

Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2004

I. CORPORATE AFFILIATION

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

The Company is principally engaged in the manufacture and sale of iron and steel products.

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

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

1. Accounting system

The Company and its subsidiaries (the “Group”) has implemented Accounting Standards for Business Enterprises and “Accounting System for Business Enterprises”.

2. Financial year

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

3. Reporting currency

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

4. Basis of accounting

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

Notes to Financial Statements (continued)

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

5. Foreign currency transaction

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

6. Foreign currency translation

All assets and liabilities are translated to Renminbi at the exchange rates prevailing at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the exchanged rates prevailing at the transaction date; retained profits are recorded based on the amount stated on the statement of income and profit appropriation after translation adjustments; exchange differences arising from the difference between total translated assets and the sum of total translated liabilities and translated shareholders' equity are dealt with in the exchange fluctuation reserve as a separate allocation of retained profits. All statement of income and profit appropriation items are translated at the average exchange rates during the year. All cash flow statement items are translated at the average exchange rates during the year. All opening balances and last year actual amounts are stated at last year translated amounts.

7. 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.

8. 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.

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

8. 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.

9. 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 by directors.

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 general 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%

Notes to Financial Statements (continued)

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

10. Inventories

Inventories include raw materials, work in progress, finished goods and spare parts. Inventories are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at actual cost of acquisition. Raw materials are stated at 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.

11. 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 amount of initial cost of the investment in excess of the investor's share of the owner's equity in the investee company is regarded as an equity investment difference and 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 more 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.

When the equity method is adopted, the Group should, after the acquisition of the equity investment, adjust the carrying amount of the investment according to its attributable share of the investee enterprise's net profit or loss and recognised as investment income or loss for the current period accordingly. It recognises net losses incurred by the investee enterprise to the extent that the carrying amount of the investment is reduced to zero.

Notes to Financial Statements (continued)

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

11. Long term investments (continued)

When the cost method is adopted, profits or cash dividends declared to be distributed by the investee enterprise should be recognised as investment income in the current period after the investment acquired by the Group. The excess should be treated as a recovery of investment cost.

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

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

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

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

12. Fixed assets (continued)

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

Category	Estimated useful life	Annual depreciation rate
Buildings and structures	10 to 20 years	4.85% – 9.7%
Plant, machinery and equipment	10 years	9.7%
Transportation vehicles and equipment	5 years	19.4%

The useful life of land use rights included in buildings and structures exceeded the estimated useful life of buildings. The corresponding amount is treated as residual value.

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.

If there are indications that the factors based on which an impairment loss for a fixed asset was recognised in prior periods have been changed, resulting in the recoverable amount of the fixed asset becoming higher than its carrying amount, the impairment loss recognised in prior periods should be reversed. The amount to be reversed should not exceed the amount of impairment loss originally provided.

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

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

13. 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.

14. 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.

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 the 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.

15. 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

Notes to Financial Statements (continued)

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

15. Borrowing costs (continued)

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

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

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

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

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

16. 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.

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.

Notes to Financial Statements (continued)

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II. 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 inter-company transactions and balances within the Group are eliminated in consolidation.

Notes to Financial Statements (continued)

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II. 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%.

Depreciation rate	Before revision	After revision
Buildings and structures	2.4% – 6.65%	4.85% – 9.7%
Plant, machinery and equipment	6.0% – 15.29%	9.7%
Transportation vehicles and equipment	9.45% – 14.29%	19.4%
Depreciation charge for the year	RMB1,344,902,561	RMB1,789,442,561

The Company adopts the change in accounting estimate prospectively. The change in accounting estimate resulted in a decrease of profit before tax by RMB444,540,000 in the current year.

III. TAX

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

1. VAT

According to national tax regulation, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales and the refunds rate is 13%. The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

A subsidiary of the Company adopted the “Levy first, refund afterwards” arrangements for VAT in its own export sales.

2. Business tax

Payable based on 3% – 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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III. TAX (continued)

4. Education surcharge

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

5. Local education surcharge

Payable based on 1% of the net VAT and business tax to be paid.

6. Flood prevention fund

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

7. Real estate tax

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

8. Corporate 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. Certain subsidiaries of the Company are foreign investment enterprises. Their corporate income taxes have been provided at the rate of 15% to 30% and are entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holidays. After obtaining authorisation from their respective tax bureaux, they can enjoy the tax holidays starting from year 2004. Profits tax of the Hong Kong subsidiary has been provided at the rate of 17.5% on the estimated assessable profits which were earned in or derived from Hong Kong during the year. No provision for income tax for other overseas subsidiaries have been made as there were no assessable profits during the year.

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IV. SUBSIDIARIES AND ASSOCIATES

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

Notes to Financial Statements (continued)

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IV. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
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)	RMB35,000,000	RMB35,000,000	8,225,885	70	30
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)") (Note i)	Anhui, PRC	Production, processing and sale of steel plates, steel wires and steel sections; provision of storage and after-sales services	RMB12,000,000	RMB12,000,000	–	–	80
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services	RMB120,000,000	RMB115,962,940	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

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IV. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
Anhui Masteel Holly Packing Co., Ltd (“Holly Packing”) (Note ii)	Anhui, PRC	Provision of packing materials for steel and other products; production and sale of metallic products, plastics, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on-site packing services	RMB30,000,000	RMB30,000,000	21,478,316	71	–
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	–
Maanshan Iron & Steel (Australia) proprietary Limited (Note i)	Australia	Investment holding	AUD21,737,900	AUD21,737,900	126,312,415	100	–

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IV. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Associates							
濟源市金馬焦化有限公司 (「濟源市金馬焦化」)	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	–
馬鞍山市五環保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	–
上海大宗鋼鐵子交易中心有限公司 (「上海鋼鐵電子」) (note i)	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	–
Total					482,523,000		

Note i: Newly incorporated during the year

Note ii: Newly acquired during the year

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	Original currency	31 December 2004		Original currency	31 December 2003	
		Exchange rate	RMB		Exchange rate	RMB
Cash on hand	RMB105,616	1.0000	105,616	RMB95,725	1.0000	95,725
Balances with financial institutions (Note 2)	RMB1,919,394,341 HK\$1,364,893 US\$16,749,730 EUR1,430,777 JPY337,797	1.0000 1.0637 8.2765 11.2627 0.079701	1,919,394,341 1,451,839 138,642,156 16,114,419 26,922	RMB1,890,641,474 HK\$56,384,060 US\$23,795,575 EUR2,200,460 JPY5,086,217	1.0000 1.0657 8.2767 10.3383 0.077263	1,890,641,474 60,088,492 196,954,255 22,749,008 393,165
Other balances with financial institutions	RMB15,111,783 US\$10,003,781 (Note) EUR31,226 JPY93,850,305	1.0000 8.2765 11.2627 0.079701	15,111,783 82,817,450 351,690 7,479,963	RMB150,531 US\$20,657,897 EUR5,173,345 JPY294,624,233	1.0000 8.2767 10.3383 0.077263	150,531 171,016,375 53,483,593 22,721,279
Total			<u>2,181,496,179</u>			<u>2,418,293,897</u>

Note: Fixed deposits amounting to US\$1,039,000 (equivalent to RMB8,620,438) have been pledged to the Hongkong and Shanghai Banking Corporation Limited as securities for the provision of banking facilities to Ma Steel (HK). The deposits were not readily available for payment.

Notes to Financial Statements (continued)

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four (31 December 2003: Five) non-bank financial institutions, aggregating approximately HK\$128 million (31 December 2003: HK\$169 million).

		31 December 2004 HK\$'000	31 December 2003 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
		<u>128,050</u>	<u>168,764</u>

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

- (i) GITIC was declared bankrupt by 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

- (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.

3. Short term investments

Item		31 December 2004		31 December 2003	
		Investment cost RMB	Provision for decline in value RMB	Investment cost RMB	Provision for decline in value RMB
Equity investment	Note	<u>13,568,593</u>	<u>—</u>	<u>13,568,593</u>	<u>—</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

3. Short term investments (continued)

Note:

Name of investee company	Class of share	Number of shares held	Investment cost RMB	Closing market unit price RMB	Market price at year end RMB
China Petroleum & Chemical Corporation	Circulating share	1,800,000	7,596,000	4.36	7,848,000
Baoshan Iron & Steel Company Limited	Circulating share	1,428,850	5,972,593	6.00	8,573,100
Total			<u>13,568,593</u>		<u>16,421,100</u>

The year end market prices of the shares were the closing market prices as at 31 December 2004 as disclosed in Shanghai Stock Exchange.

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

The movement of provision for decline in value of short term investments for the year 2004 is disclosed in the supplementary information of the financial statements.

4. Bills receivable

	31 December 2004 RMB	31 December 2003 RMB
Bank bills	<u>2,233,825,798</u>	<u>2,121,201,173</u>
Including: Discounted bills yet to mature	<u>311,000,000</u>	<u>–</u>

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.

As at 31 December 2004, the Group's discounted bank bills yet to mature amounted to RMB2,788 million (31 December 2003: 403.43 million), including RMB311 million (31 December 2003: Nil) discounted bank bills with recourse.

In accordance with the "Questions and answers No.4 on the implementation of 'Accounting System for Business Enterprises' and related accounting standards" issued by the Ministry of Finance, when the Group discounted bills with recourse, the Group recorded the balance as short term loans based on the bank loans principal balance.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables

Trade receivables ageing analysis:

	31 December 2004				31 December 2003			
	Balance		Provision for		Balance		Provision for	
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	265,606,835	83	–	–	198,643,026	74	(389,656)	–
One to two years	10,963,979	3	(2,208,085)	20	6,302,458	2	(1,575,615)	25
Two to three years	4,379,155	1	(2,189,578)	50	17,384,264	7	(8,692,132)	50
Over three years	40,532,016	13	(40,532,016)	100	46,572,261	17	(46,552,261)	100
Total	321,481,985	100	(44,929,679)		268,902,009	100	(57,209,664)	

	31 December 2004				31 December 2003			
	Balance		Provision for		Balance		Provision for	
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	241,522,676	81	–	–	155,755,999	69	(389,656)	–
One to two years	10,507,474	4	(2,152,923)	20	6,302,458	3	(1,575,615)	25
Two to three years	4,379,155	1	(2,189,578)	50	17,384,264	8	(8,692,132)	50
Over three years	40,532,016	14	(40,532,016)	100	46,572,261	20	(46,552,261)	100
Total	296,941,321	100	(44,874,517)		226,014,982	100	(57,209,664)	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

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

Reason	Group	
	2004 RMB	2003 RMB
Bankrupt or liquidated debtors	10,789,947	5,637,029
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	1,545,200	53,881,404
Total	<u>12,335,147</u>	<u>59,518,433</u>

Reason	Company	
	2004 RMB	2003 RMB
Bankrupt or liquidated debtors	10,789,947	5,637,029
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	1,545,200	47,881,404
Total	<u>12,335,147</u>	<u>53,518,433</u>

The increase in the Group's and Company's net trade receivables by 31% and 49% were mainly attributable to the increase in sales of steel products.

As at 31 December 2004, the five largest trade receivables of the Group and the Company amounted to RMB218,875,749 and RMB215,689,616, respectively, which accounted for 68% and 73% 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 Company's trade receivables did not include any balances due from subsidiaries (31 December 2003: RMB39.62 million). These balances principally arose from normal trading activities.

The movement of bad debts provision for trade receivables for the year 2004 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables

Other receivables ageing analysis:

	31 December 2004				31 December 2003			
	Balance		Provision for		Balance		Provision for	
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	85,932,312	72	(256,051)	–	129,363,151	68	(2,984,780)	2
One to two years	566,424	–	(221,450)	39	10,190,637	5	(4,104,425)	40
Two to three years	4,772,672	4	(3,694,962)	77	6,743,435	4	(6,450,804)	96
Over three years	28,676,597	24	(28,425,666)	99	44,996,156	23	(44,996,156)	100
Total	119,948,005	100	(32,598,129)		191,293,379	100	(58,536,165)	

	31 December 2004				31 December 2003			
	Balance		Provision for		Balance		Provision for	
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	19,468,662	37	(256,051)	1	37,564,065	38	(2,984,780)	8
One to two years	553,624	1	(221,450)	40	10,190,637	10	(4,104,425)	40
Two to three years	4,772,672	9	(3,694,962)	77	6,743,435	7	(6,450,804)	96
Over three years	28,425,666	53	(28,425,666)	100	44,996,156	45	(44,996,156)	100
Total	53,220,624	100	(32,598,129)		99,494,293	100	(58,536,165)	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

The decrease in the Group's and the Company's net other receivables by 34% and 50% were mainly attributable to the decrease in unsettled amounts of other transactions.

As at 31 December 2004, the five largest other receivables of the Group and the Company amounted to RMB8,343,751, which accounted for 7% and 16% of the gross other receivables of the Group and the Company respectively.

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

The movement of bad debts provision for other receivables for the year 2004 is disclosed in the supplementary information of the financial statements.

7. Prepayments

Prepayments ageing analysis:

	31 December 2004			31 December 2003		
	Balance RMB	Ratio %	Reason of outstanding	Balance RMB	Ratio %	Reason of outstanding
Within one year	632,873,830	91	-	1,059,024,343	100	-
One to two year	60,475,790	9	Note	-	-	-
Total	<u>693,349,620</u>	<u>100</u>		<u>1,059,024,343</u>	<u>100</u>	

Note: Prepayment aged over one year was mainly attributable to the delay in raw materials supply.

The Group's prepayment decreased by 35% was mainly attributable to the decrease in prepayment for materials and spare parts.

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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

8. Inventories

	31 December 2004		31 December 2003	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	3,148,886,346	(5,000,000)	1,123,971,210	–
Work in progress	551,152,217	(3,000,000)	416,073,624	(3,000,000)
Finished goods	390,422,739	(9,656,900)	355,175,883	(9,656,900)
Spare parts	751,517,186	(70,137,887)	559,672,891	(64,736,350)
Total	<u>4,841,978,488</u>	<u>(87,794,787)</u>	<u>2,454,893,608</u>	<u>(77,393,250)</u>

The Group's inventories, net of provision, increased by 100% was mainly due to the increase in closing stock of raw materials quantities and the increase in unit purchase cost.

The movement of provision for inventories for the year 2004 is disclosed in the supplementary information of the financial statements.

9. Long term investments

Item	Group			
	At 1 January 2004 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2004 RMB
Long term equity investments				
Interests in associates (ii)	146,976,000	5,310,244	(2,268,056)	150,018,188
Other equity investments (iii)	16,417,035	400,000	–	16,817,035
	<u>163,393,035</u>	<u>5,710,244</u>	<u>(2,268,056)</u>	<u>166,835,223</u>
Long term debt investment				
Other debt investment (iv)	16,238,870	–	(2,660,000)	13,578,870
Total	<u>179,631,905</u>	<u>5,710,244</u>	<u>(4,928,056)</u>	<u>180,414,093</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

Item	At 1 January 2004 RMB	Company		At 31 December 2004 RMB
		Increase during the year RMB	Decrease during the year RMB	
Long term equity investments				
Interests in subsidiaries (i)	207,086,635	222,155,096	(1,650,943)	427,590,788
Interests in associates (ii)	146,976,000	3,042,188	–	150,018,188
Other equity investments (iii)	16,417,035	400,000	–	16,817,035
	<u>370,479,670</u>	<u>225,597,284</u>	<u>(1,650,943)</u>	<u>594,426,011</u>
Long term debt investment				
Other debt investment (iv)	16,238,870	–	(2,660,000)	13,578,870
Total	<u>386,718,540</u>	<u>225,597,284</u>	<u>(4,310,943)</u>	<u>608,004,881</u>

The total of long term investments and short term investment amounted to RMB193,982,686, which represented 1% of the Group's net assets.

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

The increase in the Company's long term investments by 57% was mainly attributable to the increase in investments in subsidiaries and associates.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(i) Interests in subsidiaries

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Investment cost		Company						
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Adjustment for gain or loss				Closing balance
								Opening balance	share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)	
%	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	16,255,750	-	22,188,603	72,188,603
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	4,571,295	11,041,848	(1,650,943)	13,962,200	21,462,200
MG Control Technique	4 years	93.75	6,649,632	7,500,000	-	-	7,500,000	360,786	1,552,764	-	1,913,550	9,413,550
Anhui Masteel K. Wah	30 years	70	24,854,930	24,854,930	-	-	24,854,930	-	(1,165,378)	-	(1,165,378)	23,689,552
Ma Steel (Wuhu)	30 years	70	8,225,885	8,225,885	-	-	8,225,885	4,640,688	21,979,491	-	26,620,179	34,846,064
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	80,000,000	-	-	80,000,000	-	7,852,700	-	7,852,700	87,852,700
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	7,578,814	11,267,749	-	18,846,563	22,948,251
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	245,930	(822,290)	-	(576,360)	997,406
Holly Packing	20 years	71	21,478,316	-	21,478,316	-	21,478,316	-	6,401,731	-	6,401,731	27,880,047
Maanshan Iron and Steel (Australia) Proprietary Limited	N/A	100	126,312,415	-	126,312,415	-	126,312,415	-	-	-	-	126,312,415
Total			183,756,269	147,790,731	-	331,547,000	23,330,366	74,364,365	(1,650,943)	96,043,788	427,590,788	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(ii) Interests 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					Closing balance	
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Current year					
								Opening balance	share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)		
%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
濟南市金馬焦化	50 Years	40	80,000,000	80,000,000	-	-	80,000,000	-	1,255,844	-	1,255,844	81,255,844	
滕州盛隆煤焦化	50 Years	32	66,776,000	66,776,000	-	-	66,776,000	-	(1,580,406)	-	(1,580,406)	65,195,594	
五環汽車回收	N/A	40	200,000	200,000	-	-	200,000	-	54,400	-	54,400	254,400	
上海鋼鐵電子	N/A	20	4,000,000	-	4,000,000	-	4,000,000	-	(687,650)	-	(687,650)	3,312,350	
Total			146,976,000	4,000,000	-	150,976,000	-	(957,812)	-	(957,812)	150,018,188		

(iii) Other equity investments

Equity investments accounted for using the cost method:

Name of investee company	Nature of investments	Number of shares held	Percentage of equity held by the Company	Investment cost
			%	RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
河南龍宇能源股份有限公司	Legal person shares	6,500,138	1.58	10,000,000
Others				1,450,000
Total				16,817,035

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(iv) Other debt investment

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the year RMB	Accumulated interest received/receivable RMB	Carrying value RMB
安徽省電力 開發總公司	<u>13,578,870</u>	Nil	2005-2009	<u>-</u>	<u>-</u>	<u>13,578,870</u>

The movement of provision for long term investments for the year 2004 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
Cost				
At 1 January 2004	8,074,445,723	11,223,930,168	505,360,921	19,803,736,812
Additions	7,947,901	16,428,876	28,566,589	52,943,366
Acquisition of a subsidiary (Note 46)	27,009,625	14,828,680	851,165	42,689,470
Transferred from construction in progress (Note 12)	737,555,175	5,027,202,818	73,947,285	5,838,705,278
Reclassifications	(324,567,263)	297,091,789	27,475,474	-
Disposal	(100,013,559)	(197,316,027)	(17,628,668)	(314,958,254)
At 31 December 2004	8,422,377,602	16,382,166,304	618,572,766	25,423,116,672
Accumulated depreciation				
At 1 January 2004	1,996,661,893	3,553,608,678	298,722,745	5,848,993,316
Provided during the year	436,707,051	1,300,118,448	52,617,062	1,789,442,561
Acquisition of a subsidiary (Note 46)	557,364	940,935	50,310	1,548,609
Reclassifications	49,135,946	(61,661,872)	12,525,926	-
Disposal	(41,870,151)	(145,199,586)	(16,191,174)	(203,260,911)
At 31 December 2004	2,441,192,103	4,647,806,603	347,724,869	7,436,723,575
Net book value				
At 31 December 2004				
Net book value	5,981,185,499	11,734,359,701	270,847,897	17,986,393,097
Less: Impairment provision	(10,391,900)	(106,664,944)	-	(117,056,844)
Net book value, net of impairment provision	<u>5,970,793,599</u>	<u>11,627,694,757</u>	<u>270,847,897</u>	<u>17,869,336,253</u>
At 31 December 2003				
Net book value	6,077,783,830	7,670,321,490	206,638,176	13,954,743,496
Less: Impairment provision	(37,590,200)	(162,976,100)	-	(200,566,300)
Net book value, net of impairment provision	<u>6,040,193,630</u>	<u>7,507,345,390</u>	<u>206,638,176</u>	<u>13,754,177,196</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

The Group's fixed assets net of impairment provision increased by 30% was mainly attributable to the increase in the transfer from construction in progress.

The cost of fully depreciated fixed assets which are still in use amounted to approximately RMB1.06 billion.

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB4.17 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

The movement of provision for impairment of fixed assets for the year 2004 is disclosed in the supplementary information of the financial statements.

11. Construction materials

	31 December 2004 RMB	31 December 2003 RMB
Prepayments for equipment used in construction projects	<u>468,967,130</u>	<u>313,428,274</u>

The increase in the Group's construction materials by 50% was mainly attributable to the increase in the amount of equipment prepayment for construction project.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2004:

Name of project	Budgeted cost RMB'000	At 1 January 2004 RMB	Acquisition of a subsidiary (Note 46) RMB	Transferred from intangible assets (Note 13) RMB	Addition during the year RMB	Transferred to fixed assets (Note 10) RMB	At 31 December 2004 RMB	Source of fund	Percentage of completion %
1. Blast Furnaces Renovation Project	1,960,080	54,734,028	-	-	644,353,735	(597,572,724)	101,515,039	Internally generated funds	45-100
2. Converters Renovation Project	1,563,110	55,184,471	-	-	352,409,428	(351,926,181)	55,667,718	Internally generated funds	12-100
3. Wheel Line Renovation Project <i>Including borrowing costs capitalised:</i>	320,000	255,955,310 11,984,050	- -	- -	71,267,717 11,712,000	(321,910,000) (23,696,050)	5,313,027 -	Internally generated funds and loans from financial institution	100
4. Construction Steel Lines Renovation Project <i>Including borrowing costs capitalised:</i>	7,551,070	1,748,588,541 178,826,909	- -	- -	1,777,537,316 (13,436,147)	(2,895,185,150) (162,433,972)	630,940,707 2,956,790	Internally generated funds and loans from financial institution	23-100
5. Coking Stoves Renovation Project	557,000	67,473,382	-	-	248,111,581	(174,000,000)	141,584,963	Internally generated funds	45-100
6. Public Auxiliary Utilities Project <i>Including borrowing costs capitalised:</i>	1,659,274	559,878,172 -	- -	- -	661,705,418 1,307,230	(892,358,655) (747,250)	329,224,935 559,980	Internally generated funds and loans from financial institution	6-100
7. Energy-saving and Environment Protection Project <i>Including borrowing costs capitalised:</i>	418,000	142,723,706 6,557,595	- -	- -	201,100,653 6,851,520	(303,918,414) (13,409,115)	39,905,945 -	Internally generated funds and loans from financial institution	30-100

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Name of project	Budgeted cost RMB'000	At 1 January 2004 RMB	Acquisition of a subsidiary (Note 46) RMB	Transferred from intangible assets (Note 13) RMB	Addition during the year RMB	Transferred to fixed assets (Note 10) RMB	At 31 December 2004 RMB	Source of fund	Percentage of completion %
8. Plant Areas Development Project	N/A	5,135,421	-	2,571,077	413,903,942	(54,569,756)	367,040,684	Internally generated funds	N/A
9. Other Projects	N/A	94,471,691	1,753,603	4,118,900	392,857,578	(247,264,398)	245,937,374	Internally generated funds	N/A
		<u>2,984,144,722</u>	<u>1,753,603</u>	<u>6,689,977</u>	<u>4,763,247,368</u>	<u>(5,838,705,278)</u>	<u>1,917,130,392</u>		
Less: Impairment provision		<u>(74,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,000,000)</u>		
		<u>2,910,144,722</u>	<u>1,753,603</u>	<u>6,689,977</u>	<u>4,763,247,368</u>	<u>(5,838,705,278)</u>	<u>1,843,130,392</u>		

The decrease in the Group's construction in progress by 37% was mainly attributable to the transfer from construction in projects to fixed assets.

The capitalisation rates of interest are 2.78% – 5.76% per annum.

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB270 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

As at the balance sheet date, equipment with a net book value of approximately RMB33.56 million (2003: Nil) were pledged to secure a loan granted to the Group by Profit Access Investments Limited. Further details of the transaction are included in note 25 to the financial statements.

The movement of provision for impairment of construction in progress for the year 2004 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

13. Intangible assets

	Method of acquisition	Original amount RMB	Accumulated amortisation RMB	At 1 January 2004 RMB	Additions during the year RMB	Transferred from construction in progress during the year (Note 12) RMB	Amortisation during the year RMB	At 31 December 2004 RMB	Remaining years of amortisation
Land use rights	Purchase	1,052,988,651	(189,179,358)	863,809,293	17,796,059	(6,689,977)	(21,021,417)	853,893,958	38 ~ 50 years
Land use rights	Acquisition of a subsidiary (Note 46)	-	-	-	5,152,647	-	(26,016)	5,126,631	49 years
		<u>1,052,988,651</u>	<u>(189,179,358)</u>	<u>863,809,293</u>	<u>22,948,706</u>	<u>(6,689,977)</u>	<u>(21,047,433)</u>	<u>859,020,589</u>	

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB35 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

14. Short term loans

Type	Annual interest rate %	Maturity date	31 December 2004 RMB	31 December 2003 RMB
Unsecured loans	4.536, LIBOR/HIBOR, LIBOR/HIBOR (3 months)+1 to LIBOR/ HIBOR (3 months)+1.3, LIBOR (6 months)+1	2/2005 ~9/2005	1,181,638,475	1,919,932,705
Guaranteed loans	4.536	3/2005	20,000,000	-
Secured loans (Note 4)	N/A	N/A	311,000,000	-
Trust Receipt loans	LIBOR (3 months)+1	1/2005	68,283,175	-
			<u>1,580,921,650</u>	<u>1,919,932,705</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

15. Bills payables

	31 December 2004 RMB	31 December 2003 RMB
Bank accepted bills	<u>80,000,000</u>	<u>–</u>

The Group's bills payable was used for the purchases of raw materials.

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

16. Accounts payable

The increase in the Group's accounts payable by 38% was mainly attributable to the increase in construction payables and accounts payable for equipment.

Certain of the Group's accounts payable 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 accounts payable does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

17. Deposits received

The increase in the Group's deposits received by 109% 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.

18. Wages payable

The Group's wages payable increased by 73 times mainly due to the increase of bonus payable for the year 2004.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

19. Welfares payable

The Group's welfares payable increased by 126% was mainly attributable to the increase in wages in year 2004.

20. Tax payable

	31 December 2004 RMB	31 December 2003 RMB
Corporate income tax	188,156,698	79,963,326
VAT	453,045,322	218,194,492
Business tax	2,844,399	2,073,991
City construction and maintenance tax	38,688,982	20,910,419
Other taxes	28,597,615	14,672,624
Total	<u>711,333,016</u>	<u>335,814,852</u>

The increase in the Group's tax payable by 112% was mainly attributable to the increase in VAT payable and corporate income tax payable .

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

21. Other taxes payable

	31 December 2004 RMB	31 December 2003 RMB
Education surcharge	16,580,992	9,247,323
Flood prevention fund	29,608,637	23,078,326
Other taxes	2,635,001	-
Total	<u>48,824,630</u>	<u>32,325,649</u>

The Group's other taxes payable increased by 51% was mainly attributable to the increase in education surcharge and flood prevention fund.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Other payables

	31 December	31 December
	2004	2003
	RMB	RMB
Labour costs	57,285,421	56,668,409
Construction fee	50,345,347	157,157,341
Maintenance and inspection fee	58,847,651	45,645,760
Staff housing subsidies	112,917,521	175,097,533
Other	46,621,727	38,518,622
Total	<u>326,017,667</u>	<u>473,087,665</u>

The Group's other payables decreased by 31% mainly because part of construction fee was recorded in accounts payable in 2004 and the payment of staff housing subsidies.

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

23. Accrued charges

	31 December	31 December
	2004	2003
	RMB	RMB
Loan interests	33,928,492	67,701,604
Retirement benefits payable to early retired employees	11,945,072	20,006,150
Maintenance fee	6,375,237	13,282,290
Others	18,072,410	27,782,689
Total	<u>70,321,211</u>	<u>128,772,733</u>

The Group's accrued charges decreased by 45% was mainly attributable to the decrease in accrued loan interests and increase in expenses settlement.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Long term loans due within a year

Lender	Currency type	31 December 2004		Currency type	31 December 2003		Maturity date	Annual interest rate %	Conditions of borrowings
		Original currency amount	RMB		Original currency amount	RMB			
The Industrial and Commercial Bank of China – Huashan Branch	RMB	260,000	260,000	RMB	4,810,000	4,810,000	12/2005	2.88	Unsecured
China Construction Bank – Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2005	2.4	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,985,694	USD	7,972,657	65,987,290	4/2005 – 10/2005	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Hefei Branch	EUR	123,947	1,395,975	EUR	123,947	1,281,399	3/2005 – 9/2005	0.25	Guaranteed by 中國冶金進出口公司
Total			<u>80,841,669</u>			<u>85,278,689</u>			

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Long term loans

Lender	Currency type	31 December 2004		Currency type	31 December 2003		Maturity date	Annual interest rate %	Conditions of borrowings
		Original currency amount	RMB		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	2,400,000,000	185,431,200	N/A	N/A	N/A
	EUR	73,000,000	822,177,100	EUR	64,000,000	661,651,200	1/2006 – 5/2006	LIBOR (6 months) +1.25	Guaranteed by Holding
China Construction Bank – Metallurgical Branch	RMB	808,000,000	808,000,000	RMB	808,000,000	808,000,000	11/2006 – 1/2010	5.76	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	11,958,986	98,978,549	USD	19,931,643	164,968,231	4/2006 – 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 – 10/2006	5.49	Guaranteed by Holding
Bank of China – Maanshan Branch	EUR	115,000,000	1,295,210,500	EUR	115,000,000	1,188,904,500	1/2006 – 10/2008	LIBOR (3 months), LIBOR (6 months) +1.25, LIBOR (6 months) +1.5, Bank of China 3-year foreign currency loan floating rate (3 months)	Guaranteed by Holding

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Long term loans (continued)

Lender	Currency type	31 December 2004		Currency type	31 December 2003		Maturity date	Annual interest rate %	Conditions of borrowings
		Original currency amount	RMB		Original currency amount	RMB			
Bank of China - Hefei Branch	EUR	1,753,254	19,543,653	EUR	1,859,201	19,220,982	3/2006 - 9/2019	0.25	Guaranteed by 中國冶金進出口公司
Agricultural Bank of China - Maanshan Branch	RMB	174,000,000	174,000,000	RMB	84,000,000	84,000,000	2/2006 - 11/2006	5.49	Guaranteed by Holding
Maanshan Commercial Bank - Yushan Branch	RMB	19,000,000	19,000,000	-	-	-	6/2007 - 8/2007	5.49	Guaranteed by the Company
Profit Access Investment Company Limited (Note)	USD	986,000	8,233,699	-	-	-	6/2007 - 8/2007	5.49	Secured
Total			<u>4,134,143,501</u>			<u>3,969,176,113</u>			

Note: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. During the year, Profit Access Investments Limited granted foreign exchange loans to Anhui Masteel K. Wah. The loans bear interest at a rate of 5.49% per annum (with reference to RMB loan interest rate of Maanshan Commercial Bank). Certain of the loans are secured by the pledge of certain of the Anhui Masteel K. Wah's equipment with an aggregate net book value of approximately RMB33.56 million as at 31 December 2004.

26. Specific payables

	31 December 2004 RMB	31 December 2003 RMB
Government subsidies for specific construction projects	<u>19,800,000</u>	<u>276,980,000</u>

The Group's government subsidies for specific construction projects decreased by 93% was attributable to the completion of certain projects and the transfer of the respective subsidies to the capital reserve.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

27. Other long term liabilities

	31 December 2004 RMB	31 December 2003 RMB
Accrued charges for furnace relining	74,499,299	74,499,299
Retirement benefits payable to early retired employees	40,258,301	52,203,371
Total	<u>114,757,600</u>	<u>126,702,670</u>

28. Minority interests

Minority interests in consolidated balance sheet increased by 115% was mainly attributable to the injection of capitals by minority shareholders. Minority interest in consolidated statement of income and profit appropriation increased by 10 times was mainly attributable to the increase in profits of certain non-wholly owned subsidiaries during the year.

29. Share capital

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

	Group and Company	
	31 December 2004 RMB	31 December 2003 RMB
A. Unlisted shares		
1. Shares held by promoter:		
(1) State-owned shares	4,034,560,000	4,034,560,000
(2) Shares owned by domestic legal persons	–	–
(3) Shares owned by foreign legal persons	–	–
(4) Others	–	–
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	–	–
4. Preferred shares and others	–	–
Total unlisted shares	<u>4,122,370,000</u>	<u>4,122,370,000</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

29. Share capital (continued)

	Group and Company	
	31 December 2004 RMB	31 December 2003 RMB
B. Listed shares		
1. A shares	600,000,000	600,000,000
2. B shares	–	–
3. H shares	1,732,930,000	1,732,930,000
4. Others	–	–
Total listed shares	<u>2,332,930,000</u>	<u>2,332,930,000</u>
C. Total share capital	<u>6,455,300,000</u>	<u>6,455,300,000</u>

There was no change in share capital during the year.

30. Capital reserve

	Group and Company			
	At 1 January 2004 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2004 RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	<u>304,889,700</u>	<u>257,180,000</u>	<u>–</u>	<u>562,069,700</u>
	<u>5,169,865,095</u>	<u>257,180,000</u>	<u>–</u>	<u>5,427,045,095</u>

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

31. Surplus reserves

	Group			
	At 1 January	Increase	Decrease	At 31 December
	2004	during the year	during the year	2004
	RMB	RMB	RMB	RMB
Statutory surplus reserve	533,109,396	360,050,300	–	893,159,696
Statutory public welfare fund	532,839,291	360,013,180	–	892,852,471
Reserve fund	697,848	2,782,082	–	3,479,930
Enterprise expansion fund	348,924	4,785,952	–	5,134,876
Total	<u>1,066,995,459</u>	<u>727,631,514</u>	<u>–</u>	<u>1,794,626,973</u>

	Company			
	At 1 January	Increase	Decrease	At 31 December
	2004	during the year	during the year	2004
	RMB	RMB	RMB	RMB
Statutory surplus reserve	530,652,673	357,350,701	–	888,003,374
Statutory public welfare fund	530,652,673	357,350,701	–	888,003,374
Total	<u>1,061,305,346</u>	<u>714,701,402</u>	<u>–</u>	<u>1,776,006,748</u>

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 capitals of these companies. Part of the SSR may be capitalised as these companies' share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals 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 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 companies.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

31. Surplus reserves (continued)

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.

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 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 RMB357,350,701 (2003: RMB280,277,529) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of RMB3,573,507,015 (2003: RMB2,802,775,290) 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 subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB2,699,599 (2003: RMB1,776,998), RMB2,662,479 (2003: RMB1,776,998), RMB2,782,082 (2003: RMB697,848) and RMB4,785,952 (2003: RMB348,924), respectively.

The Group's and the Company's surplus reserves increased by 68% and 67% respectively was mainly attributable to the increase in the current year's net profit.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Retained profits

	Note	Group RMB
Retained profits at beginning of year		2,268,184,065
Add: Group's net profit for the year		3,575,806,813
Less: Transfer to SSR		(360,050,300)
Transfer to PWF		(360,013,180)
Transfer to reserve fund		(2,782,082)
Transfer to enterprise expansion fund		(4,785,952)
Transfer to employee bonus and welfare fund		(2,140,722)
Ordinary share dividend payable		(1,355,613,000)
Retained profits at end of year		<u>3,758,605,642</u>
Including: Cash dividend proposed by directors	44	<u>1,420,166,000</u>

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

As at 31 December 2004, the Company had retained profits of approximately RMB3,790 million (31 December 2003: approximately RMB2,290 million), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2004, in accordance with the Company Law of the PRC, an amount of approximately RMB5.43 billion (31 December 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. At the same date, the Company did not have any capitalisation issue.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	Group					
	2004			2003		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	25,493,392,474	19,948,799,211	5,544,593,263	14,599,399,597	10,905,245,904	3,694,153,693
Sale of pig iron	16,108,418	8,511,450	7,596,968	30,594,546	21,810,170	8,784,376
Sale of steel billets	249,752,091	216,741,656	33,010,435	255,497,932	187,488,550	68,009,382
Others	1,010,801,535	625,093,623	385,707,912	854,856,333	579,621,929	275,234,404
Total	26,770,054,518	20,799,145,940	5,970,908,578	15,740,348,408	11,694,166,553	4,046,181,855

Category	Company					
	2004			2003		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	25,493,392,474	19,948,799,211	5,544,593,263	14,599,399,597	10,905,245,904	3,694,153,693
Sale of pig iron	16,108,418	8,511,450	7,596,968	30,594,546	21,810,170	8,784,376
Sale of steel billets	249,752,091	216,741,656	33,010,435	255,497,932	187,488,550	68,009,382
Others	927,411,887	666,233,178	261,178,709	761,743,516	509,641,502	252,102,014
Total	26,686,664,870	20,840,285,495	5,846,379,375	15,647,235,591	11,624,186,126	4,023,049,465

Sales to the five largest customers of the Group and the Company for the year amounted to RMB5,395,481,609 and RMB5,264,164,865, which accounted for 20% of the Group's and the Company's total sales amounts respectively.

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

The Group's and Company's principal operating income increased by 70% and 71% respectively mainly because of the increase in the selling price and sales volume of steel products. The Group's and Company's gross profit margin decreased mainly because the increase in selling price of steel products was lower than the increase in cost of raw materials.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

34. Taxes and surcharges

	2004 RMB	2003 RMB
City construction and maintenance tax	122,193,047	89,926,453
Education surcharge	52,263,033	38,539,909
Local education surcharge	17,650,290	–
Other taxes	9,878,119	1,611,820
Total	<u>201,984,489</u>	<u>130,078,182</u>

The Group's taxes and surcharges increased by 55% 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.

35. Other operating profit

The Group's other operating profit decreased by 38% was mainly attributable to the decrease in the trading of merchandise goods.

36. Selling expenses

The Group's selling expenses increased by 109% was mainly attributable to the increase in transportation expense.

37. Administrative expenses

The Group's administrative expenses increased by 63% was mainly attributable to the recognition of removal compensation and demolition expenses and one-off staff medical insurance amounted to RMB484 million and RMB110 million respectively in the year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

38. Financial expenses

	2004 RMB	2003 RMB
Interest expenses	225,284,228	105,027,304
Less: Interest income	(24,235,561)	(15,528,014)
Exchange loss	359,880,964	75,443,392
Less: Exchange gain	(162,697,482)	(22,651,077)
Others	8,592,365	5,717,335
Total	<u>406,824,514</u>	<u>148,008,940</u>

The increase in the Group's financial expenses by 175% was mainly because certain finance expenses ceased to capitalise in current year.

39. Investment income /(loss)

	Group		Company	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Loss on disposal of equity investments	–	(10,629,765)	–	(9,629,765)
Investment income from investment in subsidiaries	–	–	74,364,365	19,859,733
Share of losses of associates	(957,812)	–	(957,812)	–
Other equity investment income	1,105,000	–	1,105,000	–
Reversal of provision for decline in value of short term investments	–	2,263,731	–	2,263,731
	<u>147,188</u>	<u>(8,366,034)</u>	<u>74,511,553</u>	<u>12,493,699</u>

The Group's investment loss decreased was mainly because no loss on disposal of equity investments incurred in current year. The Company's investment income increased by 5 times was mainly attributable to the increase in investment income calculated under equity method.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

40. Subsidies income

	2004 RMB	2003 RMB
Subsidies income for steel export	<u>672,381</u>	<u>1,413,783</u>

41. Non-operating income

The increase in the Group's non-operating income by 39% was mainly attributable to the increase in gain on disposal of fixed assets.

42. Non-operating expenses

The decrease in the Group's non-operating expenses by 38% was mainly attributable to the decrease in the payment of staff children education expenses.

43. Income tax

The Group's income tax increased by 128% was mainly attributable to the increase in taxable income.

44. Cash dividend proposed by directors

	Group and Company	
	2004 RMB	2003 RMB
Proposed final cash dividend – RMB22 cents (2003: RMB21 cents) per ordinary share	<u>1,420,166,000</u>	<u>1,355,613,000</u>

Proposed ordinary share dividend is determined based on the profit appropriation plan for the year ended 2004 as approved by the board of directors after the balance sheet date. Dividend proposed for legal person shares, A shares and H shares amounted to RMB906,921,400, RMB132,000,000 and RMB381,244,600 respectively. The proposed dividend is subject to approval by the shareholders at the annual general meeting.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

45. Cash paid relating to other operating activities

	2004 RMB	2003 RMB
Real estate tax	30,286,081	26,829,627
Environmental improvement fee	26,144,276	26,367,906
Welfare and support services	95,790,000	78,435,031
Export related costs	6,731,649	5,937,889
Unloading cost	5,362,318	15,214,810
Packing fee	14,841,406	13,733,322
Staff children education expenses	1,748,461	25,660,897
Flood prevention fund	9,417,619	6,750,772
Stamp duty	10,820,168	6,313,148
Rental fee	5,340,000	5,506,284
Repair and maintenance expenses	23,479,574	9,445,866
Removal compensation and demolition expenses	484,198,000	64,384,200
One-off staff medical insurance	109,606,800	–
Others	62,388,687	78,322,279
Total	<u>886,155,039</u>	<u>362,902,031</u>

46. Cash paid relating to acquisition of subsidiary

On 15 November 2004, the Company acquired a 71% interest in Holly Packing from Holding at a consideration of RMB21,478,316. It was according to the resolution of the Board Meeting, which concerned subsidiary acquisition proceeding holding on 20 Oct 2004 and the Interest Transfer Agreement signed between the Company and the Group on 20 Oct 2004. The purchase consideration for the acquisition was in the form of cash.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

46. Cash paid relating to acquisition of subsidiary (continued)

The net asset of Holly Packing at the date of transfer was disclosed as follows:

	Notes	RMB
Cash and balances with financial institutions		9,967,021
Trade receivables		361,184
Prepayments		3,838,121
Other receivables		16,297
Inventories		2,293,951
Fixed assets cost	10	42,689,470
Less: Accumulated depreciation	10	(1,548,609)
Net book value		<u>41,140,861</u>
Construction in progress	12	1,753,603
Intangible assets	13	5,152,647
Short term loans		(26,000,000)
Accounts payable		(1,256,481)
Deposits received		(796,443)
Taxes payable		167,999
Other payables		(6,247,471)
Accrued charges		(140,140)
Minority interests		(8,772,833)
		<u>21,478,316</u>
Cash paid:		<u>21,478,316</u>
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:		
		RMB
Cash consideration paid		21,478,316
Cash and balances with financial institutions		(9,967,021)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary		<u>11,511,295</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

47. Cash received relating to other financing activities

	2004 RMB	2003 RMB
Government subsidies for specific construction projects	<u>–</u>	<u>55,980,000</u>

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

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

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

Net profit	Notes	2004 RMB'000	2003 RMB'000
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 expense	(iv)	19,725	10,091
Employee bonus and welfare fund	(v)	2,141	348
Deduct:			
Transfer of deferred income	(vi)	<u>(38,379)</u>	<u>(3,606)</u>
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u>3,575,807</u>	<u>2,792,971</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Shareholders' funds	Notes	31 December 2004 RMB'000	31 December 2003 RMB'000
Shareholders' funds 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)
Amortisation of deferred income	(vi)	(41,985)	(3,606)
Shareholders' funds under PRC accounting standards		<u>17,435,578</u>	<u>14,960,346</u>

(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 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(i) Deferred staff costs (continued)

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.

There were no differences arising from deferred staff costs between financials 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 income statement during the year ended 31 December 2000, since such subsidies are related to past services of eligible retired employees.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(iv) Deferred tax

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.

Under Hong Kong SSAP 12 (Revised), deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 31 December 2004 amounted to approximately RMB34.7 million (31 December 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).

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

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

48. 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 deferred income under Hong Kong accounting standards, whereas such grants are accounted for as specific payables under PRC accounting standards.

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).

Under Hong Kong SSAP 35, upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful life of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately 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 income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB38.38 million (2003: approximately RMB3.61 million) was released to the current year's income statement. As at 31 December 2004, the accumulated deferred income released amounted to approximately RMB41.99 million (31 December 2003: approximately RMB3.61 million).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party involving control relationship

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

As at 31 December 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.

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

Name	At 1 January 2004 RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	At 31 December 2004 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 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2004 RMB'000	Ratio %
Holding	4,082,330	63.24	-	-	-	-	4,082,330	63.24

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Related parties without control relationship

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

Name	Relationship with the Company
馬鋼集團建設有限責任公司	Subsidiary/associate of Holding
馬鋼集團建築路橋有限責任公司	Subsidiary/associate of Holding
馬鋼集團南山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼集團姑山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼集團設計研究院有限責任公司	Subsidiary/associate of Holding
馬鋼集團動力機電安裝有限責任公司	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責任公司	Subsidiary/associate of Holding
馬鋼集團力生有限責任公司	Subsidiary/associate of Holding
馬鋼集團實業發展有限責任公司	Subsidiary/associate of Holding
馬鋼集團實業發展有限責任公司潤滑油分公司	Subsidiary/associate of Holding
馬鋼集團鋼渣綜合利用有限責任公司	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)控股有限公司測繪大隊	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)控股有限公司通訊技術服務部	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司有線電視中心	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)控股有限公司醫院	Subsidiary/associate of Holding
馬鞍山博力建設監理有限公司	Subsidiary/associate of Holding
馬鞍山馬鋼(集團)控股有限公司塑鋼廠	Subsidiary/associate of Holding
安徽冶金科技職業學院	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)控股有限公司安冶機械廠	Subsidiary/associate of Holding
馬鞍山馬鋼礦山岩土工程勘察聯合公司	Subsidiary/associate of Holding
馬鞍山馬鋼易凡工貿有限責任公司	Subsidiary/associate of Holding
馬鞍山馬鋼實業生興爐料加工有限責任公司	Subsidiary/associate of Holding
馬鞍山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
馬鞍山馬鋼永固螺絲製品有限責任公司 (前稱「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 (前稱「馬鞍山黑馬鋼筋焊網有限公司」)	Subsidiary/associate of Holding
安徽馬鋼和菱包裝材料有限公司 (Note)	Subsidiary/associate of Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Subsidiary/associate of Holding
利達投資有限公司	Minority shareholder of the Group
安徽鑫鋼商貿有限公司	Minority shareholder of the Group

Note: Became a subsidiary of the Group on 15 November 2004

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Notes	2004 RMB	2003 RMB
Transactions with Holding, subsidiaries and associates of Holding:			
Purchases of iron ore, limestone and dolomite	(i)	964,679,248	844,579,190
Fees paid for welfare, support services and other services	(ii), (iii)	276,967,842	337,686,950
Agency fee	(iii)	4,794,695	5,327,428
Purchases of fixed assets and provision of construction services	(iii)	279,689,245	227,530,662
Fees received for the supply of utilities, services and other consumable goods	(iii)	(32,707,795)	(41,750,881)
Sale of steel products and other by-products	(iii)	(3,563,797)	(14,122,621)
Acquisition of a subsidiary	(iv)	21,478,316	–
Transactions with associates of the Company:			
Purchases of coke			
濟源市金馬焦化	(v)	151,664,718	–
滕州盛隆煤焦化	(v)	6,156,315	–
Transactions with minority shareholders:			
Foreign currency loans			
<i>Profit Access Investment Limited</i>	(vi)	8,233,699	–
Purchase of net assets			
安徽鑫鋼商貿有限公司	(vii)	16,376,230	–

(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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The following is a summary of the significant transactions carried out in the normal course of business between the Group and its related parties during the year: (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 RMB21,478,316. 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 V point 6 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 Investment 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 V point 25 to the financial statement.
 - (vii) 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu) and is a minority shareholder of 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 RMB16,380,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants.
- (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 Note VI point 6.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties

	31 December 2004 RMB	31 December 2003 RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	956,776	1,610,675	Trade and electricity fee
Others	508,740	966,918	
Total	<u>1,465,516</u>	<u>2,577,593</u>	
Prepayments:			
Holding	36,484,400	66,690,920	Prepayment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	1,351,360	3,679,733	Trade and construction fee
馬鞍山市聯營乙炔廠	2,609,044	1,864,281	Trade
Others	45,000	520,254	
Total	<u>40,489,804</u>	<u>72,755,188</u>	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivable from/payable to related parties

	31 December 2004 RMB	31 December 2003 RMB	Details
Accounts payable:			
Holding	8,345,823	–	Construction fee
馬鋼集團建設有限責任公司	55,448,235	28,372,982	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	5,765,630	15,035,652	Construction and maintenance fees
馬鋼集團康泰建安實業 有限責任公司	1,103,440	298,245	Construction fee
馬鋼集團力生有限責任公司	2,600,862	4,793,702	Construction fee
馬鋼集團實業發展有限責任公司 潤滑油分公司	2,943,240	1,921,879	Trade
馬鋼集團鋼渣綜合利用 有限責任公司	2,852,007	1,112,826	Trade
馬鞍山市聯營乙炔廠	1,040,883	437,569	Processing fee
Others	1,704,467	2,674,718	
Total	<u>81,804,587</u>	<u>54,647,573</u>	
Deposits received:			
馬鋼集團姑山礦業 有限責任公司	93,688,647	47,286,295	Trade
安徽馬鋼比亞西鋼筋焊網 有限公司	14,062,281	2,718,170	Trade
馬鋼集團康泰置地發展 有限公司	6,727,260	60,260	Construction fee
馬鋼(集團)控股有限公司 桃沖礦業公司	459,701	1,192,110	Trade
Others	1,461,779	959,420	
Total	<u>116,399,668</u>	<u>52,216,255</u>	

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VII. CONTINGENT LIABILITIES

As at 31 December 2004, the Company had given guarantees amounted to approximately RMB2.56 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.

VIII. CAPITAL COMMITMENTS

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

	Group		Company	
	31 December 2004 RMB'000	31 December 2003 RMB'000	31 December 2004 RMB'000	31 December 2003 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
	<u>1,801,687</u>	<u>2,632,758</u>	<u>1,800,408</u>	<u>2,632,758</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2004

VIII. CAPITAL COMMITMENTS (CONTINUED)

	Group		Company	
	31 December 2004 RMB'000	31 December 2003 RMB'000	31 December 2004 RMB'000	31 December 2003 RMB'000
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
	<u>612,851</u>	<u>917,814</u>	<u>595,432</u>	<u>917,814</u>
Total capital commitments	<u>2,414,538</u>	<u>3,550,572</u>	<u>2,395,840</u>	<u>3,550,572</u>

IX. COMPARATIVE AMOUNTS

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

X. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2005.