ANNUAL REPORT 2006

MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Stock Code: 323
A Share Stock Code: 600808

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IMPORTANT

The board of directors (the "Board of Directors"), the supervisory committee, the directors, the supervisors and senior management of the Company jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and confirm that there are no false representations or misleading statements contained in or material omissions from this report.

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

Company Profile

1) BASIC INFORMATION

Company Name	:	馬鞍山鋼鐵股份有限公司 (abbreviated "馬鋼")
Company Name in English	:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C. L.)
Legal Representative	:	Gu Jianguo
Secretary to the Board of Directors	:	Su Jiangang
Representative for Securities Affairs	:	Hu Shunliang
Correspondence Address	:	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
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Email Address	:	mggfdms@magang.com.cn
Company's Registered and Office Address	:	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Postal Code	:	243003
Company's Website	:	http://www.magang.com.cn
Email Address	:	mggfdms@magang.com.cn
Newspapers for Information Disclosure	:	Shanghai Securities News, South China Morning Post(Hong Kong), Wen Wei Po (Hong Kong)
Website Designated by China Securities Regulatory Commission for Publishing of Annual Report	:	http://www.sse.com.cn
The Company's Annual Report is Available at	:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited
Places of Listing	:	Shanghai Stock Exchange (A Share)/The Stock Exchange of Hong Kong Limited (H Share)
Stock Abbreviation	:	Magang Stock (A Share)/Maanshan Iron (H Share)

Stock Code	:	600808 (A Share)/323 (H Share)
Date of First Registration	:	1 September 1993
Place of Registration	:	Anhui Provincial Administration for Industry and Commerce
Corporate Business License	:	000970
Tax Registration No.	:	State Tax: 340504610400837
		Local Tax: 34050461040083-7
Accountants Appointed by the Company	:	Ernst & Young Hua Ming Address: Level 16, Block 3, East Tower Oriental Economic and Trade City Oriental Plaza, 1 Changan Street East City East District, Beijing, PRC Postal code: 100738
		Ernst & Young Hong Kong Address: 18/F, Two International Finance Centre 8 Finance Street Central, Hong Kong

2) ISSUE AND LISTING

Maanshan Iron & Steel Company Limited (the "Company") was set up on 1st September 1993 and was regarded by the State as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies. The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 3 November 1993.

The Company issued RMB common shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the Shanghai Stock Exchange (the "SSE") in three batches on 6 January, 4 April and 6 September in the following year.

On 13 November 2006, the Company issued bonds with warrants ("Bonds with Warrants") on the SSE. On 29 November 2006, the Company's bonds and warrants were listed on the SSE.

3) PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacture and sale of iron and steel products. The manufacturing process primarily involves iron-making, steel-making and steel rolling projects. The Company's principal product is steel products which come in four major categories: steel plates, section steel, wire rods and train wheels.

Steel plates

Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building and machinery businesses, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used in plates of home electrical appliances, high-grade construction plates, and plates used in businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, the national standard of the PRC, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six countries including China, the United Kingdom, Germany, the United States, France and Norway.

Section steel

Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures and machinery manufacturing. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under the Japanese JIS standards. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the "Golden Cup Prize of Quality Metal Products".

Wire rods

Major products include high-speed wire rod materials and hot-rolled reinforcing steel used in armoured concrete. High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed "The First Lot of Quality Products Exempted from Inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong and the on-site certification of the UK Certification Authority for Reinforcing Steels (CARES).

Train wheels

Major products include train wheels and wheel rims, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. The Company owns the core technology and patent of train wheels used for high-speed railroads. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9000:2000 quality system and the AAR issued by the North American Railway Committee.

Extracts of Accounting and Business Data

1) TOTAL PROFIT OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP") RECORDED FOR THE YEAR AND ITS BREAKDOWN PREPARED UNDER PRC ACCOUNTING STANDARDS (UNIT: RMB'000):

Profit before tax	2,756,726
Net profit	2,276,586
Net profit excluding non-recurring gains or losses	2,234,107
Profit from principal operating activities	4,149,210
Other operating profit	51,437
Operating profit	2,664,584
Investment income	59,564
Subsidies income	5,850
Non-operating income and expenses, net	26,727
Net cash flows from operating activities	5,282,804
Net increase in cash and cash equivalents	520,299

Items and amounts of non-recurring gains or losses for the current reporting period (Unit: RMB'000):

Item	**Amount**
Net loss on disposal of fixed assets and constructions in progress	(11,196)
Subsidies income	5,850
Other non-operating income and expenses, net	636
Reversal of the impairment provisions of fixed assets which had been provided in the past years	37,287
Gain from disposal of short-term investments, net	13,994
Income tax effect	(4,092)
Total non-recurring gains or losses, net	42,479

2) EFFECTS ON NET PROFIT OF MAJOR DIFFERENCES IN THE CONSOLIDATED ACCOUNTING STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND UNDER HONG KONG ACCOUNTING STANDARDS FOR THE YEAR ARE SUMMARISED AS FOLLOWS (UNIT: RMB'000):

Net profit under Hong Kong Accounting Standards	2,394,652
Add:	
Deferred tax income	(74,861)
Employee bonus and welfare fund	6,547
Less:	
Recognition of deferred income	(49,752)
Net profit under PRC Accounting Standards	2,276,586

Note: Please see Note V (47) of Notes to Financial Statements prepared under PRC Accounting Standards and Note 47 of Notes to Financial Statements prepared under Hong Kong Accounting Standards and Systems for reasons of differences.

3) MAJOR ACCOUNTING FIGURES AND FINANCIAL INDICATORS FOR THE LAST FIVE YEARS (UNIT: RMB'000):

(1) Major accounting figures and financial indicators prepared under PRC Accounting Standards

Index item	2006	2005	2004	2003	2002
Principal operating income	**34,319,874**	32,083,096	26,770,055	15,740,348	10,973,917
Profit before tax	**2,756,726**	3,322,267	4,029,637	2,987,914	479,702
Income tax	**422,239**	433,775	441,258	193,770	95,261
Minority interests	**57,901**	40,872	12,572	1,173	–
Net profit	**2,276,586**	2,847,620	3,575,807	2,792,971	384,441
Earnings per share (RMB)					
Fully diluted	**0.353**	0.441	0.554	0.433	0.060
Weighted average	**0.353**	0.441	0.554	0.433	0.060
Net cash flows from operating activities per share (RMB)	**0.8184**	0.9559	0.9453	0.5528	0.4012
Return on net assets (%)					
Fully diluted	**11.31**	15.08	20.51	18.67	3.18
Weighted average	**11.37**	15.10	21.35	20.71	3.18
Return on net assets excluding non-recurring gains or looses (%)					
Fully diluted	**11.10**	15.24	20.46	18.72	6.82
Weighted average	**11.16**	15.26	21.30	20.77	6.82

Index item	At the end of 2006	At the end of 2005	At the end of 2004	At the end of 2003	At the end of 2002
Total assets	**54,842,867**	38,878,377	31,461,195	26,355,229	17,138,511
Total liabilities	**34,410,263**	19,858,472	13,949,302	11,359,464	5,049,743
Minority interests	**310,497**	138,189	76,315	35,420	–
Shareholders' funds	**20,122,107**	18,881,716	17,435,578	14,960,345	12,088,768
Net asset per share (RMB)	**3.12**	2.92	2.70	2.32	1.87
Adjusted net asset per share (RMB)	**3.11**	2.92	2.70	2.32	1.87

(2) **Major accounting figures and financial indicators prepared under Hong Kong Accounting Standards**

Index item	**2006**	2005	2004	2003	2002
Turnover	**34,319,874**	32,083,096	26,770,055	15,740,348	10,973,917
Profit before tax	**2,799,931**	3,366,149	4,065,876	2,864,232	403,194
Income tax	**347,378**	415,334	460,984	203,861	63,465
Minority interests	**57,901**	40,872	12,572	1,173	–
Net profit from ordinary activities attributable to shareholders	**2,394,652**	2,909,943	3,592,320	2,659,198	339,729
Earnings per share (RMB)					
Fully diluted	**0.371**	0.451	0.556	0.412	0.053
Weighted average	**0.371**	0.451	0.556	0.412	0.053
Net cash flows from operating activities per share (RMB)	**0.8184**	0.9078	0.9935	0.5528	0.4167
Return on net assets (%)					
Fully diluted	**11.70**	15.72	21.10	17.98	2.75
Weighted average	**12.15**	15.75	21.66	19.43	2.76
Return on net assets excluding non-recurring gains or looses (%)					
Fully diluted	**11.50**	15.88	21.05	18.04	6.31
Weighted average	**11.93**	15.91	21.61	19.49	6.34

Index item	**At the end of 2006**	At the end of 2005	At the end of 2004	At the end of 2003	At the end of 2002
Total assets	**54,716,446**	38,933,765	31,195,785	26,418,528	17,275,219
Total liabilities	**33,944,178**	20,281,072	14,094,743	11,595,088	4,920,461
Minority interests	**310,497**	138,189	76,315	35,420	–
Shareholders' funds	**20,461,771**	18,514,504	17,024,727	14,788,020	12,354,758
Net asset per share (RMB)	**3.17**	2.87	2.64	2.29	1.91
Adjusted net asset per share (RMB)	**3.16**	2.87	2.64	2.29	1.90

Note: Return on net assets and earnings per share are computed based on the formula stipulated in the "Regulations for the Preparation of Information Disclosure by Listed Securities Companies (No. 9)" issued by the China Securities Regulatory Commission on 19 January 2001.

4) MAJOR BUSINESS DATA FOR THE LAST 3 YEARS (UNIT:'000 TONNES):

Product category	Sales of 2006		Sales of 2005		Sales of 2004	
	Volume	Percentage (%)	Volume	Percentage (%)	Volume	Percentage (%)
Steel plates	**3,220**	**32**	3,040	35	2,480	34
Section steel	**2,790**	**27**	2,260	26	1,870	26
Wire rods	**3,960**	**39**	3,210	37	2,790	38
Train wheels and wheel rims	**220**	**2**	180	2	150	2
Total	**10,190**	**100**	8,690	100	7,290	100

Note: In 2006, the Group's product sales volume included that of the controlling subsidiary Ma Steel (Hefei) Iron & Steel Co. Ltd., besides that of the Company.

5) MOVEMENTS IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD (UNIT: RMB'000):

(1) Prepared under PRC Accounting Standards

Item	Share capital	Capital reserves	Surplus reserves	Including: statutory public welfare fund	Retained profits	Including: cash dividend proposed by the Board of Directors	Shareholders' funds
At the beginning of the year	6,455,300	5,450,345	2,380,148	1,178,385	4,595,923	1,032,848	18,881,716
Increase during the year	_	3,200	1,435,397	_	2,276,586	839,189	3,715,183
Decrease during the year	_	_	(1,178,385)	(1,178,385)	(1,296,407)	(1,032,848)	(2,474,792)
At the end of the year	6,455,300	5,453,545	2,637,160	_	5,576,102	839,189	20,122,107

(2) Prepared under Hong Kong Accounting Standards

Item	Share capital	Capital reserves	Equity component of Bonds with Warrants	Surplus reserves	Including: statutory public welfare fund	Retained profits	Including: cash dividend proposed by the Board of Directors	Shareholders' equity
At the beginning of the year	6,455,300	4,864,976	—	2,380,148	1,178,385	3,781,232	1,032,848	18,514,504
Increase during the year	—	—	604,229	1,435,397	—	2,394,652	839,189	5,273,467
Decrease during the year	—	—	(18,766)	(1,178,385)	(1,178,385)	(1,096,201)	(1,032,848)	(3,326,200)
At the end of the year	6,455,300	4,864,976	585,463	2,637,160	—	5,079,683	839,189	20,461,771

Reasons for movements: (1) The increase in capital reserves represented the transfer of government project subsidies as specific payables upon the completion of certain State-subsidised projects. (2) The net increase in surplus reserves (including statutory public welfare fund) is based on the Group's profit for the year and the relevant statutory contribution. (3) The increase in retained profits was due to increase in the Company's profit during the year. The decrease in retained profits was due to proposed dividend distribution for ordinary shares. (4) The increase in the proposed dividend distribution for ordinary shares was due to the appropriation of dividend distribution for ordinary shares for year 2006. The decrease in the proposed dividend distribution for ordinary shares was due to the distribution of dividend for ordinary shares for year 2005 during the reporting period.

Dear Shareholders,

On behalf of the Board of Directors, I hereby present to you the operating results of the Group for 2006.

During 2006, the Group realised a sales income of RMB34,320 million, representing an increase of 7% over the previous year. In accordance with PRC Accounting Standards, net profit amounted to RMB2,277 million, representing a decrease of 20% over the previous year. Earnings per share stood at RMB0.353, representing a decrease of 20% over the previous year. In accordance with Hong Kong Accounting Standards, net profit for 2006 amounted to RMB2,395 million, down 18% from the previous year. Earnings per share stood at RMB0.371, representing a decrease of 18% over the previous year.

Looking back on 2006, global economic growth was relatively rapid and the Euro Zone economy grew faster than expected. Global production of iron and steel grew steadily to 1,240,000,000 tonnes, an increase of 8.8% as compared to the previous year. Demand for steel products remained robust. In 2006, China's national economy continued to maintain a steady and fast pace of growth, reporting a GDP growth of 10.7% over the previous year, while fixed asset investments of the society at-large rose 24.0% as compared to the previous year. The nationwide steel output amounted to 419,000,000 tonnes, representing an 18.48% increase over the previous year. In 2006, prices in the domestic steel product market rose initially but dropped later, with the consolidated price index for steel products rising from 94.18 as at the end of 2005 to 114.85 by the end of June, then dropping back to 105.15 by the end of December. The 2006 average prices of steel products were below those in 2005, with medium thick boards, hot-rolled thin plates, cold-rolled thin plates and galvanised plates reporting larger price declines of 14.5%, 12.9%, 18.9% and 15.8% respectively. The price decreases in wires and corrugated steel were less significant, being 6.2% and 9.1% respectively. (Source: National Bureau of Statistics, China Iron and Steel Association)

During the reporting period, the Group implemented the low-cost strategy and the brand strategy to strive for enhancement in economic effectiveness. By optimising resource deployment, technological and economic indicators reported improvements and progress was made in energy saving and consumption reduction, thereby demonstrating cost management efficiency. By actively pursuing research-production-sales integration, the Company developed and produced approximately 870,000 tonnes of new products including hot-rolled H-shaped steel for vehicle chassis, electrical steel and cold-forged steel. 990,000 tonnes of steel products were exported, of which 430,000 tonnes were H-shaped steel. In 2006, the Group produced 9,440,000 tonnes of pig iron, 10,910,000 tonnes of crude steel and 10,240,000 tonnes of steel products (among which the Company produced 8,910,000 tonnes of pig iron, 10,240,000 tonnes of crude steel and 9,540,000 tonnes of steel products), representing increases of 12.8%, 13.2% and 15.2%, respectively, over the previous year.

During 2006, the Company made new progress in infrastructure construction and technological enhancements. Difficulties such as tight schedules, demanding technological requirements and highly difficult construction works were overcome in the construction of the new area, with the construction of the Thin Plate Line with a production capacity of 5,000,000 tonnes meeting the stage targets. Meanwhile, the Company commenced in full force the preparation for the commencement of operation of the new area, including the absorption of and adjustment with new techniques and technologies, the drafting of position-based operating guidelines, staff training and product positioning. The commencement schedule of the new area's key projects and the planning for the transition from the original systems to the new systems were completed in a sophisticated manner, laying a solid foundation for the new area to realise smooth commencement and early achievement of output. Meanwhile, the capacity enhancement project of the train wheel heating, processing and testing system was completed and commenced operation, while the capacity enhancement of the train wheel rolling system was under preparation. The no.6 thermal power gas-fired furnace project was completed as scheduled and the cold-rolled silicon steel line progressed as scheduled.

In March 2006, the Company successfully implemented the State Share Reform Proposal. In November 2006, the Company successfully issued and listed the 5-year Bonds with Warrants in a principal amount of RMB5,500 million. The issuance raised long-term funding for the Company and saved financing costs.

In May 2006, with reference to the Company's strategic development, the Company restructured the core iron and steel businesses of the original Hefei Iron & Steel Group through equity investments upon approval of the Board of Directors. Details of the transaction are: the Company and Hefei Investment Holding Company Limited ("Hefei Investment Holding") jointly invested and established Ma Steel (Hefei) Iron & Steel Co. Ltd. ("MS (Hefei)"), with a registered capital of RMB500 million. The Company contributed RMB355 million for 71% equity interests, while Hefei Investment Holding contributed RMB115 million in cash and RMB30 million of restructured net assets related to the iron and steel operations acquired from the original Hefei Iron & Steel Group, for 29% equity interests. Upon the restructuring, the operation of MS (Hefei) has been gradually improving through strengthened management and the support of the parent company's purchase and sales platforms. From May to December, its outputs of pig iron, crude steel and steel products were 530,000 tonnes, 670,000 tonnes and 690,000 tonnes respectively, realising approximately RMB1,823 million in income from principal operating activities and a net profit of approximately RMB20.12 million. In addition, with reference to the production operation needs, the Company also invested in and established Ma Steel (Hefei) Processing and Distribution Co., Ltd., acquired 71% equity interests in Burwill Coil Centre (Yangzhou) Company Limited and renamed the latter to Ma Steel (Yangzhou) Processing and Distribution Co., Ltd.

Looking ahead into 2007, authoritative international institutions such as the International Monetary Fund and the World Bank estimated that the global economic growth is expected to slow down after maintaining a rapid growth for four consecutive years. The growth of global steel product consumption will remain at a relatively high level, but the growth in steel product demand will decline. By following the objective of "Attaining Sound and Rapid Growth", China's national economy will continue to maintain a steady and relatively fast development momentum. The State will balance the linkage between the speed, quality and efficiency of economic development and will coordinate the linkage between consumption, investments and exports, so as to enhance the levels of integrated resources utilisation and environmental protection. It is estimated that the intensity of domestic steel product consumption will weaken in 2007, while the demand in the steel product market will maintain certain growth.

The Group's 2007 operating targets are: producing 13,160,000 tonnes of pig iron, 14,520,000 tonnes of crude steel and 13,440,000 tonnes of steel products (among which the Company plans to produce 11,870,000 tonnes of pig iron, 13,000,000 tonnes of crude steel and 11,940,000 tonnes of steel products).

To achieve the above operating targets, the Group will adopt the following major measures, in line with the strategies of "Pushing forward standardisation work; Accelerating the implementation of the low-cost strategy and the brand strategy":

- Pushing forward standardisation work

  The Company will continue to make the promotion of standardised operation as a breakthrough target, so as to integrate the standardisation concept and management mode into all areas of work, thereby building a standardised corporate working system as soon as possible, which will be of great help to accelerating the implementation of the low-cost strategy and the brand strategy.

- Accelerating the implementation of the low-cost strategy and the brand strategy

  On the premise of scientifically balancing resources to realise an efficient integration of the new area and the old system, the Company will strive for stable, balanced and efficient production. The Company will endeavour to enhance the quality of products, to strengthen new product development and to increase the output of high added-value products, so as to increase the profitability per tonne of steel production. The effort on cost reduction and efficiency enhancement will be escalated, with a systematic cost-reduction concept to be established while efforts will be devoted to exercising the whole process of cost control from fuel and raw material purchase, storage, to production and sales, whereas management innovations and technological innovations regarding cost reduction will be focused. The Company will elevate the breadth and depth of the cost reduction and efficiency enhancement efforts. Meanwhile, marketing and sales will be strengthened, with the efforts on marketing and sales channels, pricing strategies, product promotion and development of information-based sales and marketing to be further enhanced. The Company will consolidate a cohesive steel supply chain and develop a service-oriented marketing and sales system. Based on the sales features of the new area's high-end plate products, it will also develop a strategic client base and effectively carry out product promotions and whole-process services, with the support of the processing and distribution centres.

- Accelerating project constructions

  Based on the overall requirement of "high starting level, low investment, fast in speed, good quality", the Company will closely focus on significant commencement targets such as those for coke furnaces, blast furnaces, converters, hot roll, cold roll and galvanising lines, in order to effectively coordinate the linkage between project construction, facility inspection and testing and trial operation, thereby completing the construction of the new area as scheduled. Meanwhile, the Company will effectively conduct product market research, prepare production information, carry out position skill training, and absorb and adjust to newly installed technologies, as well as devoting itself to commencement preparations such as the drafting and optimisation of various plans, so as to create the conditions facilitating a safe, stable and smooth commencement of production in the new area.

- Accelerating the development of a recyclable economy

  Based on the principle of "reduction, reuse and recycling", the Company will plan and consider recyclable-economy projects with preferential arrangement and accelerated construction for such projects. Accordingly, the Company will strive for achieving the benign cycle of enhanced resource utilisation, reduced consumption of fuel and raw materials, improved environment and lowered costs. Meanwhile, the Company will actively promote clean production, analysing the production process based on the whole life cycle of a product and adopting new techniques and technologies, thereby making the production process concise, large-scale and continuous. Accordingly, the Company can reduce the usage of primary resources and maximise the utilisation of iron-imbued raw materials. The technical and energy structures will be rationalised, with the application of advanced energy-saving technologies to be

promoted and the outdated techniques and facilities to be phased out or renovated. Residue energy, electricity and heat will be sufficiently utilised, thereby substantially enhancing the efficiency of energy utilisation. Advanced water treatment techniques will be adopted to facilitate the reduction of water resource consumption and recycling of sewage, striving for a utilisation rate of recycled water exceeding 95% and reducing the fresh water consumption per tonne of steel production to less than 8 tonnes. The Company will also step up the mechanisation of the online slag treatment system and the development of applied technologies for advanced processing in the new area, as well as enhancing the comprehensive utilisation of solid wastes.

- Continuing the reforms and enhancing management

  The Company will continue to instill the standardisation concept into all types of management work, so as to facilitate continuous enhancement in management quality. The lead operator system will be further enhanced, while the achievement of regional integration will be consolidated and expanded. The appraisal system under the economic accountability system and the performance assessment system will be improved, so as to provide effective guidance and leverage. "Integration of Three Standards", as well as the standard implementation and certification of the surveying management system, will be further pursued. Information system development will be accelerated, starting with the new area and expanding to the whole company.

- Maintaining a "people first" approach

  The Company will actively cultivate a harmonious development environment to accumulate the wisdom and effort of the staff, so as to facilitate development through harmony and to achieve harmony through development. The human resource management information system will be enhanced and human resource deployment will be optimised, effectively utilising the existing talents of different types. A systematic human resource planning will be studied and formulated. A team of talented management, technical and operating staff will be cultivated and expanded, so as to provide human resources to support the implementation of the low-cost strategy and the brand strategy.

Finally, on behalf of the Board of Directors, I express my gratitude to all shareholders for their keen support to the Company over the past year. In the new year, the Board of Directors will endeavour to perform their duties diligently and faithfully, bringing better returns to shareholders.

Gu Jianguo
Chairman

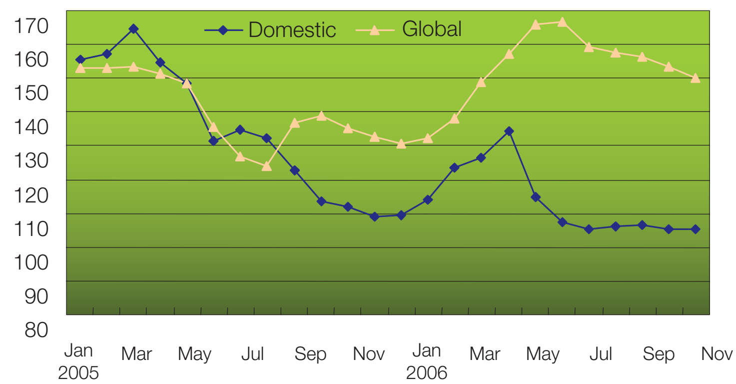
17 April 2007
Maanshan City, Anhui Province, the PRC

(1) Review of Operating environment

A. The Steel Product Market

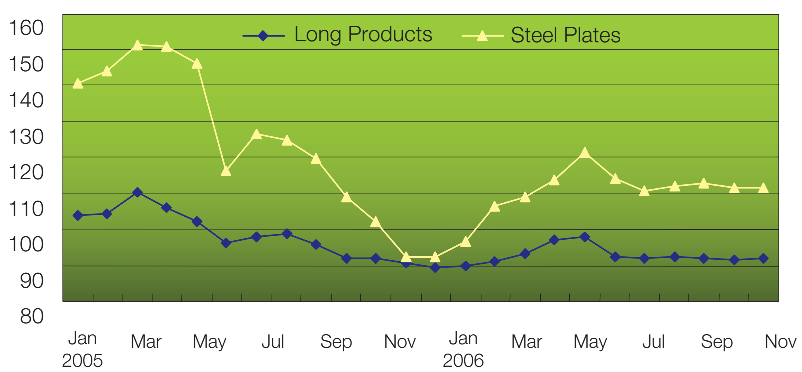
In 2006, demand was robust in the global steel market. Steel prices rose substantially and continued to hover at a relatively high level. China's national economy maintained a steady and relatively fast growth in 2006, with the demand for steel products increasing. Steel product prices embarked on a 4-month rebound starting from February. During 2006, the State continued to implement macroeconomic control measures to rein in economic development, with bank borrowing rates raised and export tax rebate rates for steel products reduced. In the second half, both fixed asset investments and industrial output of the society at-large saw a significant slowdown in growth, while the growth of domestic steel product demand also waned. Accordingly, domestic steel product prices dropped back substantially. The 2006 consolidated index for global steel products was ahead of the domestic index, with the former being 23.50 points higher as at the end of 2005 and 45.05 points higher by the end of 2006.

Consolidated Indices for Global and Domestic Steel Product Prices: 2006



Comparing major categories of domestic steel products, the price index for steel plates was 111.49 as at the end of 2006, up 20.6% from the end-2005 level of 92.42. The price index for long products was 91.77 as at the end of 2006, representing an increase of just 1.1% from the end-2005 level of 90.81.

Price Indices for Domestic Long Products and Steel Plates: 2006



Imports and exports of Chinese steel products underwent a historic change in 2006. Imports decreased significantly and exports increased substantially, turning China from a major steel product importer to a major exporter. In 2006, China imported 18,510,000 tonnes of steel products, representing a 28.3% decrease from 2005. Steel product exports amounted to 43,010,000 tonnes, a 109.6% increase as compared to 2005. The balance shifted from a net import of 5,300,000 tonnes as in 2005 to a net export of 24,500,000 tonnes. (Note: Source from China Iron and Steel Association)

B. The Raw Material Supply Market

In 2006, the FOB price of the Company's iron ore imported from overseas increased by 19% as compared to the previous year. Prices for externally purchased electricity increased by 3.0% over the previous year, while the prices of coal, coke, externally procured pig iron, scrap steel and alloys reported decreases.

(2) Basic strategies and major work

In 2006, long products accounted for 64.3% of the Company's steel products while steel plates accounted for 33.4%. With the gross profit of steel plates higher than that of long products in 2006, the product structure affected the profitability of the Company's principal products. Approximately 75% of the iron ore used by the Company was imported overseas, therefore the substantial surge in imported ore prices exerted a massive pressure on the Company's costs. Facing the changes in the domestic and foreign steel product markets and the pressure on costs, the Company adopted the low-cost strategy and the brand strategy, as well as actively implementing various measures to reduce costs and enhance efficiency. The major work was as follows:

- **Continued with the low-cost strategy, increasing the output of products with higher added-value and better gross margins**

  The Company stood by the principle of "sales determining production". By overcoming the restraint of the production bottleneck and optimising the deployment of resources such as iron ore, pig iron and scrap steel, further production capacity was released, thereby alleviating the pressure brought by rising prices of iron ore and electricity and improving the economic and technical indicators. In 2006, the Company's crude steel output broke the 10,000,000-tonne threshold, with increased output for steel plates, small H-shaped steel, train wheels and wheel rims, which offered higher added-value and better gross margins. Among these, the output for train wheels and wheel rims increased by 21.45% year-on-year. The Company's gross coking ratio per tonne of iron reported a decrease equivalent to 22 kilogrammes of standard coal, while the overall energy consumption per tonne of steel reported a decrease equivalent to 14 kilogrammes of standard coal. Fresh water consumption per tonne of steel decreased to 8.61 tonnes, while the ratio of self-supplied electricity rose to 43.1%.

- **Continued with the brand strategy to closely knit technological innovations with brand building, thereby expanding branding effectiveness**

  In light of the tough condition that the number of domestic H-shaped steel producers increased and competition in the product market intensified, the Company capitalised on its advantages in H-shaped steel production and technology, actively pursuing research-production-sales integration. The Company developed the hot-rolled H-shaped steel for automobile chassis accordingly, making itself the first domestic enterprise developing and commencing trial production of hot-rolled H-shaped steel for automobile chassis. Meanwhile, the achievements of "Development and Applied Technology Study on Hot-Rolled H-shaped Steel Products" jointly conducted by the Company and other units was awarded the 2006 National Award for Science and Technology Progress (Second

Class). H-shaped steel products were certified under the Japanese Industrial Standards ("JIS"), while hot-rolled corrugated steel wires passed the on-site certification of the UK Certification Authority for Reinforcing Steels (CARES). Cold-rolled thin plates (including galvanised plates) and hot-rolled wire rods were named State Inspection-free Products. In addition, the Company compiled the "Ma Steel Outline for Technological Innovation Planning in the Eleventh Five-year Plan". During the year, the Company developed and produced approximately 870,000 tonnes of new products including electrical steel, plates for automobiles and cold-forged steel.

- **Endeavoured to implement structural adjustments and accelerated the construction of key projects**

  The new area's construction work completed successfully the yearly stage construction targets of the pre-metallurgy system, the steel rolling system, and so forth. The capacity enhancement project of the train wheel heating, processing and testing system, the enhancement of the medium-sized plate line and the no.6 thermal power gas-fired furnace project were completed on schedule, while the cold-rolled silicon steel line project progressed as scheduled.

- **Meeting market needs by pushing forward external investments and expanding extended processing operations**

  In 2006, the Company restructured the principal iron and steel operations of the original Hefei Iron & Steel Group through equity investments with controlling interests. Meanwhile, with reference to the status of steel product consumption, the Company established two steel product processing and distribution centres in Hefei and Yangzhou, both key regional markets for automobiles and home electrical appliances, after setting up the steel product processing and distribution centres in Guangzhou, Wuhu and Jinhua. Accordingly, the Company has successfully completed sales preparation before the commencement of the Company's 5,000,000-tonne thin plates production project in the new area in 2007.

  In 2006, the Company made the following external investments with its internal funding:

Company name	Principal activities	Equity interest held (%)	Investment amount (in RMB million)
Ma Steel (Hefei) Iron & Steel Co. Ltd.	Principally engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke, coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products	71	355
Ma Steel (Hefei) Processing and` Distribution Co., Ltd.	Principally engaged in production, processing and sale of cold and hot steel plates for various industries such as automobile and mechanical engineering of home electrical appliances, as well as steel products for construction structures.	Direct interest: 61 Indirect interest: 28	73.2
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd.	Principally engaged in production, processing and sale of various types of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services of products.	71	61.651

(3) Results of the Group's principal operating activities for the reporting period prepared under PRC Accounting Standards

- Analysis of income from principal operating activities by segment and by product:

  The iron and steel segment accounted for 95.75% of the Group's income from principal operating activities. The iron and steel segment also accounted for 87.56% of the Group's profit from principal operating activities.

Unit: RMB million

Business segment	Income from principal operating activities	Cost of sales from principal operating activities	Gross profit margin (%)	Increase/(decrease) of principal operating income compared to the previous year (%)	Increase/(decrease) of cost of sales from principal operating activities compared to the previous year (%)	Increase/(decrease) of gross profit margin compared to the previous year (%)
Iron and steel	32,862	29,018	11.70	7.31	10.50	Down 2.54 pct pts
Product segment						
Steel plate	11,400	10,154	10.93	(3.86)	2.17	Down 5.26 pct pts
Section steel	8,058	7,301	9.39	6.71	16.76	Down 7.80 pct pts
Wire rods	10,595	9,771	7.78	15.16	14.35	Up 0.66 pct pts
Train wheels and wheel rims	2,262	1,303	42.40	47.46	16.55	Up 15.28 pct pts

- Geographical analysis of the Group's income from principal operating activities:

Unit: RMB million

Region	Percentage (%)	Income from principal operating activities	Increase/(decrease) of income from principal operating activities compared to the previous year (%)
Anhui	36	12,272	155
Jiangsu	15	5,141	(41)
Shanghai	13	4,355	(27)
Zhejiang	7	2,689	(24)
Guangdong	7	2,402	38
Other PRC regions	11	3,615	(32)
Exports	11	3,845	96

- During the reporting period, the Group's gross profit margin of principal operating activities was 12.79%, a decrease of 2.14 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the year-on-year fall of the selling prices of the Company's steel products.

(4) Assets and liabilities of the Group for the reporting period prepared under PRC Accounting Standards

- Assets

  During the reporting period, there were no material differences on the proportions of bills receivable, trade receivables, other receivables, inventories and long-term equity investments out of total assets when compared to the previous year. The amount of net fixed assets accounted for 34.30% of total assets, a decrease of 13 percentage points over the previous year, which was mainly due to an increase in the Company's total assets during the reporting period. Construction in progress accounted for 34.39% of total assets, an increase of 22.23 percentage points over the previous year, mainly owing to the Company's implementation of the "Eleventh Five-year Plan" to fully proceed with the construction of the 5,000,000-tonne thin plates production project in the new area during the reporting period.

- Liabilities

  During the reporting period, the ratios of short-term loans, bills payable, accounts payable, deposits received and other payables in relation to total assets had no material changes as compared to the previous year. Long-term loans accounted for 28.65% of total assets, an increase of 6.6 percentage points from the previous year, which was mainly due to an increase in long-term bank borrowings resulting from the Company's implementation of the "Eleventh Five-year Plan".

  The Company issued RMB5,500 million of Bonds with Warrants on 13 November 2006 and redeemed the RMB2,000 million short-term commercial papers on 28 December 2006 upon maturity.

(5) Expenses and income tax of the Group for the reporting period prepared under PRC Accounting Standards

During the reporting period, selling expenses increased by 9.57% over the previous year, which was mainly due to increases in sales volume of steel products, transportation costs and loading and unloading costs. Administrative expenses increased by 3.73% over the previous year, which was mainly due to increases in salaries and other salary-type payments. Financial expenses were increased by 63.63% over the previous year, which was mainly due to a decrease in foreign exchange gains and an increase in foreign exchange loss in the reporting period as compared to the previous year. Income tax decreased by 2.66% over the previous year, which was mainly due to a decrease in the Company's profit.

(6) Operating results

As at the end of 2006, in accordance with PRC Accounting Standards, the Group's principal operating income rose 7% from the corresponding period of the previous year, which was mainly due to an increase in sales volume of the Company's steel products. Profit from principal operating activities dropped 9% from the corresponding period of the previous year, which was mainly due to the sales price decreases for certain types of the Company's steel products as compared to the previous year. Net profit dropped 20% from the corresponding period of the previous year, which was mainly due to a decrease in profit from principal operating activities.

(7) Analysis of the Group's cash flows for the reporting period prepared under PRC Accounting Standards

In 2006, the Group realised a net profit of RMB2,277 million, a difference of RMB3,006 million when compared to the net increase of cash flow of RMB5,283 million generated from operating activities, which was mainly due to depreciation charges for fixed assets. The amount of net increase in cash flow generated from operating activities decreased by RMB888 million as compared to the corresponding period of the previous year, which was mainly due to the sales price decreases for certain types of the Company's steel products as compared to the corresponding period of the previous year. The amount of net cash outflow from investing activities increased by RMB5,493 million as compared to the corresponding period of the previous year, which was mainly due to acquisition and construction of fixed assets and external investments. The amount of net cash inflow from financing activities increased by RMB5,950 million as compared to the corresponding period of the previous year, which was mainly due to the securing of bank loans and the issuance of the bonds with warrants.

(8) Major suppliers and customers

In 2006, the Group's purchase from the top five suppliers totalled at RMB7,812 million, accounting for 28% of the Group's total purchase amount for the year. The Group's sale to the top five customers totalled at RMB4,203 million, representing 12% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is a controlling shareholder of the Company. Other than that, in 2006, none of the directors, supervisors, their connected parties or other shareholders (to the knowledge of the Board of Directors holding 5% or more of the Company's shares) held any beneficial interest in the Group's five largest suppliers or customers.

(9) The operations and results of the Group's major controlling subsidiaries and invested entities

- Ma Steel (Hefei) Iron & Steel Co. Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy; extended processing of iron and steel products; and production and sale of metallic products. Net profit for the reporting period amounted to RMB20 million. As at the end of the reporting period, total assets amounted to RMB1,160 million.

- Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary with a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net profit for the reporting period amounted to RMB13 million. As at the end of the reporting period, total assets amounted to RMB1,564 million.

- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB50 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB42 million. As at the end of the reporting period, total assets amounted to RMB223 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$4.29 million, in which the Company holds a direct stakes of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB7 million. As at the end of the reporting period, total assets amounted to RMB98 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stake of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB17 million. As at the end of the reporting period, total assets amounted to RMB709 million.

- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB35 million. As at the end of the reporting period, total assets amounted to RMB889 million.

- Anhui Masteel Holly Industries Co. Ltd. (安徽馬鋼和菱實業有限公司) has a registered capital of RMB30 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB79 million. As at the end of the reporting period, total assets amounted to RMB210 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB28 million. As at the end of the reporting period, total assets amounted to RMB183 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB8 million. As at the end of the reporting period, total assets amounted to RMB408 million.

- 馬鞍山港口(集團)有限責任公司 has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB14 million. As at the end of the reporting period, total assets amounted to RMB687 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. As at the end of the reporting period, total assets amounted to RMB743 million and the Company had yet to commence operation.

(10) Fundraising proceeds

In 2006, the net proceeds from the Company's issuance of bonds with warrants, excluding issuing fees, amounted to approximately RMB5,355.65 million. Upon securing of the proceeds, the Company followed the stipulations under the "Management System for Specified Depositing and Utilisation of Fundraising Proceeds of Maanshan Iron & Steel Company Limited" to strictly enforce the specified account depositing system for fundraising proceeds, with the proceeds solely used to invest in the 5,000,000-tonne cold and hot thin plates production project as undertaken in the fundraising prospectus. As at the end of the reporting period, a total of approximately RMB3,846.35 million in fundraising proceeds had been used, with the balance of fundraising proceeds amounting to approximately RMB1,509.30 million to be further used on the 5,000,000-tonne thin plates production project in 2007.

- Undertaken investment projects funded by fundraising proceeds (RMB million):

Undertaken project	Planned investment amount	Any changes to the project	Actual investment in the project	Revenue generated	Meeting planned progress or not	Meeting planned progress or not
5,000,000-tonne cold and hot thin plates production project	5,355.65	No	3,846.35	Not applicable	Yes	Not applicable
Total	5,355.65	–	3,846.35		–	–

The 5,000,000-tonne cold and hot thin plates production project comprises mainly the Integrated Raw Materials Plot, the Iron-making System, the Steel-making System, the Hot-rolled Broad Belt System, the Pickled Cold Wire and Hot Galvanising Line and the Power Generating Plant Using Integrated Resources. The Iron-making System consists of two 3,600m^3 blast furnaces, with an aggregate designated annual production capacity of 5,670,000 tonnes; the Steel-making System consists of two 300-tonne converters, with an aggregate designated annual production capacity of 5,870,000 tonnes. The Hot-rolled Broad Belt System consists of a 2,250mm hot rolling production line with a designated annual production capacity of 5,500,000 tonnes. The Pickled Cold Wire and Hot Galvanising Line consists of a 2,230mm pickled cold wire production line and two hot galvanising production lines, with the former having a designated annual capacity of 2,100,000 tonnes and the latter having a designated annual capacity of 800,000 tonnes.

(11) Project constructions

In 2006, the Group's expenses on projects in construction amounted to RMB16,163 million, representing a 200% increase over the previous year. Apart from the aforementioned 5,000,000-tonne cold and hot thin plates production project, the amount was also spent on the following projects:

- Investment projects financed by other than fundraising proceeds (RMB million):

Project name	Total investment	Construction progress
The Capacity Enhancement of Train Wheel Rolling System	320	Commenced production
The Cold-rolled Silicon Steel Line	1,080	Entering facility installation stage

(12) Financial position and exchange risks

For the year ended 31 December 2006, the total amount of loans borrowed by the Group was RMB16,522 million, including loans for working capital of RMB5,523 million and construction loans of RMB10,999 million. Except for foreign currency loans amounting to US$105 million and 3 million Euro, all other loans were denominated in RMB. Except for a foreign currency loan amounting to US$104 million which carried interests at LIBOR plus a fixed percentage and a RMB7,027 million loan which carried interests at a 10% discount from the central bank benchmark rate, all other loans carried interests calculated at fixed interest rates. Movements of the Group's bank loans followed the developments in production and construction projects. No overdue payments have been recorded so far. On 28 December 2006, the Company repaid the first tranche of short-term commercial papers of RMB2,000 million.

As at 31 December 2006, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 62.74%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 62.04%.

Other than internal resources and the proceeds from the Bonds with Warrants issue, all capital requirements for the Group's Eleventh Five-year Plan were financed through bank loans. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB29,209 million.

As at 31 December 2006, the Group's cash and balances with financial institutions amounted to RMB4,161 million. Bills receivable amounted to RMB681 million (of which bank bills receivable due within three months amounted to RMB443 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate continued to depreciate, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate is favourable to the Company. During the reporting period, the exchange rates of Euro and Japanese Yen have fallen compared to the time when the Company signed contracts for European and Japanese equipment purchases. Accordingly, the capital costs for actual payments in Euro and Japanese Yen were lower than the original estimates. The Company has been maintaining contacts with various banks to obtain information of emerging financial products from banks, so as to select products which are suitable for the Company to help the Company avoid possible exchange rate risks.

(13) Impact of the implementation of the New Accounting Standards on the Company's Financial Position and Operating Results

The Ministry of Finance officially published the Accounting Standards for Enterprises on 15 February 2006 and ordered that such standards be implemented among listed companies with effect from 1 January 2007. Upon implementation of the Accounting Standards for Enterprises, the following changes will take place on the Company's accounting policies:

A. Employee Welfare Fund

As stipulated by the new Accounting Standards for Enterprises (the "New Accounting Standards"), "employee welfare fund" is an item without any definite contribution base or contribution ratio. The Company shall determine its policy on employee welfare fund contribution with reference to historical experience and data, as well as its actual situation.

According to the above stipulations and considering the Company's actual utilisation of employee welfare fund throughout the years, starting from 2007, the Company shall compile an annual utilisation plan for the welfare fund each year and accrue expenses accordingly on the actual welfare fund contributions, while the full balance of un-utilised welfare fund by the end of the year shall be written back to the profit-and-loss account of the year. In case the year's actual welfare fund expenses exceed the year's contribution amount, the difference shall be accordingly stated as a cost for the year, with tax adjustments to be made for any contribution portion in excess of the contribution percentage stipulated by the taxation laws.

B. Investment Properties

As stipulated by the New Accounting Standards, the ongoing accounting method for investment properties can be the cost model or the fair value model. An enterprise may adopt only one model for the ongoing accounting of all investment properties, and the accounting model may not be changed at will once confirmed. The New Accounting Standards also specifically stipulate that in case the accounting model for investment properties is to be changed, a switch from the cost model to the fair value model shall be treated as a change in accounting policy, while investment properties adopting the fair value model cannot switch from the fair value model to the cost model.

As at present, the Company's investment properties comprise mainly land use rights (respectively leased to subsidiaries and associates). Considering the fact that the leased land use rights as at present are all lands within the Company's plants, it is difficult to determine their fair values. Accordingly, the Company will continue to adopt the cost model to determine the initial book value and conduct ongoing accounting for the investment properties.

C. Financial Instruments

According to the New Accounting Standards' stipulations on financial instruments, and considering the actual situation of the Company, the Company is currently involved in the following three types of financial instruments:

a. Held-to-maturity investments, i.e. the 皖能電力 bonds held by the Company;

b. Compound financial instruments, i.e. the bonds with warrants issued by the Company;

c. Available-for-sale investments (H share disclosure category), i.e. the Company's investments in Shanghai Chlor-Alkali Chemical Company Limited, 河南龍宇能源股份有限公司, and so forth; A shares are disclosed under the item "Long-term Equity Investments - Other Investments".

D. Prudent and Appropriate Adoption of the Fair Value Accounting Model

According to the requirements of the China Securities Regulatory Commission's document Zheng Jian Fa [2006] No.136, when adopting the fair value model, pursuant to the New Accounting Standards, for the accounting of major asset and liability items in the financial statements, the Company management shall take into account various influencing factors such as active market transactions, in order to give scientific and reasonable assessments on whether fair values can be obtained in an ongoing and reliable manner. The Board of Directors shall make decisions on the basis of sufficient discussion. Taking into account the current state of the Company's assets and liabilities, the Company has adopted the fair value model to account for items where the fair value accounting model is applicable, such as the Bonds with Warrants. The fair value accounting model led to a retrospective increase of RMB714 million in shareholders' equity for the Company as at 1 January 2007, as well as increases in financial costs for the next five accounting years.

E. Capitalisation of Borrowing Costs

As stipulated by the New Accounting Standards, borrowing costs that may be capitalised are no more limited to those generated by specific borrowings (meaning specific borrowings obtained for a specific project under construction, such as the borrowings for the Integrated Raw Materials Plot of the new area), whereas ordinary borrowings (meaning non-specific borrowings not ascribed to a specific project) such as those used for acquiring, building or producing assets that meet the capitalisation requirements shall be capitalised as well provided certain requirements are met. According to this stipulation, the Company is amending the accounting method for borrowing cost capitalisation to meet the requirements of the New Accounting Standards and facilitate the adoption of a uniform principle and method for the recognition and accounting of borrowing cost capitalisation. In accordance with the requirements of the China Securities Regulatory Commission's document Zheng Jian Fa [2006] No.136, the Board of the Company shall consider and pass resolutions for borrowing cost capitalisation involving ordinary borrowings. As at present, the Company is not involved in any cost capitalisation of ordinary borrowings and in case such matters take place in future, such matters will be reviewed and decided by the Board of Directors in accordance with the requirements of the China Securities Regulatory Commission.

F. Others

As stipulated by the New Accounting Standards, the Company's accounting policies have also undergone the following changes:

a. The accounting of income tax has been changed from the tax payable method to the liability method;

b. As for investments in subsidiaries, the equity method, instead of the cost method, is now adopted for the parent company's individual financial statements;

c. Asset-related government subsidies are no more transferred to the capital reserves upon completion of construction projects, but instead recognised as deferred income and amortised on average over the useful lives of the relevant assets and released to the income statement of the current period;

d. The scope of staff remuneration of the Company is expanded. Not only does it include staff salaries, bonuses, allowances and subsidies, but also staff welfare payments, social insurance premiums including medical insurance premiums, pension insurance premiums, unemployment insurance premiums, industrial injury insurance premiums, and childbirth insurance premiums, housing reserve funds, labour union expenses and staff education expenses, non-monetary welfare, compensation to staff for termination of employment relationships, other expenses related to services provided by the staff, and so forth;

(E) The adoption of the effective interest method, with reference to amortised cost accounting, to account for held-to-maturity investments and borrowings.

Due to the changes in accounting policies, save as the aforementioned Bonds with Warrants, other accounting policy changes will have no material impact on the financial position and operating results of the Company. Meanwhile, the Company is currently conducting further assessments on the impact of the New Accounting Standards on the Company's operating results and financial position. After prudently considering and taking reference of the Ministry of Finance's further elaboration, the Company may make changes to the accounting policies or material recognitions, which may affect the amount changes.

(14) Changes in the production and operating environment in 2007 and coping strategies

This year, the State will execute the guidelines for a good and fast economic development to accomplish the objective of a GDP growth of around 8%. To accomplish the objective, prudent fiscal policies and monetary policies will be maintained, while continuing the direction of expanding domestic demand. Appropriate growth in fixed asset investments will be maintained, with important infrastructure developments such as large-scale water conservancy projects, energy bases, railway trunks and major national highway trunks to be accelerated, while upkeeping a continued healthy development of the property industry is also an aim.

In the "Government Work Report", Premier Wen Jia Bao of the State Council stated the determination to phase out obsolete production capacity. During the period of the Eleventh Five-year Plan, 100,000,000 tonnes of obsolete iron-making capacity and 55,000,000 tonnes of obsolete steel-making capacity will be phased out, with respective annual phase-out targets of 30,000,000 tonnes and 35,000,000 tonnes.

In light of the aforementioned situation, the Company will strive for further progress in its standardisation effort to enhance work efficiency. The implementation of the low-cost strategy and the brand strategy will be accelerated to further reduce costs and enhance efficiency, while the quality and quantity of products will be substantially improved to meet the State's rising demand on quality steel products for fixed asset investments and important infrastructure developments. The construction of the new area and technological renovation of the existing production lines will be accelerated, thereby rapidly raising the output of high added-value products and increasing economic efficiency. While raising its advanced production capacity and expanding its operating scale, the Company will closely monitor the progress of phasing out obsolete production capacity in the country and the integration and restructuring of domestic and international iron and steel enterprises, so as to capitalise on any favourable opportunity to achieve better and faster development.

(15) Long-term strategies of the Company

From 2007 to 2010, the Company will continue to implement the overall planning for technological renovations and structural adjustments of the Eleventh Five-year Plan. The 5,000,000-tonne thin plate production capacity to be added in 2007 will be entirely producing cold-rolled and hot-rolled thin plate products, with part of such products being high-end plates needed by the automobile and home appliance industries, where there are shortages of such materials. The commencement of such production projects will substantially increase the percentage of plates and belts in the Company's output, while the overall product competitiveness and market risk-aversion ability will be significantly enhanced as well, thereby substantially raising the Company's profitability. The Company will also study the implementation of the technological renovations and structural adjustments for the later period of the Eleventh Five-year Plan and the corresponding organisational and systematic reforms, so as to further strengthen the principal iron and steel operation.

1) DAILY WORK OF THE BOARD OF DIRECTORS

(1) Description of the Board meetings in 2006 and details of the resolutions:

- On 11 April 2006, the Company convened the fourth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 12 April 2006.

- On 25 April 2006, the Company convened the fifth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 26 April 2005.

- On 29 May 2006, the Company convened the sixth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 30 May 2006.

- On 1 August 2006, the Company convened the seventh meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 2 August 2006.

- On 18 October 2006, the Company convened the eighth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 19 October 2006.

- On 26 October 2006, the Company convened the ninth meeting of the fifth session of the Board of Directors to approve the agenda for the 2006 second extraordinary general meeting of the Company. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 27 October 2006.

- On 14 December 2006, the Company convened the tenth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 15 December 2006.

(2) The Board of Directors completed the implementation of the profit appropriation plan approved at the Annual General Meeting held on 13 June 2006.

(3) The Board of Directors determined the auditors' remuneration pursuant to the mandate granted at the general meeting.

2) PROFIT APPROPRIATION PROPOSAL FOR THE CURRENT PERIOD: THE BOARD OF DIRECTORS HAS RECOMMENDED TO DECLARE A FINAL DIVIDEND OF RMB0.13 (TAX INCLUSIVE) PER SHARE FOR YEAR 2006. NO CAPITAL RESERVE FUND WILL BE TRANSFERRED TO SHARE CAPITAL.

As audited by the domestic and international auditors, net profit of the Company for 2006 amounted to RMB2,313 million under PRC Accounting Standards and RMB2,269 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit under PRC Accounting Standards for contribution to the statutory reserve and taken into account the Company's retained profit as at the end of 2005, the total profit available for distribution to shareholders for year 2006 amounted to RMB5,647 million under PRC Accounting Standards, and RMB5,549 million under Hong Kong Accounting Standards. In accordance with the Articles of the Association of the Company, the Company distributed profits based on the lower of the respective profit amounts reported in the two financial statements. As a result, profit available for distribution to shareholders for year 2006 amounted to RMB5,549 million, while a dividend payment of RMB0.13 (tax inclusive) per share was recommended, thereby resulting in a total dividend payment of RMB839 million. The remaining undistributed profit will be carried forward to 2007.

3) SPECIFIC STATEMENT OF REGISTERED ACCOUNTANTS ON THE UTILISATION OF FUNDS BY THE SUBSTANTIAL SHAREHOLDER OF THE COMPANY AND OTHER RELATED PARTIES

Pursuant to the Circular Zheng Jian Fa [2003] No.56 issued by the CSRC, Ernst & Young Hua Ming has issued the "Specific Statement on the Utilisation of Funds by the Substantial Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties and the Issue on Guarantees Provided to the Controlling Shareholder and the Corporate Entities of the Controlling Shareholder". In the opinion of the auditors, based on the information provided by the Company, as at 31 December 2006, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, they are not aware of any misappropriation of funds by the controlling shareholder of Maanshan Iron & Steel Company Limited and other related parties as stated in the Circular Zheng Jian Fa [2003] No.56, and the Company has not provided any guarantee to the controlling shareholder and its corporate entities.

4) IN ACCORDANCE WITH THE CIRCULAR ZHENG JIAN FA [2003] NO.56, MR. WONG CHUN WA, MR. SU YONG, MR. HUI LEUNG WAH AND MR. HAN YI, ALL BEING INDEPENDENT DIRECTORS OF THE COMPANY, HAVE FURNISHED THEIR INDEPENDENT OPINIONS IN RESPECT OF THE COMPANY'S ACCUMULATED AND CURRENT PORTION OF EXTERNAL GUARANTEES AND THE IMPLEMENTATION STATUS OF THE ABOVE-MENTIONED REGULATIONS, WHICH ARE STATED AS FOLLOWS:

(1) As at 31 December 2006, all the external guarantees of the Company had been approved by the Board of Directors.

(2) As at 31 December 2006, no guarantee was provided either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company's external guarantees, no guarantees were provided to any shareholders, their actual controlling persons or any of their connected parties, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.

(3) As at 31 December 2006, the total amount of accumulated and current portions of external guarantees was lower than 50% of the net assets of the Company as reported in the 2006 consolidated financial statements.

5) OTHER MATTERS

(1) For information analysed by business segments as at 31 December 2006, please refer to Note VI to the Financial Statements prepared under PRC Accounting Standards and Note 4 to the Financial Statements prepared under Hong Kong Accounting Standards.

(2) The Group's profit for the year ended 31 December 2006 and the Group's operating status as at that date are set out in the Accounting Statements prepared under PRC Accounting Standards and Systems and the Financial Statements prepared under Hong Kong Accounting Standards.

(3) Fixed assets

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2006 are set out in Note V (10) to the financial statements prepared under PRC Accounting Standards and Systems and Note 14 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

(4) Pre-emptive Rights

Neither the Articles of Association of the Company nor the Laws of the PRC provide for any pre-emptive rights.

(5) Purchase, Sale and Redemption of Listed Shares

During 2006, the Company has not redeemed any of its listed shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

(6) Reserves

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2006 are set out in Note V (31) to (33) to the financial statements prepared under PRC Accounting Standards and Note 38 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

(7) Service Contracts of Directors and Supervisors

The current Board of Directors and the Supervisory Committee were elected at the Extraordinary General Meeting held on 31 August 2005 with a term of office of three years commencing from 31 August 2005. Directors and Supervisors so elected entered into service contracts with the Company with the same term of office of three years.

None of the Directors has any service contract with the Company that is not terminable by the Company within one year without compensation other than statutory compensation.

(8) Directors' and Supervisors' Interests in Contracts

During the year, none of the Directors or Supervisors had any direct or indirect material interests in any contract to which the Company, its subsidiaries, Holding or any of the subsidiaries of Holding was a party during the year.

(9) Directors' interests in competing businesses

During the year and as at the disclosure date of this annual report, none of the Directors were or had been deemed, pursuant to the Listing Rules of the Hong Kong Stock Exchange, to be directly or indirectly interested in any business that was competing or in possible competition with the Group's business, except for businesses for which the directors of the Company are appointed as directors for the interests of the Company or the Group.

Report of the Supervisory Committee

1) CONVENING OF SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee convened six meetings in 2006 for making resolutions in relation to relevant matters. Major matters on the agenda of the meetings were: (1) to consider the "Report on Performance of Duties" regarding non-independent supervisors who received remunerations from the Company, and to determine the annual remunerations for such supervisors within the total annual remunerations for supervisors authorised by the shareholders' general meeting in accordance with the assessment results; (2) to receive the report from the finance officer of the Company on the production operations and the financial position for 2005, and to review matters in relation to the Company's cancellation and reversal of certain assets impairment provisions; (3) to consider the Company's application to the Export-Import Bank of China for export seller's credit for high-tech products; (4) to consider the 2005 annual report and its summary, and the Work Report of the Supervisory Committee of 2005; (5) to discuss the amendment of the "Order of Meeting for the Supervisory Committee of Maanshan Iron & Steel Company Limited" and to submit the newly amended "Order of Meeting for the Supervisory Committee" as an appendix of the Articles of Association to the Company's annual general meeting for consideration; (6) to consider the Company's proposed issuance of Bonds with Warrants and the Company's resolution relating to the feasibility of the project to be invested with the proceeds from the proposed issuance; (7) to receive the report from the finance officer of the Company on the production operations and the financial position of the Company for the first half of 2005 and to consider the 2006 interim report and summary; (8) to receive the report from the finance officer of the Company on the financial position and production operations of the Company for the third quarter of 2006; (9) to consider the Company's acquisition of 71% equity interests in Burwill Coil Centre (Yangzhou) Company Limited; (10) to consider the New Sale and Purchase of Ore Agreement for 2007 to 2009.

2) SUPERVISION OVER SIGNIFICANT MATTERS OF THE COMPANY IN 2006

1. Operations in compliance with the law

The Board conscientiously executed resolutions approved at the shareholders' general meeting and operated in compliance with the State's laws and regulations and the Articles of Association. The series of significant decisions made in 2006 were regulated in procedures and lawfully valid. The internal control mechanism of the Company was healthy and strictly enforced. Directors and senior management of the Company faithfully performed their duties for the Company, carried out regulated management, and pushed forward development and innovations, while respecting and protecting and interests of the shareholders as a whole. No breaches on the laws, regulations, Articles of Association or actions that damage the interests of the Company and shareholders were found.

2. Operations of the Company

In 2006, the Company operated in line with the theme of "Implementing the low-cost strategy and the brand strategy", starting the campaign of "Pushing forward standardised operation; Raising product quality". The Company effectively disseminated and implemented various measures, successfully achieving all yearly economic targets and maintaining the steady and healthy momentum of corporate development. Meanwhile, the Company pushed forward with reforms and strengthened its management, thereby further enhancing its modernised corporate system.

The Supervisory Committee is of the view that no material breaches on financial disciplines and the financial system were found in the Company during the reporting period, and the aforementioned data truthfully represented the financial position and operating results of the Company.

3. Fundraising and use of funds of the Company

Proceeds from the Company's issuance of Bonds with Warrants in November 2006 were invested in projects with high technological quality and advanced techniques, which offer promising market prospects. The commencement of such projects will facilitate the further development of the Company's principal businesses, allowing the Company to expand its business scale and optimise its product mix. Accordingly, the Company's core competitiveness and capability for sustainable development will be strengthened, in line with the relevant State industry policies and the Company's development strategies. The raising and use of funds for the Company's production, operation and investments complied with the Company's operating needs and the relevant requirements of the Board, with no breaches on regulations found.

4. Implementation of the Company's investment projects

The Supervisory Committee is of the view that the investment projects implemented by the Company were in the interests of shareholders and complied with the spirit of the resolutions approved at the shareholders' general meetings. Such projects are beneficial for the sustainable development of the Company, without prejudicing the interests of the Company and shareholders.

5. Connected transactions of the Company

During 2006, the prices on the Company's connected transactions were fair and no actions prejudicing the interests of the Company and shareholders were found.

6. Acquisitions and swaps in equity interests and assets of the Company

During 2006, the Company did not undergo any material debt restructuring activities, material non-monetary transactions, material asset acquisitions, swaps, transfers or disposals, or any significant matters affecting the decision-making of investors. As at present, no insider dealing has been found, nor are there any events prejudicing the interests of the Company and shareholders or causing asset losses to the Company.

In accordance with the requirements of relevant laws and regulations, the Company has set up a corporate governance structure comprising the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager were clear and unambiguous.

1) CODE ON CORPORATE GOVERNANCE PRACTICES

In 2006, the Company has complied with all code provisions of the Code on Corporate Governance (the "Code") in Appendix 14 of the Listing Rules.

(1) Directors

- The Directors and the Composition of the Board of Directors

The Company's Board of Directors comprises ten directors, of whom five are executive directors and five are non-executive directors. Among the five non-executive directors, four of them are independent directors, accounting for one-fifth of the members of the Board of Directors.

Both the executive and non-executive directors of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction and are capable of making rational decisions on the matters to be resolved by the Board of Directors. Among the four independent directors, there is a director of a financial consultancy in Hong Kong, with years of experience in the accounting profession; a general manager in corporate finance at the MTR Corporation Limited in Hong Kong with extensive experience in finance management; a head of the Enterprise Management Department of the School of Management of Fudan University who is knowledgeable in the aspect of corporate management; and a professor of the School of Law at University of Anhui who is very experienced in legal matters. These independent directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board of Directors fully complied with the requirements of the relevant laws and regulations and regulatory documents within and outside the PRC. The names of all directors were published in the Company's announcement and specifications were made on independent directors.

During the reporting period, so far as the Board of Directors is aware of, there are no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board of Directors (including Chairman and General Manager) that are required to be disclosed.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

The Company received from the four independent directors independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors", "Authorised Representatives and Directors" in the Listing Rules. The Company's Board of Directors is of the opinion that the four independent directors are all independent.

- Attendance of Directors at Board Meetings in 2006:

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
Executive Director					
Gu Jianguo	7	7	0	0	100
Gu Zhanggen	7	4	3	0	100
Zhu Changqiu	7	6	1	0	100
Su Jiangang	7	7	0	0	100
Gao Haijian	7	6	1	0	100
Non-executive Director					
Zhao Jianming	7	7	0	0	100
Independent Non-executive Director					
Wong Chun Wa	7	6	1	0	100
Su Rong	7	5	2	0	100
Hui Leung Wah	7	5	2	0	100
Han Yi	7	7	0	0	100

- Chairman and General Manager

The positions of the Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by simple majority of all directors in the Board of Directors. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board of Directors, ensuring that the Board of Directors will review all matters involved in an appropriate manner, and facilitating an effective operation of the Board of Directors.

The Chairman is entitled to chair shareholders' general meetings, to convene and chair board meetings, to review the implementation of resolutions by the Board of Directors, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board of Directors, the Chairman may convene shareholders' general meetings. Between sessions of the board meeting, the Chairman shall give guidance to the major activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board of Directors, and shall be accountable to the Board of Directors. The General Manager lead the senior management, and is responsible for the usual course of operation in production and management, and organising the implementation of various resolutions by the Board of Directors. The General Manager shall regularly report to the Board of Directors or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board of Directors or the Supervisory Committee.

- Non-executive Directors

  The term of the Company's non-executive directors is the same as that of other directors, which is three years starting from 31 August 2005 and ending at 31 August 2008.

- Performance of Duties by Independent Directors

  In 2006, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, performed their duties in a fiduciary manner and actively participated in the decision-making on significant matters of the Company. They have attended all the Company's board meetings in person or by proxy. The independent directors have not had any objection to any matters of the Company.

  The Company's independent directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company's substantial shareholders, beneficial owners, or other units or individuals who have interests in the Company. As such, the interests of the Company as a whole as well as the lawful interests of the public shareholders were protected.

  During the reporting period, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, have reviewed and given their independent opinions on the Company's connected transactions, external guarantees for the period and accrued, and the execution of the aforesaid matters.

- Duties and Authorities of the Board of Directors and the Management

  The Board of Directors performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including:

  – To convene the shareholders' general meeting and to execute the resolutions of the shareholders' general meeting;

  – To resolve on the annual operating plans and key investment proposals of the Company;

  – To formulate the budget, the profit appropriation plan, the fundamental management system, substantial acquisitions or disposal plans;

  – To resolve on the establishment of special committees and to appoint and remove their officers-in-charge;

- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's senior management, such as deputy general managers and financial officers pursuant to the General Manager's nomination;

- To appoint or remove the Secretary to the Board of Directors;

- To manage information disclosure issues of the Company;

- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;

- To receive the report from the Company's General Manager and to review the work of the General Manager;

- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and finance management within the limit as provided in the Articles of Association.

There are two committees under the Board of Directors, namely the Audit Committee and the Remuneration Committee. The major responsibilities of the Audit Committee are to evaluate the services being provided by the Company's external auditors, to review the Company's financial information and disclosure, and to monitor the implementation of the Company's financial management, internal control and risk management systems. The major responsibilities of the Remuneration Committee are to formulate the remuneration policies, plans or schemes for all directors and senior management and to monitor the implementation of the Company's remuneration system.

The Company's management performed their major responsibilities in accordance with the duties conferred by the Articles of Association:

- To organise the implementation of the Company's annual operating plans and key investment proposals;

- To propose the Company's internal management and establishment schemes;

- To propose the Company's fundamental management system;

- To formulate the Company's basic constitutions;

- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board of Directors;

– To resolve on the rewards and penalty, promotion and demotion, salary increase or decrease, appointment, recruitment or removal and termination of the Company's staff;

– To deal with the important external businesses of the Company on its behalf;

– To propose the convening of special board meetings.

- Board Meeting

  The Board of Directors convenes four meetings regularly every year. The directors were given an opportunity to include matters in the agenda. Notice of at least 14 days with details about time and date, location and agenda of a regular board meeting was given so as to give all directors an opportunity to attend. All or most of the directors attended the regular board meeting in person. In voting for connected transactions at the board meeting, the connected directors had abstained from voting and the connected transactions were approved by the non-connected directors. All directors were entitled to and had the opportunity to review the minutes of Board Meeting.

  The secretary to the Board of Directors is responsible to organise and prepare the board meeting, and assist the Chairman to ensure the rules of procedures for the meeting complied with the requirements by relevant laws and regulations and regulatory documents.

(2) Directors' Remuneration

As approved at the 2005 extraordinary general meeting, the annual aggregate remuneration of the entire fifth session of the Company's directors did not exceed RMB0.43 million (taxes inclusive). The Company has adopted an annual salary system for its directors, which has taken into account the performance of the Company and the directors' personal contribution. The amounts were advised by the Remuneration Committee of the Company's Board of Directors and implemented after the approval by the Board of Directors. The annual remuneration for each of the independent directors did not exceed RMB40,000 (taxes excluded).

The Remuneration Committee of the Board of Directors comprises independent directors Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi and directors Mr. Zhao Jianming and Mr. Su Jiangang. Mr. Su Yong is the Chairman of the Committee, and was designated to formulate the working regulations of the Committee. The major responsibilities of the Committee are as follows:

- To recommend to the Board of Directors with respect to the remuneration policies for all directors and senior management of the Company, and to formulate the procedures for such policies in a proper and transparent manner;

- To review the remuneration of the directors and senior management in accordance with the corporate objectives formulated by the Board of Directors;

- To review the compensation to be paid to the directors or senior management with respect to their removal or appointment;

- To ensure no directors or any of its associates may decide on their own remuneration;

- Other responsibilities as delegated by the Board of Directors.

During the reporting period, the Remuneration Committee met once and all six members attended the meeting. At the meeting, the Committee considered and approved the "Remuneration Assessment Method (Trial) for Directors and Senior Management of Maanshan Iron & Steel Company Limited" and discussed the remuneration with respect to the directors and senior management of the Company for 2005.

(3) Nomination of Directors

A new session for the Company's Board of Directors is elected every three years. The term of all directors is the same as the term of the Board of Directors for such session. Upon the expiry of the session, re-election must be conducted.

Candidates for directors are nominated by the Company's Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 5% of the issued shares in the Company. Candidates for independent directors are nominated by the Company's Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 1% of the issued shares in the Company.

The nomination of directors by the Company has taken into consideration the career, academic background, job title and detailed work experience, full time/part time basis, with the consent of the candidate obtained in advance. With respect to the nomination of independent directors, the Board of Directors will issue its opinion on the qualifications and independence of the candidates as independent directors. The candidates will also issue a public statement that there is no relationship between them and the Company that may affect his independent and objective judgment to any extent. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials on the candidates for independent directors to the CSRC, the competent local authority designated by the CSRC at the domicile of the Company and the SSE.

Prior to convening the relevant shareholders' general meeting, the Company disclosed detailed information about the candidates for directors (including their brief biographies and background), so as to ensure that the shareholders have adequate understanding about the candidates before voting. Prior to convening the shareholders' general meeting for election of directors, the Company's Board of Directors published the statements of the candidates and their nominators in accordance with the regulations.

(4) Audit Committee

The Audit Committee of the Board of Directors comprises Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors. Mr. Wong Chun Wa is the Chairman of the Committee. According to the amended working regulations, the major duties of the Committee are:

- To propose the appointment or removal of external auditors;
- To monitor the Company's internal audit system and its implementation;
- To communicate between the internal and external auditors;
- To review the Company's financial information and its disclosure;
- To review the Company's internal control systems.

During the reporting period, the Audit Committee convened four meetings and duly performed its roles of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2005 annual accounts, the 2006 first quarterly accounts, the 2006 interim accounts and the 2006 third quarterly accounts of the Company and gave its independent opinion on the appointment of the auditors. Attendance by the members of the Committee was as follows:

Name	Number of Meetings (Times)	Attendance (Times)	Attendance rate (%)
Wong Chun Wa	4	4	100
Su Rong	4	4	100
Hui Leung Wah	4	4	100
Han Yi	4	4	100

(5) Auditors' Remuneration

Ernst & Young and Ernst & Young Hua Ming were appointed as the international and the PRC auditors of the Group respectively. They have audited the financial statements and financial reports prepared under Hong Kong Accounting Standards and PRC Accounting Standards, respectively. The remuneration for the two accounting firms amounted to HK$5.75 million in aggregate. Among the total remuneration, HK$5.10 million represented the annual audit fee and HK$0.65 million represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. Meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2006, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Company for 13 consecutive years. Mr. Ge Ming and Mr. Qin Tongzhou were the certified public accountants who have signed the Company's 2006 auditors' report. Mr. Ge Ming has provided auditing services to the Company for two consecutive years, while Mr. Qin Tongzhou has provided auditing services to the Company for four consecutive years.

In addition, Ernst & Young Hua Ming provided professional services in relation to the Company's Bonds with Warrants issuance, as well as issuing the "Special Report on the Use of Previous Fundraising Proceeds", the "Internal Control Assessment Report" and the "Verification Report on the Actual Receipt of Proceeds from the Issuance of Bonds with Warrants", for a fee of HK$0.40 million. Ernst & Young Da Hua provided verification services for the booking of the subscription amounts for the Company's online issuance of Bonds with Warrants for a fee of HK$10,000. Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. The fee was HK$11,300.

(6) Internal control

The internal control system encompasses the whole production operation process which includes financial budgeting and accounting, production planning, purchases of materials, product sales, external investments, human resource management and internal auditing. The system ensures orderly conduction of various work of the Company and forms a regulated management system, giving effective control over operating risks.

The finance departments of the Company and its subsidiaries are empowered with the functions of monitoring the financial affairs, and are the principal executors of the internal control systems. The audit department of the Company is responsible for monitoring and examining the execution of the internal control systems of the Company and its subsidiaries. When performing the annual audit, the auditors will issue their "Management Recommendations" by evaluating the internal control systems and their execution by the Company and its subsidiaries and identifying relevant issues. The Audit Committee monitors the execution of the Company's internal control systems and risk management procedures through evaluating the work of the Audit Department and the auditors. The Board of Directors confirms whether the internal control systems and the risk management procedures of the Company and its subsidiaries are effective or not in accordance with the report from the Audit Committee.

The Board of Directors confirmed that the internal control systems and the risk management procedures of the Company and its subsidiaries in 2006 have been effective.

(7) Other provisions as set out in the Code apart from the above

During the reporting period, the Company's directors acknowledged their responsibilities to the preparation of the accounts. Ernst & Young, the auditors, disclosed a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firm as the auditors for 2006. The Board of Directors does not have any contrary opinion and the relevant resolution was considered and approved at the 2005 annual general meeting held on 13 June 2006.

2) SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS

(1) As regards employees, the Company's personnel in production, technical, financial and sales are independent of the controlling shareholder. Senior management personnel such as General Manager and Deputy General Manager are on the Company's payroll without holding any important positions at Holding.

(2) As regards assets, the Company owns separate production systems, auxiliary systems and complementary facilities. Intangible assets such as industry property rights, trademarks and non-patent technologies are owned by the Company, as are systems for purchasing and marketing.

(3) As regards finance, the Company has established independent financial departments. Independent systems for accounting and auditing have been developed, as well as a sound financial management system.

(4) As regards organisation, the Company has established a sound corporate organisation. The Board of Directors, the Supervisory Committee and other internal departments have been operating independently without being subordinated to any functional departments at the controlling shareholder.

(5) As regards business operations, the Company possesses independent and comprehensive operating businesses and the competence of autonomous operations. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.

Directors, Supervisors, Senior Management and Staff

1) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Gu Jianguo, aged 54, Chairman of the Company. Mr. Gu became Director and Deputy General Manager of the Company in September 1993. He was appointed Vice Chairman and General Manager of the Company in July 1995 and became General Manager of Magang Holding and Chairman of the Company in June and July 1997, respectively. In September 1998, Maanshan Magang Holding Company ("Magang Holding") was restructured into Magang (Group) Holding Company Limited and Mr. Gu was appointed General Manager of Magang (Group) Holding Company Limited. He has ceased to be General Manager of the Company since September 1999. Mr. Gu is also Chairman of Magang (Hong Kong) Company Limited. Mr. Gu held 3,886 shares in the Company.

Mr. Gu Zhanggen, aged 60, Deputy Chairman of the Company. Mr. Gu was appointed Secretary of the Party Committee of Magang Holding and the Company, and Deputy General Manager of Magang Holding in June 1997 and Vice Chairman and Director of the Company in September 1997. In September 1998, Magang Holding was restructured into Magang (Group) Holding Company Limited and Mr. Gu was appointed Secretary of the Party Committee and Deputy General Manager of Magang (Group) Holding Company Limited. Mr. Gu held 3,886 shares in the Company.

Mr. Zhu Changqiu, aged 61, Director and General Manager of the Company. Mr. Zhu became Deputy General Manager of the Company in June 1997 and has been Director and General Manager of the Company since September 1999.

Mr. Zhao Jianming, aged 53, Director of the Company. Mr. Zhao was appointed Deputy General Manager of the Company and Secretary of the Party Committee of the Company in June 1997 and has been Director of the Company since September 1997. Since September 1999, he has ceased to be Deputy General Manager of the Company. Mr. Zhao also holds the office of Secretary of the Party Committee of Magang (Group) Holding Company Limited.

Mr. Su Jiangang, aged 52, Director, Deputy General Manager and Chief Economist of the Company and Secretary to the Board of Directors. Mr. Su became Secretary to the Board of Directors of the Company in September 1993. He was appointed Chief Economist in June 1997, Director of the Company in September 1997 and Deputy General Manager of the Company in September 1999. Mr. Su is also a Director of the Magang (Hong Kong) Company Limited, Director and Deputy Chairman of 濟源市金馬焦化有限公司. Mr. Su held 3,886 shares in the Company.

Mr. Gao Haijian, aged 50, Director and Deputy General Manager of the Company. Mr. Gao was appointed Deputy General Manager of the Company in June 1997. He has been Director of the Company since September 1999.

Independent Directors

Mr. Wong Chun Wa, aged 33, Independent Director of the Company. Mr. Wong is associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he has been Qualified Accountant of Zhongtian International Limited since February 2006. He established 毅行顧問有限公司 in December 2006 and acted as the company's Director. Mr. Wong became Independent Director of the Company on 31 August 2005.

Mr. Su Yong, aged 52, Independent Director of the Company. Mr. Su was appointed as Head of the Enterprise Management Department of the School of Management of Fudan University in October 2003, and as Deputy Director of the University's Eastern Management Research Centre in October 2004 respectively. Mr. Su has been Independent Director of Anhui Guofeng Plastic Industry Co., Ltd. since May 2003. He became Independent Director of the Company on 31 August 2005.

Mr. Hui Leung Wah, aged 45, Independent Director of the Company. Mr. Hui joined HSBC Investment Banking in 1990 and served as Corporate Finance Director, Chief Operations Officer of the Asia-Pacific region and other positions. He joined MTR Corporation Limited in Hong Kong since August 2004 as General Manager of Corporate Finance, and became an Independent Director of the Company on 31 August 2005.

Mr. Han Yi, aged 43, Independent Director of the Company. Mr. Han was appointed Professor of the School of Law and Advisor of master degree students of Anhui University in May 2002. In September 2004, Mr. Han joined the programme for postdoctoral fellows at Renmin University of China. Mr. Han is a Professor of the School of Law and Advisor of master degree students at Zhongnan University of Finance and Economics. He became an Independent Director of the Company on 31 August 2005.

Supervisors

Mr. Li Kezhang, aged 59, Chairman of the Supervisory Committee. Mr. Li has been Deputy Secretary of the Party Committee and Chairman of the labour union of the Company since June 1997. He was appointed Supervisor of the Company in September 1997. He is also Deputy Secretary of the Party Committee and Chairman of the Labour Union of Magang (Group) Holding Company Limited. He became Chairman of the Supervisory Committee on 31 August 2005.

Mr. Dou Qingxun, aged 57, a Supervisor of the Company. Mr. Dou was appointed Chairman of the Labour Union of the Coke-making subsidiary in September 1997. He has also been appointed Deputy Secretary of the Party Committee and Chairman of Labour Union of the Company's train wheels and tyres subsidiary in January 2002. Mr. Dou became a Supervisor of the Company on September 2002.

Mr. Fang Jinrong, aged 43, a Supervisor of the Company. Mr. Fang was appointed Deputy Supervisor of the Finance Department of Magang Holding in November 1997. In September 1998, Magang Holding was restructured into Magang (Group) Holding Company Limited, and Mr. Fang was appointed Deputy Manager of the Finance Department. He has been Manager of the Finance Department since February 2004. He became a Supervisor of the Company on 31 August 2005.

Independent Supervisors

Madam Cheng Shaoxiu, aged 64, Independent Supervisor of the Company. Madam Cheng was Chief Accountant of Anhui Guoyuan Holding (Group) Company Limited from May 2001 to September 2004. She was an Independent Director of the Company between September 1999 and August 2005. She became an Independent Supervisor of the Company on 31 August 2005.

Madam An Qun, aged 44, an Independent Supervisor of the Company. Madam An has been Chief Supervisor of the Teaching and Research Department of Law Studies of School of Party Committee, Anhui Province since June 2003 and Professor of Law since December 2004. She became an Independent Supervisor on 31 August 2005.

In accordance with the sections 100 and 139 of the Articles of Association of the Company, the term of office for all directors and supervisors is three years. The term of office for all members of the session of the Board of Directors and Supervisory Committee is from 31 August 2005 to 31 August 2008.

Senior Management

Mr. Hui Zhigang, aged 53, Deputy General Manager of the Company. Mr. Hui was appointed Assistant to the General Manager of the Company in August 1999, and Deputy General Manager of the Company in June 2001.

Mr. Shi Xiongliang, aged 54, Deputy General Manager and Chief Engineer of the Company. Mr. Shi was appointed Deputy Chief Engineer of the Company in August 1999, and Deputy General Manager and Chief Engineer in June 2001.

Mr. Ding Yi, aged 43, Deputy General Manager of the Company. Mr. Ding was appointed Assistant to General Manager in January 2002 and Deputy General Manager in January 2004.

Mr. Wan Hon Kau, aged 34, qualified accountant of the Company. Mr. Wan was an auditor of 梁學漣會計師事務所 in September 2002. He was appointed a qualified accountant of the Company in August 2004.

Save as disclosed above, as at 31 December 2006, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

During the year, none of the Company's directors, supervisors, senior management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

All members of the senior management of the Company are appointed by the Board of Directors with a term running from the date of appointment to 31 August 2008.

As at the end of the reporting period, directors Mr. Gu Jianguo, Mr. Gu Zhanggen and Mr. Su Jiangang respectively held 3,886 shares of the Company, representing an increase of 986 shares each over the end of 2005. The increases were caused by the Company's implementation of the State Share Reform. None of the other directors, supervisors and senior management held any shares of the Company.

2) EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Annual emoluments of executive directors and senior management were determined by the Remuneration Committee of the Board of Directors based on their respective appraisals and in accordance with the total annual emoluments for directors as approved by shareholders' general meeting, with recommendations thereof to be proposed to the Board of Directors. Emoluments were taken effect by the Board of Directors with the authorisation granted by the shareholders' general meeting. Details of the emoluments of the Company's directors and senior management received in 2006 are listed as follows:

Name	**Duties**	**Emoluments (tax inclusive)** (RMB'000)
Gu Jianguo	Chairman	777
Gu Zhanggen	Vice Chairman	777
Zhu Changqiu	Director and General Manager	777
Su Jiangang	Director, Deputy General Manager, Chief Economist and Secretary to the Board of Directors	622
Gao Haijian	Director and Deputy General Manager	622
Hui Zhigang	Deputy General Manager	622
Shi Xiongliang	Deputy General Manager and Chief Engineer	622
Ding Yi	Deputy General Manager	621
Wan Hon Kau	Qualified Accountant	244
		5,684

The above-mentioned emoluments for executive directors and senior management of the Company include the portions of basic pension insurance fees paid by the corporation in accordance with the pension scheme of the Company and the annuities credited to personal accounts.

Annual emoluments received by non-independent supervisors from the Company were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for independent supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholder's general meeting. Details of the emoluments received by independent supervisors from the Company in 2006 are listed as follows:

Name	Position	Emoluments (tax inclusive) (RMB'000)
Li Kezhang	Chairman of the Supervisory Committee	622
Dou Qingxun	Supervisor	211

The above-mentioned emoluments received by non-independent supervisors from the Company include the portions of basic pension insurance fees paid by the corporation in accordance with the 2006 pension scheme of the Company and the annuities credited to personal accounts.

In 2006, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors of the fifth session of the Board of Directors received an annual allowance for independent director of RMB40,000 (tax exclusive) each from the Company. Madam Cheng Xiaoxiu and Madam An Qun, all independent supervisors of the fifth session of the Supervisory Committee, received an annual allowance for independent supervisor of RMB30,000 (tax exclusive) each from the Company. Mr. Zhao Jianming, presently director and Mr. Fang Jinrong, presently supervisor, received their emoluments at Holding, respectively.

In 2006, the total allowances received by independent directors and independent supervisors of the Company amounted to RMB220,000 (tax exclusive), while the total remunerations received by other directors, supervisors and senior management from the Company amounted to RMB6,517,000 (tax inclusive).

3) PERSONNEL MOVEMENT

During the reporting period, there was no new appointment or removal of other directors, supervisors and senior management.

4) EMPLOYEES

As at the end of 2006, the Company had a total of 44,104 employees, of whom 36,533 were workers at production lines, 358 were sales representatives, 4,082 were technicians, 319 were financial staff and 2,812 were managerial staff. There were 10.08% of employees who had post-graduate qualifications or above. The number of resigned or retired staff for whom the Company was responsible for the pension amounted to 20,548.

Movements in Share Capital and Shareholders

1) SHARE MOVEMENTS

(1) Table on Share Movement

During the reporting period, the Company has completed the State Share Reform. The State Share Reform did not involve any movements in the total number of shares. Movements in the share capital structure are as follows:

Unit: '000 shares

	Prior to current movements		Current movements (+,-)					After current movements	
	Number of shares	(%)	New shares issues	Bonus issues	Transferred from reserves	State Share Reform	Sub-total	Number of shares	(%)
a. Shares subject to selling restrictions									
1. State-owned shares	4,034,560	62.50	–	–	–	–204,000	–204,000	3,830,560	59.34
2. State–owned legal person shares	–	–	–	–	–	–	–	–	–
3. Shares owned by other domestic entities									
Among which:									
Shares owned by domestic legal persons	87,810	1.36	–	–	–	–	–	87,810	1.36
Shares owned by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares owned by foreign entities									
Among which:									
Shares owned by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares owned by foreign natural persons	–	–	–	–	–	–	–	–	–
b. Shares without selling restrictions									
1. RMB–denominated ordinary shares	600,000	9.29	–	–	–	+204,000	+204,000	804,000	12.45
2. Foreign shares listed domestically	–	–	–	–	–	–	–	–	–
3. Foreign shares listed overseas	1,732,930	26.85	–	–	–	–	–	1,732,930	26.85
4. Others	–	–	–	–	–	–	–	–	–
c. Total number of shares	6,455,300	100	–	–	–	–	–	6,455,300	100

(2) Timetable for the listing and trading of shares subject to selling restrictions

Unit: Shares

Time	Number of shares available for listing and trading upon expiry of lock-up period	Balance of shares subject to selling restrictions	Balance of shares subject to no selling restrictions	Explanation
2 April 2007	87,810,000	3,830,560,000	2,624,740,000	31 March 2007 was a statutory holiday and was postponed to the next trading day in accordance with the rules.
31 March 2009	3,830,560,000	0	6,455,300,000	

2) THE NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

(1) The number of shareholders and details of the 10 largest shareholders

1. As at the end of the reporting period, the Company had a total of 103,916 shareholders, including 101,773 A share holders and 2,143 H share holders.

2. Shareholding of the 10 largest shareholders:

Unit: Shares

Name of shareholder	Type of shareholder	As a percentage to number of shares held (%)	Number of shares held	Number of non-circulating shares held	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholders	60.080	3,878,330,000	3,878,330,000	0
HKSCC (Nominees) Limited	Foreign shareholders	25.519	1,647,298,997	0	Unknown
E Fund Selective Value Equity Fund	Others	0.709	45,770,577	0	Unknown
HSBC (Nominees) Limited	Foreign shareholders	0.477	30,784,000	0	Unknown
華夏優勢增長股票型證券投資基金	Others	0.387	24,994,676	0	Unknown
上投摩根雙息平衡混合型證券投資基金	Others	0.376	24,253,525	0	Unknown
上投摩根中國優勢證券投資基金	Others	0.373	24,067,690	0	Unknown
E Fund Strategic Growth II Equity Fund	Others	0.369	23,799,908	0	Unknown
Morgan ChinaFund A Stanley Share	Foreign shareholders	0.316	20,366,616	0	Unknown
金鑫證券投資基金	Others	0.201	12,995,029	0	Unknown

3. Shareholding of the 10 largest holders of shares without selling restrictions:

Name of shareholder	Number of shares without selling restrictions held	Type of shares
HKSCC (Nominees) Limited	1,647,298,997	Overseas listed foreign shares
E Fund Selective Value Equity Fund	45,770,577	RMB-denominated ordinary shares
HSBC (Nominees) Limited	30,784,000	Overseas listed foreign shares
華夏優勢增長股票型證券投資基金	24,994,676	RMB-denominated ordinary shares
上投摩根雙息平衡混合型證券投資基金	24,253,525	RMB-denominated ordinary shares
上投摩根中國優勢證券投資基金	24,067,690	RMB-denominated ordinary shares
E Fund Strategic Growth II Equity Fund	23,799,908	RMB-denominated ordinary shares
Morgan Stanley China A Share Fund	20,366,616	RMB-denominated ordinary shares
金鑫證券投資基金	12,995,029	RMB-denominated ordinary shares
GOLDMAN, SACHS & CO.	10,000,046	RMB-denominated ordinary shares

Note 1: There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures for the Management of Information Disclosure on Changes in Shareholding of Shareholders of Listed Companies. China International Fund Management Co., Ltd. was the manager of both 上投摩根雙息平衡混合型證券投資基金 and 上投摩根中國優勢證券投資基金; E Fund Management Co., Ltd. was the manager of both 易方達價值精選股票型證券投資基金 and 易方達策略成長二號混合型證券投資基金. Save as disclosed above, the Company is not aware of whether the other nine shareholders had connected relationship or whether they were concerted parties.

Note 2: Holding, the controlling shareholder of the Company, held 3,878,330,000 circulating A shares of the Company with selling restrictions, of which 3,830,560,000 A shares were held on behalf of the State (representing approximately 59.34% of the total share capital of the Company) and 47,770,000 A shares (representing approximately 0.74% of the total share capital of the Company) were held in the capacity of a domestic legal person, which were the same as the previous reporting period. Holding was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. The Group had a registered capital of RMB6,298,290,000. Its principal operations and products include: mining and sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food and beverages; production services; mechanical and electrical equipment manufacturing; and metallic products.

Note 3: No shares held by Holding during the reporting period were pledged, held in lien or placed in custody, but the Company is not aware whether or not shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody.

Note 4: HKSCC (Nominees) Limited held 1,647,298,997 shares of the Company on behalf of multiple clients.

Note 5: As at 31 December 2006 and 31 March 2007, being the latest practicable date of the report, as far as the Directors were aware, the public float of the Company complied with the requirements as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(2) Save as those disclosed above, details of the shareholders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2006 are as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested	Approximate percentage of issue H shares (%)
Morgan Stanley	Interests of controlled entities	190,122,156 (Long position)	10.97
		11,239,023 (Short position)	0.65
AllianceBernstein L.P.	Interests of controlled entities	155,996,000 (Long position)	9.00
JPMorgan Chase & Co.	Interests of controlled entities	153,315,320 (Long position)	8.85
		128,225,000 (Lending pool)	7.40
Halbis Capital Management (Hong Kong) Limited	Investment manager	89,556,000 (Long position)	5.16

(3) Shareholding of the 10 largest shareholders subject to selling restrictions and their respective selling restrictions

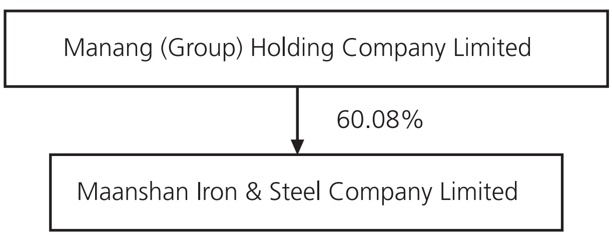
Unit: Shares

No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Time of listing and trading	Additional listed and tradeable shares	Selling restrictions
1	Magang (Group) Holding Company Limited	3,878,330,000	2 April 2007	47,770,000	Note 1
			31 March 2009	3,830,560,000	Note2
2	Shanghai Quan Long Shiye Company Limited	9,800,000	2 April 2007	9,800,000	Note 1
3	People's Insurance Company of China – Anhui Branch	3,000,000	2 April 2007	3,000,000	Note 1
4	鹽城市航空綜合經營有限公司	3,000,000	2 April 2007	3,000,000	Note 1
5	廣州金屬材料公司	1,000,000	2 April 2007	1,000,000	Note 1
6	江蘇金屬材料總公司	1,000,000	2 April 2007	1,000,000	Note 1
7	南京大廠物資部公司	1,000,000	2 April 2007	1,000,000	Note 1
8	鄭州金氏實業有限公司	1,000,000	2 April 2007	1,000,000	Note 1
9	江蘇儀征市物資公司	1,000,000	2 April 2007	1,000,000	Note 1
10	合肥市金屬材料總公司	600,000	2 April 2007	600,000	Note 1

Note 1: The legal person shares held will not be listed for trading or transferred within 12 months from the tradeable date of the shares.

Note 2: After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the date of listing, and the State-owned shares held by Holding also will not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

(4) Flow chart indicating the proprietorship and controlling relationship between the Company and the de facto controller



Bonds with Warrants

Upon receiving approval from the China Securities Regulatory Commission through the notice Zheng Jian Fa Xing Zi [2006] No. 111, the Company successfully issued RMB5,500 million of Bonds with Warrants at the SSE on 13 November 2006. Prior to the listing, the Bonds with Warrants were segregated into two types of securities, namely corporate bonds and warrants. Holders of the Bonds with Warrants were distributed with 1,265 million warrants for zero consideration. The abbreviation of the corporate bonds is "06馬鋼債"; the abbreviation of the warrants is "馬鋼CWB1",whereas the abbreviation of exercise rights is ES081128 and the code of exercise rights is 582010. On 29 November 2006, both "06馬鋼債" and "馬鋼CWB1" were listed on the SSE under respective trading codes of "126001" and "580010".

"06馬鋼債" has a term of five years and carries a fixed interest rate. The coupon rate is 1.4% per annum, with interests paid in annual arrears. Interest accrual began on 13 November 2006 and the maturity date is 13 November 2011, with the redemption date being five working days after the maturity date of 13 November 2011.

The proportion of exercise rights for "馬鋼CWB1" is 1:1. Accordingly, each warrant represents the right to subscribe for one A share issued by the Company. The exercise price is RMB3.40 per share. The term of the warrants is 24 months upon the listing of the warrants. Holders of the warrants may exercise the warrants in the 10 trading days before 29 November 2007 (11-15 November 2007, 19-23 November 2007, 26-28 November 2007), or in the 10 trading days before 29 November 2008 (17-21 November 2008 and 24-28 November 2008). During the term of the warrants, in the event that the trading of the A shares of the Company is on ex-rights or ex-dividend basis, the exercise price and the proportion of exercise rights for the warrants will be adjusted accordingly.

1) DETAILS OF THE 10 LARGEST HOLDERS OF "06馬鋼債" AS AT THE END OF THE REPORTING PERIOD:

Name of bond holder	Number of bonds held
Ping An Insurance (Group) Company of China, Ltd.	613,470,000
New China Life Insurance Co., Ltd.	541,629,000
China Securities Co., Ltd.	450,228,000
China Credit Trust Co., Ltd. – 2006 Zhong Cheng Xin Tuo Zi FT No.031	418,025,000
National Social Security Fund No.305	269,036,000
China International Capital Corporation Limited	259,955,000
China Marine Finance Co., Ltd.	259,648,000
Tai Kang Life Insurance Co., Ltd.－萬能－個險萬能	251,748,000
CITIC Securities Company Limited	202,932,000
銀豐證券投資基金	202,057,000

2) DETAILS OF THE 10 LARGEST HOLDERS OF “馬鋼CWB1” AS AT THE END OF THE REPORTING PERIOD:

Name of warrant holder	Number of warrants held
ICBC-CCB Selection Growth Stock Investment Fund	42,559,881
China Marine Finance Co., Ltd.	35,000,000
銀豐證券投資基金	22,570,740
Li Jin	17,993,847
Liu Xiaobo	16,000,000
Shanghai Electric Group Finance Company Ltd.	15,791,570
ShangHai JinShan XinChengQu Construction Develops Co., Ltd.	13,286,596
ICBC-Boshi Even allocation Securities Investment Fund	12,633,210
Baosteel Group Finance Co., Ltd.	12,633,210
Zhang Chunqiu	11,800,000

3) DURING THE REPORTING PERIOD, THE COMPANY HAS NOT ADJUSTED THE PROPORTION OF EXERCISE RIGHTS AND EXERCISE PRICE OF THE WARRANTS AND THERE WERE NO MATERIAL CHANGES IN THE PROFITABILITY, ASSET CONDITION AND CREDIT CONDITION OF HOLDING, THE GUARANTOR.

Shareholders' General Meetings

In 2006, the Company convened four shareholders' general meetings.

1) MEETING OF SHAREHOLDERS RELEVANT TO THE STATE SHARE REFORM

On 27 February 2006, the Company convened a meeting of shareholders relevant to the State Share Reform at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The "State Share Reform Proposal of Maanshan Iron & Steel Company Limited" was approved at the meeting.

The above matters were published in Shanghai Securities News, the South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 28 February 2006.

2) ANNUAL GENERAL MEETING

On 13 June 2006, the Company convened an annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The work reports of the Board of Directors and of the Supervisory Committee for 2005, the audited financial statements and the profit distribution plan for 2005 were approved at the meeting. The proposed appointment of Ernst & Young Hua Ming and Ernst & Young as auditors of the Company for 2006 and the proposed authorisation to the Board of Directors to determine their remuneration were approved. In addition, the proposed amendments to the "Articles of Association of Maanshan Iron & Steel Company Limited" and its appendices of the "Order of Meeting for Shareholders' General Meeting", "Order of Meeting for the Board of Directors" and "Order of Meeting for the Supervisory Committee" were also approved, and an authorisation was granted to the Board of Directors to make appropriate modifications to the wordings of the Articles of Association pursuant to the requirements made by any relevant state regulatory bodies and to carry out all related matters.

The above matters were published in Shanghai Securities News, the South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 14 June 2006.

3) THE FIRST EXTRAORDINARY GENERAL MEETING

On 17 July 2006, the Company convened the 2006 first extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The "Resolution relating to the Proposal for the Issuance of Bonds with Warrants", the "Resolution relating to the Feasibility of the Project to be Invested with the Proceeds from the Proposed Issuance" and the "Resolution relating to the Description Prepared by the Board of Directors on the Use of Proceeds from the Previous Issuance" were approved.

The above matters were published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 18 July 2006.

4) THE SECOND EXTRAORDINARY GENERAL MEETING

On 14 December 2006, the Company convened the 2006 second extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The New Sale and Purchase of Ore Agreement (the "New Sale and Purchase of Ore Agreement") entered into on 18 October 2006, the transactions contemplated under the New Sale and Purchase of Ore Agreement and the annual caps were approved.

The above matters were published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 15 December 2006.

1) SIGNIFICANT LITIGATIONS AND ARBITRATIONS

(1) The Company had no material litigation and arbitration during the reporting period.

(2) Two material litigations of the Company had been settled in the past but were lasting until the reporting period. Their judgments were enforced as follows:

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

2) The principal of HK$7,138,000 and an interest amount of HK$2,296,000 were due to the Company by China Venturetech Investment Corporation. In December 2004, the People's Bank of China terminated the liquidation team (hereinafter referred to as the "Liquidation Team") and carried out the first fund distribution for repayment of debt. The Company received RMB757,000. In February 2005, the Liquidation Team carried out the second fund distribution for the repayment of debt, and the Company received RMB757,000. In November 2005, the Liquidation Team carried out the third fund distribution for the repayment of debt and the Company received RMB757,000. In February 2006, the Liquidation Team carried out the final fund distribution for the repayment of debt and the Company received RMB3,632,085.34. Liquidation is therefore completed.

3) The principal and interest of the deposit totalling RMB36,460,000 was due to the Company by Guangdong International Trust & Investment Corporation. The Liquidation Team carried out three property distributions in August 2000. A total of RMB7,103,000 has been received by the Company. Details were published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the SSE website (http://www.sse.com.cn) on 26 April 2005. There has been no change during the reporting period.

4) Apart from the Company's acquisition of 71% equity interests in Burwill Coil Centre (Yangzhou) Company Limited from Burwill Times Industrial Limited, there were no other significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period. Nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

5) CONNECTED TRANSACTIONS

- Usual Business Transactions between the Company and Holding

The usual business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding and were settled in cash or bills. The details of which are as follows:

(1) With a view to ensuring that the Company would continue to operate efficiently and the employees of the Company would continue to enjoy certain staff training and necessary supporting services that the Company might not be able to obtain or easily obtain from independent third parties in Maanshan, Anhui Province, the PRC, the Company entered into a Service Agreement (effective from 2004 to 2006) with Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The service fees should be equal to or lower than the State prices of the agreed services; or in the absence of such State prices, the market prices of the agreed services. The market prices should be determined upon negotiation by both parties and shall be equal to or lower than the market prices approved by the registered price certification appraiser of Maanshan Market Price Certification Centre.

Details of the amounts paid by the Company to Holding according to the Service Agreement from 1 January 2006 to 31 December 2006 are as follows:

Unit: RMB'000

Major item	**Pricing basis**	**Total value**	**Proportion of transactions of the same category (%)**
On-the-job staff training	State Prices	21,020	100
Catering and sanitation services	Market Prices	48,540	100
Environmental sanitation and maintenance of roads	State Prices	13,980	100
Afforestation and management of factory districts	Market Prices	24,730	100
Total		108,270	

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out in daily operational process between the Company and Holding in the normal course of business on normal commercial terms or terms no less favourable than those offered to (or offered by, if appropriate) independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were processed in respect of terms as set out in the Service Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2006, the total value of the year of the agreed services did not exceed the upper limit of the Service Agreement.

(2) To ensure that the Company has sufficient iron ore to meet the production requirement, Holding agreed to continuously provide the Company with iron ore on a first priority basis. The Company entered into the Sales and Purchase of Iron Ore Agreement with Holding on 9 October 2003 which was subsequently approved at the Extraordinary General Meeting held on 11 December 2003.

The price of iron ore per tonne purchased every year by the Company from Holding will be determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price per tonne charged by the top three independent suppliers supplying the largest amount of iron ore to the Company in the previous year of the contracting year.

The payment made by the Company to Holding in respect of the Sales and Purchase of Iron Ore Agreement from 1 January 2006 to 31 December 2006 was as follows:

Unit RMB'000

	Amount paid	Proportion of transactions of the same category (%)
Purchases of iron ore	1,631,201	18.43

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out in daily operational process between the Company and Holding in the normal course of business on normal commercial terms or terms no less favourable than those offered to (or offered by, if appropriate) independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were processed in respect of terms as set out in the Sales and Purchase of Iron Ore Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2006, the total value of the year of the agreed services did not exceed 8.74% of the audited cost of sales of the Company.

(3) Save for the connected transactions made pursuant to the Service Agreement and the Sales and Purchase of Iron Ore Agreement as mentioned above, amounts of other connected transactions in the ordinary course of business with Holding are as follows:

Unit: RMB'000

	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	8,951	0.03
Water, electricity, telephone and other services acquired by Holding from the Company	23,221	4.19
Payment by the Company for fixed assets and construction services	295,468	5.40
Payment by the Company to Holding for other services	126,569	100

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out between the Company and Holding in the normal course of business and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The total amount of these transactions, accounting for approximately 2.4% of the audited tangible asset value of the Company for the year ended 31 December 2006 and did not have any adversely impact on the Company's profits.

The continuing connected transactions between the Company and Holding under the Service Agreement and the Sales and Purchase of Iron Ore Agreement for the year 2006 have been approved by the Board of Directors of the Company, in compliance with the terms of these agreements and not exceeding the maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange. Ernst & Young, the auditors of the Company, has implemented the confirmation procedures for such financial information and issued reports regarding the implementation of confirmation procedures.

- As at 31 December 2006, save for ordinary business transactions and dividends due to Holding, there is no amount due to or from the Company and connected parties.

- Material contracts with the controlling shareholder

  Save for the above-mentioned "Service Agreement" and the "Sales and Purchase of Iron Ore Agreement" entered into on 9 October 2003 and approved at the extraordinary general meeting held on 11 December 2003, and the "Sales and Purchase of Iron Ore Agreement" for 2007 to 2009 entered into on 18 October 2006 and approved at the extraordinary general meeting held on 14 December 2006, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholders at any time during the year ended 31 December 2006.

6) The Company did not entrust, contract or lease any assets of other companies, or vice versa, and did not entrust any other parties to implement cash assets arrangement.

The Company was in strict compliance with the document "Notice of Certain Issues Relating to the Standards of Capital Dealings with Connected Parties by Listed Companies and Provisions of External Guarantees by Listed Companies" (Zheng Jian Fa [2003] No.56) and did not provide any guarantee in breach of the laws. The Company's guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, amounting to RMB7,714 million, which amount has been fully utilised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB65 million, which has not been utilised; and guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully utilised.

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB7,793 million and a remaining balance of RMB7,728 million. The total guarantee amount represented 38.41% of the Company's net assets during the reporting period. The guarantees are all guarantees with ancillary responsibilities. All the guarantees were approved by the Board of Directors beforehand and the guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company; loans necessary for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the opening of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery. The guarantee for Anhui Masteel K. Wah New Building Materials Co., Ltd. is only provided for land construction and the purchase of equipment. All the guarantees are not applicable for external investments, provision of guarantees for external parties, provision of loans to external parties, or grants to external parties.

7) During the reporting period, save for the undertakings made by Holding, the controlling shareholder, during the State Share Reform, neither the Company nor any shareholders who were interested in 5% or more of the Company's shares disclosed their commitments in designated newspapers and website. None of the Company's directors and senior management of the Company were investigated, punished, criticised or reprimanded in public by regulatory authorities.

8) STATE SHARE REFORM

The State Share Reform Proposal of the Company, whereby Holding offered holders of circulating A shares 3.4 shares for every 10 shares they held, was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province on 20 February 2006. It was further approved by the meeting of shareholders relevant to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. Trading in the A shares of the Company resumed on 31 March 2006.

In the process of the State Share Reform, Holding made the following special undertakings:

(1) After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the date of listing, and the State-owned shares held by Holding also will not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

(2) Holding pays all the costs and expenses arising from the State Share Reform.

Moreover, Holding makes representations as follows:

(1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the China Securities Regulatory Commission and the SSE, and will bear any legal liabilities accordingly.

(2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise. During the reporting period, Holding fully complied with such undertakings.

During the reporting period, Holding complied fully with such undertakings.

9) INTERNAL CONTROL SYSTEM OF THE COMPANY

Please refer to "(6) Internal Control" in "1. Code on Corporate Governance Practices" of "VI. Corporate Governance" in this annual report.

10) INCOME TAX

As one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies, in accordance with the Document Cai Shui Zi (1997) No.38 dated 10 March 1997 jointly issued by the Ministry of Finance and the State Tax Bureau, the Company enjoyed an income tax rate of 15%. "The Enterprise Income Tax Law of the People's Republic of China" was approved at the fifth meeting of the tenth session of the National People's Congress on 16 March 2007, and will be implemented on 1 January 2008. The new enterprise income tax law introduces a series of changes, such as the uniform enterprise income tax rate of 25% for both domestic and foreign enterprises. As the detailed implementation guidelines and management rules are not available yet, it is impossible to make reasonable estimates on the future financial impact on the Company to be brought by the implementation of the new enterprise income tax law.

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of Maanshan Iron & Steel Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Maanshan Iron & Steel Company Limited set out on pages 65 to 145, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
17 April 2007

Consolidated Income Statement

(Prepared under Hong Kong Accounting Standards)
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	4, 5	**34,319,874**	32,083,096
Cost of sales		**(29,904,081)**	(27,369,971)
Gross profit	4	**4,415,793**	4,713,125
Other income and gains	5	**164,076**	194,433
Selling and distribution costs		**(469,390)**	(428,103)
Administrative expenses		**(1,089,460)**	(744,745)
Other operating income/(expenses), net		**34,851**	(19,555)
Finance costs	7	**(296,226)**	(362,470)
Share of profits and losses of associates		**40,287**	13,464
PROFIT BEFORE TAX	6	**2,799,931**	3,366,149
Tax	10	**(347,378)**	(415,334)
PROFIT FOR THE YEAR		**2,452,553**	2,950,815
Attributable to:			
Equity holders of the parent	11	**2,394,652**	2,909,943
Minority interests		**57,901**	40,872
		2,452,553	2,950,815
DIVIDEND	12	**839,189**	1,032,848
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**37.10 cents**	45.08 cents
Diluted		**36.92 cents**	N/A

Consolidated Balance Sheet

(Prepared under Hong Kong Accounting Standards)
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**18,752,595**	18,384,692
Construction in progress	15	**21,066,978**	7,476,730
Investment properties	16	**3,559**	–
Prepaid land premiums	17	**1,457,468**	1,137,801
Other intangible asset	18	**113,507**	109,035
Investment in a jointly-controlled entity	20	**234,000**	234,000
Investments in associates	21	**329,514**	268,060
Available-for-sale investments	22	**16,817**	16,817
Held-to-maturity investments	23	**8,259**	10,919
Deferred tax assets	24	**–**	53,175
Total non-current assets		**41,982,697**	27,691,229
CURRENT ASSETS			
Inventories	25	**6,489,013**	5,168,472
Construction contracts	26	**51,119**	31,002
Trade and bills receivables	27	**1,263,559**	2,215,092
Prepayments, deposits and other receivables	28	**769,353**	559,386
Equity investments at fair value through profit or loss	29	**–**	13,568
Pledged deposits	30	**531,137**	142,114
Cash and cash equivalents	30	**3,629,568**	3,112,902
Total current assets		**12,733,749**	11,242,536
CURRENT LIABILITIES			
Trade and bills payables	31	**5,997,722**	3,863,128
Other payables and accruals	32	**5,620,588**	4,495,428
Interest-bearing bank and other borrowings	33	**808,772**	2,191,361
Tax payable		**93,110**	118,021
Provisions	35	**50,770**	114,747
Total current liabilities		**12,570,962**	10,782,685
NET CURRENT ASSETS		**162,787**	459,851
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,145,484**	28,151,080

(Prepared under Hong Kong Accounting Standards)
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,145,484**	28,151,080
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**15,713,140**	8,570,816
Bonds with warrants	33, 34	**4,672,376**	–
Deferred income		**564,901**	498,086
Provisions	35	**22,045**	29,485
Due to the ultimate holding company	36	**400,000**	400,000
Deferred tax liabilities	24	**754**	–
Total non-current liabilities		**21,373,216**	9,498,387
Net assets		**20,772,268**	18,652,693
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**6,455,300**	6,455,300
Equity component of bonds with warrants		**585,463**	–
Reserves	38(a)	**12,581,819**	11,026,356
Proposed final dividend	12	**839,189**	1,032,848
		20,461,771	18,514,504
Minority interests		**310,497**	138,189
Total equity		**20,772,268**	18,652,693

Gu Jianguo
Director

Su Jiangang
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Accounting Standards)
Year ended 31 December 2006

		Attributable to equity holders of the parent											
	Notes	Issued share capital RMB'000	Capital reserve account RMB'000	Equity component of bonds with warrants RMB'000	Statutory reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2005		6,455,300	4,864,976	–	893,160	892,852	3,480	5,134	2,489,659	1,420,166	17,024,727	76,315	17,101,042
Profit for the year		–	–	–	–	–	–	–	2,909,943	–	2,909,943	40,872	2,950,815
Transfer to reserves		–	–	–	286,812	285,533	7,633	5,544	(585,522)	–	–	–	–
Final 2004 dividend declared		–	–	–	–	–	–	–	–	(1,420,166)	(1,420,166)	–	(1,420,166)
Proposed final 2005 dividend	12	–	–	–	–	–	–	–	(1,032,848)	1,032,848	–	–	–
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(2,265)	(2,265)
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	23,267	23,267
At 31 December 2005 and 1 January 2006		6,455,300	4,864,976	–	1,179,972	1,178,385	11,113	10,678	3,781,232	1,032,848	18,514,504	138,189	18,652,693
Profit for the year		–	–	–	–	–	–	–	2,394,652	–	2,394,652	57,901	2,452,553
Transfer from/(to) reserves		–	–	–	1,415,802	(1,178,385)	11,934	7,661	(257,012)	–	–	–	–
Final 2005 dividend declared		–	–	–	–	–	–	–	–	(1,032,848)	(1,032,848)	–	(1,032,848)
Proposed final 2006 dividend	12	–	–	–	–	–	–	–	(839,189)	839,189	–	–	–
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(26,444)	(26,444)
Issue of bonds with warrants	34	–	–	604,229	–	–	–	–	–	–	604,229	–	604,229
Direct issue costs of bonds with warrants recognised as a deduction from equity component		–	–	(18,766)	–	–	–	–	–	–	(18,766)	–	(18,766)
Acquisition of a subsidiary	40	–	–	–	–	–	–	–	–	–	–	25,181	25,181
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	115,670	115,670
At 31 December 2006		6,455,300	4,864,976*	585,463	2,595,774*	–*	23,047*	18,339*	5,079,683*	839,189	20,461,771	310,497	20,772,268

* These reserve accounts comprise the consolidated reserves of RMB12,581,819,000 (2005: RMB11,026,356,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

(Prepared under Hong Kong Accounting Standards)
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,799,931**	3,366,149
Adjustments for:			
Finance costs	7	**296,226**	362,470
Share of profits and losses of associates		**(40,287)**	(13,464)
Bank interest income	5, 6	**(34,259)**	(22,103)
Gain on disposal of equity investments at fair value through profit or loss	6	**(13,994)**	–
Dividend income from an available-for-sale investment	6	**(5,284)**	(5,281)
Depreciation	6	**2,323,629**	2,064,539
Depreciation of investment properties	6	**586**	–
Recognition of prepaid land premiums	6	**29,070**	21,092
Amortisation of a mine participation right	6	**4,481**	1,115
Recognition of deferred income	5, 6	**(49,752)**	(48,498)
Reversal of impairment of property, plant and equipment	6	**(19,611)**	–
Reversal of impairment of construction in progress	6	**(17,676)**	–
Loss on disposal of items of property, plant and equipment, net	6	**3,011**	19,114
Loss on disposal of items of construction in progress, net	6	**8,185**	–
Provision/(reversal of provision) for inventories, net	6	**(26,190)**	75,464
Provision/(reversal of provision) for doubtful debts, net	6	**(9,230)**	554
Exchange losses/(gains), net	6	**55,872**	(154,743)
		5,304,708	5,666,408
Increase in inventories		**(1,178,654)**	(401,012)
(Increase)/decrease in construction contracts		**(20,117)**	32,498
Decrease in trade and bills receivables		**972,646**	60,394
(Increase)/decrease in prepayments, deposits and other receivables		**(188,975)**	247,295
Increase in trade and bills payables		**406,924**	850,403
Increase/(decrease) in other payables and accruals		**504,839**	(71,243)
Decrease in provisions for pension benefits and housing subsidies		**(71,417)**	(20,889)
Cash generated from operations		**5,729,954**	6,363,854
Income tax paid		**(447,150)**	(503,911)
Net cash inflow from operating activities		**5,282,804**	5,859,943

Consolidated Cash Flow Statement (Continued)

(Prepared under Hong Kong Accounting Standards)
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities		**5,282,804**	5,859,943
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**34,259**	22,103
Disposal of equity investments at fair value through profit or loss		**27,562**	–
Dividend income from an available-for-sale investment		**5,284**	5,281
Dividend income from an associate		**–**	54
Government subsidies granted for specific projects		**116,567**	6,700
Purchases of items of property, plant and equipment, construction in progress and other intangible asset		**(14,055,200)**	(8,351,010)
Purchases of prepaid land premiums		**(175,177)**	(23,182)
Proceeds from disposal of items of property, plant and equipment		**62,002**	25,176
Proceeds from retrieval of held-to-maturity investments		**2,660**	2,660
Investment in a jointly-controlled entity		**–**	(234,000)
Investments in associates		**(13,500)**	(104,832)
Proceeds from disposal of an associate		**–**	200
Acquisition of a subsidiary/businesses	40	**(44,918)**	(149,774)
Decrease in unpledged time deposits		**63,632**	1,514
Increase in pledged deposits		**(389,303)**	(133,677)
Net cash outflow from investing activities		**(14,366,132)**	(8,932,787)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**14,019,019**	17,113,844
Issue of bonds with warrants		**5,355,650**	–
Repayment of bank and other borrowings		**(8,538,526)**	(11,606,332)
Capital contribution by minority shareholders		**317,983**	23,267
Interest paid		**(773,016)**	(434,623)
Dividend paid		**(632,837)**	(1,011,522)
Dividend paid to minority shareholders		**(26,444)**	(2,265)
Net cash inflow from financing activities		**9,721,829**	4,082,369
NET INCREASE IN CASH AND CASH EQUIVALENTS		**638,501**	1,009,525
Cash and cash equivalents at beginning of year		**3,049,270**	2,112,876
Effect of foreign exchange rate changes, net		**(58,203)**	(73,131)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,629,568**	3,049,270
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	30	**3,629,568**	3,049,270

Balance Sheet

(Prepared under Hong Kong Accounting Standards)
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**17,794,289**	18,159,813
Construction in progress	15	**20,980,235**	7,415,242
Investment properties		**19,619**	-
Prepaid land premiums	17	**1,228,645**	1,092,280
Investments in subsidiaries	19	**794,793**	395,447
Investment in a jointly-controlled entity	20	**234,000**	234,000
Investments in associates	21	**263,276**	255,608
Available-for-sale investments	22	**16,817**	16,817
Held-to-maturity investments	23	**8,259**	10,919
Deferred tax assets	24	**–**	53,175
Total non-current assets		**41,339,933**	27,633,301
CURRENT ASSETS			
Inventories	25	**6,024,808**	4,884,277
Construction contracts	26	**51,119**	31,002
Trade and bills receivables	27	**1,153,273**	2,203,657
Prepayments, deposits and other receivables		**783,540**	401,481
Equity investments at fair value through profit or loss	29	**–**	13,568
Cash and cash equivalents	30	**2,808,993**	2,625,793
Total current assets		**10,821,733**	10,159,778
CURRENT LIABILITIES			
Trade and bills payables	31	**4,993,704**	3,571,040
Other payables and accruals		**5,095,655**	4,185,665
Interest-bearing bank and other borrowings	33	**581,328**	2,158,503
Tax payable		**62,695**	109,470
Provisions	35	**50,770**	114,747
Total current liabilities		**10,784,152**	10,139,425
NET CURRENT ASSETS		**37,581**	20,353
TOTAL ASSETS LESS CURRENT LIABILITIES		**41,377,514**	27,653,654

Balance Sheet (Continued)

(Prepared under Hong Kong Accounting Standards)
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**41,377,514**	27,653,654
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	**15,697,870**	8,528,228
Bonds with warrants	33, 34	**4,672,376**	–
Deferred income		**564,901**	498,086
Provisions	35	**22,045**	29,485
Due to the ultimate holding company	36	**400,000**	400,000
Deferred tax liabilities	24	**754**	–
Total non-current liabilities		**21,357,946**	9,455,799
Net assets		**20,019,568**	18,197,855
EQUITY			
Issued capital	37	**6,455,300**	6,455,300
Equity component of bonds with warrants		**585,463**	–
Reserves	38(b)	**12,139,616**	10,709,707
Proposed final dividend	12	**839,189**	1,032,848
Total equity		**20,019,568**	18,197,855

Gu Jianguo
Director

Su Jiangang
Director

(Prepared under Hong Kong Accounting Standards)
31 December 2006

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and compound financial instrument, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred at the date of exchange.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-*Int 4 Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will replace HKAS 34 and shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's investment in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of a joint-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a joint-controlled entity is treated as a non-current asset and is stated at cost less any impairment losses.

Associates

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

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

The results of associates are included in the Company's income statement to the extent of dividends received or receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contracts, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and structures	4.9%-9.7%
Plant, machinery and equipment	9.7%
Transportation vehicles and equipment	19.4%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life. The principal annual rates used for this purpose are based on the remaining lease terms of the land use rights.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Mine participation right

The Group has a 10% interest in an Australian unincorporated joint venture in which the Group does not have joint control or is not in a position to exercise significant influence. The participants of this joint venture purchased a mine participation right in Australia in the form of a sub-lease for a term of 25 years.

The mine participation right is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over the tenure of the sub-lease.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reserved through the income statement, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bonds with warrants

The component of bonds with warrants that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of bonds with warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that are recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Cash and cash equivalents

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Provisions

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

Revenue recognition

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

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

(b) income from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) investment income, when the shareholders' right to receive payment has been established.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of certain subsidiaries in Hong Kong and overseas are stated at currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruing at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension benefits

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

In addition, on 1 January 2005, the Group commenced to establish a voluntary defined contribution enterprise annuities program (the "Enterprise Annuities") in accordance with the Trial Measures for Enterprise Annuities for eligible employees. Contributions are made based on a percentage of the employees' wages and salaries and are charged to the income statement as they become payable in accordance with the rules of the Enterprise Annuities. The assets of the Enterprise Annuities are held separately from those of the Group in an independently administered fund.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where the useful lives are less than the previously estimated lives and will write off technically obsolete or non-strategic assets that have been abandoned or sold.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

The impairment loss for property, plant and equipment, as well as construction in progress, is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in note 2.4. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell. The value in use was assessed on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The assessment of fair value less cost to sell is based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable willing parties, after deducting the costs of disposal.

Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.

Provision for obsolete inventories under net realisable value

The management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items (including spare parts). The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation on each of the balance sheet date.

Income tax

The Group is subject to income taxes in various regions within the PRC. Due to the fact that certain matters relating to the income taxes have not been confirmed by the relevant tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of the related matters are different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realised.

4. SEGMENT INFORMATION

No business segment information is presented as over 90% of the Group's revenue is derived from one business segment, which is the manufacture and sale of iron and steel products and related by-products.

Geographical segmental analysis is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and capital expenditure is provided.

	2006			2005		
	PRC	**Overseas**	**Total**	PRC	Overseas	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Segment revenue	**30,800,297**	**3,519,577**	**34,319,874**	30,035,284	2,047,812	32,083,096
Segment results	**3,812,660**	**603,133**	**4,415,793**	4,507,109	206,016	4,713,125

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	2006	2005
	RMB'000	RMB'000
Revenue		
Sale of goods	**34,319,874**	32,083,096
Other income and gains		
Bank interest income	**34,259**	22,103
Recognition of deferred income	**49,752**	48,498
Trading of iron ores	**24,525**	90,859
Gain on disposal of equity investments at fair value through profit or loss	**13,994**	–
Others	**41,546**	32,973
	164,076	194,433

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold (note i)		**29,904,081**	27,369,971
Depreciation	14	**2,323,629**	2,064,539
Depreciation of investment properties	16	**586**	–
Recognition of prepaid land premiums	17	**29,070**	21,092
Amortisation of a mine participation right (note ii)	18	**4,481**	1,115
Provision/(reversal of provision) for doubtful debts, net (note iii)		**(9,230)**	554
Auditors' remuneration		**5,100**	5,027
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
Wages and salaries		**1,688,418**	1,497,463
Welfare and benefits		**760,463**	471,540
Pension scheme contributions		**416,479**	368,228
		2,865,360	2,337,231
Contingent rents under operating leases in respect of land and buildings		**36,250**	36,250
Foreign exchange differences:			
Foreign exchange losses/(gains), net		**29,722**	(156,927)
Less: Foreign exchange gains capitalised in construction in progress		**26,150**	2,184
		55,872	(154,743)

6. PROFIT BEFORE TAX (CONTINUED)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

	Notes	2006 RMB'000	2005 RMB'000
Loss on disposal of items of property, plant and equipment, net		**3,011**	19,114
Loss on disposal of items of construction in progress, net		**8,185**	–
Reversal of impairment of property, plant and equipment (note iii)	14	**(19,611)**	–
Reversal of impairment of construction in progress (note iii)	15	**(17,676)**	–
Net rental income		**(1,400)**	(1,250)
Bank interest income		**(34,259)**	(22,103)
Dividend income from an available-for-sale investment		**(5,284)**	(5,281)
Gain on disposal of equity investments at fair value through profit or loss		**(13,994)**	–
Recognition of deferred income (note iv)		**(49,752)**	(48,498)

Notes:

(i) Included in the cost of inventories sold for the year is a reversal of provision against inventories of approximately RMB26,190,000 (2005: a provision of approximately RMB75,464,000).

(ii) The amortisation of a mine participation right is included in "Cost of sales" on the face of the consolidated income statement.

(iii) The provision/(reversal of provision) for doubtful debts, net, the reversal of impairment of property, plant and equipment and the reversal of impairment of construction in progress are included in "Other operating income/(expenses), net" on the face of the consolidated income statement.

(iv) Various government grants have been received for the construction of specific projects and included in deferred income in the balance sheet. Upon completion of the construction of specific projects and the related transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

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7. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	RMB'000
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	**781,726**	457,908
Less: Interest capitalised in construction in progress	**(485,500)**	(95,438)
	296,226	362,470

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2006	2005
	RMB'000	RMB'000
Fees	**220**	180
Other emoluments:		
Salaries, allowances and benefits in kind	**661**	701
Performance related bonuses	**3,717**	3,743
Pension scheme contributions	**30**	40
	4,408	4,484
	4,628	4,664

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(a) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2006	2005
	RMB'000	RMB'000
Independent directors		
Ms. Cheng Shaoxiu	**–**	30
Mr. Wu Junnian	**–**	30
Mr. Shi Jianjun	**–**	30
Mr. Chan Yuk Sing	**–**	30
Mr. Wong Chun Wa	**40**	–
Mr. Su Yong	**40**	–
Mr. Hui Leung Wah	**40**	–
Mr. Han Yi	**40**	–
	160	120
Independent supervisors		
Mr. Wang Xiaoxin	**–**	20
Mr. Jiang Yulin	**–**	20
Ms. Tang Xiaoqing	**–**	20
Ms. Cheng Shaoxiu	**30**	–
Mr. An Qun	**30**	–
	60	60
	220	180

There were no other emoluments payable to the independent directors and independent supervisors during the year (2005: Nil).

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2006					
Executive directors					
Mr. Gu Jianguo	–	108	664	5	777
Mr. Gu Zhanggen	–	108	664	5	777
Mr. Zhu Changqiu	–	108	664	5	777
Mr. Su Jiangang	–	87	531	4	622
Mr. Gao Haijian	–	87	531	4	622
Mr. Zhao Jianming	–	–	–	–	–
	–	498	3,054	23	3,575
Supervisors					
Mr. Li Kezhang	–	87	531	4	622
Mr. Dou Qingxun	–	76	132	3	211
Mr. Fang Jinrong	–	–	–	–	–
	–	163	663	7	833
	–	661	3,717	30	4,408

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors and supervisors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2005					
Executive directors					
Mr. Gu Jianguo	–	108	611	6	725
Mr. Gu Zhanggen	–	108	611	6	725
Mr. Zhu Changqiu	–	108	611	6	725
Mr. Shi Zhaogui	–	–	–	–	–
Mr. Zhao Jianming	–	–	–	–	–
Mr. Su Jiangang	–	87	489	5	581
Mr. Gao Haijian	–	87	489	5	581
	–	498	2,811	28	3,337
Supervisors					
Mr. Gao Jinsheng	–	58	326	3	387
Mr. Li Kezhang	–	87	489	5	581
Mr. Dou Qingxun	–	58	117	4	179
Mr. Fang Jinrong	–	–	–	–	–
	–	203	932	12	1,147
	–	701	3,743	40	4,484

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2005: Nil).

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9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2005: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: one) non-director, non-supervisor, highest paid employee for the year are as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**87**	87
Performance related bonuses	**531**	489
Pension scheme contributions	**4**	5
	622	581

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000. (2005: Nil to RMB1,000,000)

10. TAX

	2006	2005
	RMB'000	RMB'000
Group:		
Current – Mainland China		
Charge for the year	**349,529**	377,121
Underprovision in prior years	**58,230**	52,424
Current – Hong Kong	**1,977**	808
Current – Elsewhere	**12,503**	3,422
Deferred (note 24)	**(74,861)**	(18,441)
Total tax charge for the year	**347,378**	415,334

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

10. TAX (CONTINUED)

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	Group			
	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,799,931**		3,366,149	
Tax at the applicable tax rate	**419,990**	**15**	504,922	15
Tax relief granted	**(24,404)**	**(1)**	(31,137)	(1)
Income not subject to tax	**(46,988)**	**(2)**	(35,159)	(1)
Expenses not deductible for tax	**5,350**	**–**	25,582	1
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in Mainland China*	**–**	**–**	(19,914)	(1)
Other tax concessions	**(96,507)**	**(3)**	(89,793)	(3)
Adjustments in respect of current tax of previous periods	**58,230**	**2**	52,424	2
Effect of different tax rates of subsidiaries	**31,707**	**1**	8,409	–
Tax charge at the Group's effective rate	**347,378**	**12**	415,334	12

* The amount of 2005 represents a tax concession, approved by the Maanshan City local tax bureau, in respect of the purchases of certain manufacturing plant, machinery and equipment in Mainland China. The tax concession is calculated as 40% of the purchases of such manufactured plant, machinery and equipment in Mainland China in the year of purchases. The amount is deductible in not more than five years and limited to the amount of increase in income tax for the year of assessment as compared with the tax amount in previous year of purchases.

The share of tax attributable to associates amounting to RMB17,128,000 (2005: RMB6,313,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB2,269,098,000 (2005: RMB2,677,000,000) which has been dealt with in the financial statements of the Company (note 38(b)).

12. DIVIDEND

	2006	2005
	RMB'000	RMB'000
Proposed final – RMB13 cents (2005: RMB16 cents) per ordinary share	**839,189**	1,032,848

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted earnings per share amounts are based on:

	2006	2005
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**2,394,652**	2,909,943

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**6,455,300,000**	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**30,016,949**	–
	6,485,316,949	6,455,300,000

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
Cost	8,690,543	18,806,495	415,791	27,912,829
Accumulated depreciation and impairment	(2,758,402)	(6,535,075)	(234,660)	(9,528,137)
Net carrying amount	5,932,141	12,271,420	181,131	18,384,692
At 1 January 2006, net of accumulated depreciation and impairment	5,932,141	12,271,420	181,131	18,384,692
Additions	9,858	30,145	3,398	43,401
Acquisition of a subsidiary (note 40)	33,146	15,386	580	49,112
Minority shareholder contribution (note 39)	212,657	385,748	3,883	602,288
Transfers from construction in progress (note 15)	315,820	1,713,783	12,530	2,042,133
Reversal of impairment during the year recognised in the income statement (note 6)	–	19,611	–	19,611
Depreciation provided during the year (note 6)	(510,876)	(1,761,811)	(50,942)	(2,323,629)
Reclassifications	129,450	(135,364)	5,914	–
Disposals/write-off	(13,066)	(42,092)	(9,855)	(65,013)
At 31 December 2006, net of accumulated depreciation and impairment	6,109,130	12,496,826	146,639	18,752,595
At 31 December 2006:				
Cost	9,396,798	20,556,252	395,132	30,348,182
Accumulated depreciation and impairment	(3,287,668)	(8,059,426)	(248,493)	(11,595,587)
Net carrying amount	6,109,130	12,496,826	146,639	18,752,595

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2005				
At 1 January 2005:				
Cost	8,415,688	16,382,167	618,572	25,416,427
Accumulated depreciation and impairment	(2,451,585)	(4,754,470)	(347,725)	(7,553,780)
Net carrying amount	5,964,103	11,627,697	270,847	17,862,647
At 1 January 2005, net of accumulated depreciation and impairment	5,964,103	11,627,697	270,847	17,862,647
Additions	2,550	17,489	12,457	32,496
Acquisition of businesses (note 40)	28,170	21,706	4,520	54,396
Transfers from construction in progress (note 15)	565,731	1,900,295	77,957	2,543,983
Depreciation provided during the year (note 6)	(458,780)	(1,553,189)	(52,570)	(2,064,539)
Reclassifications	(139,181)	269,901	(130,720)	–
Disposals/write-off	(30,452)	(12,479)	(1,360)	(44,291)
At 31 December 2005, net of accumulated depreciation and impairment	5,932,141	12,271,420	181,131	18,384,692
At 31 December 2005:				
Cost	8,690,543	18,806,495	415,791	27,912,829
Accumulated depreciation and impairment	(2,758,402)	(6,535,075)	(234,660)	(9,528,137)
Net carrying amount	5,932,141	12,271,420	181,131	18,384,692

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
Cost	8,568,666	18,682,182	403,905	27,654,753
Accumulated depreciation and impairment	(2,745,721)	(6,518,319)	(230,900)	(9,494,940)
Net carrying amount	5,822,945	12,163,863	173,005	18,159,813
At 1 January 2006, net of accumulated depreciation and impairment	5,822,945	12,163,863	173,005	18,159,813
Additions	6,650	7,214	402	14,266
Transfers from construction in progress (note 15)	223,515	1,666,263	12,317	1,902,095
Reversal of impairment during the year recognised in the income statement	–	19,611	–	19,611
Depreciation provided during the year	(494,422)	(1,709,587)	(43,654)	(2,247,663)
Reclassifications	117,192	(116,458)	(734)	–
Disposals/write-off	(10,649)	(34,642)	(8,542)	(53,833)
At 31 December 2006, net of accumulated depreciation and impairment	5,665,231	11,996,264	132,794	17,794,289
At 31 December 2006:				
Cost	8,922,427	19,987,710	372,150	29,282,287
Accumulated depreciation and impairment	(3,257,196)	(7,991,446)	(239,356)	(11,487,998)
Net carrying amount	5,665,231	11,996,264	132,794	17,794,289

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2005				
At 1 January 2005:				
Cost	8,323,344	16,320,808	611,400	25,255,552
Accumulated depreciation and impairment	(2,443,561)	(4,747,397)	(344,749)	(7,535,707)
Net carrying amount	5,879,783	11,573,411	266,651	17,719,845
At 1 January 2005, net of accumulated depreciation and impairment	5,879,783	11,573,411	266,651	17,719,845
Additions	2,121	5,375	7,654	15,150
Acquisition of businesses (note 40)	28,170	21,706	4,520	54,396
Transfers from construction in progress (note 15)	533,402	1,850,999	77,654	2,462,055
Depreciation provided during the year	(453,913)	(1,543,120)	(50,854)	(2,047,887)
Reclassifications	(136,166)	267,778	(131,612)	–
Disposals/write-off	(30,452)	(12,286)	(1,008)	(43,746)
At 31 December 2005, net of accumulated depreciation and impairment	5,822,945	12,163,863	173,005	18,159,813
At 31 December 2005:				
Cost	8,568,666	18,682,182	403,905	27,654,753
Accumulated depreciation and impairment	(2,745,721)	(6,518,319)	(230,900)	(9,494,940)
Net carrying amount	5,822,945	12,163,863	173,005	18,159,813

All of the Group's and Company's buildings are located in Mainland China.

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of approximately RMB28,013,000 was pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 33 to the financial statements.

At the balance sheet date, certificates of ownership in respect of the Group's buildings with a net book value of RMB70,183,000 has not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

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15. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
31 December 2006		
Cost:		
At 1 January 2006	**7,550,730**	**7,489,242**
Additions	**15,622,250**	**15,457,597**
Minority shareholder contribution (note 39)	**640**	**–**
Transfers to property, plant and equipment (note 14)	**(2,042,133)**	**(1,902,095)**
Write-off	**(64,509)**	**(64,509)**
At 31 December 2006	**21,066,978**	**20,980,235**
Accumulated impairment:		
At 1 January 2006	**74,000**	**74,000**
Reversal of impairment during the year recognised in the income statement (note 6)	**(17,676)**	**(17,676)**
Write-off	**(56,324)**	**(56,324)**
At 31 December 2006	**–**	**–**
At 31 December 2006, net of accumulated impairment	**21,066,978**	**20,980,235**
31 December 2005		
Cost:		
At 1 January 2005	2,116,098	2,056,417
Additions	7,928,760	7,845,025
Acquisition of businesses (note 40)	49,855	49,855
Transfers to property, plant and equipment (note 14)	(2,543,983)	(2,462,055)
At 31 December 2005	7,550,730	7,489,242
Accumulated impairment:		
At beginning of year and 31 December 2005	74,000	74,000
At 31 December 2005, net of accumulated impairment	7,476,730	7,415,242

16. INVESTMENT PROPERTIES

	2006 RMB'000	2005 RMB'000
Carrying amount at 1 January	**–**	–
Additions	**4,145**	–
Depreciation provided during the year (note 6)	**(586)**	–
Carrying amount at 31 December	**3,559**	–

The Group's investment properties are situated in Mainland China and are held under the following lease terms:

	2006 RMB'000
Medium term leases	**1,275**
Short leases	**2,284**
	3,559

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 42 to the financial statements.

17. PREPAID LAND PREMIUMS

Group

	2006 RMB'000	2005 RMB'000
Carrying amount at 1 January	**1,137,801**	1,135,710
Additions	**181,185**	23,183
Acquisition of a subsidiary (note 40)	**13,448**	–
Minority shareholder contribution (note 39)	**154,104**	–
Recognised during the year (note 6)	**(29,070)**	(21,092)
Carrying amount at 31 December	**1,457,468**	1,137,801

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17. PREPAID LAND PREMIUMS (CONTINUED)

Company

	2006 RMB'000	2005 RMB'000
Carrying amount at 1 January	**1,092,280**	1,106,687
Additions	**159,502**	6,188
Recognised during the year	**(23,137)**	(20,595)
Carrying amount at 31 December	**1,228,645**	1,092,280

The leasehold land is held under a medium term lease and is situated in Mainland China.

18. OTHER INTANGIBLE ASSET

Group

	Mine participation right	
	2006 RMB'000	2005 RMB'000
Cost at the beginning of year	**109,035**	–
Additions	**8,953**	110,150
Amortisation provided during the year (note 6)	**(4,481)**	(1,115)
At the end of year	**113,507**	109,035
At the end of year:		
Cost	**119,103**	110,150
Accumulated amortisation	**(5,596)**	(1,115)
Net carrying amount	**113,507**	109,035

19. INVESTMENTS IN SUBSIDIARIES

Company

	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	**794,793**	395,447

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (notes ii, iv)	Mainland China	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services
Design & Research Institute of Maanshan Iron & Steel Company Limited (note i)	Mainland China	RMB50,000,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects, construction supervision and contract service
MG Control Technique Company Limited (notes i, iv)	Mainland China	RMB8,000,000	93.75	4.18	Design of automation systems; purchase, installation and repair of automation, computer and communication systems
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") (notes ii, iv)	Mainland China	US$4,290,000	70	–	Production, sale and transportation of slag products and provision of related consultancy services
Maanshan Iron & Steel (HK) Limited ("Masteel HK")	Hong Kong	HK$4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services

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19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes ii, iv)	Mainland China	RMB35,000,000	70	30	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)
Maanshan Iron & Steel (Australia) Proprietary Limited (note iv)	Australia	AUD21,737,900	100	–	Production and sale of iron ores through an unincorporated joint venture
MG Trading and Development GmbH (note iv)	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services
Ma Steel International Trade and Economic Corporation (notes i, iv)	Mainland China	RMB50,000,000	100	–	Import of machinery and raw materials and export of steel products
Ma Steel (Cihu) Processing and Distribution Co., Ltd. (notes i, iv)	Mainland China	RMB30,000,000	–	92	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage and after-sale services

19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") (notes ii, iv)	Mainland China	RMB30,000,000	71	–	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macro-molecular compound materials; processing and sale of metallic products
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. (notes i, iv)	Mainland China	RMB1,000,000	90	–	Provision of equipment inspection and technical consultancy services, equipment services and equipment inspection work
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iv)	Mainland China	RMB120,000,000	75	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services

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19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (notes i, iii, iv)	Mainland China	RMB334,495,000	71	–	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation; storage, transportation, construction services
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (notes ii, iii, iv)	Mainland China	RMB91,000,000	61	28	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles,home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services

19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") (notes ii, iii, iv)	Mainland China	USD10,000,000	71	–	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except of dangerous chemical products)

Notes:

(i) Registered as limited companies under the PRC law

(ii) Registered as Sino-foreign joint ventures under the PRC law

(iii) Newly incorporated/acquired during the year

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

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

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20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**234,000**	234,000
Share of net assets	**234,000**	234,000	**–**	–
	234,000	234,000	**234,000**	234,000

Particulars of the jointly-controlled entity, which is directly held by the Company, are as follows:

		Percentage of			
Name	**Place of registration**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Mainland China	50	50	50	Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sale services, technical services and other related services

The financial information of the jointly-controlled entity as at 31 December 2006 shared by the Group is presented as follows:

	RMB'000
Non-current assets	**363,076**
Current assets	**8,218**
Current liabilities	**(12,294)**
Non-current liabilities	**(125,000)**
Net assets	**234,000**

As the production plant of the jointly-controlled entity is under construction and its commercial production has not commenced, no income statement of the jointly-controlled entity for the year is presented.

21. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**263,276**	255,608
Share of net assets	**329,514**	268,060	**–**	–
	329,514	268,060	**263,276**	255,608

Particulars of the Group's associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
濟源市金馬焦化有限公司(“濟源市金馬焦化”) (note ii)	Mainland China	40	Production and sale of coke, tar, benzene and coal gas
滕州盛隆煤焦化有限公司(“滕州盛隆煤焦化”) (note ii)	Mainland China	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
上海大宗鋼鐵電子交易中心有限公司 (note ii)	Mainland China	20	Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services
馬鞍山市港口(集團)有限責任公司(“馬鞍山港口公司”) (note ii)	Mainland China	45	Loading/unloading and cargos forwarding agency services; storage, transportation of cargos and division/merge of cargos in containers; provision of general services to ships,repair and manufacture of spare parts of ships

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21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's associates are as follows: (continued)

Name	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
安徽馬鋼立體智能停車設備有限公司 (notes i, ii) ("馬鋼智能停車")	Mainland China	25	Development, production, installation and sales of automatic parking equipments, storage equipments, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters and provision of related integration and consulting services
安徽奧馬特汽車變速系統有限公司 (notes i, ii) ("奧馬特變速系統")	Mainland China	31.95	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services

Notes:

(i) Newly incorporated/acquired during the year

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

The Group's shareholdings in the associates all comprise equity shares held by the Company, except for 馬鋼智能停車, the shareholding in which is held through Masteel HK, and奧馬特變速系統, the shareholding in which is held through Holly Industrial.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006 RMB'000	2005 RMB'000
Assets	**3,108,473**	1,680,038
Liabilities	**(2,185,372)**	(1,229,570)
Revenue	**2,112,525**	1,715,920
Net profit	**114,471**	27,289

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**16,817**	16,817

The above investments consist of investments in equity security which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Debt investments	**8,259**	10,919

The debt investments represent electricity debentures issued by the Anhui Provincial Electricity Supply Authority. The debt investments were acquired by the Company in 1994 and are interest-free and collectable by 10 annual instalments starting from 2000. The amount of the investments will be fully repaid by December 2009.

24. DEFERRED TAX

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

Group and Company

Deferred tax assets

	Repair and maintenance expenses	**Asset provisions**	**Pre-operation expenses**	**Salary payable**	**Sales incentive payable**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	9,024	41,200	4,448	–	–	9,678	64,350
Deferred tax credited/ (charged) to the income statement during the year (note 10)	15,604	(8,936)	18,653	27,421	22,728	(5,255)	70,215
Gross deferred tax assets at 31 December 2006	24,628	32,264	23,101	27,421	22,728	4,423	134,565

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24. DEFERRED TAX (CONTINUED)

Group and Company

Deferred tax liabilities

	Bonds with warrants RMB'000	Furnace relining costs RMB'000	Total RMB'000
At 1 January 2006	–	(11,175)	(11,175)
Deferred tax debited directly to equity (note 34)	(128,790)	–	(128,790)
Deferred tax credited to the income statement during the year (note 10)	4,646	–	4,646
Gross deferred tax liabilities at 31 December 2006	(124,144)	(11,175)	(135,319)
Net deferred tax liabilities at 31 December 2006			(754)

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	–	38,078	–	7,831	45,909
Deferred tax credited to the income statement during the year (note 10)	9,024	3,122	4,448	1,847	18,441
Gross deferred tax assets at 31 December 2005	9,024	41,200	4,448	9,678	64,350

24. DEFERRED TAX (CONTINUED)

Group and Company

Deferred tax liabilities

	Furnace relining costs RMB'000
Gross deferred tax liabilities at 1 January 2005 and 31 December 2005	(11,175)
Net deferred tax assets at 31 December 2005	53,175

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or the jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

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

25. INVENTORIES

	Group		Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Raw materials	**3,593,290**	2,973,684	**3,404,961**	2,829,103
Work in progress	**538,137**	638,586	**503,684**	627,427
Finished goods	**660,684**	360,528	**464,386**	232,293
Spare parts	**1,696,902**	1,195,674	**1,651,777**	1,195,454
	6,489,013	5,168,472	**6,024,808**	4,884,277

At 31 December 2006, the carrying amount of the Group's inventories, which were pledged as security for the Group's trading facilities for the issue of bank bills, amounted to approximately RMB121,914,000 (2005: RMB23,930,000), as further detailed in note 31 to the financial statements.

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26. CONSTRUCTION CONTRACTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Gross amount due from contract customers	**51,119**	31,002
Contract costs incurred to date plus recognised profits less recognised losses	**298,395**	188,542
Less: Progress billings	**(247,276)**	(157,540)
	51,119	31,002

At 31 December 2006, retentions held by customers for contract works included in trade receivables amounted to approximately RMB7 million (2005: RMB16 million).

27. TRADE AND BILLS RECEIVABLES

The Group's credit periods offered to selected customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a few major customers and there is a concentration of credit risk with a maximum exposure equal to the carrying amounts of the trade receivables. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**553,187**	188,665	**525,475**	170,906
Four to six months	**10,623**	32,819	**846**	5,757
Seven to twelve months	**4,953**	49,014	**2,764**	27,711
One to two years	**9,366**	12,578	**6,796**	12,422
Two to three years	**4,292**	407	**3,481**	407
	582,421	283,483	**539,362**	217,203
Bills receivables	**681,138**	1,931,609	**613,911**	1,986,454
	1,263,559	2,215,092	**1,153,273**	2,203,657

Bills receivables will mature within one year.

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries aggregating approximately RMB10,434,000 (2005: approximately RMB32,365,000). Such balances principally arose from normal trading activities.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB27,347,000 (2005: approximately RMB3,049,000) for the purchase of construction services from Holding.

29. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Equity investments listed in Mainland China, at market value	**–**	13,568

All the equity investments at fair value through profit or loss held by the Group have been disposed during year 2006.

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2006	2005
	RMB'000	RMB'000
Cash and bank balances	**3,629,568**	3,027,462
Time deposits and balances with financial institutions, net of provisions	**531,137**	227,554
	4,160,705	3,255,016
Less: Pledged deposits for trading facilities	**(531,137)**	(142,114)
Cash and cash equivalents in the consolidated balance sheet	**3,629,568**	3,112,902
Less: Non-pledged time deposits with original maturity of more than three months when acquired	**–**	(63,632)
Cash and cash equivalents in the consolidated cash flow statement	**3,629,568**	3,049,270

	Company	
	2006	2005
	RMB'000	RMB'000
Cash and bank balances	**2,808,993**	2,562,161
Time deposits and balances with financial institutions, net of provisions	**–**	63,632
Cash and cash equivalents	**2,808,993**	2,625,793

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB3,832,573,000 (2005: RMB2,523,465,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods for not more than six months, depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with three (2005: four) non-bank financial institutions, in aggregate, amounting to approximately HK$119 million (2005: approximately HK$123 million).

	Notes	**2006**	2005
		HK$'000	HK$'000
China Venturetech Investment Corporation ("China Venturetech")	(i)	**–**	3,491
Guangdong International Trust & Investment Corporation ("GITIC")	(ii)	**23,317**	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	**48,000**	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	**48,125**	48,125
		119,442	122,933

Notes:

(i) China Venturetech was in liquidation since 1998 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 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated. On 14 February 2006, the Company received the last instalment of repayment of RMB3,632,000. As at 31 December 2006, the overdue fixed deposit in China Venturetech has been fully settled.

(ii) GITIC was declared bankrupt by the Shenzhen Intermediate People's Court of Guangdong Province on 16 January 1999. On 28 February 2003, the People's High Court of Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case while the liquidation process would remain in progress. During the period from year 2000 to 2004, 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.

(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.

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

31. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**5,950,074**	3,820,295	**4,970,880**	3,554,133
One to two years	**28,668**	36,029	**11,659**	11,749
Two to three years	**13,080**	1,549	**6,748**	1,491
Over three years	**5,900**	5,255	**4,417**	3,667
	5,997,722	3,863,128	**4,993,704**	3,571,040

The trade payables are non-interest-bearing and are normally settled within three months.

Included in the Group's trade payables are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB197,455,000 (2005: approximately RMB170,850,000). Such balances principally arose from normal trading activities.

Included in the Group's trade payables are amounts due to associates, in aggregate, amounting to approximately RMB7,362,000 (2005: approximately RMB8,478,000). Such balances principally arose from normal trading activities.

At 31 December 2006, the carrying amounts of the Group's inventories and cash deposits, which were pledged as security for the Group's trading facilities for the issuance of bank bills, amounted to RMB121,914,000 (2005: RMB23,930,000) and RMB531,137,000 (2005: RMB142,114,000), respectively.

32. OTHER PAYABLES AND ACCRUALS

Other payables are non-interest-bearing and mainly aged within one year.

Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB519,750,000 (2005: approximately RMB67,392,000). Such balances principally arose from normal trading activities.

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Current						
Bank loans – unsecured	0.25-5.76	2007	**800,620**	159,690	**581,328**	158,503
Short term commercial papers – unsecured			**–**	2,000,000	**–**	2,000,000
Other loans – unsecured	5.49	2007	**2,152**	31,671	**–**	–
Other loans – secured	5.49	2007	**6,000**	–	**–**	–
			808,772	2,191,361	**581,328**	2,158,503
Non-current						
Bank loans – unsecured	0.25-5.76	2008-2019	**15,713,140**	8,562,664	**15,697,870**	8,528,228
Other loan – unsecured			**–**	2,152	**–**	–
Other loan – secured			**–**	6,000	**–**	–
			15,713,140	8,570,816	**15,697,870**	8,528,228
Bonds with warrants (note 34)	4.43	2011	**4,672,376**	–	**4,672,376**	–
			20,385,516	8,570,816	**20,370,246**	8,528,228
			21,194,288	10,762,177	**20,951,574**	10,686,731
Analysed into:						
Bank loans repayable:						
Within one year			**800,620**	159,690	**581,328**	158,503
In the second year			**5,508,142**	480,358	**5,506,870**	460,171
In the third to fifth years, inclusive			**10,178,818**	8,039,619	**10,175,000**	8,036,057
Beyond five years			**26,180**	42,687	**16,000**	32,000
			16,513,760	8,722,354	**16,279,198**	8,686,731
Other borrowings repayable:						
Within one year			**8,152**	2,031,671	**–**	2,000,000
In the second year			**–**	8,152	**–**	–
In the third to fifth years, inclusive			**4,672,376**	–	**4,672,376**	–
			4,680,528	2,039,823	**4,672,376**	2,000,000
			21,194,288	10,762,177	**20,951,574**	10,686,731

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Certain of the bank and other borrowings of approximately RMB14,985,128,000 (2005: approximately RMB4,831,511,000) and RMB16,542,000 (2005: approximately RMB16,623,000) are guaranteed by Holding and Sinosteel Trading Company, respectively.

Except for bank and other borrowings of approximately RMB820,150,000 and RMB35,561,000 which are denominated in United States dollars and Euros, respectively, all other borrowings are denominated in RMB.

Please refer to note 34 below for the details of bonds with warrants.

Other loans totalling approximately RMB8,152,000 are granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. Certain of the other loans granted by Profit Access Investments Limited are secured by the pledge of certain of the Group's equipment with an aggregate net book value of approximately RMB28,013,000.

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**769,492**	**31,128**	14,647	145,043
Short term commercial papers	**–**	**–**	2,000,000	–
Other loans – unsecured	**2,152**	**–**	31,671	–
Other loans – secured	**6,000**	**–**	–	–
Non-current				
Bank loans – unsecured	**7,905,270**	**7,807,870**	2,372,436	6,190,228
Other loan – secured	**–**	**–**	6,000	–
Other loan – unsecured	**–**	**–**	2,152	–
Bonds with warrants	**4,672,376**	**–**	–	–

	Company			
	2006		2005	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**550,200**	**31,128**	13,460	145,043
Short term commercial papers	**–**	**–**	2,000,000	–
Non-current				
Bank loans – unsecured	**7,890,000**	**7,807,870**	2,338,000	6,190,228
Bonds with warrants	**4,672,376**	**–**	–	–

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

34. BONDS WITH WARRANTS

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

The bonds with warrants issued during the year have been split as to the liability and equity components as follows:

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Nominal value of bonds with warrants issued during the year	**5,500,000**	–
Equity component (net of deferred tax)	**(604,229)**	–
Deferred tax liability (note 24)	**(128,790)**	–
Direct transaction costs attributable to the liability component	**(125,584)**	–
Liability component at the issue date	**4,641,397**	–
Interest expense	**30,979**	–
Interest paid	**–**	–
Liability component at 31 December (note 33)	**4,672,376**	–

35. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees	**Housing subsidies**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2006	40,258	103,974	144,232
Amounts utilised during the year	(10,773)	(60,644)	(71,417)
At 31 December 2006	29,485	43,330	72,815
Portion classified as current liabilities	(7,440)	(43,330)	(50,770)
Non-current portion	22,045	–	22,045

Housing subsidies represents one-off lump sum cash subsidies payable to both current and retired employees by the Company pursuant to an implemented staff housing subsidy scheme in prior years. According to the revised staff housing subsidy scheme in 2003, no such subsidies will be accrued.

36. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to Holding is unsecured, interest-free and is repayable after 1 January 2008.

37. SHARE CAPITAL

		Group and Company	
		2006	2005
		RMB'000	RMB'000
Registered, issued and fully paid:			
4,034,560,000	State owned shares	**4,034,560**	4,034,560
87,810,000	Legal person A shares	**87,810**	87,810
600,000,000	Individual A shares of RMB1.00 each	**600,000**	600,000
1,732,930,000	H shares of RMB1.00 each	**1,732,930**	1,732,930
6,455,300,000		**6,455,300**	6,455,300

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

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37. SHARE CAPITAL (CONTINUED)

On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares ("Non-circulating Shares") into listed and circulating A shares ("Circulating A Shares") (the "State Share Reform") have been obtained. The then Non-circulating Shares have been entitled to be listed and become Circulating A Shares since 31 March 2006 (the "Listing Date"). In accordance with the execution arrangement, Holding offered 3.4 of its shares to each original Circulating A Shares' shareholder for every 10 Circulating A Shares they held. The number of shares held by Holding decreased by 204 million shares whereas the number of shares held by the original Circulating A Shares' shareholders increased by 204 million shares. The total number of issued share of the Company remained unchanged.

After the implementation of the State Share Reform, all the shares held by Holding and the legal person A shares held by other domestic legal persons are not listed for trading or transferred within 12 months from the Listing Date and the State-owned shares held by Holding are also not listed for trading and transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 68 of the financial statements.

(b) Company

	Capital reserve account RMB'000	Statutory reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	4,864,976	888,003	888,003	2,424,573	9,065,555
Profit for the year	–	–	–	2,677,000	2,677,000
Transfer to reserves	–	278,667	278,667	(557,334)	–
Proposed final 2005 dividend	–	–	–	(1,032,848)	(1,032,848)
At 31 December 2005 and 1 January 2006	4,864,976	1,166,670	1,166,670	3,511,391	10,709,707
Profit for the year	–	–	–	2,269,098	2,269,098
Transfer from/(to) reserves	–	1,397,993	(1,166,670)	(231,323)	–
Proposed final 2006 dividend	–	–	–	(839,189)	(839,189)
At 31 December 2006	4,864,976	2,564,663	–	4,709,977	12,139,616

38. RESERVES (CONTINUED)

In accordance with the Company Law of the PRC and the articles of associations of the Company and certain of its subsidiaries, 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 reserve (the "SR") until such reserves reach 50% of the registered capital of these companies. Part of the SR may be capitalised as these company's share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

In previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory public welfare fund (the "PWF"). According to the Company Law of the People's Republic of China (2005 revised) that took effect as of 1 January 2006, and the modified articles of associations, the Company and certain of its subsidiaries were not required to allocate any profit to the PWF starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SR.

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB231.3 million (2005: approximately RMB278.7 million) to the SR. This represents 10% of the Company's profit after tax of approximately RMB2,313 million (2005: approximately RMB2,787 million) determined in accordance with PRC accounting standards and regulations.

During the year, the share of the subsidiaries' current year appropriations to the SR, the reserve fund and the enterprise expansion fund, in accordance with the percentage of equity held by the Group, were approximately RMB6.1 million (2005: approximately RMB8.1 million), approximately RMB11.9 million (2005: approximately RMB7.6 million) and approximately RMB7.7 million (2005: approximately RMB5.5 million), respectively.

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

As at 31 December 2006, the Company had retained profits of approximately RMB4,710 million (31 December 2005: approximately RMB3,511 million) after the appropriation of the proposed final dividend, 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 in kind.

As at 31 December 2006, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of approximately RMB5.45 billion (2005: approximately RMB5.45 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.

39. ESTABLISHMENT OF A SUBSIDIARY

On 28 April 2006, the Company and Hefei Investment Holding Company Limited ("Hefei Investment Holding") entered into a Venturers' Agreement for the establishment of Ma Steel (Hefei). Pursuant to the Venturers' Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in Ma Steel (Hefei), respectively.

On 10 May 2006, Ma Steel (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of Ma Steel (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two instalments. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to Ma Steel (Hefei) and Hefei Investment Holding has also contributed cash of approximately RMB299,313,000 and certain assets (including certain prepaid land premiums and production equipment located in Hefei City used for the manufacture of iron and steel products) and liabilities amounting to a net liability value of approximately RMB202,313,000 to Ma Steel (Hefei).

Details of the net liability value of RMB202,313,000 injected into Ma Steel (Hefei) by Hefei Investment Holding are as follows:

	Notes	RMB'000
Property, plant and equipment, net	14	602,288
Construction in progress	15	640
Prepaid land premiums	17	154,104
Inventories		115,343
Prepayments, deposits and other receivables		26,635
Bank and other borrowings		(476,620)
Trade and bills payables		(509,512)
Other payables and accruals		(115,191)
		(202,313)

40. BUSINESS COMBINATIONS

(a) Acquisition of a 71% equity interest in MS (Yangzhou) Processing

On 26 November 2006, the Company acquired a 71% of equity interest in 寶威鋼板製品 (揚州) 有限公司 ("Burwill (Yangzhou)") from Burwill Times Industrial Limited at a cash consideration of RMB61,651,010. Burwill (Yangzhou) is mainly engaged in high value-added steel coil processing and distribution in the PRC. Upon completion of the acquisition, Burwill (Yangzhou) will be renamed as Ma Steel (Yangzhou) Processing & Distribution Co., Ltd. ("MS (Yangzhou) Processing"). The consideration was determined with reference to the net assets value, which was valued by 江蘇天衡會計師事務所.

(b) Acquisition of the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Magang Holding Construction Co., Ltd. ("Construction Company"), a wholly-owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and electrical and mechanical equipment installation business (the "Businesses"). The acquisition price amounting to approximately RMB149,774,000 was determined by reference to an asset appraisal report issued by an independent assets valuer, Jiangsu Talent Certified Public Accountants. In accordance with the terms of the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, the Businesses were entrusted to Construction Company for management and the profit and loss were assumed by the Company, which were not significant.

The fair values of the identifiable assets and liabilities as at the date of the acquisition were as follow:

	Notes	**2006** **RMB'000**	2005 RMB'000
Property, plant and equipment, net	14	**49,112**	54,396
Construction in progress	15	**–**	49,855
Prepaid land premiums	17	**13,448**	–
Inventories		**354**	88,740
Construction contracts		**–**	63,500
Trade and bills receivables		**11,883**	76,108
Prepayments, deposits and other receivables		**2,024**	20,825
Cash and cash equivalents		**12,487**	–
Trade payables		**(1,534)**	(113,421)
Other payables and accruals		**(309)**	(89,100)
Tax payable		**(633)**	(1,129)
Minority interests		**(25,181)**	–
Net assets value		**61,651**	149,774
Cash consideration		**61,651**	149,774
Less: Unpaid portion of cash consideration		**(4,246)**	–
		57,405	149,774

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40. BUSINESS COMBINATIONS (CONTINUED)

An analysis of the net outflow of cash and cash equivalents in respect of the aforesaid acquisitions is as follows:

	2006 RMB'000	2005 RMB'000
Cash payment	**57,405**	149,774
Cash and cash equivalents acquired	**(12,487)**	–
Net outflow of cash and cash equivalents in respect of the aforesaid acquisitions	**44,918**	149,774

Since the aforesaid acquisitions, MS (Yangzhou) Processing's contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 were not significant. The Businesses' contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2005 were not significant either.

Had these combinations taken place at the beginning of the year, the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent would have been RMB34,355 million and RMB2,395 million for the year ended 31 December 2006, respectively, and RMB32,083 million and RMB2,910 million for the year ended 31 December 2005, respectively.

41. CONTINGENT LIABILITIES

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

	Group		Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**7,728,130**	7,795,113

42. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties (in note 16 to the financial statements) under operating lease arrangement with BOC-Ma Steel for 18 years. The periodic rent is fixed during the operating lease period.

Holly Industrial, a subsidiary of the Company, leases its investment properties (in note 16 to the financial statements) under operating lease arrangement for 2 years. The periodic rent is fixed during the operating lease period.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Within one year	**1,306**	1,250
In the second to fifth years, inclusive	**5,000**	5,000
After five years	**13,750**	15,000
	20,056	21,250

43. CAPITAL COMMITMENTS

(a) The Group's and Company's commitments for capital expenditure for buildings and structures, plants and equipments at the balance sheet date were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for	**5,217,641**	11,044,413	**4,469,724**	11,042,318
Contracted, but not provided for	**4,093,227**	9,835,947	**4,051,077**	9,828,677
	9,310,868	20,880,360	**8,520,801**	20,870,995

(b) The Group's and Company's commitments for capital contributions at the balance sheet date were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for	**13,500**	7,668	**172,947**	34,668

43. CAPITAL COMMITMENTS (CONTINUED)

(c) The Group's and Company's share of the capital commitments of the jointly-controlled entity, which was not included in note (a) above, in respect of capital expenditure for buildings and structures, plants and equipments at the balance sheet date was as follows:

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Authorised, but not contracted for	**10,952**	31,202
Contracted, but not provided for	**39,351**	148,218
	50,303	179,420

(d) The Group's and Company's share of other commitments of the jointly-controlled entity, which was not included in notes (a) and (c) above at the balance sheet date was as follows:

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Contracted, but not provided for	**5,000**	–

44. MAJOR NON-CASH TRANSACTION

During the year, Hefei Investment Holding injected certain non-cash assets and liabilities amounting to a net liability value of approximately RMB202,213,000 into Ma Steel (Hefei) as its capital contribution. For further details, please refer to note 39.

45. RELATED PARTY TRANSACTIONS

(a) Transactions carried out between the Group and its related parties during the year

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

	Notes	2006 RMB'000	2005 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	**1,631,201**	1,408,068
Fees paid for welfare, support services and other services	(ii), (iii)	**194,497**	206,210
Rental expenses	(iii)	**36,250**	36,250
Agency fee paid	(iii)	**4,093**	3,784
Purchases of property, plant and equipment and construction services	(iii)	**295,468**	266,777
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(23,221)**	(27,497)
Sale of steel and other by-products	(iii)	**(8,951)**	(8,479)
Acquisition of businesses	(iv)	**–**	149,774
Transactions with associates of the Company:			
Purchases of coke	(v)	**1,085,125**	598,732
Loading expenses	(v)	**75,036**	40,076
Transactions with the jointly-controlled entity of the Company:			
Rental income	(vi)	**(1,250)**	(1,250)
Construction fees income	(vi)	**(2,926)**	(7,440)

Notes:

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 9 October 2003 entered into between the Company and Holding.

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 9 October 2003 entered into between the Company and Holding.

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions carried out between the Group and its related parties during the year (continued)

(iv) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly-owned subsidiary of Holding at a cash consideration of approximately RMB150 million in 2005, as further detailed in note 40 to the financial statements.

(v) These transactions were made between the Group and 濟源市金馬焦化, 滕州盛隆煤焦化, 馬鞍山港口公司 and 馬鋼智能停車 that were conducted in accordance with the terms mutually agreed between the parties.

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

(b) Holding has guaranteed certain bank loans of the Group and bonds with warrants up to approximately RMB15 billion (2005: approximately RMB4.8 billion) as at the balance sheet date at nil consideration, as further detailed in note 33 to the financial statements.

(c) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in notes 27, 28, 31, 32 and 36 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2006	2005
	RMB'000	RMB'000
Short term employee benefits	**6,476**	6,608
Post-employment benefits	**40**	53
Total compensation paid to key management personnel	**6,516**	6,661

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

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

The related party transactions in respect of items (a) (i) to (iv) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, short term commercial papers, bonds with warrants, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and other payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of the risks and they are summarised below:

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's long term debt obligations with floating interest rates. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk.

At 31 December 2006, approximately 63% (2005: 41%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Foreign currency risk

The businesses of the Group are principally located in Mainland China. While most of the transactions are conducted in RMB, certain of its sales, purchases and borrowings were denominated in United Stated dollars, Euros and Japanese Yens. Fluctuations of the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all trade debtors who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other major financial assets of the Group, which comprise pledged deposits, cash and cash equivalents, and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, short term commercial papers, bonds with warrants and other available sources of financing. 4% of the Group's debts would mature in less than one year at 31 December 2006 (2005: 20%).

47. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

The financial statements prepared under PRC Accounting Standards are audited by Ernst & Young Hua Ming.

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

	Notes	2006 RMB'000	2005 RMB'000
Net profit			
Profit attributable to equity holders of the parent under Hong Kong Accounting Standards		**2,394,652**	2,909,943
Add back:			
Employee bonus and welfare fund	(ii)	**6,547**	4,616
Deduct:			
Deferred tax income	(i)	**(74,861)**	(18,441)
Recognition of deferred income	(iii)	**(49,752)**	(48,498)
Profit attributable to equity holders of the parent under PRC Accounting Standards		**2,276,586**	2,847,620
Shareholders' equity			
Equity attributable to equity holders of the parent under Hong Kong Accounting Standards		**20,461,771**	18,514,504
Add back:			
Deferred tax liabilities	(i)	**754**	–
Deferred income	(iii)	**588,569**	585,369
Deduct:			
Deferred tax assets	(i)	**–**	(53,175)
Recognition of deferred income	(iii)	**(140,235)**	(90,483)
Provision for furnace relining costs	(iv)	**(74,499)**	(74,499)
Recognition of equity component of bonds with warrants	(v)	**(733,019)**	–
Direct issue cost of bonds with warrants recognised as a deduction from equity component	(v)	**18,766**	–
Equity attributable to equity holders of the parent under PRC Accounting Standards		**20,122,107**	18,881,716

47. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (CONTINUED)

(i) Deferred tax

Under HKAS 12 *Income Tax*, 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 liabilities recognised as at 31 December 2006 amounted to approximately RMB0.8 million (2005: deferred tax assets of approximately RMB53.2 million). The movement in the deferred tax resulted in a deferred tax income of approximately RMB74.9 million in the current year (2005: approximately RMB18.4 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing differences on income tax. Thus, no deferred tax was recognised as at 31 December 2005 and 31 December 2006.

(ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the boards of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB6.5 million (2005: approximately RMB4.6 million).

Under Hong Kong Accounting Standards, the appropriation to the employee bonus and welfare fund is accounted for as staff cost and is charged to the current year's income statement.

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

(iii) Deferred income

Government grants for specific construction projects are accounted for as specific payables under PRC Accounting Standards, whereas under Hong Kong Accounting Standards, such grants are accounted for as deferred income.

Under HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB3.2 million received in the current and prior year, were completed. As at 31 December 2006, accumulated deferred income amounting to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB49.8 million (2005: approximately RMB48.5 million) was released to the current year's income statement. As at 31 December 2006, the accumulated deferred income released amounted to approximately RMB140.2 million (31 December 2005: approximately RMB90.5 million).

47. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (CONTINUED)

(iii) Deferred income (continued)

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2006, accumulated specific payables transferred to the capital reserve amounted to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million).

(iv) Furnace relining costs

Under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 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.

Under the PRC Accounting Standard Fixed Assets issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment 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 RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2005: Nil), and the remaining provision as at 31 December 2006 amounted to approximately RMB74.5 million (2005: approximately RMB74.5 million).

(v) Bonds with warrants

Under HKAS 32 *Financial instruments: Disclosure and Presentation*, the bonds with warrants are determined as a compound financial instrument and should be separately classified as liability and equity components. At the issue date, the carrying amount of the liability component was determined to be approximately RMB4,767 million by measuring the fair value of a similar liability that does not have an associated equity component, and the equity component is then determined to be approximately RMB733 million by deducting the fair value of the liability from the fair value of the compound financial instrument as a whole of RMB5,500 million. Besides, the direct issue costs of the bonds with warrants were allocated between the separate components and the amount recognised as deduction from equity is approximately RMB18.8 million.

Under the PRC accounting standard and regulations, bonds with warrants were recorded as bonds payable at a nominal value of RMB5,500 million at the issue date. Besides, the direct issue costs of bonds with warrants were capitalised in construction in process.

48. POST BALANCE SHEET EVENTS

(i) The Company proposed to issue 20,000,000 short term commercial papers with a nominal value of RMB100 each, amounting to RMB2 billion in total. The short term commercial papers will be issued at par and have a maturity of one year from the date of issuance. The proceeds from the issue will be used to finance the working capital of the Company.

The proposal of issuance has been approved in the extraordinary general meeting held on 1 February 2007. Up to reporting date, the proposal is pending for approval of the People's Bank of China.

(ii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.

Report of the Auditors

ERNST & YOUNG HUA MING
安永华明会计师事务所

Ernst & Young Hua Ming (2007) Shen Zi No. 60438514-A02

To the shareholders of Maanshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company balance sheet as at 31 December 2006, the consolidated and company statement of income and profit appropriation, consolidated and company cash flow statement for the year then ended and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing financial statements in accordance with the Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises". This responsibility includes (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements of the Company and the Group have been prepared in accordance with Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises", and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006, and the results of their operations and their cash flows for the year then ended.

Ernst & Young Hua Ming
Beijing, the People's Republic of China

Ge Ming
Chinese Certified Public Accountant

Qin Tongzhou
Chinese Certified Public Accountant

17 April 2007

Consolidated Balance Sheet

(Prepared under PRC Accounting Standards)
31 December 2006

ASSETS	Note V	31 December 2006 RMB	31 December 2005 RMB
CURRENT ASSETS:			
Cash and balances with financial institutions	1	**4,160,704,714**	3,255,015,677
Short term investments	3	**–**	13,568,593
Bills receivable	4	**681,137,717**	1,931,609,265
Trade receivables	5	**582,420,964**	283,482,921
Other receivables	6	**160,637,099**	179,272,265
Prepayments	7	**608,716,305**	377,901,381
Inventories	8	**6,540,131,949**	5,199,473,669
Total current assets		**12,733,748,748**	11,240,323,771
LONG TERM INVESTMENTS:			
Long term equity investments	9	**580,331,440**	518,876,716
Long term debt investment	9	**8,258,870**	10,918,870
Total long term investments		**588,590,310**	529,795,586
FIXED ASSETS:			
Cost	10	**30,407,783,693**	27,919,518,755
Less: Accumulated depreciation	10	**(11,506,681,401)**	(9,411,080,281)
Net book value	10	**18,901,102,292**	18,508,438,474
Less: Impairment provision	10	**(90,675,644)**	(117,056,844)
Fixed assets, net	10	**18,810,426,648**	18,391,381,630
Construction materials		**2,334,055,945**	3,018,828,077
Construction in progress	11	**18,859,342,324**	4,727,901,749
Total fixed assets		**40,003,824,917**	26,138,111,456
INTANGIBLE AND OTHER ASSETS:			
Intangible assets	12	**1,516,702,696**	970,146,049
TOTAL ASSETS		**54,842,866,671**	38,878,376,862

The accompanying notes form an integral part of the financial statements

(Prepared under PRC Accounting Standards)
31 December 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2006 RMB	31 December 2005 RMB
CURRENT LIABILITIES:			
Short term loans	13	**399,018,506**	112,372,660
Bills payable	14	**1,346,880,982**	655,567,000
Short term commercial papers	15	**–**	2,000,000,000
Accounts payable	16	**4,650,841,361**	3,207,561,493
Deposits received	17	**3,924,584,355**	3,430,012,919
Salary payable	18	**145,612,912**	102,958,705
Staff welfare payable		**68,124,566**	91,069,612
Dividends payable	19	**408,654,914**	8,643,954
Taxes payable	20	**253,910,277**	493,789,755
Other taxes payable	21	**45,712,892**	20,307,877
Other payables	22	**827,363,152**	480,082,581
Accrued charges	23	**90,504,692**	99,117,648
Long term loans due within a year	24	**409,752,537**	78,988,309
Total current liabilities		**12,570,961,146**	10,780,472,513
LONG TERM LIABILITIES:			
Long term loans	25	**15,713,139,994**	8,570,815,511
Bonds payable	26	**5,513,050,950**	–
Specific payables	27	**116,566,523**	3,200,000
Other long term liabilities	28	**496,543,959**	503,984,331
Total long term liabilities		**21,839,301,426**	9,077,999,842
Total liabilities		**34,410,262,572**	19,858,472,355
MINORITY INTERESTS	29	**310,497,169**	138,188,599
SHAREHOLDERS' EQUITY:			
Share capital	30	**6,455,300,000**	6,455,300,000
Capital reserve	31	**5,453,545,095**	5,450,345,095
Surplus reserves	32	**2,637,160,200**	2,380,147,996
including: statutory public welfare fund	32	**–**	1,178,385,368
Retained profits	33	**5,576,101,635**	4,595,922,817
including: cash dividend proposed by directors	42	**839,189,000**	1,032,848,000
Total shareholders' equity		**20,122,106,930**	18,881,715,908
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**54,842,866,671**	38,878,376,862

The accompanying notes form an integral part of the financial statements

Company Representative:	Chief Accountant:	Head of Accounting Department:
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
17 April 2007	17 April 2007	17 April 2007

Consolidated Statement of Income and Profit Appropriation

(Prepared under PRC Accounting Standards)
Year ender 31 December 2006

	Note V	2006 RMB	2005 RMB
Principal operating income	34	**34,319,874,152**	32,083,096,010
Less: Cost of sales	34	**(29,930,271,138)**	(27,294,506,637)
Taxes and surcharges	35	**(240,393,042)**	(219,107,015)
Profit from principal operating activities		**4,149,209,972**	4,569,482,358
Add: Other operating profit	36	**51,436,894**	116,214,796
Less: Selling expenses		**(228,996,806)**	(208,996,377)
Administrative expenses	37	**(964,295,568)**	(929,639,074)
Financial expenses	38	**(342,770,249)**	(209,482,151)
Operating profit		**2,664,584,243**	3,337,579,552
Add: Investment income	39	**59,564,445**	18,745,331
Subsidies income	40	**5,850,001**	1,992,600
Non-operating income		**3,499,848**	342,974
Less: Non-operating expenses	41	**23,227,435**	(36,393,600)
Profit before tax		**2,756,725,972**	3,322,266,857
Less: Income tax		**(422,239,437)**	(433,775,030)
Minority interests	29	**(57,900,632)**	(40,871,867)
Net profit		**2,276,585,903**	2,847,619,960
Add: Retained profits at beginning of year		**4,595,922,817**	3,758,605,642
Profit available for distribution		**6,872,508,720**	6,606,225,602
Less: Transfers to statutory reserve	33	**(237,416,338)**	(286,812,511)
Transfers to statutory public welfare fund	33	**–**	(285,532,897)
Transfers to reserve fund	33	**(11,934,321)**	(7,632,717)
Transfers to enterprise expansion fund	33	**(7,661,545)**	(5,542,898)
Transfers to employee bonus and welfare fund	33	**(6,546,881)**	(4,615,762)
Profit available for distribution to shareholders		**6,608,949,635**	6,016,088,817
Less: Ordinary share dividend payable		**(1,032,848,000)**	(1,420,166,000)
Retained profits at end of year		**5,576,101,635**	4,595,922,817

The accompanying notes form an integral part of the financial statements

Company Representative:
Gu Jianguo
17 April 2007

Chief Accountant:
Su Jiangang
17 April 2007

Head of Accounting Department:
Guan Yagang
17 April 2007

Consolidated Cash Flow Statement

(Prepared under PRC Accounting Standards)
Year ender 31 December 2006

	Note V	2006 RMB	2005 RMB
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**44,077,721,477**	39,284,980,552
Refunds of taxes		**5,632,500**	1,892,206
Cash received relating to other operating activities		**73,699,849**	2,335,575
Sub-total of cash inflows		**44,157,053,826**	39,289,208,333
Cash paid for goods and services		**(32,681,829,481)**	(27,295,972,571)
Cash paid to and on behalf of employees		**(2,833,399,061)**	(2,293,159,331)
Cash paid for all taxes		**(2,942,129,860)**	(3,067,212,822)
Cash paid relating to other operating activities	43	**(416,891,551)**	(461,922,093)
Sub-total of cash outflows		**(38,874,249,953)**	(33,118,266,817)
Net cash flows from operating activities		**5,282,803,873**	6,170,941,516
2. Cash flows from investing activities:			
Cash received from disposal of investments		**30,222,330**	2,860,000
Cash received from returns on investments		**39,542,992**	27,439,112
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**62,000,181**	25,175,989
Cash received from retrieval of pledged deposits and overdue deposits		**3,632,085**	1,837,894
Cash received relating to other investing activities	44	**116,566,523**	6,700,000
Sub-total of cash inflows		**251,964,111**	64,012,995
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(14,230,379,016)**	(8,374,192,126)
Cash paid for acquisitions of investments		**(13,500,000)**	(338,831,800)
Cash paid for acquisition of businesses or a subsidiary	45	**(44,917,194)**	(149,773,584)
Increase in pledged deposits		**(389,300,000)**	(134,000,000)
Sub-total of cash outflows		**(14,678,096,210)**	(8,996,797,510)
Net cash flows from investing activities		**(14,426,132,099)**	(8,932,784,515)

The accompanying notes form an integral part of the financial statements

Consolidated Cash Flow Statement (Continued)

(Prepared under PRC Accounting Standards)
Year ender 31 December 2006

		2006 RMB	2005 RMB
3.	**Cash flows from financing activities:**		
	Cash received from capital contribution	**317,982,830**	23,267,121
	Cash received from issue of bonds with warrants	**5,355,650,000**	–
	Cash received from borrowings	**14,019,018,506**	17,113,842,160
	Sub-total of cash inflows	**19,692,651,336**	17,137,109,281
	Cash repayments of borrowings	**(8,538,526,131)**	(11,917,331,618)
	Cash paid for distribution of dividend or profits and for interest expenses	**(1,432,295,804)**	(1,448,410,583)
	Sub-total of cash outflows	**(9,970,821,935)**	(13,365,742,201)
	Net cash flows from financing activities	**9,721,829,401**	3,771,367,080
4.	**Effect of foreign exchange rate changes on cash**	**(58,202,373)**	(73,130,570)
5.	**Net increase in cash and cash equivalents**	**520,298,802**	936,393,511

(Prepared under PRC Accounting Standards)
Year ender 31 December 2006

	Note V	2006 RMB	2005 RMB
Supplementary information			
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit		**2,276,585,903**	2,847,619,960
Add: Minority interests		**57,900,632**	40,871,867
Provision/(reversal of provision) for doubtful debts		**(9,230,087)**	553,755
Provision/(reversal of provision) against inventories		**(26,190,003)**	75,464,166
Reversal of impairment of fixed assets		**(19,611,200)**	–
eversal of impairment of construction in progress		**(17,676,148)**	–
Depreciation of fixed assets		**2,325,398,867**	2,064,538,556
Amortisation of intangible assets		**32,367,033**	22,207,400
Increase/(decrease) in accrued charges		**(17,059,647)**	5,512,221
Loss on disposal of fixed assets, intangible assets and other long term assets, net		**11,196,092**	19,114,220
Financial expenses		**317,839,164**	185,623,276
Investment income		**(59,564,445)**	(18,745,330)
Increase in inventories		**(1,198,771,501)**	(368,513,624)
Decrease in receivables from operating activities		**781,458,204**	610,044,174
Increase in payables from operating activities		**828,161,009**	686,650,875
Net cash flows from operating activities		**5,282,803,873**	6,170,941,516
2. Investing and financing activities that do not involve cash receipts and payments:			
Capital contributed in non-cash assets and liabilities by a minority shareholder	46	**(202,312,595)**	–
3. Net increase in cash and cash equivalents:			
Cash and balances with financial institutions at end of year		**3,629,568,054**	3,109,269,252
Less: Cash and balances with financial institutions at beginning of year		**(3,109,269,252)**	(2,172,875,741)
Add: Balance of cash equivalents at end of year		**–**	–
Less: Balance of cash equivalents at beginning of year		**–**	–
Net increase in cash and cash equivalents		**520,298,802**	936,393,511

The accompanying notes form an integral part of the financial statements

Company Representative:	Chief Accountant:	Head of Accounting Department:
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
17 April 2007	17 April 2007	17 April 2007

Company Balance Sheet

(Prepared under PRC Accounting Standards)
31 December 2006

ASSETS	Note V	31 December 2006 RMB	31 December 2005 RMB
CURRENT ASSETS:			
Cash and balances with financial institutions		**2,808,993,288**	2,625,793,200
Short term investments		**–**	13,568,593
Bills receivable		**613,910,339**	1,986,453,537
Trade receivables	5	**539,362,472**	217,203,609
Other receivables	6	**50,088,671**	22,408,276
Prepayments		**733,451,150**	379,072,433
Inventories		**6,075,927,157**	4,915,277,790
Total current assets		**10,821,733,077**	10,159,777,438
LONG TERM INVESTMENTS:			
Long term equity investments	9	**1,749,314,443**	1,173,559,564
Long term debt investment	9	**8,258,870**	10,918,870
Total long term investments		**1,757,573,313**	1,184,478,434
FIXED ASSETS:			
Cost		**29,295,636,670**	27,654,753,443
Less: Accumulated depreciation		**(11,397,639,594)**	(9,377,882,621)
Net book value		**17,897,997,076**	18,276,870,822
Less: Impairment provision		**(90,675,644)**	(117,056,844)
Fixed assets, net		**17,807,321,432**	18,159,813,978
Construction materials		**2,324,778,635**	3,013,302,877
Construction in progress		**18,781,877,150**	4,671,938,945
Total fixed assets		**38,913,977,217**	25,845,055,800
INTANGIBLE AND OTHER ASSETS:			
Intangible assets		**1,235,231,574**	822,280,314
TOTAL ASSETS		**52,728,515,181**	38,011,591,986

The accompanying notes form an integral part of the financial statements

(Prepared under PRC Accounting Standards)
31 December 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2006 RMB	31 December 2005 RMB
CURRENT LIABILITIES:			
Short term loans		**200,000,000**	80,702,000
Bills payable		**365,380,982**	335,567,000
Short term commercial papers		**–**	2,000,000,000
Accounts payable		**4,628,322,903**	3,235,473,002
Deposits received		**3,667,107,146**	3,115,902,605
Salary payable		**132,205,414**	97,561,911
Staff welfare payable		**55,925,051**	83,999,949
Dividends payable		**407,802,582**	8,643,954
Taxes payable		**209,428,753**	488,345,802
Other taxes payable		**44,030,473**	19,412,734
Other payables		**606,814,649**	503,254,653
Accrued charges		**85,805,610**	92,760,693
Long term loans due within a year		**381,328,044**	77,800,936
Total current liabilities		**10,784,151,607**	10,139,425,239
LONG TERM LIABILITIES:			
Long term loans		**15,697,870,000**	8,528,227,671
Bonds payable		**5,513,050,950**	–
Specific payables		**116,566,523**	3,200,000
Other long term liabilities		**496,543,959**	503,984,331
Total long term liabilities		**21,824,031,432**	9,035,412,002
Total liabilities		**32,608,183,039**	19,174,837,241
SHAREHOLDERS' EQUITY:			
Share capital	30	**6,455,300,000**	6,455,300,000
Capital reserve	31	**5,453,545,095**	5,450,345,095
Surplus reserves	32	**2,564,661,890**	2,333,339,350
including: statutory public welfare fund	32	**–**	1,166,669,675
Retained profits		**5,646,825,157**	4,597,770,300
including: cash dividend proposed by directors	42	**839,189,000**	1,032,848,000
Total shareholders' equity		**20,120,332,142**	18,836,754,745
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**52,728,515,181**	38,011,591,986

The accompanying notes form an integral part of the financial statements

Company Representative:	Chief Accountant:	Head of Accounting Department:
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
17 April 2007	17 April 2007	17 April 2007

Company Statement of Income and Profit Appropriation

(Prepared under PRC Accounting Standards)
Year ended 31 December 2006

	Note V	2006 RMB	2005 RMB
Principal operating income	34	**34,268,626,938**	31,998,588,914
Less: Cost of sales	34	**(30,285,563,542)**	(27,512,160,269)
Taxes and surcharges		**(224,924,835)**	(213,737,343)
Profit from principal operating activities		**3,758,138,561**	4,272,691,302
Add: Other operating profit		**9,466,611**	11,957,707
Less: Selling expenses		**(222,155,506)**	(202,641,639)
Administrative expenses		**(844,280,172)**	(861,967,126)
Financial expenses		**(308,870,230)**	(175,274,567)
Operating profit		**2,392,299,264**	3,044,765,677
Add: Investment income	39	**257,408,373**	187,482,534
Non-operating income		**2,953,463**	162,362
Less: Non-operating expenses		**22,851,436**	(36,165,544)
Profit before tax		**2,675,512,536**	3,196,245,029
Less: Income tax		**(362,287,139)**	(409,582,020)
Net profit		**2,313,225,397**	2,786,663,009
Add: Retained profits at beginning of year		**4,597,770,300**	3,788,605,893
Profit available for distribution		**6,910,995,697**	6,575,268,902
Less: Transfers to statutory reserve		**(231,322,540)**	(278,666,301)
Transfers to statutory public welfare fund		**–**	(278,666,301)
Profit available for distribution to shareholders		**6,679,673,157**	6,017,936,300
Less: Ordinary share dividend payable		**(1,032,848,000)**	(1,420,166,000)
Retained profits at end of year		**5,646,825,157**	4,597,770,300

The accompanying notes form an integral part of the financial statements

Company Representative:	Chief Accountant:	Head of Accounting Department:
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
17 April 2007	17 April 2007	17 April 2007

Company Cash Flow Statement

(Prepared under PRC Accounting Standards)
Year ended 31 December 2006

	2006 RMB	2005 RMB
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	**42,718,615,826**	37,739,760,196
Cash received relating to other operating activities	**67,303,463**	162,362
Sub-total of cash inflows	**42,785,919,289**	37,739,922,558
Cash paid for goods and services	**(32,315,507,490)**	(26,554,511,238)
Cash paid to and on behalf of employees	**(2,690,162,667)**	(2,263,759,724)
Cash paid for all taxes	**(2,767,606,519)**	(2,984,144,340)
Cash paid relating to other operating activities	**(361,795,997)**	(417,878,645)
Sub-total of cash outflows	**(38,135,072,673)**	(32,220,293,947)
Net cash flows from operating activities	**4,650,846,616**	5,519,628,611
2. Cash flows from investing activities:		
Cash received from disposal of investments	**30,222,330**	2,860,000
Cash received from returns on investments	**86,077,811**	23,706,774
Net cash received from disposal of fixed assets, intangible assets and other long term assets	**50,113,598**	24,657,443
Cash received from retrieval of pledged deposits and overdue deposits	**3,632,085**	1,514,316
Cash received relating to other investing activities	**116,566,523**	6,700,000
Sub-total of cash inflows	**286,612,347**	59,438,533
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	**(13,903,464,551)**	(7,917,624,948)
Cash paid for acquisitions of investments	**(337,695,000)**	(402,731,800)
Cash paid for acquisition of businesses or a subsidiary	**(57,404,685)**	(149,773,584)
Sub-total of cash outflows	**(14,298,564,236)**	(8,470,130,332)
Net cash flows from investing activities	**(14,011,951,889)**	(8,410,691,799)

Company Cash Flow Statement (Continued)

(Prepared under PRC Accounting Standards)
Year ended 31 December 2006

	2006 RMB	2005 RMB
3. Cash flows from financing activities:		
Cash received from issue of bonds with warrants	**5,355,650,000**	–
Cash received from borrowings	**13,820,000,000**	17,082,171,500
Sub-total of cash inflows	**19,175,650,000**	17,082,171,500
Cash repayments of borrowings	**(8,197,632,073)**	(11,827,756,881)
Cash paid for distribution of dividend or profits and for interest expenses	**(1,362,278,078)**	(1,434,377,888)
Sub-total of cash outflows	**(9,559,910,151)**	(13,262,134,769)
Net cash flows from financing activities	**9,615,739,849**	3,820,036,731
4. Effect of foreign exchange rate changes on cash	**(67,802,403)**	(63,026,186)
5. Net increase in cash and cash equivalents	**186,832,173**	865,947,357

(Prepared under PRC Accounting Standards)
Year ended 31 December 2006

	2006 RMB	2005 RMB
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**2,313,225,397**	2,786,663,009
Add: Provision/(reversal of provision) for doubtful debts	**(8,120,828)**	553,755
Provision/(reversal of provision) against inventories	**(26,190,003)**	75,464,166
Reversal of impairment of fixed assets	**(19,611,200)**	–
Reversal of impairment of construction in progress	**(17,676,148)**	–
Depreciation of fixed assets	**2,247,979,821**	2,047,886,228
Amortisation of intangible assets	**23,452,602**	20,594,665
Decrease in accrued charges	**(2,615,206)**	(771,591)
Loss on disposal of fixed assets, intangible assets and other long term assets, net	**11,905,919**	19,087,457
Financial expenses	**293,640,270**	170,878,906
Investment income	**(257,408,373)**	(187,482,534)
Increase in inventories	**(1,134,459,364)**	(213,973,630)
Decrease in receivables from operating activities	**679,585,025**	585,350,156
Increase in payables from operating activities	**547,138,704**	215,378,024
Net cash flows from operating activities	**4,650,846,616**	5,519,628,611
2. Investing and financing activities that do not involve cash receipts and payments:	**–**	–
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of year	**2,808,993,288**	2,622,161,115
Less: Cash and balances with financial institutions at beginning of year	**(2,622,161,115)**	(1,756,213,758)
Add: Balance of cash equivalents at end of year	**–**	–
Less: Balance of cash equivalents at beginning of year	**–**	–
Net increase in cash and cash equivalents	**186,832,173**	865,947,357

Company Representative:
Gu Jianguo
17 April 2007

Chief Accountant:
Su Jiangang
17 April 2007

Head of Accounting Department:
Guan Yagang
17 April 2007

(Prepared under PRC Accounting Standards)
31 December 2006

I. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited liability company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited ("Holding")), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business licence is Qi Gu Wan Zong Zi No. 000970. The Company's A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange respectively. The Company together with its subsidiaries (the "Group") are principally engaged in the manufacture and sale of iron and steel products and related by-products.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED OF FINANCIAL STATEMENTS

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

1. Accounting system

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

2. Financial year

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

3. Reporting currency

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

4. Basis of accounting and measurement basis

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".

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED 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 the 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 are 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.

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.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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:

	Bad debts general provision percentage (Net of post balance sheet date settlement)	
Ageing	**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%

10. Inventories

Inventories include raw materials, work in progress, construction contract, 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 labor 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.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Inventories (continued)

Contract costs incurred comprise direct materials, direct labour, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised 1oss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects on financial statement. Provision of impairment for construction contract is assessed at year end. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as current expenses immediately.

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.

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.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Long term investments (continued)

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 accrued, 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. Gains or losses arising from the disposal, damage, obsolescence or physical counting of fixed assets are accounted for as non-operating expenses or income in the current period.

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

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Fixed assets (continued)

Category	Estimated useful life	Annual depreciation rate
Buildings and structures	10 to 20 years	4.9%-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.

At the end of the accounting period, fixed assets are carried at the lower of book value and recoverable amount. A provision for impairment of fixed assets is made for any difference between the book value and the lower recoverable amount and charged to the current period's income statement. The recoverable amount of the fixed assets is the greater of the net selling price and the value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 includes all costs incurred during the preparation period before commencement of construction and until the asset is ready for its intended use. These costs include direct materials, direct labour, equipment for installation, construction and installation charges, management fees, gain or loss on trial run production and borrowing costs which are qualified for capitalisation. Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

The impairment provisions are made against those projects which have been suspended for a long period of time and the construction of which is not expected to resume within three years, and which have been considered obsolete in terms of its technology and functionality and where there exists significant uncertainty as to whether it will bring future economic benefits to the Company, 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.

(Prepared under PRC Accounting Standards)
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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Borrowing costs

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

(i) expenditures for the assets are incurred;

(ii) borrowing costs are incurred;

(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 iron ore mining rights, which are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off the cost over the estimated useful life.

Category	Estimated useful life
Land use rights	50 years
Iron ore mining rights	25 years

At the end of the accounting period, intangible assets are carried at the lower of book value and recoverable amounts. If the recoverable amount is lower than the book value, a provision for impairment on intangible assets is made for the difference, and charged to the income statement in the current period.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Bonds payable

The bonds issued are recorded under the par value. Any premium or discount arising from the difference between issue price and par value is amortised in the same time when such interest is accrued over the duration of bonds according to effective interest rate method.

18. Specific payables

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

19. Revenue recognition

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

If an afforded service commences and accomplishes in the same financial year, related revenue is recognised when the service accomplishes; if an afforded service accomplishes in the financial year other than that of the service commences, when the outcome of the afforded service can be estimated reliably, the related revenue is recognised by reference to the percentage of completion method at the balance sheet date; otherwise, the related revenue is recognized only to the extent of recoverable service costs incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the percentage of completion method at the balance sheet date. When the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognised only to the extent of recoverable contract costs incurred.

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

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

20. Income tax

The Company uses tax payable method to account for income tax.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Related parties

Parties are considered to be related if 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. Related parties may be individuals or corporate entities.

22. Preparation of consolidated financial statements

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-group transactions and balances are eliminated on consolidation, including the unrealised profits and losses incurred.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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. Before September 2006, the refunds rate was 11%-13%, but was adjusted to 8% since then. 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.

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 and 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. Profits tax of overseas and Hong Kong subsidiaries have been provided at the rate of 17.5%-30% on their estimated assessable profits which were earned in or derived from overseas and Hong Kong during the year.

(Prepared under PRC Accounting Standards)
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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

The consolidated financial statements include the subsidiaries below, which was same with prior year excluding those listed in Notes i and ii:

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	Percentage of equity held by the Company indirectly
					RMB	%	%
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, construction supervision and contract service	RMB50,000,000	RMB50,000,000	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

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	indirectly
					RMB	%	%
Subsidiaries (continued)							
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	–
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)")	Anhui, PRC	Production, processing and sale of steel plates, steel wires and steel sections; provision of storage and after-sales services	RMB30,000,000	RMB30,000,000	–	–	92

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	Percentage of equity held by the Company indirectly
					RMB	%	%
Subsidiaries (continued)							
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	RMB120,000,000	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
Anhui Masteel Holly Industrial Co. ("Holly Industrial")	Anhui, PRC	Production and sale of packing materials for steel and other products; provision of on-site packing service; research & development, production and sale of vehicle spare parts, electronic engineering products, macromolecular compound materials; processing and sale of metallic products	RMB30,000,000	RMB30,000,000	21,478,316	71	—

IV. SUBSIDIARIES, JOINT CONTROL ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	indirectly
					RMB	%	%
Subsidiaries (continued)							
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Anhui, PRC	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	RMB1,000,000	RMB1,000,000	900,000	90	—
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, 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	RMB120,000,000	90,000,000	75	—
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 ("Ma Steel (Australia))	Australia	Production and sales of iron ore through an unincorporated joint venture	AUD21,737,900	AUD21,737,900	126,312,415	100	—

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IV. SUBSIDIARIES, JOINT CONTROL ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	indirectly
					RMB	%	%
Subsidiaries (continued)							
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (note i)	Anhui, PRC	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services.	RMB500,000,000	RMB334,495,000	237,495,000	71	—
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (note i)	Anhui, PRC	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, construction steel framework products; provision of storage and transportation services	RMB120,000,000	RMB91,000,000	73,200,000	61	28
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") (note ii)	Jiangsu, PRC	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sales and storage services (except of dangerous products)	USD20,000,000	USD10,000,000	61,651,010	71	—

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	indirectly
					RMB	%	%
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	—
上海大宗鋼鐵電子交易中心有限公司 ("上海鋼鐵電子")	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	—
馬鞍山港口(集團)有限責任公司 ("馬鞍山港口公司")	Anhui, PRC	Loading/unloading, cargo forwarding agency service, storage, transmitting of cargo and division or merge of cargo in containers; provision of general services to ships, repairing and manufacturing of spare parts	RMB250,000,000	RMB250,000,000	112,500,000	45	—

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	Percentage of equity held by the Company indirectly
					RMB	%	%
Associates (continued)							
安徽奧馬特汽車變速系統有限公司 ("奧馬特變速系統") (note i)	Anhui, PRC	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	RMB50,000,000	RMB13,471,500	—	—	31.95
安徽馬鋼立體智能停車設備有限公司 ("馬鋼智能停車") (note ii)	Anhui, PRC	Development, production installation, and sales of automatic parking equipments, storage equipments, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters and provision of related integration and consulting services	USD2,500,000	USD2,500,000	—	—	25

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (CONTINUED)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company directly	Percentage of equity held by the Company indirectly
					RMB	%	%
Jointly-controlled entity ("JCE")							
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") (Note iii)	Anhui, PRC	Manufacture and sale of air products (hydrogen, oxygen, argon and other gases) in gas and liquid states and other industrial gases, provision of products related sales and supply work and technical services and other related services	RMB468,000,000	RMB468,000,000	234,000,000	50	—
Total					1,292,069,010		

Note i: Newly incorporated during the year

Note ii: Newly acquired during the year

Note iii: BOC-Ma Steel is jointly controlled by BOC (China) Investment Company Limited and the Company, and hence proportionate consolidation should be applied. Since BOC-Ma Steel is still at pre-operating stage and has not commenced its commercial production as at 31 December 2006, no income statement has been reported. Its net assets did not exceed 2% of the Group's net assets. Having considered materiality, equity method of accounting is adopted by the Company to account for BOC-Ma Steel. This treatment complies with the new Accounting Standards for Business Enterprises which became effective on 1 January 2007.

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

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V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	31 December 2006			31 December 2005		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand	RMB200,631	1.0000	200,631	RMB179,223	1.0000	179,223
Balances with financial institutions (Note 2)	RMB3,306,174,722	1.0000	3,306,174,722	RMB2,387,389,191	1.0000	2,387,389,191
	HK$305,323	1.0047	306,691	HK$3,696,567	1.0403	3,859,056
	US$19,946,528	7.8087	155,789,281	US$27,105,931	8.0702	218,803,290
	EUR3,209,257	10.2665	32,947,833	EUR50,884,207	9.5797	487,455,441
	JPY1,030,670,853	0.0656	67,642,928	JPY21,825,153	0.0687	1,499,733
	AUD9,702,434	6.1579	59,746,618	AUD1,257,644	5.9219	7,447,641
Other balances with financial institutions	RMB526,197,697 (Note)	1.0000	526,197,697	RMB135,897,049	1.0000	135,897,049
	US$1,000,184 (Note)	7.8087	7,838,098	US$1,221,978	8.0702	9,905,749
	EUR363,170	10.2665	3,728,484	EUR269,246	9.5797	2,579,297
	JPY2,007,165	0.0656	131,731	JPY112	0.0687	7
Total			4,160,704,714			3,255,015,677

Note: Included in the balances were US$1,000,000 and RMB523,300,000 which have been pledged as securities for the provision of banking facilities and issue of bank bills to the Company's subsidiaries. The deposits were not readily available for payment.

2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with three non-bank financial institutions (31 December 2005: four), aggregating approximately HK$119 million (31 December 2005: approximately HK$123 million).

	Notes	31 December 2006 HK$'000	31 December 2005 HK$'000
China Venturetech Investment Corporation ("China Venturetech")	(i)	–	3,491
Guangdong International Trust & Investment Corporation ("GITIC")	(ii)	23,317	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	48,000	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	48,125	48,125
		119,442	122,933

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

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Balances with financial institutions (continued)

(i) China Venturetech was in liquidation since 1998 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 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated. On 14 February 2006, the Company received the last instalment of repayment of RMB3,632,000. As at 31 December 2006, the overdue fixed deposit in China Venturetech had been fully settled.

(ii) GITIC was declared bankrupt by the Shenzhen Intermediate People's Court of Guangdong Province on 16 January 1999. On 28 February 2003, the People's High Court of Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. During the period from year 2000 to 2004, 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.

(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.

As at the date on which these financial statements were approved, the directors are unable to estimate 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 overdue fixed deposits.

3. Short term investments

Item	**31 December 2006** Investment cost RMB	**31 December 2006** Provision for decline in value RMB	31 December 2005 Investment cost RMB	31 December 2005 Provision for decline in value RMB
Equity investment	–	–	13,568,593	–

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Short term investments (continued)

As at 31 December 2006, all the short term investments held by the Group had been disposed.

The movement of provision for decline in value of short term investments for the year 2006 is disclosed in the supplementary information of the financial statements.

4. Bills receivable

	31 December 2006 RMB	31 December 2005 RMB
Bank bills	**681,137,717**	1,931,609,265

As at the balance sheet date, the Group does not hold any discounted bills with recourse yet to mature.

The decrease in the Group's bills receivables by 65% was mainly attributable to the increase in endorsement of bank bills to customers for materials purchase in the current year.

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

5. Trade receivables

Trade receivables ageing analysis:

Group

	31 December 2006				31 December 2005			
			Provision for				Provision for	
	Balance	Ratio	bad debts	Ratio	Balance	Ratio	bad debts	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	569,139,754	91	(377,185)	1	270,498,124	81	–	–
One to two years	11,991,603	2	(2,625,603)	22	17,486,861	5	(4,908,558)	28
Two to three years	7,842,899	1	(3,550,504)	45	8,259,890	3	(7,853,396)	95
Over three years	34,385,996	6	(34,385,996)	100	36,536,094	11	(36,536,094)	100
Total	623,360,252	100	(40,939,288)		332,780,969	100	(49,298,048)	

Company

	31 December 2006				31 December 2005			
			Provision for				Provision for	
	Balance	Ratio	bad debts	Ratio	Balance	Ratio	bad debts	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	529,392,156	91	(307,111)	1	204,374,088	77	–	–
One to two years	9,061,019	2	(2,265,254)	25	15,723,061	6	(3,300,034)	21
Two to three years	6,963,324	1	(3,481,662)	50	8,259,890	3	(7,853,396)	95
Over three years	34,385,996	6	(34,385,996)	100	36,536,094	14	(36,536,094)	100
Total	579,802,495	100	(40,440,023)		264,893,133	100	(47,689,524)	

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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:

	Group and Company	
Reason	**2006**	2005
	RMB	RMB
Bankrupt or liquidated debtors	**307,795**	–
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	**–**	357,613
Total	**307,795**	357,613

The five largest trade receivables of the Group and the Company both amounted to RMB148,859,842, which accounted for 24% and 26% of the gross trade receivables of the Group and the Company respectively.

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

The movement of bad debts provision for trade receivables for the year 2006 is disclosed in the supplementary information of the financial statements.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables

Other receivables ageing analysis:

Group

	31 December 2006				31 December 2005			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	159,246,588	85	–	–	174,855,093	85	–	–
One to two years	676,445	1	(215,947)	32	2,925,579	2	(509,854)	17
Two to three years	2,197,702	1	(1,318,621)	60	2,361,612	1	(2,250,672)	95
Over three years	24,689,111	13	(24,638,179)	100	25,302,728	12	(23,412,221)	93
Total	186,809,846	100	(26,172,747)		205,445,012	100	(26,172,747)	

Company

	31 December 2006				31 December 2005			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Within one year	48,777,104	64	–	–	18,061,977	37	–	–
One to two years	648,433	1	(215,947)	33	2,905,638	6	(509,854)	18
Two to three years	2,197,702	3	(1,318,621)	60	2,361,612	5	(2,250,672)	95
Over three years	24,638,179	32	(24,638,179)	100	25,251,796	52	(23,412,221)	93
Total	76,261,418	100	(26,172,747)		48,581,023	100	(26,172,747)	

The five largest other receivables of the Group and the Company amounted to RMB9,284,396 and RMB7,848,658 respectively, which accounted for 5% and 10% 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 2006 is disclosed in the supplementary information of the financial statements.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Prepayments

Prepayments ageing analysis:

	31 December 2006			31 December 2005		
	Balance RMB	**Ratio %**	**Reason of outstanding**	Balance RMB	Ratio %	Reason of outstanding
Within one year	**517,690,362**	**85**	**N/A**	297,726,499	79	N/A
One to two years	**11,517,780**	**2**	**Note**	20,432,951	5	Note
Two to three years	**20,000,000**	**3**	**Note**	59,741,931	16	Note
Over three years	**59,508,163**	**10**	**Note**	–	–	N/A
Total	**608,716,305**	**100**		377,901,381	100	

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

The increase in the Group's prepayment by 61% was mainly attributable to the increase in prepayment for coal purchase.

Except for those as stated in Note VII 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.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Inventories

	31 December 2006		31 December 2005	
	Balance	Provision	Balance	Provision
	RMB	RMB	RMB	RMB
Raw materials	**3,593,290,386**	**–**	2,973,683,772	–
Work in progress	**538,136,776**	**–**	641,585,619	(3,000,000)
Construction contract	**51,118,889**	**–**	31,002,486	–
Finished goods	**665,523,682**	**(4,840,000)**	407,365,707	(46,838,109)
Spare parts	**1,783,832,105**	**(86,929,889)**	1,266,795,977	(71,121,783)
Total	**6,631,901,838**	**(91,769,889)**	5,320,433,561	(120,959,892)

Included in the Group's inventories were finished goods amounting to RMB121,914,383 which have been pledged to banks as securities for issue of bank bills for the Company's subsidiaries.

The movement of provision for impairment of inventories for the year 2006 is disclosed in the supplementary information of the financial statements.

9. Long term investments

	Group			
Items	**At 1 January 2006 RMB**	**Increase during the year RMB**	**Decrease during the year RMB**	**At 31 December 2006 RMB**
Long term equity investments				
Interests in a JCE (ii)	**234,000,000**	**–**	**–**	**234,000,000**
Interests in associates (iii)	**268,059,681**	**61,454,724**	**–**	**329,514,405**
Other equity investments (iv)	**16,817,035**	**–**	**–**	**16,817,035**
	518,876,716	**61,454,724**	**–**	**580,331,440**
Long term debt investment				
Other debt investment (v)	**10,918,870**	**–**	**(2,660,000)**	**8,258,870**
Total	**529,795,586**	**61,454,724**	**(2,660,000)**	**588,590,310**

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long term investments (continued)

	Company			
Items	**At 1 January 2006 RMB**	**Increase during the year RMB**	**Decrease during the year RMB**	**At 31 December 2006 RMB**
Long term equity investments				
Interests in subsidiaries (i)	**654,682,848**	**597,167,738**	**(69,367,583)**	**1,182,483,003**
Interests in a JCE (ii)	**234,000,000**	**–**	**–**	**234,000,000**
Interests in associates (iii)	**268,059,681**	**47,954,724**	**–**	**316,014,405**
Other equity investments (iv)	**16,817,035**	**–**	**–**	**16,817,035**
	1,173,559,564	**645,122,462**	**(69,367,583)**	**1,749,314,443**
Long term debt investment				
Other debt investment (v)	**10,918,870**	**–**	**(2,660,000)**	**8,258,870**
Total	**1,184,478,434**	**645,122,462**	**(72,027,583)**	**1,757,573,313**

The total of long term investments of the Group amounted to RMB588,590,310, which represented 3% of the Group's net assets.

According to the directors' 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 48% was mainly attributable to the increase in investments in subsidiaries and associates.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long term investments (continued)

(i) Interests in subsidiaries

				Company								
		Percentage of equity		Investment cost				Adjustment for gain or loss				
Name of investee company	Investment period	held by the Company	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Opening balance	Current year's share of profit/(loss)	Dividend received/ receivable	Accumulated increase/ (decrease)	Closing balance
		%	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	81,143,778	19,071,649	–	100,215,427	150,215,427
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	–	–	7,500,000	34,369,669	24,902,601	(8,818,400)	50,453,870	57,953,870
MG Control Technique	N/A	93.75	7,500,000	7,500,000	–	–	7,500,000	2,535,653	388,217	–	2,923,870	10,423,870
Anhui Masteel K. Wah	30 years	70	24,854,930	24,854,930	–	–	24,854,930	3,551,381	4,973,467	(1,988,773)	6,536,075	31,391,005
Ma Steel (Wuhu)	30 years	70	8,225,885	8,225,885	–	–	8,225,885	35,855,286	11,352,697	(12,927,276)	34,280,707	42,506,592
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	80,000,000	–	–	80,000,000	17,994,823	22,272,810	(14,394,600)	25,873,033	105,873,033
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	–	–	4,101,688	25,130,015	10,481,399	–	35,611,414	39,713,102
MG Trading	N/A	100	1,573,766	1,573,766	–	–	1,573,766	(275,961)	750,014	–	474,053	2,047,819
Holly Industrial	20 years	71	21,478,316	21,478,316	–	–	21,478,316	53,760,988	53,083,196	(31,182,916)	75,661,268	97,139,584
Huayang Equipment	20 years	90	900,000	900,000	–	–	900,000	556,188	1,679,823	(55,618)	2,180,393	3,080,393
Ma Steel (Jinhua)	50 years	75	90,000,000	63,000,000	27,000,000	–	90,000,000	6,203	6,253,381	–	6,259,584	96,259,584
Ma Steel (Australia)	N/A	100	126,312,415	126,312,415	–	–	126,312,415	4,607,825	27,722,857	–	32,330,682	158,643,097
Ma Steel (Hefei)	100 years	71	355,000,000	–	237,495,000	–	237,495,000	–	14,284,464	–	14,284,464	251,779,464
MS (Hefei) Processing	50 years	61	73,200,000	–	73,200,000	–	73,200,000	–	(12,043)	–	(12,043)	73,187,957
MS (Yangzhou) Processing	20 years	71	61,651,010	–	61,651,010	–	61,651,010	–	617,196	–	617,196	62,268,206
Total				395,447,000	399,346,010	–	794,793,010	259,235,848	197,821,728	(69,367,583)	387,689,993	1,182,483,003

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long term investments (continued)

(ii) Interests in a JCE

				Group and Company								
		Percentage of equity		Investment cost				Adjustment for gain or loss				
Name of investee company	Investment period	held by the Company	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Opening balance	Current year's share of profit	Dividend received/ receivable	Accumulated increase/ (decrease)	Closing balance
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
BOC–Ma Steel	18 Years	50	234,000,000	234,000,000	–	–	234,000,000	–	–	–	–	234,000,000

(iii) Interests in associates

				Group								
		Percentage of equity		Investment cost				Adjustment for gain or loss				
Name of investee company	Investment period	held by the Group	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Opening balance	Current year's share of profit	Dividend received/ receivable	Accumulated increase/ (decrease)	Closing balance
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
濟源市金馬焦化	50 years	40	80,000,000	80,000,000	–	–	80,000,000	11,081,594	18,035,266	–	29,116,860	109,116,860
滕州盛隆煤焦化	50 years	32	66,776,000	66,776,000	–	–	66,776,000	(837,635)	10,896,216	–	10,058,581	76,834,581
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	–	–	4,000,000	(683,589)	4,888,026	–	4,204,437	8,204,437
馬鞍山港口公司	20 years	45	112,500,000	104,831,800	7,668,200	–	112,500,000	2,891,511	6,467,016	–	9,358,527	121,858,527
奧馬特變速系統	20 years	45	9,000,000	–	9,000,000	–	9,000,000	–	–	–	–	9,000,000
馬鋼智能停車	20 years	25	4,500,000	–	4,500,000	–	4,500,000	–	–	–	–	4,500,000
Total				255,607,800	21,168,200	–	276,776,000	12,451,881	40,286,524	–	52,738,405	329,514,405

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long term investments (continued)

(iii) Interests in associates (continued)

				Company								
		Percentage of equity		Investment cost				Adjustment for gain or loss				
Name of investee company	Investment period	held by the Company	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Opening balance	Current year's share of profit	Dividend received/ receivable	Accumulated increase/ (decrease)	Closing balance
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
濟源市金馬焦化	50 years	40	80,000,000	80,000,000	–	–	80,000,000	11,081,594	18,035,266	–	29,116,860	109,116,860
滕州盛隆煤焦化	50 years	32	66,776,000	66,776,000	–	–	66,776,000	(837,635)	10,896,216	–	10,058,581	76,834,581
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	–	–	4,000,000	(683,589)	4,888,026	–	4,204,437	8,204,437
馬鞍山港口公司	20 years	45	112,500,000	104,831,800	7,668,200	–	112,500,000	2,891,511	6,467,016	–	9,358,527	121,858,527
Total				255,607,800	7,668,200	–	263,276,000	12,451,881	40,286,524	–	52,738,405	316,014,405

(iv) 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
河南龍宇能源股份有限公司	Legal person shares	6,500,138	0.66	10,000,000
Tangshan Iron and Steel Company Limited	Circulating share with sales restriction	1,003,200	0.04	4,559,109
Shanghai Chlor–Alkali Chemical Company Limited	Circulating share with sales restriction	164,578	0.01	807,926
Others				1,450,000
Total				16,817,035

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long term investments (continued)

(v) 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	8,258,870	Nil	2007–2009	–	–	8,258,870

The movement of impairment provision for long term investments for the year 2006 is disclosed in the supplementary information of the financial statements.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	RMB	RMB	RMB	RMB
Cost				
At 1 January 2006	8,697,233,073	18,806,495,387	415,790,295	27,919,518,755
Additions	62,770,641	30,144,811	3,396,706	96,312,158
Acquisition of a subsidiary (Note 45)	34,567,612	16,793,913	666,897	52,028,422
Minority shareholder contribution (Note 46)	212,656,812	385,748,243	3,882,583	602,287,638
Transferred from construction in progress (Note 11)	315,818,982	1,713,783,325	12,530,224	2,042,132,531
Reclassifications	172,523,886	(179,247,185)	6,723,299	–
Disposal	(39,171,289)	(217,465,520)	(47,859,002)	(304,495,811)
At 31 December 2006	9,456,399,717	20,556,252,974	395,131,002	30,407,783,693
Accumulated depreciation				
At 1 January 2006	2,748,009,347	6,428,411,270	234,659,664	9,411,080,281
Provided during the year	512,645,677	1,761,811,454	50,941,736	2,325,398,867
Acquisition of a subsidiary (Note 45)	1,422,359	1,407,743	86,377	2,916,479
Reclassifications	43,074,508	(43,883,151)	808,643	–
Disposal	(20,967,459)	(173,742,589)	(38,004,178)	(232,714,226)
At 31 December 2006	3,284,184,432	7,974,004,727	248,492,242	11,506,681,401
Net book value				
At 31 December 2006				
Net book value	6,172,215,285	12,582,248,247	146,638,760	18,901,102,292
Less: Impairment provision	(5,252,400)	(85,423,244)	–	(90,675,644)
Net book value, net of impairment provision	6,166,962,885	12,496,825,003	146,638,760	18,810,426,648
At 31 December 2005				
Net book value	5,949,223,726	12,378,084,117	181,130,631	18,508,438,474
Less: Impairment provision	(10,391,900)	(106,664,944)	–	(117,056,844)
Net book value, net of impairment provision	5,938,831,826	12,271,419,173	181,130,631	18,391,381,630

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (continued)

The cost of fully depreciated fixed assets which are still in use amounted to approximately RMB1.8 billion.

As at the balance sheet date, certain of the Group's equipments with a net book value of approximately RMB28 million were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in Note 24 to the financial statements.

At the balance sheet date, certificates of ownership in respect of the Group's buildings with a net book value of RMB70.2 million had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

The movement of provision for impairment of fixed assets for the year 2006 is disclosed in the supplementary information of the financial statements.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2006:

Name of project	Budget cost	1 January 2006	Minority shareholder contribution (Note 46)	Addition during the year	Transferred to fixed assets (Note 10)	Other transfer out	At 31 December 2006	Source of fund	Percentage of completion
	RMB'000	RMB	RMB	RMB	RMB	RMB	RMB		%
1. Blast Furnaces Project	5,715,560	761,803,243	–	2,914,116,638	(38,825,293)	–	3,637,094,588	Internally generated funds and loans from financial institution	21-100
Including borrowing costs capitalised:		*11,765,964*	–	*169,246,148*	–	–	*181,012,112*		
2. Converters Project	3,491,500	475,136,663	–	2,429,219,373	(61,253,940)	–	2,843,102,096	Internally generated funds and loans from financial institution	82-100
Including borrowing costs capitalised:		*3,026,339*	–	*54,035,221*	–	–	*57,061,560*		
3. Wheel Line Project	524,330	158,473,675	–	302,903,186	(436,198,628)	–	25,178,233	Internally generated funds	84-100
4. Construction Steel Lines Project	16,842,710	1,379,445,445	–	6,211,839,258	(743,547,500)	–	6,847,737,203	Internally generated funds and loans from financial institution	25-100
Including borrowing costs capitalised:		*43,118,129*	–	*265,189,590*	*(23,465,500)*	–	*284,842,219*		
5. Coking Stoves Project	2,697,000	279,910,490	–	1,298,851,178	(49,983,497)	–	1,528,778,171	Internally generated funds and loans from financial institution	43-100
Including borrowing costs capitalised:		*8,784,000*	–	*60,739,740*	–	–	*69,523,740*		
6. Public Auxiliary Utilities Project	4,781,794	1,237,039,767	–	2,267,971,488	(99,087,037)	–	3,405,924,218	Internally generated funds and loans from financial institution	7-100
Including borrowing costs capitalised:		*1,247,190*	–	*54,489,705*	–	–	*55,736,895*		

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (continued)

Name of project	Budget cost	1 January 2006	Minority shareholder contribution (Note 46)	Addition during the year	Transferred to fixed assets (Note 10)	Other transfer out	At 31 December 2006	Source of fund	Percentage of completion
	RMB'000	RMB	RMB	RMB	RMB	RMB	RMB		%
7. Energy-saving and Environment Protection Project	107,730	33,036,296	–	38,341,100	(33,817,606)	–	37,559,790	Internally generated funds	22-100
8. Other Projects	N/A	477,056,170	640,000	700,199,425	(579,419,030)	(64,508,540)	533,968,025	Internally generated funds and loans from financial institution	N/A
Including borrowing costs capitalised:		*15,108,480*	–	–	–	–	*15,108,480*		
		4,801,901,749	640,000	16,163,441,646	(2,042,132,531)	(64,508,540)	18,859,342,324		
Less: Impairment provision		(74,000,000)	–	–	–	74,000,000	–		
		4,727,901,749	640,000	16,163,441,646	(2,042,132,531)	9,491,460	18,859,342,324		

The increase in the Group's construction in progress by 299% was mainly attributable to the constructions for the "Eleventh Five Year Plan" in 2006.

The capitalisation rates of interest are 1.4%-5.832% per annum.

The movement of provision for impairment of construction in progress for the year 2006 is disclosed in the supplementary information of the financial statements.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets

	Method of acquisition	Original amount RMB	Accumulated amortisation RMB	At 1 January 2006 RMB	Additions during the year RMB	Amortisation during the year RMB	Transfer to construction in progress RMB	At 31 December 2006 RMB	Remaining years of amortisation
Mine Participation right (Note i)	Purchase	110,150,400	(1,115,704)	109,034,696	8,953,168	(4,481,358)	–	113,506,506	24 years
Land use rights (Note ii)	Purchase	1,092,429,840	(231,318,487)	861,111,353	436,227,094	(23,379,892)	(33,808,464)	1,240,150,091	36 to 50 years
Land use rights	Acquisition of a subsidiary (Note 45)	–	–	–	13,447,882	(14,583)	–	13,433,299	48 years
Land use rights	Minority shareholder contribution (Note 46)	–	–	–	154,104,000	(4,491,200)	–	149,612,800	29 years
Total		1,202,580,240	(232,434,191)	970,146,049	612,732,144	(32,367,033)	(33,808,464)	1,516,702,696	

Note i: One subsidiary of the Company, Ma Steel (Australia), has 10% interest in an Australian unincorporated joint venture, in which Ma Steel (Australia) does not have joint control or is not in a position to exercise significant influence. During 2005, together with the other participants of this joint venture, Ma Steel (Australia) purchased a mine participation right in Australia in the form of sub-lease for 25 years.

Note ii: As at the balance sheet date, the net book value of land use right leased out is approximately RMB3.56 million (2005: RMB1.24 million).

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Short term loans

Type	Annual interest rate %	Maturity date	31 December 2006 RMB	31 December 2005 RMB
Unsecured loans	5.022-5.58	1/2007 ~6/2007	**380,000,000**	112,372,660
Trust receipt loans	4.60-4.66	2/2007	**19,018,506**	–
			399,018,506	112,372,660

The increase in the Group's short term loans by 255% was mainly attributable to the increase in working capital loans borrowed for purchase of raw materials and fuel.

14. Bills payable

	31 December 2006 RMB	31 December 2005 RMB
Bank bills	**1,346,880,982**	655,567,000

The increase in the Group's bills payable by 105% was mainly attributable to the increase in use of bank bills for payments of materials purchase.

Balances with financial institutions amounting to USD1 million, RMB523.3 million and inventories amounting to RMB121,914,383 have been pledged to banks as securities for issue of bank bills by the Company's subsidiaries, and were not readily available for payment or sale.

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.

15. Short term commercial papers

Name	Interest payable during the year RMB	Accumulated interest payable RMB	31 December 2006 RMB	31 December 2005 RMB
Short term commercial papers	–	–	**–**	2,000,000,000

The short-term commercial papers represented 20,000,000 3.19% per annum short-term commercial papers with a nominal value of RMB100 issued by the Company at par on 29 December 2005. These short-term commercial papers were redeemed on 28 December 2006.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

16. Accounts payable

The increase in the Group's accounts payable by 45% was mainly attributable to the increase of payables for equipments purchases under the "Eleventh Five-year Plan" constructions.

Certain of the Group's accounts payable amounting to RMB5,900,000 are aged over three years as a result of delay in settlement of construction fee.

Except for those as stated in Note VII 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 ageing of deposits received is within one year.

Except for those as stated in Note VII 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 increase in the Group's wages payable by 41% was mainly due to the increase of bonus payable for the year 2006.

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

19. Dividends payable

	31 December 2006 RMB	31 December 2005 RMB
Dividends of 2005 due to Holding	**400,000,000**	–
Dividends of 2005 due to minority shareholders	**8,654,914**	–
Dividends of 2004 due to minority shareholders	**–**	8,643,954
Total	**408,654,914**	8,643,954

The increase in the Group's dividends payable by 46 times was mainly attributable to the increase in dividends payable to Holding.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

20. Taxes payable

	31 December 2006 RMB	31 December 2005 RMB
Corporate income tax	**93,109,562**	118,021,576
VAT	**100,355,879**	330,870,312
Business tax	**1,849,836**	1,673,353
City construction and maintenance tax	**31,132,303**	7,377,600
Other taxes	**27,462,697**	35,846,914
Total	**253,910,277**	493,789,755

The decrease in the Group's taxes payable by 49% was mainly due to the decrease in VAT payable of 2006.

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

21. Other taxes payable

	31 December 2006 RMB	31 December 2005 RMB
Flood prevention fund	**26,909,152**	13,484,963
Education surcharge	**13,344,540**	5,079,358
Other taxes	**5,459,200**	1,743,556
Total	**45,712,892**	20,307,877

The increase in the Group's other taxes payable by 125% was mainly attributable to the increase in flood prevention fund and education surcharge payables.

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

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

22. Other payables

	31 December 2006 RMB	31 December 2005 RMB
Construction, maintenance and inspection fee	**229,605,094**	154,804,749
Payables to a minority shareholder	**168,620,150**	–
Sales benefits	**151,517,642**	116,044,016
Payroll related charges	**145,714,652**	154,084,470
Direct issue cost of bonds with warrants	**64,350,000**	–
Others	**67,555,614**	55,149,346
Total	**827,363,152**	480,082,581

The increase in the Group's other payables by 72% was mainly attributable to the increase of the payable to a minority shareholder and direct issue cost of bonds with warrants.

Certain of the Group's other payables amounting to RMB5,400,000 are aged over three years as a result of delay in settlement of certain service fees.

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 2006 RMB	31 December 2005 RMB
Loan interests	**57,072,832**	58,712,708
Maintenance fee	**11,580,000**	4,862,311
Retirement benefits payable to early retired employees	**7,440,372**	10,773,268
Others	**14,411,488**	24,769,361
Total	**90,504,692**	99,117,648

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

24. Long term loans due within a year

Lenders	31 December 2006 Currency type	31 December 2006 Original currency amount	31 December 2006 RMB	31 December 2005 Currency type	31 December 2005 Original currency amount	31 December 2005 RMB	Maturity date	Annual interest rate %	Conditions of borrowings
Industrial and Commercial Bank of China	-	-	-	RMB	260,000	260,000	N/A	N/A	N/A
China Construction Bank (Note i)	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2007	2.4	Unsecured
	USD	3,986,329	31,128,044	USD	7,972,657	64,340,936	4/2007	LIBOR (6 months) +0.5	Guaranteed by Holding
Agricultural Bank of China	RMB	90,000,000	90,000,000	–	–	–	5/2007-8/2007	5.49	Guaranteed by Holding
Bank of China	RMB	32,000,000	32,000,000	–	–	–	3/2007-5/2007	5.76	Guaranteed by Holding
	EUR	123,947	1,272,499	EUR	123,947	1,187,373	3/2007-9/2007	0.25	Guaranteed by Sinosteel Trading Company
The Export-import Bank Of China	RMB	200,000,000	200,000,000	–	–	–	6/2007	5.265	Unsecured
	RMB	15,000,000	15,000,000	–	–	–	8/2007	3.78	Guaranteed by Holding
Huishang Bank	RMB	19,000,000	19,000,000	–	–	–	6/2007-8/2007	5.49	Unsecured
Profit Access Investment Company Limited (Note ii)	USD	260,000	2,151,994	–	–	–	6/2007	5.49	Unsecured
	USD	726,000	6,000,000	–	–	–	8/2007	5.49	Secured
Total			409,752,537			78,988,309			

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

24. Long term loans due within a year (continued)

Note i: LIBOR represents London Interbank Offered Rate.

Note ii: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. 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 Huishang 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 RMB28 million as at 31 December 2006.

25. Long term loans

	31 December 2006			31 December 2005					
Lenders	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB	Maturity date	Annual interest rate %	Conditions of borrowings
Industrial and Commercial Bank of China	RMB	1,700,000,000	1,700,000,000	RMB	2,057,000,000	2,057,000,000	4/2008 — 9/2008	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	900,000,000	900,000,000	—	—	—	2/2010 — 6/2010	5.022	Unsecured
China Construction Bank	RMB	1,377,000,000	1,377,000,000	RMB	1,117,000,000	1,117,000,000	1/2010 — 9/2011	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	1,000,000,000	1,000,000,000	RMB	600,000,000	600,000,000	1/2010 — 6/2010	4.86, 5.022	Unsecured
	—	—	—	USD	20,000,000	161,404,000	N/A	N/A	N/A
	—	—	—	USD	3,986,329	32,170,471	N/A	N/A	N/A

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

25. Long term loans (continued)

	31 December 2006			31 December 2005					
Lenders	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB	Maturity date	Annual interest rate %	Conditions of borrowings
Bank of China	RMB	1,930,000,000	1,930,000,000	RMB	212,000,000	212,000,000	2/2008 — 8/2011	5.76, Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	900,000,000	900,000,000	RMB	110,000,000	110,000,000	2/2010 — 6/2010	4.76, 5.022	Unsecured
	EUR	1,487,361	15,269,994	EUR	1,611,308	15,435,846	3/2008 — 9/2019	0.25	Guaranteed by Sinosteel Trading Company
	—	—	—	USD	66,000,000	532,633,200	N/A	N/A	N/A
Agricultural Bank of China	RMB	2,220,000,000	2,220,000,000	RMB	894,000,000	894,000,000	1/2008 — 10/2011	5.265, 5.508, 5.76	Guaranteed by Holding
	RMB	600,000,000	600,000,000	RMB	600,000,000	600,000,000	9/2008	5.184	Unsecured
Huishang Bank	—	—	—	RMB	169,000,000	169,000,000	N/A	N/A	N/A
	RMB	360,000,000	360,000,000	RMB	360,000,000	360,000,000	9/2008	5.184	Guaranteed by Holding
China CITIC Bank	RMB	400,000,000	400,000,000	RMB	400,000,000	400,000,000	8/2008	4.32	Unsecured
	USD	50,000,000	390,435,000	USD	50,000,000	403,510,000	8/2008	LIBOR(6 months) +0.4	Unsecured
China Merchants Bank	RMB	400,000,000	400,000,000	RMB	400,000,000	400,000,000	10/2008 — 11/2008	Central Bank benchmark rate less 10%	Unsecured
	USD	50,000,000	390,435,000	USD	50,000,000	403,510,000	10/2008 — 11/2008	LIBOR(6 months) +0.4	Unsecured
The Export-import Bank Of China	RMB	580,000,000	580,000,000	RMB	95,000,000	95,000,000	3/2008 — 8/2012	3.78	Guaranteed by Holding

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

25. Long term loans (continued)

Lenders	31 December 2006 Currency type	31 December 2006 Original currency amount	31 December 2006 RMB	31 December 2005 Currency type	31 December 2005 Original currency amount	31 December 2005 RMB	Maturity date	Annual interest rate %	Conditions of borrowings
Bank of Communications	RMB	1,000,000,000	1,000,000,000	–	–	–	4/2009 – 9/2011	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	500,000,000	500,000,000	–	–	–	6/2010	5.022	Unsecured
Industrial Bank	RMB	300,000,000	300,000,000	–	–	–	6/2011 – 7/2011	Central Bank benchmark rate less 10%	Unsecured
Shanghai Pudong Development Bank	RMB	600,000,000	600,000,000	–	–	–	6/2009 – 6/2010	5.022, Central Bank benchmark rate less 10%	Unsecured
Shenzhen Development Bank	RMB	150,000,000	150,000,000	–	–	–	11/2009	Central Bank benchmark rate less 10%	Guaranteed by Holding
Profit Access Investment Company Limited	–	–	–	USD	986,000	8,151,994	N/A	N/A	N/A
Total			15,713,139,994			8,570,815,511			

The increase in the Group's long term loans by 83% was mainly attributable to the increase in the long term loans drawdown to finance the constructions under the "Eleventh Five-year Plan".

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

26. Bonds payable

Name	Life	Issue date	Nominal Amount RMB	Interest payable during the year RMB	Accumulated interest payable RMB	**31 December 2006 RMB**	31 December 2005 RMB
Bonds with warrants	5 years	13 November 2006	5,500,000,000	13,050,950	13,050,950	**5,513,050,950**	–

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds with warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year.

Up to 31 December 2006, no warrant was exercised.

27. Specific payables

	31 December 2006 RMB	31 December 2005 RMB
Government subsidies for specific construction projects	**116,566,523**	3,200,000

The increase by 35 times was attributable to the increase in government subsidies received for the constructions under the "Eleventh Five-ear Plan".

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

28. Other long term liabilities

	31 December 2006 RMB	31 December 2005 RMB
Payables to Holding	**400,000,000**	400,000,000
Accrued charges for furnace relining	**74,499,299**	74,499,299
Retirement benefits payable to early retired employees	**22,044,660**	29,485,032
Total	**496,543,959**	503,984,331

The payables to Holding are interest-free, unsecured and contractually repayable after 1 January 2008.

29. Minority interests

The increase in the minority interests in consolidated balance sheet by 125% was mainly attributable to the capital injection made by minority shareholders and the increase in profits of certain non-wholly owned subsidiaries during the year.

The increase in the minority interest in consolidated statement of income by 42% was mainly attributable to the increase in profits of certain non-wholly owned subsidiaries during the year.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30. 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				
	1 January 2006		Increase/(decrease) during the year Transfer of shares under State Share Reform	31 December 2006	
	RMB	Ratio		RMB	Ratio
A. Shares with sales restriction					
1. State-owned shares	4,034,560,000	62.50	(204,000,000)	3,830,560,000	59.34
2. Other domestically owned shares	87,810,000	1.36	–	87,810,000	1.36
Including:					
Shares owned by domestic legal persons	87,810,000	1.36	–	87,810,000	1.36
Shares owned by domestic natural persons	–	–	–	–	–
Sub-total	4,122,370,000	63.86	(204,000,000)	3,918,370,000	60.70
B. Shares without sales restriction					
1. A shares	600,000,000	9.29	204,000,000	804,000,000	12.45
2. H shares	1,732,930,000	26.85	–	1,732,930,000	26.85
Sub-total	2,332,930,000	36.14	204,000,000	2,536,930,000	39.30
C. Total	6,455,300,000	100.00	–	6,455,300,000	100.00

On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares ("Non-circulating Shares") into listed and circulating A shares ("Circulating A Shares") (the "State Share Reform") have been obtained. The then Non-circulating Shares have been entitled to be listed and become Circulating A shares since 31 March 2006 (the "Listing Date"). In accordance with the execution arrangement, Holding offered 3.4 of its shares to each original Circulating A Shares' shareholder for every 10 Circulating A Shares they held. The number of shares held by Holding decreased by 204 million shares whereas the number of shares held by the original Circulating A Shares' shareholders increased by 204 million shares. The total number of issued share of the Company remained unchanged.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30. Share capital (continued)

After the implementation of the State Share Reform, all the shares held by Holding and the legal person A shares held by other domestic legal persons are not listed for trading or transferred within 12 months from the Listing Date and the State-owned shares held by Holding are also not listed for trading and transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

31. Capital reserve

	Group and Company			
	At 1 January 2006	**Increase during the year**	**Decrease during the year**	**At 31 December 2006**
	RMB	RMB	RMB	RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	585,369,700	3,200,000	–	588,569,700
Total	5,450,345,095	3,200,000	–	5,453,545,095

The addition 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.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32. Surplus reserves

	Group			
	At 1 January 2006 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2006 RMB
Statutory reserve	1,179,972,207	1,415,801,706	–	2,595,773,913
Statutory public welfare fund	1,178,385,368	–	(1,178,385,368)	–
Reserve fund	11,112,647	11,934,321	–	23,046,968
Enterprise expansion fund	10,677,774	7,661,545	–	18,339,319
Total	2,380,147,996	1,435,397,572	(1,178,385,368)	2,637,160,200

	Company			
	At 1 January 2006 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2006 RMB
Statutory reserve	1,166,669,675	1,397,992,215	–	2,564,661,890
Statutory public welfare fund	1,166,669,675	–	(1,166,669,675)	–
Total	2,333,339,350	1,397,992,215	(1,166,669,675)	2,564,661,890

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 reserve (the "SR") until such reserves reach 50% of the registered capitals of these companies. Part of the SR 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 previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory public welfare fund (the "PWF"). According to the Company Law of the People's Republic of China (2005 revised) that took effect as of 1 January 2006, and the modified articles of associations, the Company and certain of its subsidiaries were not required to allocate any profit to the PWF starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SR.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

32. Surplus reserves (continued)

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB231,322,540 (2005: RMB278,666,301) to the SR. This represents 10% of the Company's profit after tax of RMB2,313,225,397 (2005: RMB2,786,663,009) determined in accordance with PRC accounting standards and regulations.

During the year, the share of subsidiaries' current year appropriations to each of the SR, the reserve fund and the enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB6,093,798 (2005: RMB8,146,210), RMB11,934,321 (2005: RMB7,632,717) and RMB7,661,545 (2005: RMB5,542,898), respectively.

The Group's and the Company's surplus reserves increased by 11% and 10% respectively were attributable to the profit appropriation for the year 2006.

33. Retained profits

	Note	**Group**
		RMB
Retained profits at beginning of year		4,595,922,817
Add: the consolidated net profit for the year		2,276,585,903
Less: Transfer to SR		(237,416,338)
Transfer to reserve fund		(11,934,321)
Transfer to enterprise expansion fund		(7,661,545)
Transfer to employee bonus and welfare fund		(6,546,881)
Ordinary share dividend payable		(1,032,848,000)
Retained profits at end of year		5,576,101,635
Including: Cash dividend proposed by directors	42	839,189,000

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.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

33. Retained profits (continued)

As at 31 December 2006, the Company had retained profits of approximately RMB5.55 billion (31 December 2005: approximately RMB4.54 billion), 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 2006, in accordance with the Company Law of the PRC, an amount of approximately RMB5.45 billion (31 December 2005: approximately RMB5.45 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.

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

	Group					
	2006			2005		
Category	**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	**32,315,572,592**	**28,529,075,512**	**3,786,497,080**	30,143,438,308	25,853,648,022	4,289,790,286
Sale of steel billets	**545,925,914**	**488,023,868**	**57,902,046**	479,308,861	406,276,901	73,031,960
Sale of coke by-products	**523,437,134**	**347,290,381**	**176,146,753**	371,127,636	313,134,277	57,993,359
Sale of pig iron	**657,460**	**516,726**	**140,734**	793,112	629,353	163,759
Others	**934,281,052**	**565,364,651**	**368,916,401**	1,088,428,093	720,818,084	367,610,009
Total	**34,319,874,152**	**29,930,271,138**	**4,389,603,014**	32,083,096,010	27,294,506,637	4,788,589,373

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	Company					
	2006			2005		
Category	**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	**32,301,046,955**	**28,700,830,117**	**3,600,216,838**	30,143,438,308	25,853,648,022	4,289,790,286
Sale of steel billets	**545,925,914**	**488,023,868**	**57,902,046**	479,308,861	406,276,901	73,031,960
Sale of coke by-products	**523,437,134**	**348,277,129**	**175,160,005**	371,127,636	313,134,277	57,993,359
Sale of pig iron	**657,460**	**516,726**	**140,734**	793,112	629,353	163,759
Others	**897,559,475**	**747,915,702**	**149,643,773**	1,003,920,997	938,471,716	65,449,281
Total	**34,268,626,938**	**30,285,563,542**	**3,983,063,396**	31,998,588,914	27,512,160,269	4,486,428,645

Sales to the five largest customers of the Group and the Company for the year amounted to RMB4,203,430,165 and RMB4,054,038,407, which accounted for 12% of the Group's and the Company's total sales amounts respectively.

35. Taxes and surcharges

	2006 RMB	2005 RMB
City construction and maintenance tax	**142,411,681**	131,303,393
Education surcharge	**61,033,577**	56,272,883
Local education surcharge	**20,344,526**	18,757,628
Other taxes	**16,603,258**	12,773,111
Total	**240,393,042**	219,107,015

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

(Prepared under PRC Accounting Standards)
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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

36. Other operating profit

The decrease in the Group's other operating profit by 56% was mainly attributable to the decrease in the trading of iron ore.

37. Administrative expenses

	2006	2005
	RMB	RMB
Staff cost	**385,519,205**	282,614,051
Welfare and support services	**95,845,003**	95,795,830
Removal compensation and demolishment expenses	**61,661,513**	76,990,800
Taxes and duties	**58,019,901**	55,109,722
Depreciation and amortisation charge	**55,271,900**	42,326,809
Joint office expenses	**52,260,851**	46,767,059
Safeguard fee	**51,496,378**	42,120,051
Flood prevention fee	**32,460,658**	17,277,444
Environmental protection fee	**26,076,536**	34,574,233
Inventory provision	**(26,190,003)**	75,464,166
Others	**171,873,626**	160,598,909
Total	**964,295,568**	929,639,074

38. Financial expenses

	2006	2005
	RMB	RMB
Interest expenses	**296,225,738**	362,470,045
Less: Interest income	**(34,258,808)**	(22,103,475)
Exchange loss	**79,056,338**	46,862,358
Less: Exchange gain	**(23,184,103)**	(201,605,652)
Others	**24,931,084**	23,858,875
Total	**342,770,249**	209,482,151

The increase in the Group's financial expenses by 64% was mainly attributable to the decrease in foreign exchange gain and increase in foreign exchange loss.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

39. Investment income

	Group		Company	
	2006	2005	**2006**	2005
	RMB	RMB	**RMB**	RMB
Share of profits of subsidiaries	**–**	–	**197,821,728**	168,737,203
Share of profit of associates	**40,286,524**	13,464,093	**40,286,524**	13,464,093
Other equity investment income	**19,277,921**	5,281,238	**19,300,121**	5,281,238
Total	**59,564,445**	18,745,331	**257,408,373**	187,482,534

The increase in the Group's investment income by 218% was mainly attributable to the increase in the share of profits of associates and gain on disposal of short-term investment during the year.

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

40. Subsidies income

	2006	2005
	RMB	RMB
Fiscal subsidies	**5,850,001**	1,992,600

41. Non-operating expenses

The decrease in the Group's non-operating expenses by 164% was mainly attributable to the reversal of fixed assets impairment during the year.

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

42. Cash dividend proposed by directors

	Group and Company	
	2006	2005
	RMB	RMB
Proposed final cash dividend – RMB13 cents (2005: RMB16 cents) per ordinary share	**839,189,000**	1,032,848,000

Proposed ordinary share dividend is determined based on the profit appropriation plan for the year ended 2006 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 RMB509,388,100, RMB104,520,000 and RMB225,280,900 respectively. The proposed dividend is subject to approval by the shareholders at the annual general meeting.

43. Cash paid relating to other operating activities

	2006	2005
	RMB	RMB
Welfare and support services	**95,845,003**	95,795,830
Removal compensation and demolishment expenses	**61,661,513**	76,990,800
Taxes and duties	**58,019,901**	55,109,722
Safeguard fee	**51,496,378**	42,120,051
Flood prevention fee	**32,460,658**	17,277,444
Environmental improvement fee	**26,076,536**	34,574,233
Repair and maintenance expenses	**24,228,949**	13,797,253
Packing fee	**19,227,486**	19,118,316
Export related costs	**17,606,395**	8,392,268
Loading expenses	**15,159,614**	17,249,060
Rental fee	**4,700,356**	6,345,554
Others	**10,408,762**	75,151,562
Total	**416,891,551**	461,922,093

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

44. Cash received relating to other investing activities

	2006 RMB	2005 RMB
Government subsidies for specific construction projects	**116,566,523**	6,700,000

45. Acquisition of businesses/a subsidiary

On 26 November 2006, the Company acquired a 71% of equity interest in 寶威鋼板制品(揚州)有限公司 ("Burwill (Yangzhou)") from Burwill Times Industrial Limited at a cash consideration of RMB61,651,010. Burwill (Yangzhou) is mainly engaged in high value-added steel coils processing and distribution in the PRC. Upon completion of the acquisition, Burwill (Yangzhou) will be renamed as Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing"). The consideration was determined with reference to the net assets value, which was valued by 江蘇天衡會計事務所.

The net assets of MS (Yangzhou) Processing at the date of transfer were set out below:

	Notes	RMB
Cash and balances with financial institutions		12,487,491
Trade receivables		11,882,851
Other receivables		2,016,761
Prepayments		7,258
Inventories		354,141
Fixed assets cost	10	52,028,422
Less: Accumulated depreciation	10	(2,916,479)
Net book value		49,111,943
Intangible assets	12	13,447,882
Accounts payable		(1,533,881)
Taxes payable		(632,990)
Other payables		(303,032)
Other accrued charges		(6,015)
Minority interests		(25,181,399)
Net assets		61,651,010
Cash consideration paid		57,404,685
Unpaid portion of cash consideration		4,246,325

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V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

45. Acquisition of businesses/a subsidiary (continued)

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	RMB
Cash consideration paid	57,404,685
Cash and balances with financial institutions	(12,487,491)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	44,917,194

The operating results of MS (Yangzhou) Processing are not material since the date of acquisition.

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

45. Acquisition of businesses/a subsidiary (continued)

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Magang Holding Construction Co. Ltd. ("Construction Company"), a wholly-owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and electrical and mechanical equipment installation business (the "Businesses"). The acquisition price, which amounted to approximately RMB150 million, was determined by reference to an asset appraisal report issued by an independent assets valuer, Jiangsu Talent Certified Public Accountants. In accordance with the terms of the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, the Businesses were entrusted to the Construction Company for management and the profit and loss was assumed by the Company, which was not significant.

Net assets acquired:

	RMB
Bills receivable	100,000
Trade receivables	76,007,671
Other receivables	7,693,900
Prepayments	13,130,991
Inventories	152,240,510
Fixed assets cost	71,854,377
Less: Accumulated depreciation	(17,458,303)
Net book value	54,396,074
Construction materials	120,000
Construction in progress	49,735,199
Accounts payable	(113,420,805)
Deposits received	(82,241,475)
Staff welfare payable	(3,810,465)
Taxes payable	(1,228,776)
Other taxes payable	(41,673)
Other payables	(2,907,567)
	149,773,584
Cash paid	149,773,584

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

46. Non-cash assets and liabilities contributed by a minority shareholder

On 28 April 2006, the Company and Hefei Investment Holding Company Limited ("Hefei Investment Holding") entered into a Venturers' Agreement for the establishment of Ma Steel (Hefei) Iron & Steel Co. Ltd. ("Ma Steel (Hefei)"). Pursuant to the Venturers' Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in Ma Steel (Hefei), respectively.

On 10 May 2006, Ma Steel (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of Ma Steel (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two installments. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to Ma Steel (Hefei) and Hefei Investment Holding has also contributed cash of RMB299,312,595 and certain assets (including certain prepaid land premiums and production equipment located in Hefei City used for the manufacture of iron and steel products) and liabilities amounting to a net liability value of RMB202,312,595 to Ma Steel (Hefei).

Details of the net liability value of RMB202,313,000 injected into Ma Steel (Hefei) by Hefei Investment Holding are as follows:

	Notes	RMB
Prepayments		26,635,700
Inventories		115,342,635
Fixed assets	10	602,287,638
Construction in progress	11	640,000
Intangible assets	12	154,104,000
Short term loan		(476,620,150)
Bills payable		(219,200,000)
Accounts payable		(290,311,383)
Deposits received		(102,410,482)
Accrued charges		(12,780,553)
		(202,312,595)

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

47. 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' equity arising from the material differences between the consolidated financial statements prepared under PRC and Hong Kong Accounting Standards are summarised as follows:

	Notes	2006 RMB'000	2005 RMB'000
Net profit			
Net profit from ordinary activities attributable to shareholders under Hong Kong Accounting Standards		**2,394,652**	2,909,943
Add back:			
Employee bonus and welfare fund	(ii)	**6,547**	4,616
Deduct:			
Deferred tax income	(i)	**(74,861)**	(18,441)
Recognition of deferred income	(iii)	**(49,752)**	(48,498)
Net profit from ordinary activities attributable to shareholders under PRC Accounting Standards		**2,276,586**	2,847,620

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31 December 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

47. Differences in financial statements prepared under PRC and Hong Kong Accounting Standards (continued)

	Notes	31 December 2006 RMB'000	31 December 2005 RMB'000
Shareholders' equity			
Shareholders' equity under Hong Kong Accounting Standards		**20,461,771**	18,514,504
Add back:			
Deferred tax liabilities	(i)	**754**	–
Deferred income	(iii)	**588,569**	585,369
Deduct:			
Deferred tax assets	(i)	**–**	(53,175)
Recognition of deferred income	(iii)	**(140,235)**	(90,483)
Provision for furnace relining costs	(iv)	**(74,499)**	(74,499)
Recognition of equity component of bonds with warrants	(v)	**(733,019)**	–
Direct issue cost of bonds with warrants recognised as deduction from equity component	(v)	**18,766**	–
Shareholders' equity under PRC Accounting Standards		**20,122,107**	18,881,716

(i) 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 2005 and 31 December 2006.

Under HKAS 12, 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 liabilities recognised as at 31 December 2006 amounted to approximately RMB0.75 million (2005: deferred tax assets approximately RMB53.2 million). The movement in the deferred tax resulted in a deferred tax income of approximately RMB74.9 million in the current year (2005: approximately RMB18.4 million).

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

47. Differences in financial statements prepared under PRC and Hong Kong Accounting Standards (continued)

(ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the boards of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB6.5 million (2005: approximately RMB4.6 million).

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 staff cost and is charged to the current year's income statement.

(iii) Deferred income

Government grants for specific construction projects are accounted for as specific payables under PRC Accounting Standards, whereas under Hong Kong Accounting Standards, such grants are accounted for as deferred income.

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2006, accumulated specific payables transferred to the capital reserve amounted to approximately RMB589 million (31 December 2005: approximately RMB585 million).

Under Statement of Standard Accounting Practice No. 20, *Accounting for government grants and disclosure of assistance* ("HKSSAP 20"), upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB3.2 million received in the current and prior year, were completed. As at 31 December 2006, accumulated deferred income amounting to approximately RMB589 million (31 December 2005: approximately RMB585 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB49.8 million (2005: approximately RMB48.5 million) was released to the current year's income statement. As at 31 December 2006, the accumulated deferred income released amounted to approximately RMB140.2 million (31 December 2005: approximately RMB90.5 million).

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

47. Differences in financial statements prepared under PRC and Hong Kong Accounting Standards (continued)

(iv) Furnace relining costs

Under the PRC Accounting Standard *Fixed Assets* issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment 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 RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2005: Nil), and the remaining provision as at 31 December 2006 amounted to approximately RMB74.5 million (2005: approximately RMB74.5 million).

Under HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, 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.

(v) Bonds with warrants

Under the PRC accounting standard and regulations, bonds with warrants were recorded as bonds payable at a nominal value of RMB5,500 million at the issue date. Besides, the direct issue cost of bonds with warrants was capitalised in construction in process.

Under HKAS 32, *Financial instruments: Disclosure and Presentation*, the bonds with warrants are determined as a compound financial instrument and should be separately classified as financial liability component and equity component. At the issue date, the carrying amount of the liability component was determined to be approximately RMB4,767 million by measuring the fair value of a similar liability that does not have an associated equity component, and the equity component is then determined to be approximately RMB733 million by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole of RMB5,500 million. Besides, the direct issue cost of the bonds with warrants was allocated between the separate components and the amount recognised as deduction from equity is approximately RMB18.8 million.

VI. SEGMENT INFORMATION

No business segment information is presented as over 90% of the Group's revenue is derived from one business segment, which is the manufacture and sale of iron and steel products and related by-products.

Geographical segmental analysis is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on geographical segment assets, liabilities and capital expenditure is provided.

	2006			2005		
	PRC	**Overseas**	**Total**	PRC	Overseas	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Principal operating income	30,800,297	3,519,577	34,319,874	30,035,284	2,047,812	32,083,096
Profit from principal operating activities	3,546,077	603,133	4,149,210	4,363,466	206,016	4,569,482

VII. 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 2006, Holding owned 60.08% of the Company's total share capital. Thus all subsidiaries of Holding become the Company's related parties.

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

Name	**At 1 January 2006**	**Increase during the year**	**Decrease during the year**	**At 31 December 2006**
	RMB'000	RMB'000	RMB'000	RMB'000
Holding	6,298,290	–	–	6,298,290

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

Name	At 1 January 2006 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2006 RMB'000	Ratio %
Holding	4,082,330	63.24	–	–	(204,000)	(3.16)	3,878,330	60.08

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 of Holding
馬鋼集團建築路橋有限責任公司	Subsidiary of Holding
馬鋼集團南山礦業有限責任公司	Subsidiary of Holding
馬鋼集團姑山礦業有限責任公司	Subsidiary of Holding
馬鋼(集團)控股有限公司桃冲礦業公司	Subsidiary of Holding
馬鋼集團設計研究院有限責任公司	Subsidiary of Holding
馬鋼集團康泰置地發展有限公司	Subsidiary of Holding
馬鋼集團康泰建安實業有限公司	Subsidiary of Holding
馬鋼集團力生有限責任公司	Subsidiary of Holding
馬鋼集團實業發展有限責任公司	Subsidiary of Holding
馬鋼神馬冶金有限責任公司	Subsidiary of Holding
馬鋼集團鋼渣綜合利用有限責任公司	Subsidiary of Holding
馬鋼實業生興爐料加工有限責任公司	Subsidiary of Holding
安徽馬鋼比亞西焊網有限公司	Subsidiary of Holding
馬鋼運動用品有限責任公司	Subsidiary of Holding
馬鞍山市聯營乙炔廠	Subsidiary of Holding
馬鞍山馬鋼永固螺絲製品有限公司	Subsidiary of Holding
馬鋼集團動力機電安裝有限責任公司	Subsidiary of Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Subsidiary of Holding
馬鋼(集團)控股有限公司有線電視中心	Subsidiary of Holding
馬鋼(集團)控股有限公司通迅技術服務部	Subsidiary of Holding
馬鋼(集團)控股有限公司馬鋼日報社	Subsidiary of Holding
馬鋼(集團)控股有限公司安冶機械廠	Subsidiary of Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Subsidiary of Holding

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Related parties without control relationship (continued)

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

Name	Relationship with the Company
馬鞍山市華鑫軋鋼廠	Subsidiary of Holding
深圳粵海馬鋼實業有限公司	Subsidiary of Holding
馬鞍山博力建設監理有限公司	Subsidiary of Holding
馬鋼(集團)控股有限公司高級技工學校	Subsidiary of Holding
馬鋼(集團)控股有限公司醫院	Subsidiary of Holding
馬鋼(集團)控股有限公司安徽冶金科技職業技術學院	Subsidiary of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary of Holding
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
馬鞍山港口公司	Associate of the Group
馬鋼智能停車	Associate of the Group
BOC-Ma Steel	Jointly control entity of the Group

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

	Notes	2006 RMB	2005 RMB
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	**1,631,201,228**	1,408,067,891
Fees paid for welfare, support services and other services	(ii), (iii)	**194,496,697**	206,210,276
Rental expenses	(iii)	**36,250,000**	36,250,000
Agency fee paid	(iii)	**4,092,780**	3,784,137
Purchases of fixed assets and construction services	(iii)	**295,468,496**	266,777,687
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(23,220,822)**	(27,496,787)
Sale of steel products and related by-products	(iii)	**(8,950,704)**	(8,478,679)
Acquisition of businesses	(iv)	**–**	149,773,584
Transactions with associates of the Group:			
Purchases of coke	(v)	**1,085,124,812**	598,732,282
Loading expenses	(v)	**75,036,389**	40,076,344
Transactions with a JCE of the Group:			
Rental income	(vi)	**(1,250,000)**	(1,250,000)
Construction fee income	(vi)	**(2,925,929)**	(7,440,000)

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the year (continued):

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 9 October 2003 entered into between the Company and Holding.

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 9 October 2003 entered into between the Company and Holding.

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

(iv) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly-owned subsidiary of Holding for a cash consideration of approximately RMB150 million in 2005, as further detailed in Note V point 45 to the financial statements.

(v) These transactions were made between the Group and 濟源市金馬焦化, 滕州盛隆煤焦化, 馬鞍山港口公司 and 馬鋼智能停車 and were conducted in accordance with the terms mutually agreed between them.

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

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

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(2) Holding has guaranteed certain bank loans of the Group and bonds with warrants up to approximately RMB15 billion (2005: approximately RMB4.8 billion) as at the balance sheet date at nil consideration, as further detailed in Note V point 24, 25 and 26 to the financial statements.

(3) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VII point 6.

6. Receivable from/payable to related parties

	31 December 2006 RMB	31 December 2005 RMB	**Details**
Prepayments:			
馬鋼集團建設有限責任公司	**26,328,100**	2,467,871	Trade and construction fee
Others	**1,018,542**	581,147	
Total	**27,346,642**	3,049,018	

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VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	31 December 2006 RMB	31 December 2005 RMB	Details
Accounts payable:			
Holding	**136,339,089**	106,906,075	Construction fee, Payment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	**21,610,018**	29,168,313	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	**25,938,446**	17,219,156	Construction and maintenance fees
馬鋼集團康泰建安實業有限公司	**568,153**	678,295	Construction fee
馬鋼集團力生有限責任公司	**1,943,127**	3,557,418	Construction fee
馬鋼集團實業發展有限責任公司潤滑油分公司	**2,954,930**	3,049,623	Trade
馬鋼集團鋼渣綜合利用有限責任公司	**232,785**	9,904	Trade
馬鞍山市聯營乙炔廠	**22,736**	218,729	Processing fee
馬鋼集團南山礦業有限責任公司	**1,117,338**	3,800,806	Trade
馬鋼集團姑山礦業有限責任公司	**–**	2,920,165	Trade
馬鋼(集團)控股有限公司桃冲礦業公司	**2,255,132**	–	Trade
滕州盛隆煤焦化	**368,571**	150,771	Trade
濟源市金馬焦化	**469,100**	92,788	Trade
馬鞍山港口公司	**6,524,273**	8,234,474	Loading expenses
Others	**4,472,961**	3,322,360	
Total	**204,816,659**	179,328,877	

VII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	31 December 2006 RMB	31 December 2005 RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	6,406,519	27,325,799	Trade and electricity fee
馬鋼集團康泰置地發展有限公司	–	1,048,877	Trade
馬鞍山馬鋼嘉華商品混凝土有限公司	3,063,581	3,217,616	Trade
Others	963,912	772,495	
Total	10,434,012	32,364,787	
Deposits received:			
Holding	44,200,000	–	Construction fee
馬鋼集團建設有限責任公司	9,144,804	–	Construction fee
馬鋼集團姑山礦業有限責任公司	59,156,440	55,662,819	Trade
安徽馬鋼比亞西焊網有限公司	5,652,992	9,106,633	Trade
Others	1,595,861	2,622,943	
Total	119,750,097	67,392,395	
Dividends payable:			
Holding	400,000,000	–	Dividend
Other long term liability:			
Holding	400,000,000	400,000,000	Dividend

Except for other long term liability due to Holding which is interest-free, unsecured and contracted to be repaid after 1 January 2008, the balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

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VIII. CONTINGENT LIABILITIES

As at 31 December 2006, the Company had granted guarantees amounting to approximately RMB7,728 million (31 December 2005: approximately RMB7,795 million) to banks in connection with facilities granted to its subsidiaries.

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

IX. COMMITMENTS

Capital commitments

(1). 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 2006 RMB'000	31 December 2005 RMB'000	**31 December 2006 RMB'000**	31 December 2005 RMB'000
Authorised, but not contracted for	**5,217,641**	11,044,413	**4,469,724**	11,042,318
Contracted, but not provided for	**4,093,227**	9,835,947	**4,051,077**	9,828,677
Total	**9,310,868**	20,880,360	**8,520,801**	20,870,995

(2). The commitments for capital contributions at the balance sheet date were as follows:

	Group		Company	
	31 December 2006 RMB'000	31 December 2005 RMB'000	**31 December 2006 RMB'000**	31 December 2005 RMB'000
Contracted, but not provided for	**13,500**	7,668	**172,947**	34,668

IX. COMMITMENTS (CONTINUED)

Capital commitments (continued)

(3). The Group's and Company's share of the capital commitments of the Jointly Control Entity, which is not included in note (1) above, in respect of capital expenditure for buildings and structures, plant and equipment at the balance sheet date were as follows:

	Group and Company	
	31 December 2006 RMB'000	31 December 2005 RMB'000
Authorised, but not contracted for	**10,952**	31,202
Contracted, but not provided for	**39,351**	148,218
	50,303	179,420

(4). The Group's and Company's share of other commitments of the Jointly Control Entity:

	Group and Company	
	31 December 2006 RMB'000	31 December 2005 RMB'000
Contracted, but not provided for	**5,000**	–

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X. POST BALANCE SHEET EVENTS

(1). The Company proposed to issue 20,000,000 short term commercial papers with a nominal value of RMB100 each, amounting to RMB2 billion in total. The short term commercial papers will be issued at par and have a maturity of one year from the date of issuance. The proceeds from the issue will be used to finance the working capital of the Company.

The proposal of issuance has been approved in the extraordinary general meeting held on 1 February 2007. Up to reporting date, the proposal is pending for approval of the People's Bank of China.

(2). During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

XI. COMPARATIVE AMOUNTS

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

XII. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 April 2007.

Supplementary Information

(Prepared under PRC Accounting Standards)
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RETURN ON NET ASSETS AND EARNINGS PER SHARE

Items	Profit during the reporting period	Return on net assets (%) Fully Diluted	Return on net assets (%) Weighted average	Earnings per share(RMB) Fully diluted	Earnings per share(RMB) Weighted average
	RMB'000				
Profit from principal operating activities	4,149,210	20.62	20.73	0.643	0.643
Operating profit	2,664,584	13.24	13.31	0.413	0.413
Net profit	2,276,586	11.31	11.37	0.353	0.353
Net profit excluding non-recurring gains or losses	2,234,107	11.10	11.16	0.346	0.346

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

Including: Net profit excluding non-recurring gains or losses

	2006	2005
	RMB	RMB
Net profit	**2,276,585,903**	2,847,619,960
Add/(deduct):		
Loss on disposal of fixed assets and construction in progress, net	**11,196,092**	19,114,220
Subsidies income	**(5,850,001)**	(1,992,600)
Gain on disposal of short term investment	**(13,993,737)**	–
Other non-operating income and expense items	**(636,027)**	16,936,405
Reversal of impairment provisions made in prior years	**(37,287,348)**	–
Income tax effect	**4,092,248**	(4,070,001)
Total	**2,234,107,130**	2,877,607,984

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

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PROVISION MOVEMENT SCHEDULE

Group

Items	At 1 January 2006 RMB	Increase during the year RMB	Decrease during the year: Reversal on upward revaluation of assets RMB	Decrease during the year: Other transfer-outs RMB	Decrease during the year: Total RMB	At 31 December 2006 RMB
1. Provision for bad debts:	75,470,795	–	x	x	(8,358,760)	67,112,035
including: Trade receivables	49,298,048	–	x	x	(8,358,760)	40,939,288
Other receivables	26,172,747	–	x	x	–	26,172,747
2. Provision for decline in value of short term investments	–	–	–	–	–	–
3. Provision for inventories:	120,959,892	15,808,106	(41,998,109)	(3,000,000)	(44,998,109)	91,769,889
including: Raw materials	–	–	–	–	–	–
Work in progress	3,000,000	–	–	(3,000,000)	(3,000,000)	–
Construction contract	–	–	–	–	–	–
Finished goods	46,838,109	–	(41,998,109)	–	(41,998,109)	4,840,000
Spare parts	71,121,783	15,808,106	–	–	–	86,929,889
4. Provision for impairment of long term investments	–	–	–	–	–	–
5. Provision for impairment of fixed assets:	117,056,844	–	(19,611,200)	(6,770,000)	(26,381,200)	90,675,644
including: Buildings and structures	10,391,900	–	–	(5,139,500)	(5,139,500)	5,252,400
Plant, machinery and equipment	106,664,944	–	(19,611,200)	(1,630,500)	(21,241,700)	85,423,244
6. Provision for impairment of intangible assets	–	–	–	–	–	–
7. Provision for impairment of construction in progress	74,000,000	–	(17,676,148)	(56,323,852)	(74,000,000)	–
8. Provision for impairment of designated loan	–	–	–	–	–	–

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PROVISION MOVEMENT SCHEDULE (CONTINUED)

Company

Items	At 1 January 2006	Increase during the year	Decrease during the year: Reversal on upward revaluation of assets	Decrease during the year: Other transfer-outs	Decrease during the year: Total	At 31 December 2006
	RMB	RMB	RMB	RMB	RMB	RMB
1. Provision for bad debts:	73,862,271	–	x	x	(7,249,501)	66,612,770
including: Trade receivables	47,689,524	–	x	x	(7,249,501)	40,440,023
Other receivables	26,172,747	–	x	x	–	26,172,747
2. Provision for decline in value of short term investments	–	–	–	–	–	–
3. Provision for inventories:	120,959,892	15,808,106	(41,998,109)	(3,000,000)	(44,998,109)	91,769,889
including: Raw materials	–	–	–	–	–	–
Work in progress	3,000,000	–	–	(3,000,000)	(3,000,000)	–
Construction contract	–	–	–	–	–	–
Finished goods	46,838,109	–	(41,998,109)	–	(41,998,109)	4,840,000
Spare parts	71,121,783	15,808,106	–	–	–	86,929,889
4. Provision for impairment of long term investments	–	–	–	–	–	–
5. Provision for impairment of fixed assets:	117,056,844	–	(19,611,200)	(6,770,000)	(26,381,200)	90,675,644
including: Buildings and structures	10,391,900	–	–	(5,139,500)	(5,139,500)	5,252,400
Plant, machinery and equipment	106,664,944	–	(19,611,200)	(1,630,500)	(21,241,700)	85,423,244
6. Provision for impairment of intangible assets	–	–	–	–	–	–
7. Provision for impairment of construction in progress	74,000,000	–	(17,676,148)	(56,323,852)	(74,000,000)	–
8. Provision for impairment of designated loan	–	–	–	–	–	–

(Prepared under PRC Accounting Standards)
31 December 2006

ERNST & YOUNG HUA MING
安 永 华 明 会 计 师 事 务 所

REPORT ON REVIEW OF THE RECONCILIATION STATEMENT OF DIFFERENCES IN SHAREHOLDERS' EQUITY BETWEEN NEW AND CURRENT ACCOUNTING STANDARDS

Ernst & Young Hua Ming (2007) Zhuan Zi No. 60438514-A01

To the shareholders of Maanshan Iron & Steel Company Limited

We have reviewed the accompanying reconciliation statement of differences in shareholders' equity between the new and current accounting standards (the "Reconciliation Statement") of Maanshan Iron & Steel Company Limited (the "Company") as at 31 December 2006 and 1 January 2007, which is prepared in accordance with the basis of preparation set out in note II to the Reconciliation Statement. Management is responsible for the preparation of the Reconciliation Statement in accordance with Accounting Standard for Business Enterprises No. 38 "First-time Adoption of Accounting Standards for Business Enterprises" and the "Circular on the Proper Disclosure of the Financial and Accounting Information Relating to the New Accounting Standards" (Zheng Jian Fa [2006] No.136, the "Circular"). Our responsibility is to express a conclusion on the Reconciliation Statement based on our review.

According to relevant requirements of the Circular, we conducted our review in accordance with the Standard on Review Engagements for Certified Public Accountants No. 2101 "Review on Financial Statements", which requires us to plan and perform our review to obtain limited assurance as to whether the Reconciliation Statement is free from material misstatement. A review consists of making inquiries of the relevant personnel of the Company in respect of the accounting policies and all significant assertions related to the Reconciliation Statement, obtaining an understanding of the calculation of the reconciled items in the Reconciliation Statement, reading the Reconciliation Statement to determine whether the basis of preparation has been properly complied and performing analytical review procedures when necessary. A review is substantially less in scope than an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the above Reconciliation Statement has not been prepared, in all material respects, in accordance with Accounting Standard for Business Enterprises No. 38 "First-time Adoption of Accounting Standards for Business Enterprises" and the Circular.

Ernst & Young Hua Ming
Beijing, the People's Republic of China

Ge Ming
Chinese Certified Public Accountant

Qin Tongzhou
Chinese Certified Public Accountant

17 April 2007

(Prepared under PRC Accounting Standards)
31 December 2006

THE RECONCILIATION STATEMENT OF DIFFERENCES IN SHAREHOLDERS' EQUITY BETWEEN NEW AND CURRENT ACCOUNTING STANDARDS

Important Notice:

Commencing from 1 January 2007, the Company has adopted the "Accounting Standards for Business Enterprises" (the "new accounting standards") issued by Ministry of Finance ("MOF") in 2006 and the Company is currently assessing the impacts of adoption of the new accounting standards on the Company's financial position, results of operations and cash flows. With further deliberation or by reference with further interpretations on the new accounting standards issued by MOF, the Company may adjust the related accounting policies or significant assertions adopted in the Reconciliation Statement when the financial statements of 2007 are prepared that the shareholders' equity as at 1 January 2007 (under the new accounting standards) presented in the Reconciliation Statement may be different from those amounts presented in the financial statements of 2007.

Items	Notes	Items	Amount RMB
		Consolidated shareholders' equity as at 31 December 2006 (under current accounting standards)	**20,122,106,930**
1	2	Recognition of equity component of bonds with warrants	714,253,399
2	3	Income taxes	10,421,000
		Equity attributable to equity holders of the parent as at 1 January 2007 (under new accounting standards)	**20,846,781,329**
3	4	Change in presentation of minority interests	310,497,169
		Consolidated shareholders' equity as at 1 January 2007 (under new accounting standards)	**21,157,278,498**

The accompanying notes form an integral part of the Reconciliation Statement

Company Representative
Gu Jianguo
17 April 2007

Chief Accountant
Su Jiangang
17 April 2007

Head of Accounting Department
Guan Yagang
17 April 2007

(Prepared under PRC Accounting Standards)
31 December 2006

NOTES TO THE RECONCILIATION STATEMENT OF DIFFERENCES IN SHAREHOLDERS' EQUITY BETWEEN NEW AND CURRENT ACCOUNTING STANDARDS

I. Purpose of preparation

Commencing from 1 January 2007, the Company has adopted the new accounting standards. To analyse and disclose the impacts of adoption of the new accounting standards on listed companies' financial position, China Securities Regulatory Commission issued the Circular in November 2006, under which listed companies are required to disclose the reconciliation of significant differences in the "supplementary information" of the 2006 financial statements in form of a reconciliation statement in accordance with relevant requirements of Accounting Standard for Business Enterprises No. 38 "First-time Adoption of Accounting Standards for Business Enterprises" and the Circular.

II. Basis of preparation

The Reconciliation Statement was prepared in accordance with relevant requirements of paragraphs 5 to 19 of the Accounting Standard for Business Enterprises No. 38 "First-time Adoption of Accounting Standards for Business Enterprises" and the Circular, and was prepared based on the consolidated financial statements of 2006, taking into consideration the natures and specific circumstances of the Company/Group as well as the materiality of figures.

Besides, for the items mentioned below, the Reconciliation Statement was prepared according to following principles:

1. If subsidiaries, jointly-controlled entities and associates make adjustments in accordance with paragraphs 5 to19 of the Accounting Standards for Business Enterprises No. 38 "First-time Adoption of Accounting Standards for Business Enterprises", the Company will accordingly adjust the retained earnings or capital reserves based on actual circumstances regarding any events affecting the retained earnings of the above-mentioned companies as well as the share of net assets of the Company.

2. Minority interests are adjusted in accordance with the new accounting standards and presented separately in the Reconciliation Statement.

III. Notes to the Reconciliation Statement

1. The amount of the consolidated shareholders' equity as at 31 December 2006 (under the current accounting standards) is extracted from the consolidated balance sheet as at 31 December 2006 prepared under the current Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises (the "current accounting standards"). The financial statements were audited by Ernst & Young Hua Ming and a standard auditors' report without qualified opinions of Ernst & Young Hua Ming (2007) Shen Zi No. 60438514-A02 was issued on 17 April 2007. For the basis of preparation and principal accounting policies, please refer to the Company's financial statements of 2006.

NOTES TO THE RECONCILIATION STATEMENT OF DIFFERENCES IN SHAREHOLDERS' EQUITY BETWEEN NEW AND CURRENT ACCOUNTING STANDARDS (CONTINUED)

III. Notes to the Reconciliation Statement (continued)

2. *Recognition of equity component of bonds with warrants*

As presented in note 5.26 to the financial statements of 2006, on 13 November 2006, the Company issued bonds with warrants of RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The subscribers of the bonds have been entitled to receive 1,265,000,000 warrants at nil consideration. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares.

Under the new accounting standard No. 37 "Presentation of Financial Instruments", the bonds with warrants are determined as a compound financial instrument and should be separately classified as liability and equity components. When conducting the splitting, the fair value of the liability component should be firstly determined, and the carrying amount of the equity component is then determined by deducting the fair value of the liability component from the issue price of the compound financial instrument as a whole. Direct issue costs of the compound financial instrument should be allocated between the liability and equity component according to the proportions of their fair values. Accordingly, the equity component of the bonds with warrants recognised as at 31 December 2006 amounted to RMB714,253,399, which caused an increase of RMB714,253,399 in equity attributable to equity holders of the parent as at 1 January 2007.

3. *Income taxes*

Under the new accounting standard No. 18 "Income taxes", deferred tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Accordingly, the Company recognised deferred tax assets of RMB134,565,000 on the temporary differences arising mainly from asset impairments, and deferred tax liabilities of RMB124,144,000 on temporary differences arising mainly from the splitting of the compound financial instrument as at 31 December 2006, which caused an increase of RMB10,421,000 in equity attributable to equity holders of the parent as at 1 January 2007.

4. *Change in the presentation of minority interests*

Under the new accounting standards, minority interests amounting to RMB310,497,169 shall be presented as a line item of equity in the consolidated balance sheet, while under the current accounting standards, it was presented separately other than liabilities and equity in the consolidated balance sheet.

Documents Available for Inspection

1) Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department

2) Original copy of the audited accounts prepared under the PRC Accounting Standards, sealed by Ernst& Young Hua Ming and signed by Mr. Ge Ming and Mr. Qin Tongzhou, certified public accountants in the PRC; original copy of the audited accounts prepared under Hong Kong Accounting Standards signed by Ernst & Young.

3) Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News during the reporting period.

4) Annual results published in South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong).

5) The Company's Articles of Association.