



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)

2006 Third Quarterly Report

1. IMPORTANT

- 1.1 This announcement is made pursuant to the 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 warrant that there are no false presentations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
- 1.3 Mr Gu Jianguo, Chairman of the Company, Mr Su Jianguang, Director and Deputy General Manager overseeing the accounting operations, and Mr Guan Yagang, Finance Manager in charge of the Accounting Department, make representations in respect of the truthfulness and completeness of the financial and accounting statements contained in this quarterly report.
- 1.4 The third quarterly financial and accounting statements have not been audited but have been reviewed by the Audit 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.

2. COMPANY INFORMATION

2.1 Company Profile

Stock Abbreviation (A share)	Magang Stock	Previous Abbreviation (if any)	G Ma Steel
Stock Code (A share)	600808		
Stock Abbreviation (H share)	Maanshan Iron & Steel	Previous Abbreviation (if any)	–
Stock Code (H share)	00323		
	Secretary to the Board of Directors	Representative for Securities Affairs	
Name	Su Jianguang	Hu Shunliang	
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2.2 Financial Information (prepared under PRC accounting standards, unaudited)

2.2.1 Major Accounting Data and Financial Indicators

Unit: RMB Yuan

	As at the end of the reporting period	As at the end of the previous year	Increase/(decrease) at the end of the reporting period as compared to the end of the previous year (%)
Total assets	51,454,788,911	38,878,376,862	32.35
Shareholders' funds (excluding minority interest)	19,527,996,996	18,881,715,908	3.42
Net assets per share	3.03	2.92	3.77
Adjusted net assets per share	3.03	2.92	3.77
	Reporting period	Beginning of the year to the end of the reporting period	Increase/(decrease) for the reporting period as compared to the corresponding period of the previous year
Net cash flow from operating activities	N/A	2,409,373,943	N/A
Earnings per share	0.0941	0.2601	5.26
Return on net assets (%)	3.11	8.60	an increase of 0.03 percentage point
Return on net assets excluding non-recurring gains or losses (%)	3.10	8.37	a decrease of 0.02 percentage point
Non-recurring gains or losses (January to September)			Amount
Net gain/loss on disposal of fixed assets			9,474,564
Government subsidies in various types			60,276
Reversal of the impairment provisions which had been provided in the past years			22,487,348
Other non-operating income and expenses			756,092
Income tax effect			(3,914,380)
Total			<u>28,863,900</u>

2.2.2 Profit Statement

Profit Statement

Unit: RMB Yuan Unaudited

Item	Consolidated		The Company	
	July to September 2006	July to September 2005	July to September 2006	July to September 2005
Principal operating income	9,336,696,414	8,105,117,963	9,233,256,225	8,015,876,255
Less: Cost of sales	(8,221,391,645)	(7,123,554,192)	(8,273,685,286)	(7,113,272,624)
Taxes and surcharges	(55,389,904)	(57,384,840)	(50,609,710)	(56,418,331)
Profit from principal operating activities	1,059,914,865	924,178,931	908,961,229	846,185,300
Add: Other operating profit	6,588,360	44,762,462	(707,790)	729,308
Less: Selling expenses	(60,072,877)	(50,090,884)	(57,291,705)	(49,478,092)
Administrative expenses	(226,103,261)	(179,372,325)	(195,506,289)	(165,497,676)
Financial expenses	(72,980,917)	(56,891,103)	(72,010,789)	(62,510,870)
Operating profit	707,346,170	682,587,081	583,444,656	569,427,970
Add: Investment income	15,578,433	9,530,616	74,099,174	81,213,020
Subsidies income	–	1,992,600	–	–
Non-operating income	9,499,882	5,372,017	7,763,981	5,375,679
Less: Non-operating expenses	4,676,836	(1,331,742)	4,713,788	(1,297,353)
Profit before tax	737,101,321	698,150,572	670,021,599	654,719,316
Less: Income tax	(112,795,845)	(108,852,345)	(100,503,239)	(98,227,074)
Minority interest	(16,948,389)	(12,329,281)	–	–
Net profit	607,357,087	576,968,946	569,518,360	556,492,242

Profit Statement

Unit: RMB Yuan Unaudited

Item	Consolidated		The Company	
	January to September 2006	January to September 2005	January to September 2006	January to September 2005
Principal operating income	25,478,925,901	24,768,995,168	25,532,886,444	24,745,608,762
Less: Cost of sales	(22,402,762,081)	(20,668,005,247)	(22,671,435,166)	(20,780,801,946)
Taxes and surcharges	(171,291,975)	(173,838,404)	(160,967,347)	(170,291,930)
Profit from principal operating activities	2,904,871,845	3,927,151,517	2,700,483,931	3,794,514,886
Add: Other operating profit	34,748,387	88,680,021	931,929	11,465,421
Less: Selling expenses	(184,244,523)	(147,703,399)	(177,845,020)	(145,939,857)
Administrative expenses	(557,759,671)	(536,575,673)	(479,854,610)	(496,932,030)
Financial expenses	(210,263,011)	(123,218,092)	(201,702,768)	(101,371,332)
Operating profit	1,987,353,027	3,208,334,374	1,842,013,462	3,061,737,088
Add: Investment income	30,698,956	14,526,599	164,224,656	138,669,426
Subsidies income	–	1,992,600	–	–
Non-operating income	11,560,024	8,615,225	9,568,847	8,423,916
Less: Non-operating expenses	21,218,256	(4,385,814)	21,265,538	(4,236,955)
Profit before tax	2,050,830,263	3,229,082,984	2,037,072,503	3,204,593,475
Less: Income tax	(337,702,455)	(519,120,543)	(305,560,875)	(502,669,209)
Minority interest	(33,998,720)	(29,683,944)	–	–
Net profit	1,679,129,088	2,680,278,497	1,731,511,628	2,701,924,266

2.3 Total number of shareholders at the end of the reporting period and shareholding of the 10 largest holders of circulating shares (the share segregation 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 148,392 shareholders, including 141,419 A-share holders and 6,973 H-share holders.

Shareholding of the 10 largest holders of circulating shares 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 (shares)	Type
HKSCC (Nominees) Limited	1,639,796,997	Overseas listed foreign shares
HSBC (Nominees) Limited	30,674,000	Overseas listed foreign shares
China Life Insurance Company Limited – 分紅 – 個人分紅 – 005L-FH002滙	14,999,999	RMB-denominated ordinary shares
Hong Yang Securities Investment Fund	10,330,360	RMB-denominated ordinary shares
Chen Lian Zhou	9,101,194	RMB-denominated ordinary shares
Industrial and Commercial Bank of China – 建信優選成長股票型證券投資基金	8,249,421	RMB-denominated ordinary shares
CICC-Standard Chartered – CITIGROUP GLOBAL MARKETS LIMITED	7,137,801	Foreign shareholders
Bank of Communications – 科訊證券投資基金	7,003,669	RMB-denominated ordinary shares
Ping An Life Insurance (Group) Company of China Limited – Traditional and Ordinary Insurance Products	6,484,677	RMB-denominated ordinary shares
Baosteel Group Corporation	5,600,000	RMB-denominated ordinary shares

3. MANAGEMENT DISCUSSION AND ANALYSIS

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

For the period between July and September 2006, the relevant authorities of the State continued to implement the structural adjustment policies in respect of controlling total output and eliminating the laggards for the iron and steel sector, resulting in a slight improvement of the demand-supply balance for the overall iron and steel industry. The prices of steel became stable in August and September based on a price decline in July. During the reporting period, the Company actively rolled out the low cost strategy and the branding strategy. It planned its production according to sales and strengthened its management, thereby resulting in stable and smooth production. Meanwhile, smooth sales of products and stable payment collection were ensured by proactive marketing efforts.

For the period between July and September 2006, the Group (the Company and its subsidiaries) produced 2,490,000 tonnes of pig iron, 2,870,000 tonnes of crude steel and 2,710,000 tonnes of steel products, (among which the Company produced 2,290,000 tonnes of pig iron, 2,620,000 tonnes of crude steel and 2,450,000 tonnes of steel products). Principal operating income of approximately RMB9,337 million was realised, representing an increase of 15.20% as compared to the corresponding period of the previous year; net profit of approximately RMB607 million was realised, representing an increase of 5.27% compared to the corresponding period of the previous year.

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 Unaudited

Business or Product Segments (July to September)	Principal operating income	Principal operating cost	Gross profit margin (%)
Iron and steel	8,893,093	7,800,753	12.28
Product Segments			
Plate belts	3,107,206	2,736,186	11.94
Section steels	2,026,643	1,806,618	10.86
Wire rods	2,927,714	2,726,184	6.88
Train wheels and wheel rims	646,430	365,314	43.49

3.2 Special undertakings made by the original holders of non-circulating shares during the course of the share segregation reform and performance of such undertakings

During the course of the share segregation reform, Magang (Group) Holding Company Limited ("Holding") has made special undertakings as follows:

- 1 After the implementation of the share segregation reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the tradeable date of the shares, 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 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 will pay all the costs and expenses arising from the share segregation reform.

Furthermore, Holding has made 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 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" (「監管措施與法律責任」) of the Administrative Procedures of the Share Segregation Reform of Listed Companies (《上市公司股權分置改革管理辦法》), 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.
- 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 has fully complied with the above undertakings.

By Order of the Board of Directors
Gu Jianguo
Chairman

Maanshan City, Anhui Province, the PRC, 18 October 2006

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

Gu Jianguo, Gu Zhanggen, Zhu Changqiu, Zhao Jianming, Su Jiangang, 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.