal operating income	Cost of sales from principal operating activities	Gross profit margin (%)	Increase/ (decrease) of principal operating income as compared to the corresponding period of the previous year (%)	Increase/ (decrease) of cost of sales from principal operating activities as compared to the corresponding period of the previous year (%)	Increase/ (decrease) of gross profit margin as compared to the corresponding period of the previous year (%)
Steel products	12,193	9,038	25.88	86.18	73.11	5.60
Including: connected transactions	17.62	12.78	27.46	-60.84	-64.50	7.57

- (2) Geographical analysis of the principal operating income prepared under PRC Accounting Standards (UNIT: RMB million):

Region	Percentage (%)	Principal operating income	Increase/(decrease) of principal operating income as compared to the corresponding period of the previous year (%)
Anhui	26	3,304	42
Jiangsu	24	3,038	89
Shanghai	15	1,960	87
Zhejiang	8	1,081	96
Guangdong	9	1,103	Not applicable
Other PRC regions	15	1,955	67
Exports	3	367	4

- (3) Under the PRC Accounting Standards, profit from principal operating activities was RMB3,186 million, up 122% period-on-period; net profit was RMB2,300 million, up 141% period-on-period, which was mainly attributed to increase in the sales of the Company's principal operating products during the reporting period; cash and cash equivalents recorded a net increase of RMB175 million, decreased by 71.43% period-on-period, which was due to increase in the purchases of raw materials and fuels.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. Profit breakdown

Changes in the Group's profit breakdown during the reporting period prepared under PRC Accounting Standards (UNIT: RMB million):

Item	January to June 2004	January to December 2003
Profit from principal operating activities	3,186	3,916
Expenses for the period	500	972
Profit before tax	2,706	2,988

Profit from principal operating activities accounted for 117.74% of profit before tax, a decrease of 13.32 percentage points as compared to the previous year. Expenses for the period accounted for 18.48% of profit before tax, a decrease of 14.05 percentage points as compared to the previous year. Such decrease was mainly due to increase in the Company's profit before tax during the reporting period.

3. Financial position and exchange rate risks

The Group's capital structure comprised mainly shareholders' equity and bank loans. As at 30 June 2004, the total amount of bank loans borrowed by the Group was RMB6,094 million, including loans for working capital of RMB2,139 million and project loans of RMB3,955 million. Movements of the Group's bank loans followed the developments in production and construction projects. The Group had been able to repay all loans on due dates, or ahead of due dates upon consultation with the relevant banks. No overdue payments had been recorded so far.

As at 30 June 2004, in accordance with PRC Accounting Standards, the Group's total liabilities amounted to RMB13,576 million, shareholders' equity amounted to RMB16,114 million, with a gearing ratio (total liabilities/total assets) of 45.73%. Under Hong Kong Accounting Standards, the Group's total liabilities amounted to RMB14,011 million, shareholders' equity totalled RMB15,748 million, with a gearing ratio (total liabilities/total assets) of 47.08%. The Group did not have any significant contingent liabilities.

During the reporting period, the Group continued to implement its structural adjustment scheme in relation to the 10-5 Plan. Other than internal resources, all capital requirements for the Group's projects were financed through bank loans. As at 30 June 2004, bank commitments to provide project loans to the Group were as follows: RMB3,000 million for the Thin Plate Project; RMB117 million for the Coke Dry Quenching Project; RMB200 million for the Modification of Train Wheel Rolling System; RMB84 million for the Blast Furnace Gas Utilisation Project; RMB110 million for the Water Purification System Project; RMB57 million for the Converter Gas Recovery Project; RMB250 million for the second Galvanization Production Line; and RMB560 million for the second H-Beam Production Line.

As at 30 June 2004, the Group's cash and balances with financial institutions amounted to RMB2,556 million. Bills receivable amounted to RMB1,882 million (of which bank acceptance bills due within three months amounted to RMB1,362 million). Pre-collection of sales payments for the coming month and bank loans constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. Financial position and exchange rate risks (continued)

Except for two foreign currency loans in the amounts of US\$260 million and 207 million Euros, respectively, all other loans were denominated in RMB. All loans of the Group were subject to fixed interest rates designated by the State except for loans of US\$218 million and 205 million Euros.

During the first half of 2004, the Group imported US\$241 million worth of raw materials and spare parts required for production operations, while foreign exchange income generated from product exports amounting to US\$56 million. Both our import and export operations were settled in US dollars with any amounts falling short in US dollar payment to be made up by the purchase of additional US dollars with RMB. Given that the US dollar to RMB exchange rate remained relatively stable, movements in the US dollar exchange rates did not have any significant impact on the Company's profit and loss for the period.

Most imported equipment required for the Group's implementation of the structural adjustment scheme in accordance with the 10-5 Plan was purchased from Europe and Japan with payments to be settled in Euro and Yen. In view of lower interest rates for loans denominated in Euro and Yen, the Company borrowed 188 million Euros and 2,400 million Yen in bank loans for the payment of imported equipment and spare parts as at 30 June 2004. Among which, 2,400 million Yen has been repaid before 14 March 2004. It is expected that, by the time of completion of the contracts for imported equipment, the Group will still need 13 million Euros, 1,300 million Yen and US\$2 million for settling the payments for such imported equipment. As the exchange rates for Euro tend to be more volatile, the Group will be exposed to certain exchange rate risks in respect of the above loans. The Company will discuss with its banks to identify different measures for reducing exchange rate risks as permissible under State policies. Meanwhile, the Company is also studying and implementing various measures in relation to reducing project costs so that total project investment will always be contained within budget limits.

4. Major investments

As at 31 December 1999, the proceeds of the Company raised in 1993 had been fully utilised in accordance with the plans as stated in the prospectus in relation to the Company's A share and H share issues.

During the reporting period, the Company made use of internal resources and bank loans to invest a total of RMB2,141 million in construction in progress. Major investment projects and their progresses were as follows:

(1) Projects which have already commenced operation:

- The Cold-rolled Thin Plate Production Line, an investment of RMB2,100 million;
- The Galvanization Production Line, an investment of RMB400 million;
- The 1,000m³ Blast Furnace, an investment of RMB225 million;
- The 40,000m³/h Oxygenerator, an investment of RMB340 million;
- The Coke Dry Quenching Project, an investment of RMB168 million.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

4. Major investments (continued)

(2) Projects under construction:

- The Recovery Engineering of Coke Making Plant, an investment of RMB170 million, has commenced debugging tests for the system and facilities (commenced operation in July);
- The No. 4 Converter of No. 3 Steel Making Plant, an investment of RMB212 million, has commenced debugging tests for the facilities (commenced operation in July);
- The Modification of Train Wheel Rolling System, an investment of RMB320 million, is currently carrying out debugging tests for the facilities (commenced trial operation in August);
- The Coil Coating Lines Project, an investment of RMB285 million, is currently carrying out installation of facilities (commenced debugging tests for the facilities in July);
- The High-speed Rod Production Line of No. 2 Steel Making Plant, an investment of RMB208 million, has commenced installation of facilities;
- The Second Galvanization Production Line, an investment of RMB670 million, has commenced hoisting of its steel framework;
- The Second H-Beam Production Line, an investment of RMB930 million, has completed its foundation works;
- The new No. 2 Coke Furnace, an investment of RMB215 million, has completed its foundation works.

5. Recent economic developments

The world has embarked on an economic recovery that should accelerate over the second half of the year with demand for steel products continuing to grow. The PRC government will continue to implement moderately tight monetary policies to ease the pressure on excessive investments. Economic operation will develop towards steady growth. Against this backdrop, the growth rates in both steel output and consumer spending will continue to slow down, but total output and consumer spending will experience moderate growth. Overall demand and supply will be kept in balance on the whole; and steel products prices will tend to stabilise or be subject to slight fluctuations. Shortage of coal and power supply and tight transportation will continue while price increases in raw materials and power costs may result in lower profits for the Company.

In light of the remarkable increase in the Group's net profit as compared to the corresponding period of the previous year, the Group expects to achieve an increase of more than 50% in net profit for January to September of this year as compared to the corresponding period of the previous year, provided that there will be no obvious decrease in the Company's steel products prices and that major raw materials and fuels prices and sea freight costs are not going to increase significantly during the third quarter.

V. SIGNIFICANT MATTERS

1. Corporate Governance

In accordance with the relevant regulations, the Company has set up a management system where there is a check-and-balance among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager were clear and unambiguous. In order to further improve its corporate governance structure, during the reporting period, the Company has made timely revisions to the Articles of Association of the Company in accordance with all the relevant requirements of China Securities Regulatory Commission ("CSRC") and the Stock Exchange of Hong Kong Limited, and has formulated the "Code of Practice for General Manager of Maanshan Iron & Steel Company Limited" to achieve standardisation in operation process.

The Company's Audit Committee comprises Madam Cheng Shaoxiu, Mr Wu Junnian, Mr Shi Jianjun and Mr Chan Yuk Sing (all being independent directors). They are responsible for the review and supervision of the Group's financial and internal monitoring. During the reporting period, the Audit Committee held one meeting and reviewed the Company's 2003 annual financial report.

2. Profit distribution proposal and implementation

- (1) The Company's profit distribution plan and implementation for the previous year: a cash dividend of RMB0.21 per share was declared to all shareholders on the basis of a total share capital of 6,455,300,000 shares as at the end of 2003, whereas H-Share dividend was distributed in Hong Kong dollar. The proposal was approved at the annual general meeting held on 1 June 2004, and relevant announcements were made on 2 June 2004 both within and outside the PRC. The share right registration date for A shares was 17 June 2004, ex-dividend date was 18 June 2004, and dividend payment date was 24 June 2004; the register of members of H shares was closed from 30 April to 1 June 2004 (both days inclusive) during which period no transfer of H shares was effected. Dividend cheques for H shares were posted to the respective holders of H shares on 24 June 2004. The distribution of dividends for A shares and H shares were both implemented.
- (2) The Company will not implement profit distribution for the first half of 2004 and no transfer to share capital from capital reserve fund will be conducted.

V. SIGNIFICANT MATTERS (continued)

3. Material litigations and arbitrations

- (1) There was no material litigation and arbitration of the Company during the reporting period.
- (2) Three material litigations of the Company had been settled in the past but were lasting until the reporting period. Their judgments were enforced as follows:

Litigation against Shenzhen Leasing Co. Ltd (“SLCL”) by the Company concerning a dispute over deposit certificates. In 1996, the Company deposited HK\$80 million with the defendant for the term of one year but the defendant did not repay the amount on maturity. The Company then initiated a litigation that resulted in a final ruling in favour of the Company, in respect of which the Company applied for court enforcement. However, SLCL subsequently underwent debt and equity restructuring with capital contributions from Sanjiu Group, and was incorporated as Shenzhen Financial Leasing Company Limited (深圳金融租賃有限公司). The Company entered into a reconciliation agreement with Shenzhen Financial Leasing Company Limited on 16 March 2000, whereby Shenzhen Financial Leasing Company Limited agreed to repay a principal amount of HK\$10 million within 60 days from the effective date of the agreement and the remaining HK\$70 million and accrued interest thereon within two and a half years commencing 2003. On 16 May 2000, the Company received the repayment of HK\$10 million from Shenzhen Financial Leasing Company Limited. The Company entered into a debt rescheduling agreement with Shenzhen Financial Leasing Company Limited and Jiangsu Jiayuan Investment Company Limited (江蘇佳源投資有限公司) on 30 March 2004 whereby it was agreed as follows: Jiangsu Jiayuan Investment Company Limited would make an early repayment on behalf of Shenzhen Financial Leasing Company Limited by making a one-off repayment of HK\$40 million owed to the Company. The Company would then write-off its remaining claim. As at 9 April 2004, Jiangsu Jiayuan Investment Company Limited had already repaid HK\$40 million. Thus, the Company’s deposits with Shenzhen Financial Leasing Company Limited had all been cleared up.

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

4. In 1995, the Company deposited HK\$9.32 million with the representative office of China Venturetech Investment Corporation (“China Venturetech”) in Shenzhen for the term of one year. The liquidation team of the People’s Bank of China (“liquidation team”) confirmed that the Company’s claim included the principal of HK\$7.138 million and an interest amount of HK\$2.296 million after deduction of interest payment that the Company had received. On 21 July 2004, the liquidation team informed the Company of a debt repayment solution confirmed by the People’s Bank of China: the liquidation team entrusts Huarong Asset Management Company to arrange for repayment to creditors other than the People’s Bank and four State-owned sole proprietorship commercial banks, the proceeds from the disposal of all assets of former China Venturetech within five years. According to the disposal plan of Huarong Asset Management Company, repayment of 10% of the outstanding principal will be made in 2003, 2004 and 2005, respectively and for 2006 and 2007, repayment will be made based on the actual realized amounts. Overall repayment amount will be determined upon the final disposal result of the entire assets. On the same date, the liquidation team informed the Company of the first distribution of assets with a distribution ratio of 10% of the outstanding principal, being HK\$713,800. The Company has not received any amounts from the distribution yet.

V. SIGNIFICANT MATTERS (continued)

5. In 1996, the Company deposited HK\$30 million with Guangdong International Trust & Investment Corporation for the term of one year. The liquidation team confirmed that the Company's claim included the principal and interest of the deposit totalling RMB36.46 million. In August 2000, the liquidation team conducted the first distribution of assets with a distribution ratio of 5.48%, in which the Company received RMB1,998,182. In December 2001, the liquidation team conducted the second distribution of the assets with a distribution ratio of 9.62%, in which the Company received RMB3,507,758. In February 2003, the liquidation team conducted the third distribution of the assets with a distribution ratio of 4.38%, in which the Company received RMB1,597,087. A total of RMB7,103,027 has been received by the Company in the three distributions. There has been no change during the reporting period.
6. There were no significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

7. Connected transactions

- Business transactions between the Company and Holding for the period from 1 January to 30 June 2004 were as follows:
 - The 10-year "Service Agreement" entered into between the Company and Magang Corporation (the predecessor of Holding) on 14 October 1993 was expired on 31 December 2003.

To ensure that the Company continues to operate efficiently and that employees of the Company may continue to enjoy certain staff trainings and necessary supporting services that the Company may not be able to provide or to obtain easily from independent third parties in Maanshan City, Anhui Province, the PRC, Holding agreed to continue to provide the agreed services to the Company and entered into the "Service Agreement" 2004-2006 with the Company. The new "Service Agreement" was signed on 9 October 2003 and was approved at an extraordinary general meeting held on 11 December 2003.

Details of the amounts paid by the Company to Holding in respect of the new "Service Agreement" from 1 January 2004 to 30 June 2004 are as follows (UNIT: RMB'000):

Major item	Pricing basis	Total value	As a percentage of comparable transactions (%)
On-the-job training	State prices	10,500	100
Food and sanitary services	Market prices	25,145	100
Environmental and hygiene services, and maintenance and repairs of roads	State prices	6,990	100
Carrying out and maintaining landscaping of factory districts	Market prices	12,923	100
Total		<u>55,558</u>	

V. SIGNIFICANT MATTERS (continued)

7. Connected transactions (continued)

- Business transactions between the Company and Holding for the period from 1 January to 30 June 2004 were as follows (continued):
 - (2) The 10-year “Sale and Purchase of Iron Ore Agreement” entered into between the Company and Magang Corporation on 14 October 1993 was expired on 31 December 2003.

With a view to fulfilling the Company’s demand for iron ore for its continuous production, Holding agreed that its iron ore must first be offered to the Company for purchase and entered into the “Sale and Purchase of Iron Ore Agreement” 2004-2006 with the Company. The new “Sale and Purchase of Iron Ore Agreement” was signed on 9 October 2003 and approved at an extraordinary general meeting held on 11 December 2003.

Details of the amount paid by the Company to Holding in respect of the new “Sale and Purchase of Iron Ore Agreement” from 1 January 2004 to 30 June 2004 are as follows (UNIT: RMB’000):

	Amount	As a percentage of comparable transactions (%)
Purchases of iron ore, limestone and dolomite	442,269	21.86

The price per tonne of iron ore has been arrived at after negotiations between the Company and Holding. However, the price in each year shall not be higher than the weighted average price for each percentage point of iron content in a tonne of similar type of iron ore supplied by the three largest independent suppliers to the Company for iron ore in the preceding year.

The price of limestone and dolomite has been arrived at after negotiations between the Company and Holding. However, the price in each year shall not be higher than the weighted average price of limestone and dolomite supplied by the three largest independent suppliers to the Company for limestone and dolomite in the preceding year.

V. SIGNIFICANT MATTERS (continued)

7. Connected transactions (continued)

- Business transactions between the Company and Holding for the period from 1 January to 30 June 2004 were as follows (continued):

- (3) Save for the connected transactions made pursuant to the new “Service Agreement” and the new “Sale and Purchase of Iron Ore Agreement” mentioned above, details of the amounts in relation to other connected transactions made with Holding are as follows (RMB’000):

	Amounts	As a percentage of comparable transactions (%)
Steel products purchased by Holding from the Company	17,617	0.14
Water and power supply, and telephone and internet services acquired by Holding from the Company	22,297	7.37
Payment by the Company for fixed assets and construction services	204,793	12.21
Payment by the Company for other services provided by Holding	66,555	100

Those transactions adopting market prices as the pricing basis were on terms no less favourable to the Company than normal commercial terms.

- The connected transactions between the Company and Holding were all carried out in the form of cash payment. Such transactions were made between the Company and Holding in the normal course of business and had no impact on the profit of the Company.
- Material contracts with the controlling shareholder

Save for the “Sale and Purchase of Iron Ore Agreement” 2004-2006 and the “Service Agreement” 2004-2006 mentioned above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder as at 30 June 2004.

V. SIGNIFICANT MATTERS (continued)

8. The Company was in strict compliance with the provisions under the Circular Zheng Jian Fa [2003] No.56 on "Notice to Regularise the Fund Transfer Between Listed Companies and Other Related Parties and Issues on Guarantees Provided by Listed Companies" issued by CSRC, and that all credit and debt amounts with the controlling shareholder and its subsidiaries and the Company's associate represent the cash inflows and outflows generated from normal production and operations. Details of which are as follows:

(1) Amounts due to the Company from the connected parties (RMB'000)

Connected parties	Relationship	Debt amount incurred	Balance as at the end of the period
Holding	Parent company	655,151	17,849
濟源市金馬焦化有限公司	Associate of the Company	40,000	19,817
Other connected parties	Under the same parent company	31,054	5,627
Total		726,205	43,293

(2) Amounts due from the Company to the connected parties (RMB'000)

Connected parties	Relationship	Credit amount incurred	Balance as at the end of the period
Holding	Parent company	208	208
Other connected parties	Under the same parent company	209,216	15,693
Total		209,424	15,901

9. There had been no material entrustment, contract or lease made by the Company in relation to any assets of other companies, or vice versa, that took place or subsisted during the reporting period. There had been no entrustment with any other parties made by the Company to implement cash assets management on its behalf that took place or subsisted during the reporting period.

V. SIGNIFICANT MATTERS (continued)

10. Guarantees

- **Guarantees**

The Company was in strict compliance with the provisions under Zheng Jian Fa [2003] No. 56 and did not have any guarantees that violate any applicable regulations. During the reporting period, the Company had not provided any guarantee other than the guarantees provided to its wholly-owned subsidiaries, namely Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited (RMB million):

Name of company to which the guarantee was issued	Inception date (the date on which the agreement was signed)	Guaranteed amount	Type of Guarantee	Guaranteed period	Completion of performance	Guarantee provided for connected parties (yes or no)
Maanshan Iron & Steel (HK) Limited	2000.9.7	68.7	Guarantee with joint responsibilities	Not applicable	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2002.3.6	760	Guarantee with joint responsibilities	Five years after the inception of L/C	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2002.3.22	283.4	Guarantee with joint responsibilities	Two years after the inception of L/C	Completed	Yes
Ma Steel International Trade and Economic Corporation	2002.4.18	95	Guarantee with joint responsibilities	Two years after the inception of L/C	Completed	Yes
Ma Steel International Trade and Economic Corporation	2002.4.26	151.1	Guarantee with joint responsibilities	Two years	Completed	Yes
Ma Steel International Trade and Economic Corporation	2002.5.15	14.43	Guarantee with joint responsibilities	Two years	Completed	Yes
Ma Steel International Trade and Economic Corporation	2002.6.26	40.89	Guarantee with joint responsibilities	Two years	Completed	Yes

V. SIGNIFICANT MATTERS (continued)

10. Guarantees (continued)

- Guarantees (continued)

Name of company to which the guarantee was issued	Inception date (the date on which the agreement was signed)	Guaranteed amount	Type of Guarantee	Guaranteed period	Completion of performance	Guarantee provided for connected parties (yes or no)
Ma Steel International Trade and Economic Corporation	2002.7.2	25.05	Guarantee with joint responsibilities	Five years from the inception of L/C	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2002.9.26	112.4	Guarantee with joint responsibilities	Two years after the inception of L/C	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2003.3.12	100	Guarantee with joint responsibilities	One year	Completed	Yes
Ma Steel International Trade and Economic Corporation	2003.3.15	320	Guarantee with joint responsibilities	One year	Completed	Yes
Ma Steel International Trade and Economic Corporation	2003.5.15	71.2	Guarantee with joint responsibilities	Two years after the inception of L/C	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2004.1.21	199.22	Guarantee with joint responsibilities	Two years after the inception of L/C	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2004.3.15	1,100	Guarantee with joint responsibilities	15/3/04–30/4/05	Not yet completed	Yes
Ma Steel International Trade and Economic Corporation	2004.5.1	320.91	Guarantee with joint responsibilities	Two years after the inception of L/C and guarantee letter	Not yet completed	Yes

V. SIGNIFICANT MATTERS (continued)

10. Guarantees (continued)

- **Guarantees (continued)**

The above-mentioned guarantees, accounting for 16.49% of the Company's net assets for the reporting period, were guarantees with joint responsibilities and were approved by the Board of Directors beforehand and were only provided for specified import projects of the Company; loans required for the purchases of ores, steel billets, equipment and spare parts for normal operation needs; and guarantees of credit facilities for businesses regarding the opening of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery.

- **Independent Directors' opinions**

Pursuant to the provisions under Zheng Jian Fa [2003] No. 56, Madam Cheng Shaoxiu, Mr Wu Junnian and Mr Chan Yuk Sing, Independent Directors of the Company, have furnished their independent opinions in respect of the Company's cumulative and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:

- (1) As at 30 June 2004, the Company's cumulative and current period's external guarantees amounted to approximately RMB3,662.30 million, which included guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, in respect of daily operating loans and issuance of letter of credit of special project, amounting to RMB1,520 million and RMB2,073.60 million, respectively; as well as guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, in respect of daily operating loans amounting to RMB68.70 million. The above-mentioned guarantees have been approved by the Board of Directors.
 - (2) As at 30 June 2004, as to the Company's cumulative and current period's external guarantees, no guarantees were provided to the controlling shareholder and other related parties, non-legal person entities or individuals holding less than 50% of the Company's shares.
 - (3) As at 30 June 2004, total amount of the Company's cumulative and current period's external guarantees represented lower than 50% of the net assets as stated in the consolidated financial statements of the latest accounting year.
11. There had been no commitment made by the Company or any shareholders interested in 5% or more of the Company's shares that took place or subsisted during the reporting period that may significantly affect the operating results and financial conditions of the Company.
 12. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young, respectively as the PRC and international auditors of the Company.

V. SIGNIFICANT MATTERS (continued)

13. Directors' compliance with the code of best practice

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

14. Interim index of the Company's announcements made during the reporting period

- (1) 3 March 2004 – announcement in relation to a proposed joint venture arrangement with various companies including BHPB, published on p. 30 of Shanghai Securities Journal, p. B29 of South China Morning Post (Hong Kong), p. A29 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website (<http://www.sse.com.cn>).
- (2) 14 April 2004 – announcements of resolutions of the Board of Directors and the Supervisory Committee, published on p. 23 of Shanghai Securities Journal, p. B6 of South China Morning Post (Hong Kong), p. A8 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website (<http://www.sse.com.cn>).
- (3) 16 April 2004 – notice of annual general meeting, and announcements of resolutions of the Board of Directors and the Supervisory Committee, published on p. 22 of Shanghai Securities Journal, p. B7 of South China Morning Post (Hong Kong), p. A15 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website (<http://www.sse.com.cn>).
- (4) 2 June 2004 – announcement of resolutions passed at the annual general meeting, published on p. 27 of Shanghai Securities Journal, p. B6 of South China Morning Post (Hong Kong), p. A9 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website (<http://www.sse.com.cn>).
- (5) 14 June 2004 – announcement of bonus and dividends payments for 2003, published on p. 11 of Shanghai Securities Journal, and at the same time made available at the Shanghai Stock Exchange Website (<http://www.sse.com.cn>).

VI. FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2004

RMB

ASSETS	Note V	30 June 2004 Unaudited	31 December 2003 Audited
CURRENT ASSETS:			
Cash and balances with financial institutions	1	2,556,312,555	2,418,293,897
Short term investments	3	13,568,593	13,568,593
Bills receivable	4	1,881,650,290	2,121,201,173
Trade receivables	5	216,523,846	211,692,345
Other receivables	6	136,941,302	132,757,214
Prepayments	7	1,340,172,837	1,059,024,343
Inventories	8	3,971,037,036	2,377,500,358
Total current assets		10,116,206,459	8,334,037,923
LONG TERM INVESTMENTS:			
Long term equity investments	9	167,393,035	163,393,035
Long term debt investment	9	16,238,870	16,238,870
Total long term investments		183,631,905	179,631,905
FIXED ASSETS:			
Cost	10	23,089,964,119	19,803,736,812
Less: Accumulated depreciation	10	(6,684,605,347)	(5,848,993,316)
Net book value	10	16,405,358,772	13,954,743,496
Less: Impairment provision	10	(200,566,300)	(200,566,300)
Fixed assets, net	10	16,204,792,472	13,754,177,196
Construction materials	11	611,684,855	313,428,274
Construction in progress	12	1,762,638,726	2,910,144,722
Total fixed assets		18,579,116,053	16,977,750,192
INTANGIBLE AND OTHER ASSETS:			
Intangible assets	13	853,280,688	863,809,293
TOTAL ASSETS		29,732,235,105	26,355,229,313

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

VI. FINANCIAL REPORT (continued)

CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2004

RMB

LIABILITIES AND SHAREHOLDERS' FUNDS	Note V	30 June 2004 Unaudited	31 December 2003 Audited
CURRENT LIABILITIES:			
Short term loans	14	2,139,293,271	1,919,932,705
Trade payables	15	3,220,183,972	2,319,681,215
Deposits received	16	2,264,711,465	1,663,719,536
Wages payable	17	79,343,390	612,565
Staff welfare payable		24,185,583	27,380,582
Dividend payable	18	762,377,916	-
Tax payable	19	402,958,008	335,814,852
Other taxes payable	20	31,298,865	32,325,649
Other payables	21	347,548,135	473,087,665
Accrued charges	22	163,231,892	128,772,733
Long term loans due within a year	23	85,248,297	85,278,689
Total current liabilities		9,520,380,794	6,986,606,191
LONG TERM LIABILITIES:			
Long term loans	24	3,869,810,985	3,969,176,113
Specific payables	25	67,800,000	276,980,000
Other long term liabilities	26	118,127,585	126,702,670
Total long term liabilities		4,055,738,570	4,372,858,783
Total liabilities		13,576,119,364	11,359,464,974
MINORITY INTERESTS	27	42,177,393	35,419,720
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	5,379,045,095	5,169,865,095
Surplus reserves	30	1,066,995,459	1,066,995,459
including: statutory public welfare fund	30	532,839,291	532,839,291
Retained profits	31	3,212,597,794	912,571,065
Proposed ordinary share dividend		-	1,355,613,000
Total shareholders' funds		16,113,938,348	14,960,344,619
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		29,732,235,105	26,355,229,313

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

Company Representative:
Gu Jianguo
18 August 2004

Chief Accountant:
Su Jiangang
18 August 2004

Head of Accounting Department:
Guan Yagang
18 August 2004

VI. FINANCIAL REPORT (continued)

CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	Note V	For the six months ended 30 June	
		2004 Unaudited	2003 Unaudited
Principal operating income	32	12,808,080,075	7,061,706,316
Less: Cost of sales	32	(9,531,762,014)	(5,565,935,778)
Taxes and surcharges	33	(90,576,934)	(60,976,727)
Profit from principal operating activities		3,185,741,127	1,434,793,811
Add: Other operating profit	34	13,834,610	27,140,756
Less: Selling expenses		(70,390,165)	(33,607,752)
Administrative expenses	35	(359,407,093)	(241,309,714)
Financial expenses	36	(70,694,899)	(43,826,371)
Operating profit		2,699,083,580	1,143,190,730
Add: Investment income/(loss)	37	1,105,000	(5,025,841)
Subsidies income	38	672,381	–
Non-operating income	39	6,445,613	4,092,951
Less: Non-operating expenses	40	(1,406,141)	(8,678,830)
Profit before tax		2,705,900,433	1,133,579,010
Less: Income tax	41	(403,928,166)	(179,727,410)
Minority interests	27	(1,945,538)	–
Net profit		2,300,026,729	953,851,600
Add: Retained profits at beginning of period		912,571,065	39,803,181
Profit available for distribution		3,212,597,794	993,654,781
Less: Transfers to statutory surplus reserve		–	–
Transfers to statutory public welfare fund		–	–
Transfers to employee bonus and welfare fund		–	–
Transfers to reserve fund		–	–
Transfers to enterprise expansion fund		–	–
Profit available for distribution to shareholders		3,212,597,794	993,654,781
Less: Proposed ordinary share dividend		–	–
Retained profits at end of period		3,212,597,794	993,654,781

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

Company Representative:
Gu Jianguo
18 August 2004

Chief Accountant:
Su Jiangang
18 August 2004

Head of Accounting Department:
Guan Yagang
18 August 2004

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	Note V	For the six months ended 30 June	
		2004 Unaudited	2003 Unaudited
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		16,138,594,034	8,697,725,158
Refunds of taxes		–	7,332,042
Cash received relating to other operating activities		688,680	853,436
Sub-total of cash inflows		16,139,282,714	8,705,910,636
Cash paid for goods and services		(10,963,680,931)	(5,687,522,513)
Cash paid to and on behalf of employees		(965,018,854)	(731,549,667)
Cash paid for all taxes		(1,379,419,192)	(846,989,355)
Cash paid relating to other operating activities	42	(174,366,593)	(116,860,506)
Sub-total of cash outflows		(13,482,485,570)	(7,382,922,041)
Net cash flows from operating activities		2,656,797,144	1,322,988,595
2. Cash flows from investing activities:			
Cash received from disposal of investments		–	2,660,000
Cash received from returns on investments		15,821,024	5,379,046
Net cash received from disposal of fixed assets, intangible assets and other long term assets		9,699,232	7,811,093
Cash received from retrieval of overdue deposits		42,530,000	1,597,087
Sub-total of cash inflows		68,050,256	17,447,226
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(2,003,285,046)	(2,885,745,791)
Increase in pledged deposits		–	(10,347,484)
Cash paid for acquisitions of investments		(4,000,000)	(123,776,000)
Cash paid relating to other investing activities		–	(17,041)
Sub-total of cash outflows		(2,007,285,046)	(3,019,886,316)
Net cash flows from investing activities		(1,939,234,790)	(3,002,439,090)

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

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

		For the six months ended 30 June	
		2004	2003
		Unaudited	Unaudited
	Note V		
3.	Cash flows from financing activities:		
	Cash received from investments by others	5,741,067	10,652,113
	Cash received from borrowings	1,017,158,890	2,993,746,100
	Cash received from net increase in trust receipt loans	371,284,381	161,150,340
	Cash received relating to other financing activities	43	36,180,000
	Sub-total of cash inflows	<u>1,394,184,338</u>	<u>3,201,728,553</u>
	Cash repayments of borrowings	(1,214,274,575)	(841,210,202)
	Cash paid for distribution of dividend or profits and for interest expenses	(703,093,084)	(35,931,533)
	Cash paid relating to other financing activities	(22,576,513)	(25,590,691)
	Sub-total of cash outflows	<u>(1,939,944,172)</u>	<u>(902,732,426)</u>
	Net cash flows from financing activities	<u>(545,759,834)</u>	<u>2,298,996,127</u>
4.	Effect of foreign exchange rate changes on cash	3,077,210	(7,432,726)
5.	Net increase in cash and cash equivalents	<u>174,879,730</u>	<u>612,112,906</u>

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

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	For the six months ended 30 June	
	2004 Unaudited	2003 Unaudited
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,300,026,729	953,851,600
Add: Minority interests	1,945,538	—
Provision for bad debts	—	569,217
Provision for inventories	—	38,822,092
Reversal for impairment of investments	—	(1,399,731)
Reversal for impairment of fixed assets	—	(8,584,026)
Depreciation of fixed assets	841,703,209	501,463,938
Amortisation of intangible assets	10,528,605	10,282,519
Increase in accrued charges	34,034,942	488,569,403
Gain on disposal of fixed assets, intangible assets and other long term assets, net	(6,429,314)	(3,239,515)
Financial expenses	66,352,316	40,831,931
Investment loss/(income)	(1,105,000)	6,425,572
Increase in inventories	(1,593,536,678)	(540,272,302)
Increase in receivables from operating activities	(56,321,043)	(1,115,362,723)
Increase in payables from operating activities	1,059,597,840	951,030,620
Net cash flows from operating activities	<u>2,656,797,144</u>	<u>1,322,988,595</u>
2. Investing and financing activities that do not involve cash receipts and payments:	—	—
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	2,546,508,699	1,612,639,319
Less: Cash and balances with financial institutions at beginning of period	(2,371,628,969)	(1,000,526,413)
Add: Balance of cash equivalents at end of period	—	—
Less: Balance of cash equivalents at beginning of period	—	—
Net increase in cash and cash equivalents	<u>174,879,730</u>	<u>612,112,906</u>

Company Representative:
Gu Jianguo
18 August 2004

Chief Accountant:
Su Jianguang
18 August 2004

Head of Accounting Department:
Guan Yagang
18 August 2004

VI. FINANCIAL REPORT (continued)

BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2004

RMB

ASSETS	Note V	30 June 2004 Unaudited	31 December 2003 Audited
CURRENT ASSETS:			
Cash and balances with financial institutions		2,316,822,231	1,711,723,001
Short term investments		13,568,593	13,568,593
Bills receivable		1,914,650,290	2,118,401,173
Trade receivables	5	141,234,491	168,805,318
Other receivables	6	83,309,870	40,958,128
Prepayments		919,324,032	1,253,686,040
Inventories		3,854,042,447	2,272,282,418
Total current assets		<u>9,242,951,954</u>	<u>7,579,424,671</u>
LONG TERM INVESTMENTS:			
Long term equity investments	9	399,425,233	370,479,670
Long term debt investment	9	16,238,870	16,238,870
Total long term investments		<u>415,664,103</u>	<u>386,718,540</u>
FIXED ASSETS:			
Cost		23,045,876,075	19,767,101,733
Less: Accumulated depreciation		(6,670,114,515)	(5,836,284,161)
Net book value		16,375,761,560	13,930,817,572
Less: Impairment provision		(200,566,300)	(200,566,300)
Fixed assets, net		16,175,195,260	13,730,251,272
Construction materials		611,684,855	321,028,274
Construction in progress		1,700,311,869	2,931,283,354
Total fixed assets		<u>18,487,191,984</u>	<u>16,982,562,900</u>
INTANGIBLE AND OTHER ASSETS:			
Intangible assets		829,173,980	839,456,499
TOTAL ASSETS		<u><u>28,974,982,021</u></u>	<u><u>25,788,162,610</u></u>

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

VI. FINANCIAL REPORT (continued)

BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2004

RMB

LIABILITIES AND SHAREHOLDERS' FUNDS	Note V	30 June 2004 Unaudited	31 December 2003 Audited
CURRENT LIABILITIES:			
Short term loans		1,768,008,890	1,919,932,705
Trade payables		3,060,748,859	2,082,966,940
Deposits received		2,111,993,608	1,393,980,517
Wages payable		75,764,638	590,914
Staff welfare payable		23,707,730	27,043,788
Dividend payable	18	762,377,916	–
Tax payable		416,838,693	343,324,177
Other taxes payable		31,148,051	32,098,848
Other payables		330,628,034	449,956,598
Accrued charges		163,203,578	128,749,311
Long term loans due within a year		83,999,682	83,997,290
Total current liabilities		8,828,419,679	6,462,641,088
LONG TERM LIABILITIES:			
Long term loans		3,846,844,202	3,949,955,131
Specific payables		67,800,000	276,980,000
Other long term liabilities		118,127,585	126,702,670
Total long term liabilities		4,032,771,787	4,353,637,801
Total liabilities		12,861,191,466	10,816,278,889
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	5,379,045,095	5,169,865,095
Surplus reserves	30	1,061,305,346	1,061,305,346
including: statutory public welfare fund	30	530,652,673	530,652,673
Retained profits		3,218,140,114	929,800,280
Proposed ordinary share dividend		–	1,355,613,000
Total shareholders' funds		16,113,790,555	14,971,883,721
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		28,974,982,021	25,788,162,610

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

Company Representative:

Gu Jianguo

18 August 2004

Chief Accountant:

Su Jianguo

18 August 2004

Head of Accounting Department:

Guan Yagang

18 August 2004

VI. FINANCIAL REPORT (continued)

STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	Note V	For the six months ended 30 June	
		2004 Unaudited	2003 Unaudited
Principal operating income	32	12,713,830,190	7,041,761,876
Less: Cost of sales	32	(9,486,579,646)	(5,562,045,628)
Taxes and surcharges		(88,347,193)	(59,884,053)
Profit from principal operating activities		3,138,903,351	1,419,832,195
Add: Other operating profit		8,130,687	23,529,232
Less: Selling expenses		(75,389,571)	(32,750,829)
Administrative expenses		(347,597,637)	(234,405,012)
Financial expenses		(65,919,490)	(40,254,265)
Operating profit		2,658,127,340	1,135,951,321
Add: Investment income/(loss)	37	27,701,507	(3,080,563)
Non-operating income		6,445,613	4,125,100
Less: Non-operating expenses		(1,358,506)	(8,634,819)
Profit before tax		2,690,915,954	1,128,361,039
Less: Income tax		(402,576,120)	(178,299,288)
Net profit		2,288,339,834	950,061,751
Add: Retained profits at beginning of period		929,800,280	43,193,048
Profit available for distribution		3,218,140,114	993,254,799
Less: Transfers to statutory surplus reserve		—	—
Transfers to statutory public welfare fund		—	—
Profit available for distribution to shareholders		3,218,140,114	993,254,799
Less: Proposed ordinary share dividend		—	—
Retained profits at end of period		3,218,140,114	993,254,799

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

Company Representative:

Gu Jianguo

18 August 2004

Chief Accountant:

Su Jiangang

18 August 2004

Head of Accounting Department:

Guan Yagang

18 August 2004

VI. FINANCIAL REPORT (continued)

CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	For the six months ended 30 June	
	2004 Unaudited	2003 Unaudited
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	15,845,937,517	8,365,898,071
Cash received relating to other operating activities	16,299	853,436
Sub-total of cash inflows	15,845,953,816	8,366,751,507
Cash paid for goods and services	(9,877,392,965)	(5,463,652,698)
Cash paid to and on behalf of employees	(953,455,449)	(730,228,424)
Cash paid for all taxes	(1,372,870,139)	(843,267,073)
Cash paid relating to other operating activities	(169,769,627)	(104,077,547)
Sub-total of cash outflows	(12,373,488,180)	(7,141,225,742)
Net cash flows from operating activities	3,472,465,636	1,225,525,765
2. Cash flows from investing activities:		
Cash received from disposal of investments	14,478,749	2,660,000
Cash received from returns on investments	1,105,000	4,846,241
Net cash received from disposal of fixed assets, intangible assets and other long term assets	9,699,232	7,510,193
Cash received from retrieval of overdue deposits	42,530,000	1,597,087
Sub-total of cash inflows	67,812,981	16,613,521
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(1,973,343,753)	(2,877,121,570)
Increase in pledged deposits	-	(91,157)
Cash paid for acquisitions of investments	(4,000,000)	(157,707,183)
Sub-total of cash outflows	(1,977,343,753)	(3,034,919,910)
Net cash flows from investing activities	(1,909,530,772)	(3,018,306,389)

VI. FINANCIAL REPORT (continued)

CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	For the six months ended 30 June	
	2004 Unaudited	2003 Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	1,012,158,890	2,993,746,100
Cash received relating to other financing activities	—	36,180,000
Sub-total of cash inflows	1,012,158,890	3,029,926,100
Cash repayments of borrowings	(1,213,634,290)	(840,623,636)
Cash paid for distribution of dividend or profits and for interest expenses	(701,618,266)	(35,906,877)
Cash paid relating to other financing activities	(22,576,513)	(25,590,691)
Sub-total of cash outflows	(1,937,829,069)	(902,121,204)
Net cash flows from financing activities	(925,670,179)	2,127,804,896
4. Effect of foreign exchange rate changes on cash	4,656,702	(7,137,704)
5. Net increase in cash and cash equivalents	641,921,387	327,886,568

VI. FINANCIAL REPORT (continued)

CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2004

RMB

	For the six months ended 30 June	
	2004 Unaudited	2003 Unaudited
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,288,339,834	950,061,751
Add: Provision for bad debts	-	6,569,217
Provision for inventories	-	38,822,092
Reversal for impairment of investments	-	(1,399,731)
Reversal for impairment of fixed assets	-	(8,584,026)
Depreciation of fixed assets	839,921,532	500,279,072
Amortisation of intangible assets	10,282,519	10,282,519
Increase in accrued charges	34,030,050	488,135,515
Gain on disposal of fixed assets, intangible assets and other long term assets, net	(6,429,314)	(3,271,664)
Financial expenses	65,071,997	39,332,200
Investment loss/(income)	(27,701,507)	4,480,294
Increase in inventories	(1,581,760,029)	(346,110,343)
Decrease/(increase) in receivables from operating activities	519,275,076	(1,123,872,194)
Increase in payables from operating activities	1,331,435,478	670,801,063
Net cash flows from operating activities	3,472,465,636	1,225,525,765
2. Investing and financing activities that do not involve cash receipts and payments:	-	-
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	2,316,822,231	1,110,651,254
Less: Cash and balances with financial institutions at beginning of period	(1,674,900,844)	(782,764,686)
Add: Balance of cash equivalents at end of period	-	-
Less: Balance of cash equivalents at beginning of period	-	-
Net increase in cash and cash equivalents	641,921,387	327,886,568

Company Representative:

Gu Jianguo

18 August 2004

Chief Accountant:

Su Jianguang

18 August 2004

Head of Accounting Department:

Guan Yagang

18 August 2004

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2004

1. 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.

2. 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

4. Basis of accounting

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

5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable rates of exchange ruling at the balance sheet date as quoted by the People's Bank of China. The consequential exchange 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

7. Short term investments (continued)

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;
- (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%

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

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.

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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

10. Long term investments (continued)

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.

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	10 to 20 years	4.85% – 9.7%
Plant, machinery and equipment	6 to 16 years	6.06% – 16.17%
Transportation vehicles and equipment	5 to 10 years	9.7% – 19.4%

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

11. Fixed assets (continued)

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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

2. 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

14. Borrowing costs (continued)

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

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

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. 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 in prior years.

17. 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

18. Revenue recognition

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

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

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

19. 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.

20. 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.

21. 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

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

22. Change in accounting estimate

The continuous improvement in production capacity and development and production of new products shortened the repair and renovation cycle of fixed assets. These led to changes in the estimated useful lives of fixed assets. The Company reassessed the useful lives of fixed assets and revised the average annual depreciation rate from 6.5% to 8.5%.

	Before revision	After revision
Depreciation charge for the period	RMB619,433,191	RMB841,703,191
Anticipated depreciation charge for the year	RMB1,238,866,382	RMB1,683,406,382

The Company adopts the change in accounting estimate prospectively. The change in accounting estimate resulted in a decrease of profit before tax by RMB222,270,000 in the current period.

3. 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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

3. TAX (continued)

6. Real estate tax

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

7. Income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15% 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. (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% and is entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holiday. With approval obtained from respective tax bureau, the tax holiday started in 2004. No provision for income tax for Hong Kong and overseas subsidiary has been made as there were no assessable profits during the period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

4. 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
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	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	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

4. 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)							
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	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)")	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	RMB103,624,655	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	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

4. 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")	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")	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	-
上海大宗鋼鐵電子交易中心有限公司 ("上海鋼鐵電子") (Note 1)	Shanghai, PRC	Set-up of iron & steel e-commerce and related services; provision of iron & steel e-commerce technology and information services	RMB20,000,000	RMB20,000,000	4,000,000	20	-
					<u>334,732,269</u>		

Note 1: Newly incorporated during the period

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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	30 June 2004			31 December 2003		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand	RMB146,441	1.0000	146,441	RMB95,725	1.0000	95,725
Balances with financial institutions (Note 2)	RMB2,323,945,893	1.0000	2,323,945,893	RMB1,890,641,474	1.0000	1,890,641,474
	HK\$4,033,311	1.0609	4,278,939	HK\$56,384,060	1.0657	60,088,492
	US\$16,317,191	8.2766	135,011,156	US\$23,795,575	8.2767	196,954,255
	EUR1,551,312	10.0738	15,734,686	EUR2,200,460	10.3383	22,749,008
	JPY337,797	0.076367	25,808	JPY5,086,217	0.077263	393,165
Other balances with financial institutions	RMB1,618,938	1.0000	1,618,938	RMB150,531	1.0000	150,531
	US\$5,706,123 (Note)	8.2766	47,264,560	US\$20,657,897	8.2767	171,016,375
	EUR705,209	10.0738	7,053,432	EUR5,173,345	10.3383	53,483,593
	JPY277,820,399	0.076367	21,232,702	JPY294,624,233	0.077263	22,721,279
Total			2,556,312,555			2,418,293,897

Note: Fixed deposits amounting to US\$1,039,000 (equivalent to RMB8,597,746) have been pledged to the Hong Kong and Shanghai Banking Corporation Limited and deposit of US\$145,725 (equivalent to RMB1,206,110) 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.

2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four (31 December 2003: five) non-bank financial institutions, aggregating approximately RMB126 million (31 December 2003: RMB169 million).

	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Guangdong International Trust & Investment Corporation ("GITIC")	24,730	24,730
China Venturetech Investment Corporation ("China Venturetech")	9,954	9,954
SEG International Trust & Investment Corporation ("SEG")	46,545	46,545
CITIC Ningbo Inc. ("Ningbo CITIC")	45,112	45,112
Shenzhen Leasing Co. Ltd. ("SLCL")	–	42,530
	126,341	168,871
Provision for overdue deposits	(126,341)	(126,341)
	–	42,530

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

Based on legal advice, the directors are satisfied that the Company's deposits with the above 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 current period, no repayment was received from GITIC, China Venturetech and Ningbo CITIC. On 21 July 2004, 中國人民銀行關閉中創清算組 (the liquidator) noticed the Company that the first repayment, which amounted to RMB713,800, would be distributed to the Company. No repayment was yet received as at the date on which the financial statement was approved. 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.

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, 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. As at 30 June 2004, the overdue fixed deposit in SLCL had been fully settled.

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.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

3. Short term investments

Item	Note	30 June 2004 Unaudited		31 December 2003 Audited	
		Investment cost RMB	Provision for decline in value RMB	Investment cost RMB	Provision for decline in value RMB
Equity investment		<u>13,568,593</u>	<u>-</u>	<u>13,568,593</u>	<u>-</u>
Note:					
Name of investee company		Number of shares held	Investment cost Unaudited RMB	Closing market unit price RMB	Market price at period end RMB
China Petroleum & Chemical Corporation		1,800,000	7,596,000	4.79	8,622,000
Baoshan Iron & Steel Company Limited		1,428,850	<u>5,972,593</u>	6.29	<u>8,987,467</u>
Total			<u>13,568,593</u>		<u>17,609,467</u>

The period end market prices of the shares were the closing market prices as at 30 June 2004 as disclosed in Shanghai Stock Exchange.

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 period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

4. Bills receivable

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Bank bills	1,881,298,390	2,121,201,173
Commercial bills	351,900	–
	<u>1,881,650,290</u>	<u>2,121,201,173</u>

As at 30 June 2004, the Group's discounted bills amounted to RMB1,363 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							
	30 June 2004 Unaudited				31 December 2003 Audited			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	212,037,653	77	(5,697,873)	3	198,643,026	74	(389,656)	–
One to two years	11,523,355	4	(2,880,838)	25	6,302,458	2	(1,575,615)	25
Two to three years	3,083,097	1	(1,541,548)	50	17,384,264	7	(8,692,132)	50
Over three years	48,661,556	18	(48,661,556)	100	46,572,261	17	(46,552,261)	100
Total	<u>275,305,661</u>	<u>100</u>	<u>(58,781,815)</u>		<u>268,902,009</u>	<u>100</u>	<u>(57,209,664)</u>	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

	Company				31 December 2003			
	30 June 2004				Audited			
	Unaudited		Provision for		Balance	Ratio	Provision for	Ratio
Balance	Ratio	bad debts	Ratio	bad debts				
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	136,748,298	68	(5,697,873)	4	155,755,999	69	(389,656)	-
One to two years	11,523,355	6	(2,880,838)	25	6,302,458	3	(1,575,615)	25
Two to three years	3,083,097	2	(1,541,548)	50	17,384,264	8	(8,692,132)	50
Over three years	48,661,556	24	(48,661,556)	100	46,572,261	20	(46,552,261)	100
Total	200,016,306	100	(58,781,815)		226,014,982	100	(57,209,664)	

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

Reason	Group	
	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Bankrupt or liquidated debtors	113,358	5,637,029
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	-	53,881,404
Total	113,358	59,518,433

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

Reason	Company	
	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Bankrupt or liquidated debtors	113,358	5,637,029
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	—	47,881,404
Total	<u>113,358</u>	<u>53,518,433</u>

As at 30 June 2004, the five largest trade receivables of the Group and the Company amounted to RMB156,333,523 and RMB140,084,935, respectively, which accounted for 57% and 70% 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.

The movement of bad debts provision for trade receivables for the period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables

Other receivables ageing analysis:

	Group							
	30 June 2004 Unaudited				31 December 2003 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	144,053,934	77	(9,480,406)	7	129,363,151	68	(2,984,780)	2
One to two years	5,698,348	3	(3,999,866)	70	10,190,637	5	(4,104,425)	40
Two to three years	7,493,024	4	(6,823,732)	91	6,743,435	4	(6,450,804)	96
Over three years	30,541,841	16	(30,541,841)	100	44,996,156	23	(44,996,156)	100
Total	187,787,147	100	(50,845,845)		191,293,379	100	(58,536,165)	

	Company							
	30 June 2004 Unaudited				31 December 2003 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	90,422,502	67	(9,480,406)	10	37,564,065	38	(2,984,780)	8
One to two years	5,698,348	4	(3,999,866)	70	10,190,637	10	(4,104,425)	40
Two to three years	7,493,024	6	(6,823,732)	91	6,743,435	7	(6,450,804)	96
Over three years	30,541,841	23	(30,541,841)	100	44,996,156	45	(44,996,156)	100
Total	134,155,715	100	(50,845,845)		99,494,293	100	(58,536,165)	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

The increase in the Company's net other receivables by 103% was mainly attributable to the increase in unsettled amounts of other transactions.

As at 30 June 2004, the five largest other receivables of the Group and the Company amounted to RMB15,833,519, which accounted for 8% and 12% 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 period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

7. Prepayments

The ageing of prepayments is within one year.

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

8. Inventories

	30 June 2004		31 December 2003	
	Balance	Provision	Balance	Provision
	RMB	RMB	RMB	RMB
Raw materials	2,719,456,265	-	1,123,971,210	-
Work in progress	439,515,203	(3,000,000)	416,073,624	(3,000,000)
Finished goods	311,046,504	(9,656,900)	355,175,883	(9,656,900)
Spare parts	578,412,314	(64,736,350)	559,672,891	(64,736,350)
Total	<u>4,048,430,286</u>	<u>(77,393,250)</u>	<u>2,454,893,608</u>	<u>(77,393,250)</u>

The Group's inventories, net of provision, increased by 67% was mainly due to the increase in raw materials.

The movement of provision for inventories for the period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments

Item	Group			At 30 June 2004 Unaudited RMB
	At 1 January 2004 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	
Long term equity investments				
Investments in associates (ii)	146,976,000	4,000,000	–	150,976,000
Other equity investments (iii)	16,417,035	–	–	16,417,035
	<u>163,393,035</u>	<u>4,000,000</u>	<u>–</u>	<u>167,393,035</u>
Long term debt investment				
Other debt investment (iv)	16,238,870	–	–	16,238,870
Total	<u>179,631,905</u>	<u>4,000,000</u>	<u>–</u>	<u>183,631,905</u>

Item	Company			At 30 June 2004 Unaudited RMB
	At 1 January 2004 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	
Long term equity investments				
Investments in subsidiaries (i)	207,086,635	24,945,563	–	232,032,198
Investments in associates (ii)	146,976,000	4,000,000	–	150,976,000
Other equity investments (iii)	16,417,035	–	–	16,417,035
	<u>370,479,670</u>	<u>28,945,563</u>	<u>–</u>	<u>399,425,233</u>
Long term debt investment				
Other debt investment (iv)	16,238,870	–	–	16,238,870
Total	<u>386,718,540</u>	<u>28,945,563</u>	<u>–</u>	<u>415,664,103</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. 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 by the Company	Company									
			Initial investment cost	Investment cost			Adjustment for gain or loss				Accumulated increase/ (decrease)	Closing balance
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Increase during the period	Decrease during the period		
%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Ma Steel International Trade Corp.	N/A	100	50,000,000	50,000,000	-	-	50,000,000	5,932,853	2,663,036	-	8,595,889	58,595,889
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	4,571,295	1,382,403	-	5,953,698	13,453,698
MG Control Technique	4 Years	93.75	7,500,000	7,500,000	-	-	7,500,000	360,786	(461,159)	-	(100,373)	7,399,627
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	13,965,785	-	18,606,473	26,832,358
Ma Steel (Guangzhou)	50 Years	66.67	80,000,000	80,000,000	-	-	80,000,000	-	214,663	-	214,663	80,214,663
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	7,578,814	7,180,835	-	14,759,649	18,861,337
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	245,930	-	-	245,930	1,819,696
Total			183,756,269	183,756,269	-	-	183,756,269	23,330,366	24,945,563	-	48,275,929	232,032,198

(ii) Investments in associates

Name of investee company	Investment period	Percentage of equity held by the Company	Group and Company									
			Initial investment cost	Investment cost			Adjustment for gain or loss				Accumulated increase/ (decrease)	Closing balance
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Increase during the period	Decrease during the period		
%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	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
上海鋼鐵電子	N/A	20	4,000,000	-	4,000,000	-	4,000,000	-	-	-	-	4,000,000
Total			146,976,000	146,976,000	4,000,000	-	150,976,000	-	-	-	-	150,976,000

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. 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 Unaudited RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
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 Unaudited RMB	Annual interest rate %	Maturity date	Interest for the period Unaudited RMB	Accumulated interest received/receivable Unaudited RMB	Carrying value Unaudited RMB
安徽省電力開發總公司	<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 period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Cost				
At 1 January 2004	8,074,445,723	11,223,930,168	505,360,921	19,803,736,812
Additions	406,083	448,688	6,037,385	6,892,156
Transferred from construction in progress (Note 12)	269,567,008	3,019,001,154	128,085	3,288,696,247
Reclassifications	(457,118,750)	455,870,246	1,248,504	-
Disposal	(220,795)	(7,619,890)	(1,520,411)	(9,361,096)
	<u>7,887,079,269</u>	<u>14,691,630,366</u>	<u>511,254,484</u>	<u>23,089,964,119</u>
At 30 June 2004				
Accumulated depreciation				
At 1 January 2004	1,996,661,893	3,553,608,678	298,722,745	5,848,993,316
Provided during the period	230,337,335	593,692,377	17,673,497	841,703,209
Reclassifications	(21,799,040)	21,799,040	-	-
Disposal	(133,307)	(4,546,155)	(1,411,716)	(6,091,178)
	<u>2,205,066,881</u>	<u>4,164,553,940</u>	<u>314,984,526</u>	<u>6,684,605,347</u>
At 30 June 2004				
Net book value				
At 30 June 2004				
Net book value	5,682,012,388	10,527,076,426	196,269,958	16,405,358,772
Less: Impairment	(37,590,200)	(162,976,100)	-	(200,566,300)
	<u>5,644,422,188</u>	<u>10,364,100,326</u>	<u>196,269,958</u>	<u>16,204,792,472</u>
Net book value, net of impairment				
At 31 December 2003				
Net book value	6,077,783,830	7,670,321,490	206,638,176	13,954,743,496
Less: Impairment	(37,590,200)	(162,976,100)	-	(200,566,300)
	<u>6,040,193,630</u>	<u>7,507,345,390</u>	<u>206,638,176</u>	<u>13,754,177,196</u>
Net book value, net of impairment				

The movement of provision for impairment of fixed assets for the period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

11. Construction materials

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Prepayments for equipment used in construction projects	<u>611,684,855</u>	<u>313,428,274</u>

The increase in the Group's construction materials by 95% was mainly attributable to the increase in the numbers of construction projects.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 30 June 2004:

Name of project	Budgeted cost	At	Additions	Transferred to	At	Source of fund	Percentage of completion
		1 January 2004	during the period	fixed assets (Note 10)	30 Jun 2004		
	RMB'000	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB		%
1. Blast Furnaces Renovation Project	2,190,810	54,734,028	338,899,732	(263,750,000)	129,883,760	Internally generated funds	19-100
2. Converters Renovation Project	1,563,110	55,184,471	112,786,546	-	167,971,017	Internally generated funds	6-100
3. Wheel Line Renovation Project	320,000	255,955,310	15,454,191	-	271,409,501	Internally generated funds and loans from financial institution	85
<i>Including borrowing costs capitalised:</i>		<i>11,984,050</i>	<i>5,824,000</i>	<i>-</i>	<i>17,808,050</i>		
4. Construction Steel Lines Renovation Project	7,473,070	1,742,958,095	843,920,852	(2,257,050,731)	329,828,216	Internally generated funds and loans from financial institution	3-95
<i>Including borrowing costs capitalised:</i>		<i>178,826,909</i>	<i>(16,020,837)</i>	<i>(162,433,972)</i>	<i>372,100</i>		
5. Coking Stoves Renovation Project	521,000	67,473,382	90,964,622	-	158,438,004	Internally generated funds	7-99
6. Public Auxiliary Utilities Project	1,664,684	559,878,172	373,453,096	(466,650,000)	466,681,268	Internally generated funds and loans from financial institution	5-100
<i>Including borrowing costs capitalised:</i>		<i>-</i>	<i>409,310</i>	<i>-</i>	<i>409,310</i>		
7. Energy-saving and Environment Protection Project	432,800	142,723,706	196,773,879	(279,433,227)	60,064,358	Internally generated funds and loans from financial institution	41-98
<i>Including borrowing costs capitalised:</i>		<i>6,557,595</i>	<i>3,407,040</i>	<i>(2,179,835)</i>	<i>7,784,800</i>		
8. Other Projects	N/A	105,237,558	168,937,333	(21,812,289)	252,362,602	Internally generated funds and loans from financial institution	N/A
		2,984,144,722	2,141,190,251	(3,288,696,247)	1,836,638,726		
Less: Impairment provision		(74,000,000)	-	-	(74,000,000)		
		2,910,144,722	2,141,190,251	(3,288,696,247)	1,762,638,726		

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

The decrease in the Group's construction in progress by 39% was mainly attributable to the completion of certain projects and transfer to fixed assets.

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

The movement of provision for impairment of construction in progress for the period ended 30 June 2004 is disclosed in the supplementary information of the financial statements.

13. Intangible assets

	Original amount	Accumulated amortisation	At 1 January 2004	Additions during the period	Amortisation during the period	At 30 June 2004	Remaining years of amortisation
	RMB	Audited RMB	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	
Land use rights	1,052,988,651	(189,179,358)	863,809,293	–	(10,528,605)	853,280,688	38 to 49 years

14. Short term loans

Type	Annual interest rate %	Maturity date	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Unsecured loans	2.01 – 4.536, LIBOR (6 months) +1	7/2004 – 6/2005	1,768,008,890	1,919,932,705
Trust receipt loans	2.17 – 2.95	7/2004 – 9/2004	371,284,381	–
			2,139,293,271	1,919,932,705

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

15. Trade payables

The increase in the Group's trade payable by 39% was mainly attributable to the increase in construction payables and accounts payable for purchase of raw materials.

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 36% 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.

17. Wages payable

The Group's wages payable increased by 129 times as a result of the increase in unpaid bonus.

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

18. Dividend payable

Group and Company

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
2003 final dividend payable (RMB21 cents per ordinary share)	<u>762,377,916</u>	<u>–</u>

The Company's profit appropriation plan for the year ended 2003 has been approved by "2003 Annual General Meeting" held on 1 June 2004. The distribution of dividend is still in progress.

The Group's and the Company's dividend payable at the period end represented unpaid 2003 final dividends.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

19. Tax payable

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Income tax	180,320,483	79,963,326
VAT	177,744,069	218,194,492
Business tax	935,461	2,073,991
City construction and maintenance tax	13,001,529	20,910,419
Other taxes	30,956,466	14,672,624
	<hr/>	<hr/>
Total	<u>402,958,008</u>	<u>335,814,852</u>

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

20. Other taxes payable

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Education surcharge	5,572,084	9,247,323
Flood prevention fund	25,575,967	23,078,326
Other taxes	150,814	-
	<hr/>	<hr/>
Total	<u>31,298,865</u>	<u>32,325,649</u>

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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

21. Other payables

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Labour costs	50,753,154	56,668,409
Construction fee	80,062,176	157,157,341
Maintenance and inspection fee	45,007,352	45,645,760
Staff housing subsidies	119,923,882	175,097,533
Medical insurance	13,012,812	–
Others	38,788,759	38,518,622
Total	<u>347,548,135</u>	<u>473,087,665</u>

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

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.

22. Accrued charges

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Loan interests	69,625,821	67,701,604
Retirement benefits payable to early retired employees	17,910,446	20,006,150
Maintenance fee	6,868,004	13,282,290
Bonus and salaries	50,800,000	–
Others	18,027,621	27,782,689
Total	<u>163,231,892</u>	<u>128,772,733</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

23. Long term loans due within a year

Lender	30 June 2004 Unaudited			31 December 2003 Audited			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 – Huashan Branch	RMB	4,810,000	4,810,000	RMB	4,810,000	4,810,000	8/2004	2.88	Unsecured
China Construction Bank – Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	6/2005	N/A	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,989,682	USD	7,972,657	65,987,290	10/2004 – 4/2005	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Hefei Branch	EUR	123,947	1,248,615	EUR	123,947	1,281,399	9/2004 – 3/2005	0.25	Guaranteed by 中國冶金 進出口公司
Total			<u>85,248,297</u>			<u>85,278,689</u>			

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Long term loans

Lender	30 June 2004 Unaudited			31 December 2003 Audited			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	RMB	707,000,000	707,000,000	5/2006 – 12/2006	5.49	Guaranteed by Holding
	JPY	-	-	JPY	2,400,000,000	185,431,200	N/A	N/A	N/A
	EUR	73,000,000	735,387,400	EUR	64,000,000	661,651,200	1/2006 – 4/2007	LIBOR (6 months) +1.25	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	15,945,315	131,969,802	USD	19,931,643	164,968,231	10/2005 – 4/2007	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Maanshan Branch	RMB	182,000,000	182,000,000	RMB	150,000,000	150,000,000	5/2006 – 5/2007	5.49	Guaranteed by Holding
	EUR	115,000,000	1,158,487,000	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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Long term loans (continued)

Lender	30 June 2004 Unaudited			31 December 2003 Audited			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
China Construction Bank – Metallurgical Branch	RMB	808,000,000	808,000,000	RMB	808,000,000	808,000,000	11/2006 – 1/2010	5.76	Guaranteed by Holding
Bank of China – Hefei Branch	EUR	1,797,228	17,966,783	EUR	1,859,201	19,220,982	9/2005 – 9/2019	0.25	Guaranteed by 中國冶金 進出口公司
Commercial Bank of Maanshan – Yushan Branch	RMB	5,000,000	5,000,000	RMB	-	-	6/2007	5.49	Unsecured
Agricultural Bank of China – Maanshan Branch	RMB	124,000,000	124,000,000	RMB	84,000,000	84,000,000	2/2006 – 5/2007	5.49	Guaranteed by Holding
Total			<u>3,869,810,985</u>						<u>3,969,176,113</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Specific payables

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Government subsidies for specific construction projects	<u>67,800,000</u>	<u>276,980,000</u>

The decrease in the Group's government subsidies for specific construction projects by 76% was attributable to the completion of certain projects and the transfer of the respective subsidies to capital reserve.

26. Other long term liabilities

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
Accrued charges for furnace relining	74,499,299	74,499,299
Retirement benefits payable to early retired employees	<u>43,628,286</u>	<u>52,203,371</u>
Total	<u>118,127,585</u>	<u>126,702,670</u>

27. Minority interests

Minority interests arose because of the share of interests in certain subsidiaries by minority shareholders based on their shareholding in respective subsidiaries.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

28. Share capital

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

	Group and Company	
	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB
A. Unlisted shares		
1. Shares held by promoter:		
(1) State-owned shares	4,034,560,000	4,034,560,000
(2) Shares owned by domestic legal persons	-	-
(3) Shares owned by foreign legal persons	-	-
(4) Others	-	-
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	-	-
4. Preferred shares and others	-	-
Total unlisted shares	4,122,370,000	4,122,370,000
B. Listed shares		
1. A shares	600,000,000	600,000,000
2. B shares	-	-
3. H shares	1,732,930,000	1,732,930,000
4. Others	-	-
Total listed shares	2,332,930,000	2,332,930,000
C. Total share capital	6,455,300,000	6,455,300,000

There was no change in share capital during the period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

29. Capital reserve

	Group and Company			
	At 1 January 2004	Increase during the period	Decrease during the period	At 30 June 2004
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	304,889,700	209,180,000	–	514,069,700
	<u>5,169,865,095</u>	<u>209,180,000</u>	<u>–</u>	<u>5,379,045,095</u>

30. Surplus reserves

	Group			
	At 1 January 2004	Increase during the period	Decrease during the period	At 30 June 2004
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Statutory surplus reserve	533,109,396	–	–	533,109,396
Statutory public welfare fund	532,839,291	–	–	532,839,291
Reserve fund	697,848	–	–	697,848
Enterprise expansion fund	348,924	–	–	348,924
Total	<u>1,066,995,459</u>	<u>–</u>	<u>–</u>	<u>1,066,995,459</u>

	Company			
	At 1 January 2004	Increase during the period	Decrease during the period	At 30 June 2004
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Statutory surplus reserve	530,652,673	–	–	530,652,673
Statutory public welfare fund	530,652,673	–	–	530,652,673
Total	<u>1,061,305,346</u>	<u>–</u>	<u>–</u>	<u>1,061,305,346</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. Surplus reserves (continued)

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

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

31. Retained profits

	Group Amount
	Unaudited RMB
Retained profits at beginning of the period	912,571,065
Add: Consolidated net profit for the period	<u>2,300,026,729</u>
Retained profits at end of the period	<u><u>3,212,597,794</u></u>

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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	Group					
	For the six months ended 30 June 2004			For the six months ended 30 June 2003		
	Unaudited			Unaudited		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
RMB	RMB	RMB	RMB	RMB	RMB	
Sale of steel products	12,192,921,296	9,037,906,297	3,155,014,999	6,548,948,393	5,220,621,070	1,328,327,323
Sale of pig iron	14,780,342	7,502,724	7,277,618	13,633,277	9,896,075	3,737,202
Sale of steel billets	112,884,017	94,351,280	18,532,737	142,683,230	102,864,884	39,818,346
Others	487,494,420	392,001,713	95,492,707	356,441,416	232,553,749	123,887,667
Total	12,808,080,075	9,531,762,014	3,276,318,061	7,061,706,316	5,565,935,778	1,495,770,538

Category	Company					
	For the six months ended 30 June 2004			For the six months ended 30 June 2003		
	Unaudited			Unaudited		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
RMB	RMB	RMB	RMB	RMB	RMB	
Sale of steel products	12,192,921,296	9,037,906,297	3,155,014,999	6,548,948,393	5,220,621,070	1,328,327,323
Sale of pig iron	14,780,342	7,502,724	7,277,618	13,633,277	9,896,075	3,737,202
Sale of steel billets	112,884,017	94,351,280	18,532,737	142,683,230	102,864,884	39,818,346
Others	393,244,535	346,819,345	46,425,190	336,496,976	228,663,599	107,833,377
Total	12,713,830,190	9,486,579,646	3,227,250,544	7,041,761,876	5,562,045,628	1,479,716,248

Sales to the five largest customers of the Group and the Company for the period amounted to RMB2,504,712,315, which accounted for 20% of the Group's and the Company's total sales amounts respectively.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

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

The increase in the Group's and Company's principal operating income by 81% was mainly attributable to the increase in selling price and sales volume of steel products. The increase in the Group's and Company's principal operating cost by 71% was mainly attributable to the increase in sales volume of steel products and purchase price of raw materials.

33. Taxes and surcharges

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB	RMB
City construction and maintenance tax	62,270,850	42,305,213
Education surcharge	26,687,507	18,150,068
Other taxes	1,618,577	521,446
	<hr/>	<hr/>
Total	<u>90,576,934</u>	<u>60,976,727</u>

The increase in the Group's taxes and surcharges by 49% 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.

34. Other operating profit

The decrease in the Group's other operating profit by 49% was mainly attributable to the decrease in other sales.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

35. Administrative expenses

The increase in the Group's administrative expenses by 49% was mainly attributable to the increase in maintenance of road and landscaping expenses.

36. Financial expenses

	For the six months ended 30 June	
	2004 Unaudited RMB	2003 Unaudited RMB
Interest expenses	109,353,285	42,502,122
Less: Interest income	(14,716,024)	(5,379,046)
Exchange loss	72,769,413	8,929,056
Less: Exchange gain	(101,054,359)	(5,220,201)
Others	4,342,584	2,994,440
Total	<u>70,694,899</u>	<u>43,826,371</u>

The increase in the Group's financial expenses by 61% was mainly attributable to the increase in interest expenses.

37. Investment income/(loss)

	Group For the six months ended 30 June		Company For the six months ended 30 June	
	2004 Unaudited RMB	2003 Unaudited RMB	2004 Unaudited RMB	2003 Unaudited RMB
Loss on disposal of equity investments	-	(6,425,572)	-	(6,116,885)
Investment income from equity investments	1,105,000	-	27,701,507	1,636,591
Reversal of provision for decline in value of short term investments	-	1,399,731	-	1,399,731
	<u>1,105,000</u>	<u>(5,025,841)</u>	<u>27,701,507</u>	<u>(3,080,563)</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

37. Investment income/(loss) (continued)

The Group's investment income increased by 122% was mainly attributable to the decrease in loss on disposal of equity investments. The Company's investment income increased by 999% as the investment income calculated under equity method increased.

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

38. Subsidies income

	For the six months ended 30 June	
	2004 Unaudited RMB	2003 Unaudited RMB
Subsidies income for steel export	<u>672,381</u>	<u>—</u>

39. Non-operating income

The increase in the Group's non-operating income by 57% was mainly attributable to the increase in gain on disposal of fixed assets.

40. Non-operating expenses

The decrease in the Group's non-operating expenses by 84% was mainly attributable to the decrease in staff children education expenses.

41. Income tax

The increase in the Group's income tax by 125% was mainly attributable to the increase in profits.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

42. Cash paid relating to other operating activities

	For the six months ended 30 June	
	2004 Unaudited RMB	2003 Unaudited RMB
Real estate tax	15,143,040	13,414,813
Environmental protection fee	13,156,874	13,159,946
Welfare and support services	47,895,000	39,217,506
Transportation cost	40,746,960	8,380,525
Unloading cost	1,854,528	5,181,611
Packing fee	7,281,537	7,237,543
Staff children education expenses	557,523	12,724,530
Warehouse fee	4,391,930	658,491
Stamp duty	3,655,508	2,310,588
Board meeting expenses	2,975,584	3,697,516
Property insurance fee	6,531,007	250,789
Repair and maintenance fee	5,045,159	2,779,640
Others	25,131,943	7,847,008
Total	<u>174,366,593</u>	<u>116,860,506</u>

43. Cash received relating to other financing activities

	For the six months ended 30 June	
	2004 Unaudited RMB	2003 Unaudited RMB
Government subsidies for specific construction projects	—	36,180,000

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Differences in financial statements prepared under PRC and 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:

	Note	For the six months ended 30 June 2004 Unaudited RMB'000
Net profit		
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		2,315,540
Deduct:		
Transfer of deferred income	(ii)	<u>(15,513)</u>
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u>2,300,027</u>
Shareholders' equity	Notes	30 June 2004 Unaudited RMB'000
Shareholders' equity under Hong Kong accounting standards		15,747,947
Add back:		
Deferred income	(ii)	514,068
Deduct:		
Deferred tax assets	(i)	(54,459)
Transfer of deferred income	(ii)	(15,513)
Transfer of deferred income charged to opening retained profits	(ii)	(3,606)
Provision for furnace relining costs	(iii)	<u>(74,499)</u>
Shareholders' equity under PRC accounting standards		<u>16,113,938</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(i) *Deferred tax assets*

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

Under Hong Kong SSAP 12 (Revised), deferred tax is provided, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred tax expenses or income recognised in the current period (1-6/2003: deferred tax income of approximately RMB1.99 million). Deferred tax assets recognised as at 30 June 2004 amounted to approximately RMB54.5 million (31 December 2003: RMB54.5 million).

(ii) *Deferred income*

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

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 30 June 2004, accumulated specific payables transferred to the capital reserve amounted to approximately RMB514 million (31 December 2003: approximately RMB305 million).

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 period, certain subsidised construction projects, with government grants of approximately RMB209 million received in prior years, were completed. As at 30 June 2004, accumulated deferred income amounting to approximately RMB514 million (31 December 2003: approximately RMB305 million) should be released to income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB15.51 million (1-6/2003: Nil) was released to the current period's income statement. As at 30 June 2004, the accumulated deferred income released amounted to approximately RMB19.12 million (31 December 2003: approximately RMB3.61 million).

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. 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 current period, no furnace relining costs were incurred, and the remaining provision as at 30 June 2004 amounted to approximately RMB74.5 million (31 December 2003: approximately RMB74.5 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. No furnace relining costs were incurred during the current period (1-6/2003: Nil).

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party involving control relationship

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

As at 30 June 2004, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries and associates of Holding become the Company's related parties.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Name	At 1 January 2004 Audited RMB'000	Increase during the period Unaudited RMB'000	Decrease during the period Unaudited RMB'000	At 30 June 2004 Unaudited RMB'000
Holding	6,298,290	—	—	6,298,290

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

Name	At 1 January 2004 Audited RMB'000	Ratio	Increase during the period Unaudited RMB'000	Ratio	Decrease during the period Unaudited RMB'000	Ratio	At 30 June 2004 Unaudited RMB'000	Ratio
Holding	4,082,330	63.24	—	—	—	—	4,082,330	63.24

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. 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)控股有限公司青陽白雲石礦	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
馬鋼集團楚江假日旅遊有限公司	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
廣東東莞大寶馬金屬製品股份有限公司	Subsidiary/associate of Holding
馬鞍山動力機電安裝公司	Subsidiary/associate of Holding
馬鋼運動用品有限責任公司	Subsidiary/associate of Holding
馬鞍山市聯營乙炔廠	Subsidiary/associate of Holding
馬鞍山市華鑫軋鋼廠	Subsidiary/associate of Holding
深圳粵海馬鋼實業有限公司	Subsidiary/associate of Holding

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship (continued)

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
馬鞍山凱馬螺絲製造公司	Subsidiary/associate of Holding
安徽馬鋼比亞西鋼筋焊網有限公司	Subsidiary/associate of Holding
上海江南物資聯合公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司有線電視中心	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司通訊技術服務部	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)控股有限公司高級技工學校	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司醫院	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司安徽冶金科技職業技術學院	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司博力監理公司	Subsidiary/associate of Holding
馬鋼和菱包裝材料有限公司	Subsidiary/associate of Holding
馬鋼嘉華商品混泥土有限公司	Subsidiary/associate of Holding
濟源市金馬焦化有限公司	Associate of the Company

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	Notes	For the six months ended 30 June	
		2004 Unaudited RMB	2003 Unaudited RMB
Transactions with Holding and subsidiaries of Holding			
Purchases of iron ore, limestone and dolomite	(i)	442,268,791	424,899,158
Fees paid for welfare, support services and other services	(ii), (iii)	119,798,452	128,940,632
Agency fee	(iii)	2,315,000	2,421,221
Purchases of fixed assets and construction services	(iii)	204,792,757	107,136,166
Fees received for the supply of utilities, services and other consumable goods	(iii)	(22,296,882)	(30,222,042)
Sale of steel and by products	(iii)	(17,617,085)	(6,450,419)
Including sale of steel and by products to Holding and its subsidiaries:			
馬鋼易凡工貿有限公司		(1,635,909)	–
馬鋼集團建設有限責任公司		–	(4,534,390)
馬鋼(集團)控股有限公司桃沖礦業公司		(1,508,041)	(1,916,029)
馬鋼建設鋼結構製作分公司		(14,473,135)	–
		(17,617,085)	(6,450,419)
Transactions with an associate of the Company			
Purchase of Coke 濟源市金馬焦化	(iv)	41,182,818	–
		41,182,818	–

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

- (i) The terms for the purchases of iron ore, limestone and dolomite from Holding were in accordance with an agreement dated 9 October 2003 between the Company and Holding.
- (ii) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services, for the period ended 30 June 2004 were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
- (iii) The other transactions with Holding, and subsidiaries and associates of Holding were conducted on terms determined between the Company and related parties.
- (iv) The above transactions were made according to the prices of the same products offered by 濟源市金馬焦化 to its other major customers.

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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties

	30 June 2004 Unaudited RMB	31 December 2003 Audited RMB	Details
Trade receivables:			
Holding	898,120	–	Trade
Others	4,384,968	2,577,593	Trade
Total	<u>5,283,088</u>	<u>2,577,593</u>	
Prepayments:			
Holding	16,950,573	66,690,920	Supporting services & iron ore fee
濟源市金馬焦化	19,817,182	–	Trade
Others	1,241,659	6,064,268	Trade
Total	<u>38,009,414</u>	<u>72,755,188</u>	
Trade payables:			
Holding	208,421	–	Trade
Others	14,761,911	54,647,573	Trade
Total	<u>14,970,332</u>	<u>54,647,573</u>	
Deposits received:			
Others	930,383	52,216,255	Trade

Receivable from/payable to related parties are interest-free, unsecured and have no fixed terms of repayment.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

7. CONTINGENT LIABILITIES

As at 30 June 2004, the Company had given guarantees amounted to approximately RMB2.66 billion (31 December 2003: approximately RMB2.42 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.

8. CAPITAL COMMITMENTS

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

	Group and Company	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Contracted, but not provided for:		
Blast Furnaces Renovation Project	87,800	86,389
Converters Renovation Project	54,986	91,467
Wheel Line Renovation Project	37,282	40,384
Construction Steel Lines Renovation Project	412,194	477,852
Coking Stoves Renovation Project	45,256	48,970
Public Auxiliary Utilities Project	90,359	97,559
Energy-saving and Environment Protection Project	7,355	36,381
Other Projects	39,042	38,812
	774,274	917,814

Note: The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR5.63 million (equivalent to approximately RMB56.69 million) and approximately JPY10.49 million (equivalent to approximately RMB0.8 million).

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2004

8. CAPITAL COMMITMENTS (continued)

	Group and Company	
	30 June 2004 Unaudited RMB'000	31 December 2003 Audited RMB'000
Authorised, but not contracted for:		
Blast Furnaces Renovation Project	165,988	357,919
Converters Renovation Project	392,822	427,629
Wheel Line Renovation Project	28,688	4,228
Construction Steel Lines Renovation Project	1,327,769	1,319,908
Coking Stoves Renovation Project	232,999	64,960
Public Auxiliary Utilities Project	430,326	296,345
Energy-saving and Environment Protection Project	86,692	115,932
Other Projects	28,883	45,837
	2,694,167	2,632,758
Total capital commitments	3,468,441	3,550,572

9. NON-RECURRING GAINS OR LOSSES

	For the six months ended 30 June 2004 Unaudited RMB
Subsidies income	672,381
Other non-operating income and expense items, net	5,039,472
Income tax effect	(800,921)
Total	4,910,932

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.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 18 August 2004.

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2004

Profit during the reporting period	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	19.77	19.77	0.494	0.494
Operating profit	16.75	16.75	0.418	0.418
Net profit	14.27	14.28	0.356	0.356
Net profit excluding non-recurring gains or losses	<u>14.24</u>	<u>14.25</u>	<u>0.356</u>	<u>0.356</u>

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

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION (continued)
PROVISION MOVEMENT SCHEDULE

30 June 2004

Item	At 1 January 2004	Increase during the period	Group Decrease during the period			At 30 June 2004
			Reversal on upward revaluation of assets	Other transfer-outs	Total	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
1. Provision for bad debts:	115,745,829	-	x	x	(6,118,169)	109,627,660
including: Trade receivables	57,209,664	-	x	x	1,572,151	58,781,815
Other receivables	58,536,165	-	x	x	(7,690,320)	50,845,845
2. Provision for decline in value of short term investments:	-	-	-	-	-	-
including: Equity investments	-	-	-	-	-	-
3. Provision for inventories:	77,393,250	-	-	-	-	77,393,250
including: Work in progress	3,000,000	-	-	-	-	3,000,000
Finished goods	9,656,900	-	-	-	-	9,656,900
Spare parts	64,736,350	-	-	-	-	64,736,350
4. Provision for impairment of long term investments	-	-	-	-	-	-
5. Provision for impairment of fixed assets:	200,566,300	-	-	-	-	200,566,300
including: Buildings and structures	37,590,200	-	-	-	-	37,590,200
Plant, machinery and equipment	162,976,100	-	-	-	-	162,976,100
6. Provision for impairment of intangible assets	-	-	-	-	-	-
7. Provision for impairment of construction in progress	74,000,000	-	-	-	-	74,000,000
8. Provision for impairment of designated loan	-	-	-	-	-	-

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE (continued)

30 June 2004

Item	At 1 January 2004	Increase during the period	Company Decrease during the period			At 30 June 2004
			Reversal on upward revaluation of assets	Other transfer-outs	Total	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
1. Provision for bad debts:	115,745,829	-	x	x	(6,118,169)	109,627,660
including: Trade receivables	57,209,664	-	x	x	1,572,151	58,781,815
Other receivables	58,536,165	-	x	x	(7,690,320)	50,845,845
2. Provision for decline in value of short term investments:	-	-	-	-	-	-
including: Equity investments	-	-	-	-	-	-
3. Provision for inventories:	77,393,250	-	-	-	-	77,393,250
including: Work in progress	3,000,000	-	-	-	-	3,000,000
Finished goods	9,656,900	-	-	-	-	9,656,900
Spare parts	64,736,350	-	-	-	-	64,736,350
4. Provision for impairment of long term investments	-	-	-	-	-	-
including: investment in subsidiaries	-	-	-	-	-	-
5. Provision for impairment of fixed assets:	200,566,300	-	-	-	-	200,566,300
including: Buildings and structures	37,590,200	-	-	-	-	37,590,200
Plant, machinery and equipment	162,976,100	-	-	-	-	162,976,100
6. Provision for impairment of intangible assets	-	-	-	-	-	-
7. Provision for impairment of construction in progress	74,000,000	-	-	-	-	74,000,000
8. Provision for impairment of designated loan	-	-	-	-	-	-

VI. FINANCIAL REPORT (continued)

The Board of Directors of the Company hereby announces the unaudited interim results of the Group for the six months ended 30 June 2004 together with comparative figures for the corresponding period in 2003. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2004

	Notes	For the six months ended 30 June	
		2004 Unaudited RMB'000	2003 Unaudited RMB'000
TURNOVER	3	12,808,080	7,061,706
Cost of sales		(9,531,762)	(5,622,201)
Gross profit		3,276,318	1,439,505
Other revenue	3	80,572	27,878
Selling and distribution costs		(160,967)	(94,585)
Administrative expenses		(365,108)	(231,003)
Other operating income/(expenses), net		(48)	8,042
PROFIT FROM OPERATING ACTIVITIES	4	2,830,767	1,149,837
Finance costs	5	(109,353)	(42,502)
PROFIT BEFORE TAX		2,721,414	1,107,335
Tax	6	(403,928)	(177,740)
PROFIT BEFORE MINORITY INTERESTS		2,317,486	929,595
Minority interests		(1,946)	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		2,315,540	929,595
EARNINGS PER SHARE	9		
Basic		35.87 cents	14.40 cents
Diluted		N/A	N/A

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2004

	Notes	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
NON-CURRENT ASSETS			
Fixed assets	10	17,058,073	14,617,987
Construction in progress		2,374,324	3,223,573
Investments in associates		150,976	146,976
Long term investments		32,656	32,656
Deferred tax asset		54,459	54,459
		19,670,488	18,075,651
CURRENT ASSETS			
Inventories	11	3,971,037	2,377,500
Trade and bill receivables	12	2,098,174	2,332,894
Prepayments, deposits and other receivables		1,491,552	1,200,621
Short term investments		13,568	13,568
Pledged deposits		9,804	9,843
Cash and cash equivalents		2,546,509	2,408,451
		10,130,644	8,342,877
CURRENT LIABILITIES			
Trade payables	13	3,220,184	2,319,681
Tax payable		180,321	79,963
Other payables and accruals		3,009,560	2,395,486
Bank borrowings		2,224,542	2,005,211
Provisions		137,834	195,104
Dividend payable		762,378	–
		9,534,819	6,995,445
NET CURRENT ASSETS		595,825	1,347,432
TOTAL ASSETS LESS CURRENT LIABILITIES		20,266,313	19,423,083
NON-CURRENT LIABILITIES			
Bank borrowings		3,869,811	3,969,177
Deferred income		562,750	578,263
Provisions		43,628	52,203
		4,476,189	4,599,643
MINORITY INTERESTS		42,177	35,420
		15,747,947	14,788,020
CAPITAL AND RESERVES			
Issued capital		6,455,300	6,455,300
Reserves		9,292,647	6,977,107
Proposed final dividend		–	1,355,613
		15,747,947	14,788,020

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2004

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	Retained profits	Proposed final dividend	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	6,455,300	4,864,976	533,110	532,839	698	348	1,045,136	1,355,613	14,788,020
Net profit for the period	-	-	-	-	-	-	2,315,540	-	2,315,540
Final 2003 dividend declared	-	-	-	-	-	-	-	(1,355,613)	(1,355,613)
At 30 June 2004	<u>6,455,300</u>	<u>4,864,976</u>	<u>533,110</u>	<u>532,839</u>	<u>698</u>	<u>348</u>	<u>3,360,676</u>	<u>-</u>	<u>15,747,947</u>
At 1 January 2003	6,455,300	4,864,976	251,642	251,112	-	-	305,792	225,936	12,354,758
Net profit for the period	-	-	-	-	-	-	929,595	-	929,595
Final 2002 dividend declared	-	-	-	-	-	-	-	(225,936)	(225,936)
Reserves realised on disposal of subsidiaries	-	-	(462)	(230)	-	-	-	-	(692)
At 30 June 2003	<u>6,455,300</u>	<u>4,864,976</u>	<u>251,180</u>	<u>250,882</u>	<u>-</u>	<u>-</u>	<u>1,235,387</u>	<u>-</u>	<u>13,057,725</u>

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

Period ended 30 June 2004

	For the six months ended 30 June	
	2004 Unaudited RMB'000	2003 Unaudited RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,656,798	1,322,989
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,939,235)	(3,002,086)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(545,760)	2,298,997
NET INCREASE IN CASH AND CASH EQUIVALENTS	171,803	619,900
Cash and cash equivalents at beginning of period	2,261,629	890,172
Effect of foreign exchange rate changes, net	3,077	(7,433)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,436,509	1,502,639
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,436,509	1,502,639
RECONCILIATION OF BALANCES OF CASH AND CASH EQUIVALENTS TO CASH AND BANK BALANCES		
Cash and balances with financial institutions, net of provision	2,556,313	1,694,987
Less: Non-pledged time deposits with original maturities of more than three months when acquired	(110,000)	(145,928)
Pledged deposits	(1,206)	(37,820)
Pledged time deposits	(8,598)	(8,600)
	2,436,509	1,502,639

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

30 June 2004

1. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2003 except for the change in the following accounting estimate:

During the period, the Group has revised the estimated useful lives of certain fixed assets. In the opinion of the directors, the revised useful lives of such assets reflect more fairly the current estimate of their useful lives. The change of estimated useful lives has the effect of increasing the Group's depreciation charge by approximately RMB222,270,000 for the current period and an estimated amount of approximately RMB444,540,000 for the year.

2. SEGMENT INFORMATION

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

No geographical segment information is presented as over 90% of the Group's turnover is derived from customers based in the People's Republic of China (the "PRC"), and over 90% of the Group's assets are located in the PRC.

3. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB'000	RMB'000
Turnover – sale of goods	12,808,080	7,061,706
Interest income	14,716	5,379
Others	65,856	22,499
	<u>12,888,652</u>	<u>7,089,584</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004 Unaudited RMB'000	2003 Unaudited RMB'000
Depreciation	852,232	511,746
Amortisation of deferred staff cost	–	8,800
Gain on disposal of fixed assets	(6,429)	(3,240)
Loss on disposal of subsidiaries	–	6,425
Interest income	(14,716)	(5,379)

5. FINANCE COSTS

	For the six months ended 30 June	
	2004 Unaudited RMB'000	2003 Unaudited RMB'000
Interest on bank loans	131,930	68,093
Less: Interest capitalised	(22,577)	(25,591)
	<u>109,353</u>	<u>42,502</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

6. TAX

	For the six months ended 30 June	
	2004 Unaudited RMB'000	2003 Unaudited RMB'000
Group:		
Current – PRC		
Charge for the period	403,928	170,636
Underprovision in prior year	–	9,091
Deferred	–	(1,987)
	403,928	177,740

The PRC income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 33%, on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. 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. The applicable tax rate is 15% and is entitled to enjoy the “two years exempt and subsequent three years with 50% reduction” tax holiday. With approval obtained from respective tax bureau, the tax holiday started in 2004.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2004 and 30 June 2003.

No provision for overseas profits tax has been made for the Group as there were no assessable profits for the six months ended 30 June 2004 and 30 June 2003.

7. STATUTORY SURPLUS RESERVE, STATUTORY PUBLIC WELFARE FUND, RESERVE FUND AND ENTERPRISE EXPANSION FUND

No appropriation was made to the statutory surplus reserve, statutory public welfare fund, reserve fund and enterprise expansion fund by the Company and its subsidiaries for the period ended 30 June 2004. Such appropriation will be made at the year end in accordance with the Company Law of the PRC and the Company's and subsidiaries' Articles of Associations.

8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately RMB2,315,540,000 (2003: approximately RMB929,595,000) and 6,455,300,000 (2003: 6,455,300,000) ordinary shares in issue during the period.

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

10. FIXED ASSETS

The significant increase in fixed assets balance was mainly attributable to the transfer of approximately RMB3,289 million from construction in progress.

11. INVENTORIES

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Raw materials	2,719,456	1,123,971
Work in progress	436,515	413,073
Finished goods	301,390	345,519
Spare parts	513,676	494,937
	<u>3,971,037</u>	<u>2,377,500</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

12. TRADE AND BILL RECEIVABLES

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

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Trade receivables:		
Within three months	186,751	175,748
Four to six months	16,638	9,020
Seven to twelve months	2,951	13,485
One to two years	8,642	4,727
Two to three years	1,542	8,692
Over three years	–	20
	216,524	211,692
Bill receivables	1,881,650	2,121,202
	2,098,174	2,332,894

Bill receivables all have maturity dates within one year.

Included in the Group's trade and bill receivables are amounts due from the ultimate holding company, Magang (Group) Holding Company Limited ("Holding"), and subsidiaries and associates of Holding aggregating approximately RMB5,283,000 (2003: approximately RMB2,578,000). Such balances principally arose from normal trading activities.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

13. TRADE PAYABLES

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Within one year	3,071,878	2,207,468
One to two years	126,265	98,676
Two to three years	13,246	2,107
Over three years	8,795	11,430
	<u>3,220,184</u>	<u>2,319,681</u>

Included in the Group's trade payables are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB14,970,000 (2003: approximately RMB54,648,000). Such balances principally arose from normal trading activities.

14. CONTINGENT LIABILITIES

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Bills discounted with recourse	<u>1,363,000</u>	<u>403,430</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

15. CAPITAL COMMITMENTS

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Contracted, but not provided for	774,274	917,814
Authorised, but not contracted for	2,694,167	2,632,758
	<u>3,468,441</u>	<u>3,550,572</u>

The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR5.6 million (equivalent to approximately RMB56.7 million) and approximately JPY10.5 million (equivalent to approximately RMB0.8 million).

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2004

16. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and the related parties during the period:

		For the six months ended 30 June	
		2004 Unaudited RMB'000	2003 Unaudited RMB'000
Transactions with Holding, and subsidiaries and associates of Holding:			
Purchases of iron ore, limestone and dolomite	(i)	442,269	424,899
Fees paid for welfare, support services and other services	(ii), (iii)	119,798	128,941
Fees received for the supply of utilities, services and other consumable goods	(iii)	(22,297)	(30,222)
Agency fee	(iii)	2,315	2,421
Purchases of fixed assets and provision of construction services	(iii)	204,793	107,136
Sale of steel products	(iii)	(17,617)	(6,450)
Transactions with 濟源市金馬焦化有限公司 (“濟源市金馬焦化”), an associate of the Group:			
Purchases of coke	(iv)	41,183	–

- (i) The terms for the purchase of iron ore, limestone and dolomite from Holding for the period ended 30 June 2004 were in accordance with a sale and purchase of ore agreement dated 9 October 2003 between the Company and Holdings.
- (ii) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services, for the period ended 30 June 2004 were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
- (iii) The other transactions with Holding, and subsidiaries and associates of Holding were conducted on terms determined between the Company and related parties.
- (iv) The above transactions were made according to the prices of the same products offered by 濟源市金馬焦化 to its other major customers.

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

Further details on balances with Holding, and the subsidiaries and associates of Holding are set out in notes 12 to 13 to the condensed consolidated interim financial statements.

VII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Interim report signed by the Chairman of the Company;
2. Financial statements stamped and sealed by the Company representative, chief accountant and head of Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by CSRC during the reporting period;
4. The Company's Articles of Association;
5. Interim report published in Shanghai Securities Journal, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong).

Maanshan Iron & Steel Company Limited
Gu Jianguo
Chairman

Maanshan City, Anhui Province, the PRC
18 August 2004