馬 鞍 山 鋼 鐵 股 份 有 限 公 司

**Maanshan Iron & Steel Company Limited**

*(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 323)**

# 2004 First Quarterly Report

## 1 IMPORTANT NOTICE

1.1 This announcement is made pursuant to rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

1.3 The financial statements contained in this report have not been audited. All financial information set out in this quarterly report has been prepared in accordance with PRC accounting standards.

1.4 This quarterly report is prepared in accordance with the regulations on Disclosure of Information in Quarterly Reports for Listed Companies by the China Securities Regulatory Commission. The information in this report is the same as the information contained in the announcement filed with the Shanghai Stock Exchange, and this report is published simultaneously in Shanghai and Hong Kong.

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

## 2 BASIC CORPORATE INFORMATION OF THE COMPANY

### 2.1 Basic Information

| **Stock abbreviation** | **Magang Stock (A share)** | **Maanshan Iron (H share)** |
|---|---|---|
| Stock Code | 600808 | 323 |
| Secretary to the Board of Directors | Su Jiangang | |
| Address | No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC | |
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### 2.2 Financial Information

Prepared under PRC accounting standards

*2.2.1 Major accounting data and financial indicators: (in RMB'000)*

| | **As at the end of this period (unaudited)** | **As at the end of the previous year (audited)** | **Increase (decrease) of this period as compared to the end of the previous year (%)** |
|---|---|---|---|
| Total assets | 28,823,612 | 26,355,229 | 9.37 |
| Shareholders' funds (excluding minority interests) | 16,643,376 | 14,960,345 | 11.25 |
| Net assets per share | 2.58 yuan | 2.32 yuan | 11.21 |
| Adjusted net assets per share | 2.58 yuan | 2.32 yuan | 11.21 |

| | In this period (unaudited) | End of this period (unaudited) | Increase (decrease) of this period as compared to the corresponding period of the previous year (%) |
|---|---|---|---|
| Net cash flow from operating activities | 1,614,632 | 1,614,632 | 195.26 |
| Yield per share | 0.234 yuan | 0.234 yuan | 207.89 |
| Return on net assets (%) | 9.09 | 9.09 | 127.82 |
| Return on net assets excluding non-recurring gains or losses (%) | 9.62 | 9.62 | 132.37 |

| Non-recurring gains or losses | Amount |
|---|---|
| Profit and loss on disposals of fixed assets, net | 1,361 |
| Other non-operating income and expenses | (882) |
| Income tax effect amount | (72) |
| Total | 407 |

2.2.2 *Statement of Income (unaudited)*

*RMB'000*

| Item | In this period | | Corresponding period of the pervious year | |
|---|---|---|---|---|
| | Consolidated | Parent Company | Consolidated | Parent Company |
| 1. Principal operating income | 6,456,478 | 6,460,644 | 3,371,263 | 3,365,237 |
| Less: Costs of sales | (4,451,478) | (4,477,992) | (2,620,950) | (2,624,475) |
| Taxes and surcharges | (63,903) | (62,891) | (32,190) | (31,795) |
| 2. Profit from principal operating activities | 1,941,097 | 1,919,761 | 718,123 | 708,967 |
| Add: Other operating profit | 19,123 | 15,961 | 11,231 | 7,188 |
| Less: Selling expenses | (26,159) | (28,228) | (16,264) | (15,654) |
| Administrative expenses | (126,825) | (123,305) | (99,944) | (95,366) |
| Financial expenses | (27,797) | (26,222) | (22,468) | (19,435) |
| 3. Operating profit | 1,779,439 | 1,757,967 | 590,679 | 585,700 |
| Add: Investment income | – | 17,973 | (481) | (1,200) |
| Subsidies income | 672 | – | – | – |
| Non-operating income | 3,745 | 3,745 | 851 | 851 |
| Less: Non-operating expenses | (3,266) | (3,219) | (11,533) | (11,528) |
| 4. Total profit | 1,780,590 | 1,776,466 | 579,516 | 573,823 |
| Less: Corporate income tax | (267,133) | (266,503) | (87,002) | (86,050) |
| Less: Gain and loss of minority interests | (626) | – | – | – |
| 5. Net profit | 1,512,831 | 1,509,963 | 492,514 | 487,773 |

**2.3 As at the end of the reporting period, the Company had a total of 121,208 shareholders.**

## 3. MANAGEMENT DISCUSSION AND ANALYSIS

### 3.1 Overview and brief analysis of the Company's operating activities during the reporting period

During the first quarter of 2004, as a result of the steady development of the national economy, demand in the iron and steel market remained strong. Despite the rising prices in major raw materials and fuels such as iron ore and coal, iron and steel enterprises still achieved satisfactory operating results. By accelerating its pace for structural adjustment, the Group (the Company and its subsidiaries) has made progress in the construction of major projects. While maintaining the steady and smooth operations of newly established projects, the Group also leveraged market opportunities to ensure continued growth in its production and operation.

During the reporting period, the Group's production of pig iron, crude steel and steel products amounted to 1,670,000 tonnes, 1,860,000 tonnes and 1,770,000 tonnes, respectively, representing increases of 27.48%, 25.68% and 36.15%, respectively, when compared to the corresponding period of the previous year. In respect of major technical and economic indicators, there was a continued progress. Consolidated energy consumption rate was 764kg of standard coal for each tonne of steel produced, representing a decrease of 11kg of standard coal as compared to the corresponding period of the previous year.

*3.1.1 Principal operating activities or products accounting for 10% or more of principal operating income or profit from principal operating activities (unaudited)*

*(RMB million)*

| **Segment** | **Principal operating income** | **Costs of sales** | **Gross profit margin (%)** |
|---|---|---|---|
| Steel products | 6,207.39 | 3,916.82 | 36.90 |
| Including: connected transactions | – | – | – |

*3.1.2 Structure of profit contributions during the reporting period (principal operating profit, other operating profit, expenses for the period, investment income, subsidies income and net income and expenses from non-operating activities as a percentage of total profit as compared to the previous period, and reasons for significant changes)*

*(RMB million)*

| | **In this period** | | **Previous period** | | **Percentage increase (decrease) over total profit (%)** |
|---|---|---|---|---|---|
| **Item** | **Amount (unaudited)** | **Percentage over total profit %** | **Amount (audited)** | **Percentage over total profit %** | |
| Profit from principal operating activities | 1,941 | 108.98 | 3,916 | 131.06 | -22.08 |
| Other operating profit | 19 | 1.07 | 63 | 2.11 | -1.04 |
| Expenses for the period | 181 | 10.16 | 971 | 32.53 | -22.37 |
| Investment income | – | – | (8) | 0.27 | 0.27 |
| Subsidies income | 1 | 0.06 | 1 | 0.03 | 0.03 |
| Net income and expenses from non-operating activities | 1 | 0.06 | (13) | 0.44 | 0.50 |
| Total profit | 1,781 | 100 | 2,988 | 100 | – |

Principal operating profit and expenses for the period as a percentage of total profit decreased as compared to the previous period was mainly due to the increase in total profit of the Company during the reporting period.

*3.1.3 Reasons for significant changes in profitability (gross profit margin) of principal operating activities as compared to the previous period*

The Company's gross profit margin of principal operating activities for the period was 31.05%, 5.34 percentage points higher than the gross profit margin of principal operating activities of 25.71% for the previous period, was mainly as a result of rising prices for steel products and ongoing improvements in the Company's major technical and economic indicators.

**3.2 Significant matters and explanations for analysis on its effects and solutions**

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

**3.3 The situations of, and explanations for, changes in accounting policies, accounting estimates, scope of consolidation and significant accounting errors**

As a result of the Company's improved production capacity, continuous development and production of new products, extensive development and application of computer-controlled systems and application software, the cycles for overhaul and maintenance of fixed assets as well as their renovations and modifications became shortened. As a result, the life expectancy of fixed assets as originally estimated had to be changed. By re-assessing and re-estimating the life expectancy of all of the fixed assets of the Company, the Company decided to adjust the annual consolidated depreciation rate of fixed assets from 6.5% to 8.5%. The new depreciation rate has been effective from 1 January 2004. Such adjustment in accounting estimate caused the gross profit for the current period to decrease by RMB95 million.

Apart from the above-mentioned adjustment in the accounting estimate, there is no difference between the principal accounting policy and auditing method of the accounting statement prepared by the Company and the Group under the PRC accounting standards for the current period and that of the recently announced annual financial statement.

As in the current period, there was no change to the consolidation criteria of the Company's financial statements as compared to that of the latest annual financial statements.

**3.4 Profit warning with reasons on a possible reversal to losses of the accumulated net profit from the beginning of the year to the end of the next period or on a substantial change when compared to the same period last year**

With the rise in prices of steel products in the domestic market during the reporting period, the Group's net profit recorded substantial growth during the first quarter as compared to the corresponding period of the previous year. It is expected that the Group's net profit for the first half of 2004 will register a growth of more than 50% as compared to the corresponding period of the previous year.

**Maanshan Iron & Steel Company Limited**
**Gu Jianguo**
*Chairman*

Maanshan City, Anhui Province, the PRC, 15 April 2004

*The directors of the Company as at the date of this announcement are:–*

*Gu Jianguo, Gu Zhanggen, Zhu Changqiu, Shi Zhaogui, Zhao Jianming, Su Jiangang, Gao Haijian, Cheng Shaoxiu*, Wu Junnian*, Shi Jianjun* and Chan Yuk Sing*.*

** Independent Directors*

Please also refer to the published version of this announcement in South China Morning Post dated 16 April 2004.