(Prepared under Hong Kong accounting standards)
31 December 2004

1. CORPORATE INFORMATION

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

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

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received or receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

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

The results of associates are included in the Company's profit and loss account to the extent of dividends received or receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

Land use rights	Over the lease terms of 50 years
Buildings and structures	10 to 20 years
Plant, machinery and equipment	10 years
Transportation vehicles and equipment	5 years

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

Construction in progress

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

Long term investments

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments (continued)

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

Held-to-maturity securities

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

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

Short term investments

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

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising form the passage of time is included in finance costs in the profit and loss account.

Income tax

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

Revenue recognition

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

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

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

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

Borrowing costs

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

Dividends

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

Pension benefits

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting estimate

The continuous increase in production level and development and production of new products shortened the repair and renovation cycle of fixed assets. During the year, the Group revised the estimated useful lives of certain fixed assets. In the opinion of the directors, the revised useful lives of such assets reflect more fairly the current estimate of their useful lives.

The Company adopts the change in accounting estimate prospectively. The change of estimated useful lives has the effect of increasing the Group's depreciation charge by approximately RMB444,540,000 for the year.

4. SEGMENT INFORMATION

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

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

5. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2004	2003
	RMB'000	RMB'000
Turnover – sale of goods	**26,770,055**	15,740,348
Interest income	**24,236**	15,528
Transfer of deferred income	**38,379**	3,606
Others	**67,936**	22,836
	26,900,606	15,782,318

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2004** RMB'000	2003 RMB'000
Cost of inventories sold *		**20,809,548**	11,722,592
Depreciation	14	**1,810,490**	1,067,207
Provision/(reversal of provision) for doubtful debts, net **		**(18,194)**	9,570
Auditors' remuneration		**5,110**	4,601
Staff costs (excluding directors' remuneration):	8		
Wages and salaries		**1,311,835**	1,142,118
Welfare and benefits		**418,427**	398,622
Pension scheme contributions		**273,766**	237,034
Housing subsidies for current employees		**–**	244,213
Amortisation of deferred staff costs		**–**	70,400
Loss on deemed disposal of a subsidiary		**–**	1,491
Loss on disposal of subsidiaries		**–**	9,139
Exchange differences:			
Exchange losses, net		**226,140**	249,741
Less: exchange differences capitalised in construction in progress		**(28,957)**	(196,949)
		197,183	52,792
Loss on disposal of fixed assets, net		**11,078**	47,260
Reversal of impairment provision for fixed assets **		**(15,412)**	(63,554)
Interest income		**(24,236)**	(15,528)
Dividend income from a long term unlisted investment		**(1,105)**	–
Unrealised gain on changes in fair values of short term investments		**–**	(2,263)
Transfer of deferred income ***		**(38,379)**	(3,606)

* Included in the cost of inventories sold for the year is provision for inventories of approximately RMB10,402,000 (2003: approximately RMB6,602,000).

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

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

7. FINANCE COSTS

	Group	
	2004	2003
	RMB'000	RMB'000
Interest on bank loans and other loans wholly repayable within five years	**260,676**	177,578
Less: Interest capitalised in construction in progress	**(35,392)**	(72,551)
	225,284	105,027

8. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	RMB'000	RMB'000
Fees	**180**	180
Other emoluments:		
Salaries, allowances and benefits in kind	**243**	209
Performance related bonuses	**3,897**	3,786
Pension scheme contributions	**869**	839
	5,009	4,834
	5,189	5,014

Fees include RMB180,000 (2003: RMB180,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

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8. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2004	2003
Nil to RMB1,000,000	**17**	18

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all directors (2003: all directors), details of whose remuneration are set out in note 8 above.

10. TAX

	2004	2003
	RMB'000	RMB'000
Group:		
Current – PRC		
Charge for the year	**441,331**	183,363
(Over)/underprovision in prior years	**(1,061)**	10,144
Current – Hong Kong	**989**	263
Deferred (note 19)	**19,725**	10,091
Total tax charge for the year	**460,984**	203,861

The PRC income tax for the Company and its subsidiaries is calculated at rates ranging from 15% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. However, certain of the Company's subsidiaries are foreign investment enterprises. After obtaining authorisation from respective tax authorities, these subsidiaries are subject to a full State Corporate Income Tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Except for the Hong Kong subsidiary, no provision for overseas profits tax has been made for the Group as there were no assessable profits for the year. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

10. TAX (continued)

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

	Group			
	2004		2003	
	RMB'000	**%**	RMB'000	%
Profit before tax	**4,065,876**		2,864,232	
Tax at the applicable tax rate	**609,881**	**15**	429,635	15
Tax relief granted	**(9,943)**	**–**	–	–
Income not subject to tax	**(7,988)**	**–**	(616)	–
Expenses not deductible for tax	**7,861**	**–**	14,781	1
Tax concessions in respect of purchases of PRC manufactured plant, machinery and equipment *	**(110,333)**	**(3)**	(238,421)	(8)
Other tax concessions	**(36,713)**	**(1)**	(14,382)	(1)
Adjustments in respect of current tax of previous periods	**(1,061)**	**–**	10,144	–
Effect of different tax rates of subsidiaries	**9,280**	**–**	2,720	–
Tax charge at the Group's effective rate	**460,984**	**11**	203,861	7

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

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was approximately RMB3,520,406,000 (2003: approximately RMB2,664,743,000) (note 30).

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12. DIVIDEND

	2004 **RMB'000**	2003 RMB'000
Proposed final – RMB22 cents (2003: RMB21 cents) per ordinary share	**1,420,166**	1,355,613

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of approximately RMB3,592,320,000 (2003: approximately RMB2,659,198,000) and 6,455,300,000 (2003: 6,455,300,000) ordinary shares in issue during the year.

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

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14. FIXED ASSETS

Group

	Land use rights RMB'000	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
Cost:					
At beginning of year	1,052,989	8,074,446	11,223,930	505,361	20,856,726
Additions	17,796	7,948	16,429	28,567	70,740
Acquisition of a subsidiary (note 31(b))	5,152	27,009	14,829	851	47,841
Transferred from/(to) construction in progress, net (note 15)	(6,867)	737,556	5,027,203	73,947	5,831,839
Reclassifications	–	(324,567)	297,092	27,475	–
Disposals/write-off	–	(100,014)	(197,316)	(17,629)	(314,959)
At 31 December 2004	1,069,070	8,422,378	16,382,167	618,572	26,492,187
Accumulated depreciation and impairment:					
At beginning of year	189,180	2,034,252	3,716,585	298,722	6,238,739
Acquisition of a subsidiary (note 31(b))	–	557	941	51	1,549
Depreciation provided during the year	21,047	436,708	1,300,118	52,617	1,810,490
Transferred to construction in progress (note 15)	(177)	–	–	–	(177)
Reversal of impairment provision during the year recognised in the profit and loss account	–	(7,009)	(8,403)	–	(15,412)
Write-off of impairment provision	–	(20,189)	(47,909)	–	(68,098)
Reclassifications	–	49,136	(61,662)	12,526	–
Disposals/write-off	–	(41,870)	(145,200)	(16,191)	(203,261)
At 31 December 2004	210,050	2,451,585	4,754,470	347,725	7,763,830
Net book value:					
At 31 December 2004	859,020	5,970,793	11,627,697	270,847	18,728,357
At 31 December 2003	863,809	6,040,194	7,507,345	206,639	14,617,987

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14. FIXED ASSETS (continued)

Company

	Land use rights	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At beginning of year	1,028,444	8,058,884	11,208,231	499,986	20,795,545
Additions	17,796	407	5,292	27,458	50,953
Transferred from construction in progress, net (note 15)	–	694,249	5,000,414	73,635	5,768,298
Reclassifications	–	(330,182)	302,707	27,475	–
Disposals/write-off	–	(100,014)	(195,836)	(17,154)	(313,004)
At 31 December 2004	1,046,240	8,323,344	16,320,808	611,400	26,301,792
Accumulated depreciation and impairment:					
At beginning of year	188,988	2,029,256	3,711,447	296,146	6,225,837
Depreciation provided during the year	20,565	434,294	1,297,761	51,808	1,804,428
Reversal of impairment provision during the year recognised in the profit and loss account	–	(7,009)	(8,403)	–	(15,412)
Write-off of impairment provision	–	(20,189)	(47,909)	–	(68,098)
Reclassifications	–	49,079	(61,605)	12,526	–
Disposals/write-off	–	(41,870)	(143,894)	(15,731)	(201,495)
At 31 December 2004	209,553	2,443,561	4,747,397	344,749	7,745,260
Net book value:					
At 31 December 2004	836,687	5,879,783	11,573,411	266,651	18,556,532
At 31 December 2003	839,456	6,029,628	7,496,784	203,840	14,569,708

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

At the balance sheet date, certificates of ownership in respect of certain of the Group's land use rights with an aggregate net book value of approximately RMB39,170,000 had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

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15. CONSTRUCTION IN PROGRESS

	Group	Company
	RMB'000	RMB'000
Cost:		
At beginning of year	3,297,573	3,326,312
Additions	4,918,787	4,768,403
Acquisition of a subsidiary (note 31(b))	1,754	–
Transferred to fixed assets, net (note 14)	(5,832,016)	(5,768,298)
At 31 December 2004	2,386,098	2,326,417
Accumulated impairment:		
At beginning of year and 31 December 2004	74,000	74,000
Net book value:		
At 31 December 2004	2,312,098	2,252,417
At 31 December 2003	3,223,573	3,252,312

At the balance sheet date, certificates of ownership in respect of certain of the Group's land use rights with an aggregate net book value of approximately RMB270 million had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of approximately RMB33,558,000 (2003: Nil) were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 27 to the financial statements.

The carrying amount of construction in progress included capitalised interest of approximately RMB3,517,000 (2003: capitalised interest and exchange differences of approximately RMB52,730,000 and RMB144,638,000 respectively).

(Prepared under Hong Kong accounting standards)
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16. INVESTMENTS IN SUBSIDIARIES

Company

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	**331,547**	183,756

Particulars of the Company's subsidiaries are as follows:

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

(Prepared under Hong Kong accounting standards)
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16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK$4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services
MG Trading and Development GmbH	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (note iv)	PRC	RMB35,000,000	70	30	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (note iv)	PRC	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)") (notes i, iii)	PRC	RMB12,000,000	–	80	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage and after-sales services
Anhui Masteel Holly Packing Co., Ltd. ("Holly Packing") (notes ii, iv)	PRC	RMB30,000,000	71	–	Provision of packing materials for steel and other products; production and sale of metallic products, plastic, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on-site packing services
Maanshan Iron & Steel (Australia) Proprietary Limited (note i)	Australia	AUD21,737,900	100	–	Investment holding

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

(i) Newly incorporated during the year

(ii) Newly acquired during the year

(iii) Registered as limited company under the PRC law

(iv) Registered as Sino-foreign joint venture under the PRC law

During the year, the Company acquired a 71% equity interest in Holly Packing from Holding. Further details of the acquisition are included in notes 31(b) and 35 to the financial statements.

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

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**150,976**	146,976
Share of net assets	**150,018**	146,976	**–**	–
	150,018	146,976	**150,976**	146,976

Particulars of the Company's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Company	Principal activities
濟源市金馬焦化有限公司("濟源市金馬焦化") (note ii)	Limited company	PRC	40	Production and sale of coke, tar, benzene and coal gas
滕州盛隆煤焦化有限公司("滕州盛隆煤焦化") (note ii)	Limited company	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
馬鞍山市五環報廢汽車回收拆解有限責任公司 (note ii)	Limited company	PRC	40	Recycling and dismantling of scrap motor vehicles and trading of steel products
上海大宗鋼鐵電子交易中心有限公司 (notes i, ii)	Limited company	PRC	20	Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services

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17. INTERESTS IN ASSOCIATES (continued)

Notes:

(i) Newly incorporated during the year

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

18. LONG TERM INVESTMENTS

	Group and Company	
	2004	2003
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**16,817**	16,417
Other debt investment	**13,579**	16,239
	30,396	32,656

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

19. DEFERRED TAX

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

Deferred tax assets

	Group and Company		
	2004		
	Asset provisions	**Early retirement benefits**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
At 1 January 2004	**54,803**	**10,831**	**65,634**
Deferred tax charged to the profit and loss account during the year (note 10)	**(16,725)**	**(3,000)**	**(19,725)**
Gross deferred tax assets at 31 December 2004	**38,078**	**7,831**	**45,909**

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19. DEFERRED TAX (continued)

Deferred tax liabilities

	Group and Company 2004 Furnace relining costs RMB'000
Gross deferred tax liabilities at 1 January 2004 and 31 December 2004	**11,175**
Net deferred tax assets at 31 December 2004	**34,734**

Deferred tax assets

	Group and Company 2003		
	Asset provisions RMB'000	Early retirement Benefits and housing subsidies RMB'000	Total RMB'000
At 1 January 2003	79,910	9,648	89,558
Deferred tax credited/(charged) to the profit and loss account during the year	(25,107)	1,183	(23,924)
Gross deferred tax assets at 31 December 2003	54,803	10,831	65,634

19. DEFERRED TAX (continued)

Deferred tax liabilities

	Group and Company		
	2003		
	Deferred staff costs RMB'000	Furnace relining costs RMB'000	Total RMB'000
At 1 January 2003	10,560	14,448	25,008
Deferred tax credited to the profit and loss account during the year	(10,560)	(3,273)	(13,833)
Gross deferred tax liabilities at 31 December 2003	–	11,175	11,175
Net deferred tax assets at 31 December 2003			54,459

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

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

20. INVENTORIES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**3,143,887**	1,123,971	**3,142,044**	1,123,971
Work in progress	**548,152**	413,073	**528,270**	401,140
Finished goods	**380,766**	345,519	**272,894**	252,234
Spare parts	**681,379**	494,937	**681,320**	494,937
	4,754,184	2,377,500	**4,624,528**	2,272,282

The carrying amount of the inventories of the Group and the Company carried at net realisable value included in the above balances was approximately RMB112,166,000 (2003: approximately RMB57,520,000) as at the balance sheet date.

(Prepared under Hong Kong accounting standards)
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21. TRADE AND BILL RECEIVABLES

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

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

	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**252,788**	175,748	**234,120**	136,182
Four to six months	**8,130**	9,020	**3,196**	5,701
Seven to twelve months	**4,688**	13,485	**4,207**	13,483
One to two years	**8,757**	4,727	**8,355**	4,727
Two to three years	**2,189**	8,692	**2,189**	8,692
Over three years	**–**	20	**–**	20
	276,552	211,692	**252,067**	168,805
Bills receivable	**1,922,826**	2,121,202	**1,876,497**	2,118,402
	2,199,378	2,332,894	**2,128,564**	2,287,207

Bills receivable have maturity dates within one year.

Included in both the Group's and the Company's trade and bill receivables are amounts due from Holding, and subsidiaries and associates of Holding aggregating approximately RMB1,466,000 (2003: approximately RMB2,578,000). Such balances principally arose from normal trading activities.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding, and subsidiaries and associates of Holding aggregating approximately RMB40,490,000 (2003: approximately RMB72,755,000) for the purchase of raw materials and the provision of support services from Holding.

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23. SHORT TERM INVESTMENTS

	Group and Company	
	2004	2003
	RMB'000	RMB'000
Equity investments listed in the PRC, at market value	**13,568**	13,568

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,112,876**	2,262,835	**1,696,613**	1,564,901
Time deposits and balances with financial institutions, net of provision	**68,620**	155,459	**59,601**	146,822
	2,181,496	2,418,294	**1,756,214**	1,711,723
Less: Pledged deposits for trading facilities	**(8,620)**	(9,843)	**–**	–
Cash and cash equivalents	**2,172,876**	2,408,451	**1,756,214**	1,711,723

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four (2003: five) non-bank financial institutions, aggregating approximately HK$128 million (2003: approximately HK$169 million).

	Notes	**2004**	2003
		HK$'000	HK$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**23,317**	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	**8,608**	9,322
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	**48,000**	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	**48,125**	48,125
Shenzhen Leasing Co. Ltd. ("SLCL")	(iv)	**–**	40,000
		128,050	168,764

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

Notes:

(i) GITIC was declared bankrupt by the Shenzhen Intermediate People's Court of Guangdong Province on 16 January 1999. On 28 February 2003, the People's High Court of Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. During the period from year 2000 to 2003, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the year, no allocation of assets was made by the liquidator of GITIC.

(ii) China Venturetech is now in liquidation and the Company has registered its debts with中國人民銀行關閉中國新技術創業投資公司清算組 (the liquidator of China Venturetech). On 22 July 2004, the Company signed a repayment agreement with the liquidator of China Venturetech and the liquidator agreed to repay approximately RMB757,000 each in year 2003(delayed), 2004 and 2005. The remaining debts will be repaid by the proceeds from liquidating China Venturetech's assets with the amount determined based on the result of the liquidation in year 2006 and 2007. On 3 December 2004 and 2 February 2005, the Company received two repayments from the liquidator each amounting to approximately RMB757,000.

(iii) Ningbo CITIC is now in liquidation and the Company has registered its debts with the liquidator. 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. Up to the approval date of the financial statements, no repayments have been received from Ningbo CITIC and SEG.

(iv) 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 31 December 2004, the overdue fixed deposit in SLCL had been fully settled.

The directors are unable to estimate, as at the date on which these financial statements were approved, the principal amount of the outstanding deposits the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the remaining overdue fixed deposits.

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25. TRADE AND BILL PAYABLES

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

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**3,176,820**	2,207,468	**3,068,762**	2,010,921
One to two years	**83,700**	98,676	**19,827**	60,009
Two to three years	**4,784**	2,107	**963**	2,107
Over three years	**6,857**	11,430	**4,943**	9,930
	3,272,161	2,319,681	**3,094,495**	2,082,967

Included in the Group's and the Company's trade payables are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB81,805,000 (2003: approximately RMB54,648,000). Such balances principally arose from normal trading activities.

26. OTHER PAYABLES AND ACCRUALS

Included in the Group's and the Company's other payables and accruals are amounts due to Holding, and subsidiaries and associates of Holding aggregating approximately RMB116,400,000 (2003: approximately RMB52,216,000). Such balances principally arose from normal trading activities.

(Prepared under Hong Kong accounting standards)
31 December 2004

27. BANK AND OTHER BORROWINGS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans:				
Unsecured	**5,476,672**	5,974,388	**5,348,450**	5,953,886
Other loans:				
Secured	**6,063**	–	**–**	–
Unsecured	**2,171**	–	**–**	–
	8,234	–	**–**	–
	5,484,906	5,974,388	**5,348,450**	5,953,886
Bank loans repayable:				
Within one year	**1,350,763**	2,005,211	**1,261,084**	2,003,930
In the second year	**2,987,888**	67,269	**3,132,907**	65,988
In the third to fifth years, inclusive	**1,007,061**	3,770,812	**837,459**	3,766,968
Beyond five years	**130,960**	131,096	**117,000**	117,000
	5,476,672	5,974,388	**5,348,450**	5,953,886
Other loans repayable in the third to fifth years, inclusive	**8,234**	–	**–**	–
	5,484,906	5,974,388	**5,348,450**	5,953,886
Portion classified as current liabilities	**(1,350,763)**	(2,005,211)	**(1,261,084)**	(2,003,930)
Long term portion	**4,134,143**	3,969,177	**4,087,366**	3,949,956

All the bank loans are unsecured and bear interest at rates ranging from 0.25% to 5.76% per annum (2003: 0.24% to 5.76% per annum). Certain of the bank loans of approximately RMB4,173,352,000 (2003: approximately RMB4,015,942,000) are guaranteed by Holding.

Other loans are granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. The loans bear interest at a rate of 5.49% per annum (with reference to Renminbi loan interest rate of Maanshan Commercial Bank) and are repayable in June 2007 and August 2007 respectively. Certain of the other loans are secured by the pledge of certain of the Group's equipment with an aggregate net book value of approximately RMB33,558,000 (2003: Nil).

(Prepared under Hong Kong accounting standards)
31 December 2004

28. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees	**Housing subsidies**	**Total**
	RMB'000	RMB'000	RMB'000
At beginning of year	72,209	175,098	247,307
Amounts utilised during the year	(20,006)	(62,180)	(82,186)
At 31 December 2004	52,203	112,918	165,121
Portion classified as current liabilities	(11,945)	(112,918)	(124,863)
Long term portion	40,258	–	40,258

29. SHARE CAPITAL

		Group and Company	
		2004	2003
		RMB'000	RMB'000
Registered, issued and fully paid:			
4,034,560,000	State A shares of RMB1.00 each	**4,034,560**	4,034,560
87,810,000	Legal person A shares of RMB1.00 each	**87,810**	87,810
600,000,000	Individual A shares of RMB1.00 each	**600,000**	600,000
1,732,930,000	H shares of RMB1.00 each	**1,732,930**	1,732,930
6,455,300,000		**6,455,300**	6,455,300

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

(Prepared under Hong Kong accounting standards)
31 December 2004

30. RESERVES

Group

	Note	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained profits/ (Accumulated (losses) RMB'000	Total RMB'000
At 1 January 2003		4,864,976	251,642	251,112	–	–	305,792	5,673,522
Net profit for the year		–	–	–	–	–	2,659,198	2,659,198
Transfer from/(to) reserves		–	282,055	282,055	698	348	(565,156)	–
Realisation of reserves on disposal of subsidiaries		–	(587)	(328)	–	–	915	–
Proposed final 2003 dividend	12	–	–	–	–	–	(1,355,613)	(1,355,613)
At 31 December 2003 and 1 January 2004		4,864,976	533,110	532,839	698	348	1,045,136	6,977,107
Net profit for the year		–	–	–	–	–	3,592,320	3,592,320
Transfer from/(to) reserves		–	360,050	360,013	2,782	4,786	(727,631)	–
Proposed final 2004 dividend	12	–	–	–	–	–	(1,420,166)	(1,420,166)
At 31 December 2004		4,864,976	893,160	892,852	3,480	5,134	2,489,659	9,149,261
Reserves retained by:								
Company and subsidiaries		4,864,976	893,160	892,852	3,480	5,134	2,490,617	9,150,219
Associates		–	–	–	–	–	(958)	(958)
At 31 December 2004		4,864,976	893,160	892,852	3,480	5,134	2,489,659	9,149,261
Company and subsidiaries		4,864,976	533,110	532,839	698	348	1,045,136	6,977,107
At 31 December 2003		4,864,976	533,110	532,839	698	348	1,045,136	6,977,107

(Prepared under Hong Kong accounting standards)
31 December 2004

30. RESERVES (continued)

Company

	Note	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2003		4,864,976	250,375	250,375	290,459	5,656,185
Net profit for the year		–	–	–	2,664,743	2,664,743
Transfer from/(to) reserves		–	280,278	280,278	(560,556)	–
Proposed final 2003 dividend	12	–	–	–	(1,355,613)	(1,355,613)
At 31 December 2003 and 1 January 2004		4,864,976	530,653	530,653	1,039,033	6,965,315
Net profit for the year		–	–	–	3,520,406	3,520,406
Transfer from/(to) reserves		–	357,350	357,350	(714,700)	–
Proposed final 2004 dividend	12	–	–	–	(1,420,166)	(1,420,166)
At 31 December 2004		4,864,976	888,003	888,003	2,424,573	9,065,555

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these company's share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

In accordance with the Company Law of the PRC, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax to the statutory public welfare fund (the "PWF"). PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of these companies.

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

(Prepared under Hong Kong accounting standards)
31 December 2004

30. RESERVES (continued)

Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures" and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with PRC accounting standards and related regulations to the enterprise expansion fund, reserve fund and employee bonus and welfare fund. The allocation rates are determined by their respective board of directors.

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB357.4 million (2003: approximately RMB280.3 million) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of approximately RMB3,574 million (2003: approximately RMB2,803 million) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the share of the subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with the percentage of investment held by the Group, was approximately RMB2,700,000 (2003: approximately RMB1,777,000), approximately RMB2,663,000 (2003: approximately RMB1,777,000), approximately RMB2,782,000 (2003: approximately RMB698,000) and approximately RMB4,786,000 (2003: approximately RMB348,000), respectively.

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

As at 31 December 2004, the Company had retained profits of approximately RMB2,368 million (31 December 2003: approximately RMB930 million) after the appropriation of proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC accounting standards and regulations or the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or in kind.

As at 31 December 2004, in accordance with the Company Law of the PRC, an amount of approximately RMB5.43 billion (2003: approximately RMB5.17 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Note	**2004** **RMB'000**	2003 RMB'000
Net assets disposed of:			
Fixed assets		–	229
Cash and cash equivalents		–	8,561
Trade receivables		–	16,544
Prepayments, deposits and other receivables		–	448
Inventories		–	156
Trade payables		–	(7,920)
Other payables and accruals		–	(760)
Tax payable		–	(1,597)
		–	15,661
Loss on disposal of subsidiaries	6	–	(9,139)
		–	6,522
Satisfied by:			
Cash		–	6,522

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

	2004 **RMB'000**	2003 RMB'000
Cash consideration	–	6,522
Cash and bank balances disposed of	–	(8,561)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(2,039)

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

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

(b) Acquisition of a subsidiary

	Notes	**2004 RMB'000**	2003 RMB'000
Net assets acquired:			
Fixed assets, cost	14	**47,841**	–
Accumulated depreciation	14	**(1,549)**	–
Fixed assets, net		**46,292**	–
Construction in progress	15	**1,754**	–
Cash and cash equivalents		**9,967**	–
Trade receivables		**361**	–
Prepayments, deposits and other receivables		**3,855**	–
Inventories		**2,294**	–
Bank borrowings		**(26,000)**	–
Trade payables		**(1,256)**	–
Other payables and accruals		**(7,184)**	–
Tax payable		**168**	–
Minority interests		**(8,773)**	–
		21,478	–
Satisfied by:			
Cash		**21,478**	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 RMB'000	2003 RMB'000
Cash consideration	**21,478**	–
Cash and bank balances acquired	**(9,967)**	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**11,511**	–

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

(b) Acquisition of a subsidiary (continued)

On 15 November 2004, the Company acquired a 71% interest in Holly Packing from Holding at a consideration of approximately RMB21,478,000. Holly Packing is mainly engaged in production of packing materials and on-site packing services. The purchase consideration for the acquisition was in the form of cash, which was paid on 30 November 2004. Further details of the acquisition are included in note 35(iv) to the financial statements.

The results of the subsidiary acquired in the year ended 31 December 2004 had no significant impact on the Group's consolidated turnover or profit before tax for the year.

(c) Restricted cash and cash equivalent balances

Certain of the Group's deposits are pledged to banks to secure trading facilities granted to the Group, as further explained in note 24 to the financial statements.

(d) The overdue fixed deposits amounting to approximately HK$128 million as at 31 December 2004 (2003: approximately HK$169 million) were not included as part of the cash and cash equivalents in the consolidated cash flow statement. Further details of the overdue fixed deposits are set out in note 24 to the financial statements.

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**2,559,075**	2,417,167
Bills discounted with recourse	**311,000**	–	**311,000**	–
	311,000	–	**2,870,075**	2,417,167

(Prepared under Hong Kong accounting standards)
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33. CAPITAL COMMITMENTS

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

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for:				
Blast Furnaces Renovation Project	**119,396**	357,919	**119,396**	357,919
Converters Renovation Project	**121,960**	427,629	**121,960**	427,629
Wheel Line Renovation Project	**91,035**	4,228	**91,035**	4,228
Construction Steel Lines Renovation Project	**985,211**	1,319,908	**983,932**	1,319,908
Coking Stoves Renovation Project	**134,169**	64,960	**134,169**	64,960
Public Auxiliary Utilities Project	**262,758**	296,345	**262,758**	296,345
Energy-saving and Environment Protection Project	**23,712**	115,932	**23,712**	115,932
Other projects	**63,446**	45,837	**63,446**	45,837
	1,801,687	2,632,758	**1,800,408**	2,632,758
Contracted, but not provided for:				
Blast Furnaces Renovation Project	**632**	86,389	**632**	86,389
Converters Renovation Project	**35,805**	91,467	**35,805**	91,467
Wheel Line Renovation Project	**2,970**	40,384	**2,970**	40,384
Construction Steel Lines Renovation Project	**200,274**	477,852	**182,855**	477,852
Coking Stoves Renovation Project	**26,745**	48,970	**26,745**	48,970
Public Auxiliary Utilities Project	**67,072**	97,559	**67,072**	97,559
Energy-saving and Environment Protection Project	**46,501**	36,381	**46,501**	36,381
Plant Areas Development Project	**152,000**	–	**152,000**	–
Other projects	**80,852**	38,812	**80,852**	38,812
	612,851	917,814	**595,432**	917,814
Total capital commitments	**2,414,538**	3,550,572	**2,395,840**	3,550,572

(Prepared under Hong Kong accounting standards)
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34. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

The financial statements prepared under PRC accounting standards are audited by Ernst & Young Hua Ming.

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

	Notes	**2004** **RMB'000**	2003 RMB'000
Net profit			
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		**3,592,320**	2,659,198
Add back:			
Amortisation of deferred staff costs	(i)	**–**	70,400
Staff housing subsidies to current employees	(ii)	**–**	34,716
Provision for furnace relining costs utilised	(iii)	**–**	21,824
Deferred tax expenses	(iv)	**19,725**	10,091
Employee bonus and welfare fund	(v)	**2,141**	348
Deduct:			
Transfer of deferred income	(vi)	**(38,379)**	(3,606)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		**3,575,807**	2,792,971

(Prepared under Hong Kong accounting standards)
31 December 2004

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

	Notes	**2004 RMB'000**	2003 RMB'000
Shareholders' equity			
Shareholders' equity under Hong Kong accounting standards		**17,024,727**	14,788,020
Add back:			
Deferred income	(vi)	**562,069**	304,890
Deduct:			
Provision for furnace relining costs	(iii)	**(74,499)**	(74,499)
Deferred tax assets	(iv)	**(34,734)**	(54,459)
Transfer of deferred income	(vi)	**(41,985)**	(3,606)
Shareholders' equity under PRC accounting standards		**17,435,578**	14,960,346

(i) Deferred staff costs

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

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

Under Hong Kong accounting standards, the treatment should follow the aforesaid accounting policies and the required amortisation over the estimated remaining average service life of the relevant employees. However, as the deferred staff costs were impaired, the unamortised deferred staff costs of approximately RMB70.4 million as at 31 December 2003 were fully charged to the profit and loss account for the year ended 31 December 2003.

(Prepared under Hong Kong accounting standards)
31 December 2004

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

(i) Deferred staff costs (continued)

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

There were no differences arising from deferred staff costs between financial statements prepared under PRC and those prepared under Hong Kong accounting standards for the year ended 31 December 2004.

(ii) Staff housing subsidies

Pursuant to an implemented staff housing subsidies scheme, the Company is required to pay one-off lump sum cash subsidies to both current and retired employees who are eligible under the scheme. In prior years, each eligible employee entitled to the subsidies was required to continue to provide service to the Company for a stipulated period, or to the date on which they reach their respective normal retirement ages, whichever is the earlier. The directors estimated the aggregate subsidies payable to all eligible current and retired employees to be approximately RMB349 million and RMB38.8 million, respectively. The subsidies payable to current and retired employees will be on a batch basis upon application from eligible employees during the coming years.

In prior years, under Hong Kong accounting standards, the Company recognised the present value of the housing subsidies which were already earned at the balance sheet date, after deducting the amounts already paid, as a liability. The subsidies are earned by the employees over the vesting period. As at 31 December 2002, the cumulative present value of the housing subsidies earned by present employees amounted to approximately RMB105 million.
The aggregate subsidies of approximately RMB38.8 million payable to all eligible retired employees during the future years have already been fully charged to the profit and loss account during the year ended 31 December 2000, since such subsidies are related to the past service of eligible retired employees.

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

(Prepared under Hong Kong accounting standards)
31 December 2004

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

(ii) Staff housing subsidies (continued)

With the approval of the Maanshan Municipal Government, the Company revised the scheme in year 2003. The Company abolished the pre-requisition that all present employees entitled to the subsidies should serve the Company for a stipulated period, or to the date on which they reach their respective normal retirement ages, whichever is the earlier. With the approval of the Maanshan Ministry of Finance Bureau, the Company charged the remaining unpaid housing subsidies amounting to approximately RMB209 million to the profit and loss account prepared under PRC accounting standards for the year ended 31 December 2003. Under Hong Kong accounting standards, the subsidies, which were going to be earned by the present employees over the remaining vesting period, i.e., seven years (counting from 31 December 2002), become immediately payable. Thus, the Company had charged the remaining unaccrued housing subsidies, amounting to approximately RMB244 million, to the profit and loss account for the year ended 31 December 2003 in accordance with Hong Kong accounting standards.

There were no differences arising from staff housing subsidies between financial statements prepared under PRC and those prepared under Hong Kong accounting standards for the year ended 31 December 2004.

(iii) Furnace relining costs

Under SSAP 28, furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment. Relining costs incurred during the year ended 31 December 2003 amounting to approximately RMB21.8 million had been charged to the profit and loss account for the year ended 31 December 2003. No relining costs were incurred during the year.

Under PRC accounting standard "Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on fixed assets should be charged to the profit and loss account as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2003: approximately RMB21.8 million), and the remaining provision as at 31 December 2004 amounted to approximately RMB74.5 million (2003: approximately RMB74.5 million).

(Prepared under Hong Kong accounting standards)
31 December 2004

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

(iv) Deferred tax

Under SSAP 12 (Revised), deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 31 December 2004 amounted to approximately RMB34.7 million (2003: approximately RMB54.5 million). The movement in the deferred tax assets resulted in a deferred tax expense of approximately RMB19.7 million in the current year (2003: approximately RMB10.1 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing differences on income tax. Thus, no deferred tax was recognised as at 31 December 2003 and 31 December 2004.

(v) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, these subsidiaries made an appropriation of approximately RMB2,141,000 (2003: approximately RMB348,000) to the employee bonus and welfare fund.

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

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

(Prepared under Hong Kong accounting standards)
31 December 2004

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

(vi) 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 Hong Kong SSAP 35, upon completion of the subsidised construction projects, deferred income is released to the profit and loss account over the expected useful life of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB257 million received in prior years, were completed. As at 31 December 2004, accumulated deferred income amounting to approximately RMB562 million (31 December 2003: approximately RMB305 million) should be released to the profit and loss account over the expected useful lives of the relevant assets. Deferred income of approximately RMB38.38 million (2003: approximately RMB3.61million) was released to the current year's profit and loss account. As at 31 December 2004, the accumulated deferred income released amounted to approximately RMB41.99 million (31 December 2003: approximately RMB3.61 million).

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as fixed assets and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2004, accumulated specific payables transferred to the capital reserve amounted to approximately RMB562 million (31 December 2003: approximately RMB305 million).

(Prepared under Hong Kong accounting standards)
31 December 2004

35. RELATED PARTY TRANSACTIONS

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

	Notes	2004 RMB'000	2003 RMB'000
Transactions with Holding, subsidiaries and associates of Holding:			
Purchases of iron ore, limestone and dolomite	(i)	**964,679**	844,579
Fees paid for welfare, support services and other services	(ii), (iii)	**276,968**	337,689
Agency fee paid	(iii)	**4,795**	5,327
Purchases of fixed assets and construction services	(iii)	**279,689**	227,531
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(32,708)**	(41,751)
Sale of steel and other by-products	(iii)	**(3,564)**	(14,123)
Acquisition of a subsidiary	(iv)	**21,478**	–
Transactions with associates of the Company:			
Purchases of coke			
濟源市金馬焦化	(v)	**151,665**	–
滕州盛隆煤焦化	(v)	**6,156**	–
Transactions with minority shareholders:			
Loans granted by a minority shareholder			
Profit Access Investments Limited	(vi)	**8,234**	–
Purchase of net assets			
安徽鑫鋼商貿有限公司	(vii)	**16,376**	–

Notes:

(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 year ended 31 December 2004, were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.

(Prepared under Hong Kong accounting standards)
31 December 2004

35. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

(iii) The other transactions with Holding, and subsidiaries and associates of Holding were conducted on terms mutually agreed between the Company and related parties.

(iv) The Company acquired a 71% interest in Holly Packing on 15 November 2004 from Holding for approximately RMB21,478,000. The consideration was determined on the basis of the carrying amount of the net asset value of Holly Packing as at 30 September 2004 which was audited by Jiangsu Talent Certified Public Accountants. Further details of the transaction are included in note 31(b) to the financial statements.

(v) The above transactions were made according to the prices of the same products offered by 濟源市金馬焦化 and 滕州盛隆煤焦化 to their other major customers.

(vi) During the year, Profit Access Investments Limited, a minority shareholder of Anhui Masteel K. Wah, granted loans of US$986,000 to the Group. Further details of the transaction are included in note 27 to the financial statements.

(vii) 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu). During the year, the Group signed an agreement with 安徽鑫鋼商貿有限公司 for the purchase of net assets at a consideration of approximately RMB16,376,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants.

In the opinion of the directors, (i), (ii), (iii) and (v) of the above transactions were carried out in the normal course of business of the Group.

Further details on balances with Holding, the subsidiaries and associates of Holding, and the associates of the Company are set out in notes 21 to 22 and notes 25 to 26 to the financial statements.

36. COMPARATIVE AMOUNTS

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2005.