



馬鞍山鋼鐵股份有限公司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 323)

Maanshan Iron & Steel Company Limited
2006 First Quarterly Report

1. Important

- 1.1 This announcement is made pursuant to rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- 1.2 The board of directors (the “Board of Directors”) and the Directors of the Company jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false records, misleading statements or material omissions in this report.
- 1.3 The first quarterly financial statements have not been audited and were reviewed by the Auditing Committee of the Board of Directors of the Company. All financial information set out in this quarterly report has been prepared in accordance with PRC accounting standards.
- 1.4 This quarterly report has been prepared in accordance with the relevant regulations on Disclosure of Information in Quarterly Reports for Listed Companies by the China Securities Regulatory Commission. The information in this report is the same as that published by the Shanghai Stock Exchange, and this announcement is published simultaneously in Shanghai and Hong Kong.
- 1.5 Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jiangang, Director and Deputy General Manager overseeing the accounting operations, and Mr. Guan Yagang, Planning Finance Manager in charge of the Accounting Department, make representation in respect of the authenticity and completeness of the financial statements contained in the quarterly report.

2. Company Information

2.1 Company Profile

Stock Abbreviation (A share)	G Ma Steel	Previous Abbreviation (if any)	Magang Stock
Stock Code	600808		
Stock Abbreviation (H share)	Maanshan Iron & Steel	Previous Abbreviation (if any)	
Stock Code	00323		
Name	Secretary to the Board of Directors Su Jiangang	Representative for Securities Affairs Hu Shunliang	
Correspondence Address	8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC	8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC	
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2.2 Financial Information (prepared under PRC accounting standards, unaudited)

2.2.1 Major Accounting Data and Financial Indicators

	As at the end of the reporting period	As at the end of the previous year	<i>Unit: RMB'000</i> Increase / (decrease) as at the end of the reporting period as compared to the end of the previous year (%)
Total assets	42,015,815	38,878,377	8.30
Shareholders' funds (excluding minority interest)	19,181,886	18,881,716	1.59
Net assets per share (Yuan)	2.97	2.92	1.71
Adjusted net assets per share (Yuan)	2.97	2.92	1.71
			Increase / (decrease) of the reporting period as compared to the corresponding period of the previous year (%)
Net cash flow from operating activities	435,341	435,341	-11.40
Earnings per share (Yuan)	0.046	0.046	-71.78
Return on net assets (%)	1.56	1.56	a decrease of 4.12 percentage points
Return on net assets excluding non- recurring gains or losses (%)	1.55	1.55	a decrease of 4.3 percentage points
Non-recurring gains or losses		Amount	
Net gain/loss on disposal of fixed assets		1,001	
Government subsidies in various types		60	
Other non-operating income and expenses		(176)	
Income tax effect		(133)	
Total		752	

2.2.2 Profit Statement

Item	Unit: RMB Yuan			
	Reporting period		Corresponding period	
	(January to March)		(January to March)	
	Consolidated	Parent Company	Consolidated	Parent Company
I. Principal operating income	7,413,266,428	7,398,115,277	8,482,065,702	8,584,181,177
Less: Cost of sales	(6,766,414,027)	(6,815,217,279)	(6,989,668,699)	(7,061,357,048)
Taxes and surcharges	(49,018,874)	(47,734,915)	(66,941,004)	(65,999,236)
II. Profit from principal operating activities	597,833,527	535,163,083	1,425,455,999	1,456,824,893
Add: Other operating profit	11,340,420	(1,516,090)	9,931,155	4,266,138
Less: Selling expenses	(52,740,274)	(51,531,623)	(39,276,089)	(38,990,909)
Administrative expenses	(123,942,949)	(105,400,465)	(153,443,649)	(142,242,250)
Financial expenses	(69,102,729)	(63,897,175)	17,975,016	37,543,863
III. Operating profit	363,477,995	312,817,730	1,260,642,432	1,317,401,735
Add: Investment income	1,497,110	31,772,804	(247,022)	9,887,165
Subsidies income	60,276	—	—	—
Non-operating income	1,297,126	1,000,926	792,653	616,847
Less: Non-operating expenses	(480,714)	(179,474)	(2,304,991)	(2,119,703)
IV. Profit before tax	365,851,793	345,411,986	1,258,883,072	1,325,786,044
Less: Income tax	(59,151,146)	(51,811,798)	(200,289,391)	(198,848,731)
Minority interest	(6,530,716)	—	(8,837,570)	—
Add: Unrecognised investment loss	—	—	—	—
V. Net profit	300,169,931	293,600,188	1,049,756,111	1,126,937,313

2.3 Total number of shareholders at the end of the reporting period and shareholding of the 10 largest holders of shares in circulation (State share reform has been completed before the reporting period)

Total number of shareholders at the end of the reporting period: The Company had a total of 136,913 shareholders, including 130,070 A share holders and 6,843 H share holders.

Shareholding of the 10 largest holders of shares in circulation not subject to selling restrictions

Name of shareholder (full name)	Number of circulating shares held at end of the reporting period not subject to selling restrictions (share)	Type of shares
HKSCC (Nominees) Limited	1,640,960,997	Overseas listed foreign shares
HSBC (Nominees) Limited	30,544,000	Overseas listed foreign shares
China Southern Sustaining Growth Equity Fund	22,541,274	RMB-denominated ordinary shares
Shanghai Stock Exchange 50 ETF	16,480,699	RMB-denominated ordinary shares
Tianyuan Equity Fund	9,171,006	RMB-denominated ordinary shares
Kaiyuan Equity Fund	8,658,753	RMB-denominated ordinary shares
Chen Liang Zhou	8,449,894	RMB-denominated ordinary shares
CICC-Standard Chartered- Citigroup Global Markets Limited	5,673,678	RMB-denominated ordinary shares
State Social Welfare Fund No.002	5,324,638	RMB-denominated ordinary shares
Shanghai Baosteel Engineering & Equipment Co., Ltd.	4,690,000	RMB-denominated ordinary shares

3. Management Discussion and Analysis

3.1 Brief analysis on the overall situation of the Company's operating activities during the reporting period

In January to March 2006, the national economy grew in a relatively fast pace. GDP increased by 10.2% as compared to the previous year while investment in fixed assets in cities and towns increased by 29.8% over the corresponding period of the previous year. No significant improvement was made in terms of the over-supply situation and the structural incompatibilities in the iron and steel industry at-large. Despite market prices of steel products rebounded in March, there were still substantial decreases in the first quarter at-large when compared to the corresponding period of the previous year. In the meantime, prices of major raw materials and fuels remained at high levels, and iron and steel enterprises faced relatively greater pressure in production and operation. During the reporting period, the Group (the Company and its subsidiaries) actively carried out the strategies of low cost and branding. Through sophisticated management and quantitative assessments, the effects of consolidation of main production units and

business operations were fully realised. Smooth sales of products and stable payment collection were ensured by leveraging the branding advantages of products such as H-shaped steel and train wheels and by putting proactive marketing efforts to open up markets.

During the reporting period, the Group produced a total of 2,230,000 tonnes of pig iron, 2,570,000 tonnes of crude steel and 2,390,000 tonnes of steel products, representing increases of 18.62%, 17.35% and 17.16%, respectively. A 100% production to sales ratio and a 100% payment collection ratio for steel products were achieved.

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

Unit: RMB'000

Industry or Product Segments	Principal operating income	Principal operating cost	Gross profit margin (%)
Iron and steel	7,231,266	6,506,023	10
Including: connected transactions	255	242	5.10
Product Segments			
Steel plate	2,468,294	2,330,519	5.58
Section steel	1,793,401	1,651,611	7.91
Wire rods	2,116,326	1,947,762	7.96
Train wheels and wheel rims	552,645	306,674	44.51
Including: connected transactions	255	242	5.10

3.1.2 *Profit breakdown during the reporting period (material changes in the ratios of total profit from principal operating activities, other operating profit, expenses for the period, investment income, subsidies income and net non-operating income/expense to profit before tax, as compared to the previous reporting period and the reasons therefor)*

Unit: RMB'000

Item	Reporting period		Previous reporting period		Increase / (decrease) in percentage to profit before tax (%)
	Amount	Percentage to profit before tax (%)	Amount	Percentage to profit before tax (%)	
Profit from principal operating activities	597,834	163.41	4,569,482	137.54	an increase of 25.87 percentage points
Expenses for the period	245,696	67.16	1,348,118	40.58	an increase of 26.58 percentage points
Profit before tax	365,852	N/A	3,322,267	N/A	N/A

The increase in profit from principal operating activities and expenses for the period as ratios of profit before tax when compared to the previous reporting period was mainly attributable to the decrease in the Company's profit before tax during the reporting period.

3.1.3 Material changes in the profitability (gross profit margin) of the principal operating activities as compared to the previous reporting period and the reasons therefor

During the reporting period, gross profit margin of the Group's principal operating activities was 8.73%, representing a decrease of 6.2 percentage points as compared to the previous reporting period, which was mainly attributable to the decrease in average selling prices of the Company's steel products in the first quarter of this year as compared to the previous reporting period while the purchasing costs of raw materials and fuels did not decrease at the same time.

3.2 Significant matters and analysis on their impact and solutions

- (i) During the reporting period, the controlling shareholder of the Company, that is, Magang (Group) Holding Company Limited ("Holding") and its subsidiaries did not utilise funds of the Company and its subsidiaries on a non-recurring basis.
- (ii) 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.
- (iii) State Share Reform

The State Share Reform Proposal of the Company, whereby Holding offered Circulating A Shareholders 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 relevant shareholders' meeting to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. With effect from 31 March 2006, the stock abbreviation of A shares of the Company was changed to "G Ma Steel".

3.3 Special undertakings made by the original holders of non-circulating shares in the course of the State Share Reform and performance of such undertakings

In the course of the State Share Reform, Holding made special undertakings as follows:

- (i) After implementation of the State Share Reform Proposal, the Magang shares held by Holding will not be listed for trading or transferred within 12 months from the listing date, 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 shares for the same period as undertaken by Holding.
- (ii) Holding will pay all the costs and expenses arising from the State Share Reform.

Holding also represented as follows:

- (i) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of Magang 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 Shanghai Stock Exchange, and will bear any legal liabilities accordingly.
- (ii) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to be liable for the undertakings, Holding will not transfer the shares held.

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

By Order of the Board of Directors
Gu Jianguo
Chairman

Maanshan City, Anhui Province, the PRC
25 April 2006

As at the date of this announcement, the Board of Directors comprises:

Gu Jianguo, Gu Zhanggen, Zhu Changqiu, Zhao Jianming, Su Jianguang, Gao Haijian, Wong Chun Wa, Su Yong*, Hui Leung Wah*, Han Yi*.*

** Independent Non-executive Directors*

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