



**MAANSHAN IRON & STEEL COMPANY LIMITED**

**2005**  
**ANNUAL REPORT**

# Company Profile

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## 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
Telephone	: 86-555-2888158
Fax	: 86-555-2887284
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	: <a href="http://www.magang.com.cn">http://www.magang.com.cn</a>
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	: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

## Company Profile (continued)

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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)/Magang Stock (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 Land 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

# Company Profile (continued)

## 2) ISSUE AND LISTING

Maanshan Iron & Steel Company Limited (the “Company”) was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint stock limited enterprises which formed the first batch of the 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.

## 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, 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.

## Company Profile (continued)

### 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 owned the core technology and patent of the shock and fire resistant H-shaped steel for construction. 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 wire, and are occasionally used in construction materials. The Company owned 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.

### Train wheels

Major products include train wheel and wheel rim, 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	3,322,267
Net profit	2,847,620
Net profit excluding non-recurring gains or losses	2,877,608
Profit from principal operating activities	4,569,482
Other operating profit	116,215
Operating profit	3,337,580
Investment income	18,745
Subsidies income	1,993
Non-operating income and expenses, net	(36,051)
Net cash flows from operating activities	6,170,942
Net increase in cash and cash equivalents	936,394

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

Items	Amount
Net loss on disposal of fixed assets	(19,114)
Subsidies income	1,993
Other non-operating income and expenses, net	(16,937)
Income tax effect	4,070
Total non-recurring gains or losses, net	<u>(29,988)</u>

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

Net profit under Hong Kong Accounting Standards	2,909,943
Add:	
Deferred tax expenses	(18,441)
Employee bonus and welfare fund	4,616
Less:	
Recognition of deferred income	<u>(48,498)</u>
Net profit under PRC Accounting Standards	<u>2,847,620</u>

Note: Please see Note V (47) of Notes to Financial Statements prepared under PRC Accounting Standards and Note 42 of Notes to Financial Statements prepared under Hong Kong Accounting Standards for reason of differences.

## Extracts of Accounting and Business Data (continued)

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

#### (1) Prepared under PRC Accounting Standards

Index item	2005	2004	2003	2002	2001
Principal operating income	<b>32,083,096</b>	26,770,055	15,740,348	10,973,917	9,547,929
Profit before tax	<b>3,322,267</b>	4,029,637	2,987,914	479,702	297,131
Tax	<b>433,775</b>	441,258	193,770	95,261	88,735
Minority interests	<b>40,872</b>	12,572	1,173	–	–
Net profit	<b>2,847,620</b>	3,575,807	2,792,971	384,441	208,396
Earnings per share (RMB)					
Fully diluted	<b>0.441</b>	0.554	0.433	0.060	0.032
Weighted average	<b>0.441</b>	0.554	0.433	0.060	0.032
Net cash flows from operating activities per share (RMB)	<b>0.9559</b>	0.9453	0.5528	0.4012	0.2147
Return on net assets (%)					
Fully diluted	<b>15.08</b>	20.51	18.67	3.18	1.75
Weighted average	<b>15.10</b>	21.35	20.71	3.18	1.72
Return on net assets excluding non-recurring gains or losses (%)					
Fully diluted	<b>15.24</b>	20.46	18.72	6.82	3.91
Weighted average	<b>15.26</b>	21.30	20.77	6.82	3.84
<b>Index item</b>	<b>At the end of 2005</b>	At the end of 2004	At the end of 2003	At the end of 2002	At the end of 2001
Total assets	<b>38,878,377</b>	31,461,195	26,355,229	17,138,511	16,723,013
Total liabilities	<b>19,858,472</b>	13,949,302	11,359,464	5,049,743	4,816,800
Minority interests	<b>138,189</b>	76,315	35,420	–	–
Shareholders' funds	<b>18,881,716</b>	17,435,578	14,960,345	12,088,768	11,906,213
Net assets per share (RMB)	<b>2.92</b>	2.70	2.32	1.87	1.84
Adjusted net assets per share (RMB)	<b>2.92</b>	2.70	2.32	1.87	1.84



## Extracts of Accounting and Business Data (continued)

### (2) Prepared under Hong Kong Accounting Standards

Index item	2005	2004	2003	2002	2001
Turnover	<b>32,083,096</b>	26,770,055	15,740,348	10,973,917	9,547,929
Profit before tax	<b>3,366,149</b>	4,065,876	2,864,232	403,194	241,016
Tax	<b>415,334</b>	460,984	203,861	63,465	79,274
Minority interests	<b>40,872</b>	12,572	1,173	–	–
Net profit from ordinary activities attributable to shareholders	<b>2,909,943</b>	3,592,320	2,659,198	339,729	161,742
Earnings per share (RMB)					
Fully diluted	<b>0.451</b>	0.556	0.412	0.053	0.025
Weighted average	<b>0.451</b>	0.556	0.412	0.053	0.025
Net cash flows from operating activities per share (RMB)	<b>0.9078</b>	0.9935	0.5528	0.4167	0.1989
Return on net assets (%)					
Fully diluted	<b>15.72</b>	21.10	17.98	2.75	1.33
Weighted average	<b>15.75</b>	21.66	19.43	2.76	1.33
Return on net assets excluding non-recurring gains or losses (%)					
Fully diluted	<b>15.88</b>	21.05	18.04	6.31	3.45
Weighted average	<b>15.91</b>	21.61	19.49	6.34	3.44
<b>Index item</b>	<b>At the end of 2005</b>	At the end of 2004	At the end of 2003	At the end of 2002	At the end of 2001
Total assets	<b>38,933,765</b>	31,195,785	26,418,528	17,275,219	16,853,941
Total liabilities	<b>20,281,072</b>	14,094,743	11,595,088	4,920,461	4,709,806
Minority interests	<b>138,189</b>	76,315	35,420	–	–
Shareholders' equity	<b>18,514,504</b>	17,024,727	14,788,020	12,354,758	12,144,135
Net assets per share (RMB)	<b>2.87</b>	2.64	2.29	1.91	1.88
Adjusted net assets per share (RMB)	<b>2.87</b>	2.64	2.29	1.90	1.87



## Extracts of Accounting and Business Data (continued)

### 4) MAJOR BUSINESS DATA FOR THE LAST 3 YEARS (TEN THOUSAND TONS)

Product categories	Sales of 2005		Sales of 2004		Sales of 2003	
	Volume	Percentage (%)	Volume	Percentage (%)	Volume	Percentage (%)
Plate belt	304	35	248	34	125	23
Section steel	226	26	187	26	174	32
Wire rods	321	37	279	38	236	43
Train wheels and wheel rims	18	2	15	2	13	2
Total	869	100	729	100	548	100

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

#### (1) Prepared under PRC Accounting Standards

Item	Share capital	Capital reserve	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	5,427,046	1,794,626	892,852	3,758,606	1,420,166	17,435,578
Increase during the year	-	23,300	585,522	285,533	2,847,619	1,032,848	3,456,441
Decrease during the year	-	-	-	-	(2,010,303)	(1,420,166)	(2,010,303)
At the end of the year	6,455,300	5,450,346	2,380,148	1,178,385	4,595,922	1,032,848	18,881,716

#### (2) Prepared under Hong Kong Accounting Standards

Item	Share capital	Capital reserve	Surplus reserves	Including: statutory public welfare fund	Retained profits	Proposed ordinary share dividend	Shareholders' equity
At the beginning of the year	6,455,300	4,864,976	1,794,626	892,852	2,489,659	1,420,166	17,024,727
Increase during the year	-	-	585,522	285,533	2,909,943	1,032,848	4,528,313
Decrease during the year	-	-	-	-	(1,618,370)	(1,420,166)	(3,038,536)
At the end of the year	6,455,300	4,864,976	2,380,148	1,178,385	3,781,232	1,032,848	18,514,504

Reasons for movement: (1) The increase in capital reserve represented the transfer of specific payables of the completion of the State's subsidizing project. (2) Increases in surplus reserve (including statutory public welfare fund) have been appropriated in accordance with relevant regulations based on the Company's profit for the year. (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 for the year 2005. (4) The increase in the proposed dividend distribution for ordinary shares was due to the appropriation of dividend distribution for ordinary shares for the year 2005. The decrease in the proposed dividend distribution for ordinary shares was due to the distribution of dividend for ordinary shares for 2004 during the reporting period.

# Chairman's Statement

Dear Shareholders,

I am pleased to present the operating results of the Company and its subsidiaries (collectively the "Group") for 2005.

During 2005, the Group realised a sales income of RMB32,083 million, representing a year-on-year increase of 20%. In accordance with PRC Accounting Standards, net profit amounted to RMB2,848 million, down 20% from the previous year. Earnings per share stood at RMB0.441, representing a year-on-year decrease of 20%. In accordance with Hong Kong Accounting Standards, net profit amounted to RMB2,910 million, down 19% from the previous year. Earnings per share stood at RMB0.451, representing a year-on-year decrease of 19%.



In 2005, global economic growth has apparently slowed down as compared to the previous year, yet growth in the US economy remained strong. The substantial increase in prices of international oil and raw materials incurred enduring effect upon the global economy, including the iron and steel industry which was especially affected by the price surge of iron ore leading to an increase in iron and steel production costs. With a steady and relatively fast pace of development in the national economy, China's GDP increased by 9.9% in 2005 as compared to the previous year, while investment in fixed assets of the society at-large rose 25.7% as compared to the previous year. The iron and steel industry developed rapidly, with the output of crude steel amounting to approximately 350,000,000 tonnes, an increase of 24.6% as compared to the previous year. Due to an over-supply in the steel market resulted from a rapid increase in iron and steel output, prices of steel products continued to drop since April. (Source of statistics: Statistics Bulletin of 2005 National Economy and Social Development published by the National Bureau of Statistics of China)

Faced with changes in the international and domestic environment, the Group strengthened its management, put efforts on reducing production costs and enhanced its standards in production and operation, thereby ensuring an optimisation in production techniques, enhancement of product quality and improvement in technological and economic indicators. The long-term employment system was introduced in key production factories with the first batch of senior technology supervisors recruited under an annual remuneration package. In 2005, the Company produced a total of 8,370,000 tonnes of pig iron, 9,640,000 tonnes of crude steel and 8,890,000 tonnes of steel products, representing increases of 18.39%, 20.05% and 19.65%, respectively, over the previous year. A 100% production to sales ratio and a 100% payment collection ratio for steel products were achieved.

In 2005, the Company made new progress in technological enhancement of its infrastructures, of which the Second H-Beam Production Line was completed and commenced operation, while the No. 2 Galvanisation Production Line was put into trial operation. The Capacity Enhancement of the Train Wheel Rolling System was advanced on schedule. The implementation of the Company's master plan for technological reforms and structural adjustments in relation to the Eleventh Five-year Plan (the "11-5 Plan") (the "11-5 Master Plan") was carried out ahead of schedule. The construction of the New Area Thin Plate Line with a production capacity of 5,000,000 tonnes was executed in full force.

## Chairman's Statement (continued)

At the same time, according to production and operation needs, the Company invested to establish Ma'anshan BOC-Ma Steel Gases Company Limited (馬鞍山馬鋼比歐西氣體有限責任公司), 馬鞍山馬鋼華陽設備診斷工程公司, 馬鞍山港口(集團)有限責任公司, Masteel (Jinhua) Processing Co., Ltd. and Maanshan Iron and Steel (Australia) Proprietary Limited, while the steel structure manufacturing and installation business and the electrical and mechanical installation business were acquired from Magang (Group) Holding Company Limited ("Holding"). The Company also established branch companies for the steel structure manufacturing and installation business and the electrical and mechanical installation business.

Looking ahead, global economic growth will remain relatively steady in 2006, but there will be more uncertainties in the aspects of energy, raw materials and exchange rates. National economic growth in the PRC will remain steady and relatively rapid, yet structural incompatibilities still remain, and attention should be paid to managing the interrelationships between the pace and substance of economic development, and between cost efficiency and the environment. The improvement in people's consumption structure and the acceleration of industrialisation and urbanisation will lead to a continuous increase in market demand for steel products. Competitions among iron and steel enterprises will enlarge to a more extensive scale and will be raised to a higher level. Prices of iron ores, fuel and electricity will remain high, which will pose greater difficulties to the production and operation of iron and steel enterprises, thereby squeezing their profit margins.

In 2006, the Group targets to produce 8,700,000 tonnes of pig iron, 10,000,000 tonnes of crude steel and 9,320,000 tonnes of steel products, as well as to achieve a 100% production to sales ratio and a 100% payment collection ratio for steel products.

To accomplish the above targets, the Group will focus on cost reduction and brand enhancement, further improving its economic effectiveness through exploration of unutilised potentials and minimising the impact of unfavourable factors upon the Company's profitability. Major measures to be taken are as follows:

- To maintain an equilibrium in the system on the basis of stable and balanced output, fully capitalising on production potentials.
- To achieve cost reduction and efficiency enhancement with technology advancements as support.
- To deploy flexible strategies in sales and marketing according to consumption differentiation and to achieve maximisation of resources efficiency.
- To initiate savings by all staff and continue to develop a recyclable economy.
- To expand the effectiveness of branding and to achieve maximisation of economic efficiency.

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 of the Company will endeavour to perform their duties diligently and faithfully, thereby bringing better returns to shareholders.

**Gu Jianguo**  
*Chairman*

11 April 2006  
Maanshan City, Anhui Province, the PRC

# Management Discussion and Analysis

## 1) OPERATING ENVIRONMENT

During the reporting period, despite a relatively fast economic development in the PRC as well as a continuous increase of social demand at large, the development of the iron and steel industry was not fully matched with the demand growth and there were evident structural incompatibilities. Raw materials, energy and transportation required for iron and steel production were still insufficient and their prices were increasing. As a result, the Company's production and operation were faced with a series of difficulties:



**Supply exceeded demand due to a rapid increase in iron and steel output:** The iron and steel industry as a whole produced approximately 350 million tonnes of crude steel in 2005, representing a year-on-year increase of 24.6%. In terms of additionally produced steel products during the year, plate belt accounted for nearly 50%, which exceeded the demand from industrialisation and urbanisation of the PRC at this stage.

**Substantial increase in prices due to a tight supply of major raw materials and fuel:** Approximately 75% of the Company's iron ore was supplied from overseas, while the global FOB price of iron ore surged by 71.5% in 2005. Approximately 90% of the Company's coal was supplied domestically, and prices of coking and thermal coal rose approximately 10% and 8%, respectively, in 2005 compared to the previous year.

**Abnormal price differentials among certain products due to volatile prices of steel products:** During the first quarter of 2005, prices of steel products continued to surge as a result of relatively tight supply in resources for the domestic steel market. Consolidated price index for steel products rose to 138 points at the end of March. Prices of steel products slumped continuously since April resulting in a drop of the consolidated price index of steel products to 94 points at the end of December, of which prices of medium-sized plate or hot-rolled thin plate of certain specifications were even lower than the average price of wires and corrugated steel. (Source: Metallurgical Information Research Centre)

## 2) PRODUCTION OPERATION

To achieve annual targets, the Company defined various objectives and implemented various measures thoroughly during the reporting period to achieve an improved performance in production and operation.

- **Adopted measures to tackle the difficulties in purchase of raw materials and fuel:** To fully capitalise on the favourable opportunities arising from the price fall of international marine transportation, measures such as co-transportation by river and sea were adopted to integrate logistics and reduce transportation costs. Through executing medium to long-term cooperation agreements with all of our coal suppliers, a steady supply in coal was assured.

## Management Discussion and Analysis (continued)

- **Developed new technologies to increase the output of best-selling products:** Through cooperation with relevant departments and sections, the Company's State-level corporate technology centre has shouldered the research and development responsibility on three projects under the State 863 Projects, namely "Shock and Fire Resistant H-Shaped Steel for Construction", "Research and Development of High-efficiency, Low-cost Cold-forged Steel with Wire-softening Treatment in the Production Line" and "Materials and Critical Techniques for Train Wheels Used for High-speed Railroads". Core production technologies and various patents on respective projects have been certified by State-level standards. A total of 1,220,000 tonnes of new products such as cold-forged steel and whole train wheels were produced during the year.
- **Pushed forward measures on energy saving and consumption reduction for developing a recyclable economy and enhancing integrated resources utilisation:** Based on the concepts of sustainable development and a recyclable economy, the Company applied the facilities and techniques from the technological upgrades and environmental energy-saving projects, developed during the 11-5 Plan period, to generate electricity with coal gas and residual heat. As a result, we succeeded in enhancing environmental protection and integrated resources utilisation. In 2005, overall energy consumption was reduced to 731 kilogrammes standard coal per tonne, while fresh water consumed for every tonne of steel production went down to 11 tonnes. The ratio of self-supplied electricity rose to 40.31%, while the utilisation rate of recycled water improved to 93.59%.
- **Enhanced sales and marketing in response to volatile changes in the market:** By enhancing market forecasts and activities analysis, strengthening the coordination of production, sales and logistics; and planning and executing flexible sales and marketing tactics, the Company has ensured stable delivery of products and timely return of payments under challenging market conditions. In 2005, the Company enjoyed a approximately 2.76% share in the domestic steel products market, and approximately 560,000 tonnes of steel products were exported.
- **Carried out management innovation to enhance production and operation standards:** In order to adapt to the increasing scale of production, the Company strengthened its management on fundamentals and implemented the project of Total Normalised Productive Maintenance ("TnPM"). Business integration was initiated through a launch of the human resources information management system. Results from the Company's innovation in management were remarkable. There were further integrated reforms for the factory areas, while the environment was further improved.
- **Actively raised capital to satisfy production and construction needs:** During the reporting period, through strengthening its communication with major lending banks and leveraging its creditworthiness, the Company has succeeded in having the major lending banks raise its banking facilities, thereby assuring the funds for construction. At the same time, faced with continuous expansion in the production scale of existing factory areas and the need for increased liquidity, the Company timely issued one-year short-term commercial papers of RMB2 billion pursuant to the requirements of the People's Bank of China, which has effectively reduced capital costs.

## Management Discussion and Analysis (continued)

### 3) THE OPERATING RESULTS OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS ARE AS FOLLOWS:

- Analysis of principal operating income by segments and by products

The steel segment accounted for 95.45% of the Group's principal operating income. The steel segment also accounted for 91.10% of the Group's profit from principal operating activities.

Unit: RMB million

Business segment	Principal operating income	Increase/(decrease) compared to the previous year (%)	Cost of sales from principal operating activities	Increase/(decrease) compared to the previous year (%)	Gross profit margin (%)	Increase/(decrease) compared to the previous year (percentage points)
Iron and steel	30,623	18.88	26,261	30.17	14.24	-7.44
<b>Product Segment</b>						
Plate belt	11,858	22.83	9,938	37.15	16.19	-8.75
Section steel	7,551	17.49	6,253	27.61	17.19	-6.57
Wire rods	9,200	8.54	8,545	23.22	7.12	-11.06
Train wheels and wheel rims	1,534	63.89	1,118	28.80	27.12	+19.86

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

Unit: RMB million

Region	Percentage (%)	Principal operating income	Increase/(decrease) of principal operating income as compared to the previous year (%)
Anhui	15	4,813	-62
Jiangsu	28	8,731	92
Shanghai	18	5,931	73
Zhejiang	11	3,531	94
Guangdong	5	1,746	34
Other PRC regions	17	5,302	169
Exports	6	1,961	118

- During the reporting period, the Group's gross profit margin of principal operating activities was 14.93%, a decrease of 7.37 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the fall of the selling prices of steel products and the rise in purchasing costs of raw materials and fuel.



## Management Discussion and Analysis (continued)

### 4) ASSETS AND LIABILITIES OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS ARE AS FOLLOWS:

- 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 corresponding period of the previous year. The amount of net fixed assets accounted for 47.3% of total assets, a decrease of 9.5 percentage points over the corresponding period of 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 12.16% of total assets, an increase of 6.3 percentage points over the corresponding period of the previous year, which was mainly due to the construction of the Company's 5,000,000 tonnes thin plates production project in the new area and an increase in the number of construction in progress during the reporting period.

- Liabilities

During the reporting period, short-term loans accounted for 0.29% of total assets, a decrease of 4.73 percentage points over the corresponding period of the previous year, which was mainly due to a decrease in loans as working capital as a result of the Company's issuance of short-term commercial papers. Long-term loans accounted for 22.05% of total assets, an increase of 8.91 percentage points from the corresponding period of the previous year, which was mainly due to an increase in long-term loans resulted from the construction of 5,000,000 tonnes thin plates production project in the new area.

### 5) EXPENSES AND INCOME TAX OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS ARE AS FOLLOWS:

During the reporting period, selling expenses increased by 25.51% over the corresponding period of the previous year, which was mainly due to increases in sales volume of steel products, transportation costs and loading and unloading costs. Administrative expenses decreased by 23.35% over the corresponding period of the previous year, which was mainly due to a reduction of RMB407 million in removal compensation and demolition expenses, as well as no one-off staff medical insurance in year 2005. Financial expenses were reduced by 48.51% over the corresponding period of the previous year, which was mainly due to an increase in exchange gain and a decrease in exchange loss. There was no material difference on income tax when compared to the corresponding period of the previous year.



# Management Discussion and Analysis (continued)

## 6) OPERATING RESULTS

As at the end of 2005, in accordance with PRC Accounting Standards, the Group's principal operating income rose 20% from the corresponding period of the previous year, which was mainly due to an increase in sales volume of steel products of the Company. Profit generated from principal operating activities dropped 20.79% from the corresponding period of the previous year, which was mainly due to an increase in procurement costs for raw materials and fuel. Net profit dropped 20.36% from the corresponding period of the previous year, which was mainly due to a decrease in profit generated from principal operating activities.

## 7) CASH FLOWS OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS ARE AS FOLLOWS:

In 2005, the Group realised a net profit of RMB2,848 million, a difference of RMB3,323 million when compared to the net increase of cash flow amounting to RMB6,171 million generated from operating activities, which was mainly due to depreciation on fixed assets and a decrease in receivables from operations, as well as an increase in payables from operations. The amount of net increase in cash flow generated from operating activities was not very different from that of the corresponding period of the previous year. The amount of net cash outflow from investing activities increased by RMB4,642 million from the corresponding period of the previous year, which was mainly due to acquisition and construction of fixed assets and investments. The amount of net cash inflow from financing activities increased by RMB5,788 million from the corresponding period of the previous year, which was mainly due to securing of bank loans and the issuance of short-term commercial papers.

## 8) MAJOR SUPPLIERS AND CUSTOMERS

In 2005, the Group's purchase from the five largest suppliers amounted to RMB5,663 million, accounting for 23% of the Group's total purchase amount for the year. The Group's sale to the five largest customers amounted to RMB4,207 million, representing 13% 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, none of the directors, supervisors, their connected parties and 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.

# Management Discussion and Analysis (continued)

## 9) THE OPERATIONS AND RESULTS OF THE GROUP'S MAJOR SUBSIDIARIES AND ASSOCIATES

- 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 period amounted to RMB55 million. As at the end of the reporting period, it had total assets amounting to RMB1,316 million.
- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB20.49 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 period amounted to RMB35 million. As at the end of the reporting period, it had total assets amounting to RMB82 million.
- Maanshan Iron & Steel (HK) Limited has a registered capital of HK\$4.8 million, in which the Company holds direct and indirect stake of 80% and 20%, respectively. It is mainly engaged in the trading of steel and iron ores and provision of transportation services. Net profit for the period amounted to RMB4 million. As at the end of the reporting period, it had total assets amounting to RMB22 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 products and provision of related consultation services. Net profit for the period was RMB7 million. As at the end of the reporting period, it had total assets amounting to RMB102 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 motor vehicle spare parts and sale of construction materials and chemical products. Net profit for the period amounted to RMB14 million. As at the end of the reporting period, it had total assets amounting to RMB626 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 period amounted to RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB435 million.



## Management Discussion and Analysis (continued)

- Anhui Masteel Holly Packing Co. Ltd. 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 period amounted to RMB78 million. As at the end of the reporting period, it had total assets amounting to RMB161 million.



- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$22 million. It is mainly engaged in investment and trading. Net profit for the period amounted to RMB5 million. As at the end of the reporting period, it had total assets amounting to RMB136 million.

### 10) INVESTMENTS

In 2005, the Group invested a total of RMB5,379 million construction in progress, an increase of 12.93% from the previous year.

- Projects which have already commenced operation:

Unit: RMB million

Project name	Total investment
The new No. 2 Coke Furnace	215
The Second H-Beam Production Line	930
The No. 2 Galvanisation Production Line (undergoing heat-load trial production stage)	670

## Management Discussion and Analysis (continued)

- Projects under construction

Unit: RMB million

Project name	Total investment	Project progress
The Capacity Enhancement of Train Wheel Rolling System	320	Entering facilities installation stage
Integrated Raw Materials Plot	850	Commencing construction and installation of partial steel structures
New Area Iron-making System	3,500	Cast of Blast Furnace A capped; commencing construction and installation of steel structures in the vestibule of core belt; undergoing installation of the cast for Blast Furnace B
New Area Steel-making System	3,200	Construction of Converters Nos. 1, 2 and 3 completed; commencing hoisting high-level frame for converters
New Area Hot-rolled Broad Belt System	3,600	Installation of steel structure in core factory of core belt line completed; undergoing construction of foundation facilities
New Area Pickled Cold Wire and Hot Galvanising Line	4,700	Undergoing hoisting of steel structures in core factory of cold wire line and construction of foundation facilities for galvanising line
New Area Power Generating Plant Using Integrated Resources	1,850	Under foundation construction stage

During the reporting period, in order to provide equipment support, technical support, sales support and assurance of raw materials supply for the newly operating projects, the Group carried out five external investments as follows:

- A contribution of RMB234 million was made to establish a joint venture Ma'anshan BOC-Ma Steel Gases Company Limited (馬鞍山馬鋼比歐西氣體有限責任公司) with BOC (China) Holding Company Limited (比歐西(中國)投資有限公司), a wholly-owned subsidiary of the BOC Group of the United Kingdom, in which the Company holds a direct stake of 50%. The company 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 products projects.
- A contribution of RMB0.9 million in the form of physical assets and monetary funds was made to establish a joint venture 馬鞍山馬鋼華陽設備診斷工程公司 with 上海華陽檢測儀器有限公司, in which the Company holds a direct stake of 90%. The company is mainly engaged in technical consultation for equipment diagnosis, equipment diagnosis service and equipment diagnosis projects.
- A contribution of AU\$21,737,900 was made to establish a wholly-owned subsidiary Maanshan Iron and Steel (Australia) Proprietary Limited, which is mainly engaged in investment and trading.

## Management Discussion and Analysis (continued)

- A contribution in the form of physical assets, land assets and cash to establish a joint venture 馬鞍山港口(集團)有限責任公司 with State-owned Assets Administration Office of Maanshan City, 中國長江航運集團總公司 and 安徽長江鋼鐵有限責任公司, in which the Company holds a direct stake of 45%. The Company plans to contribute a capital amounting to RMB112.5 million, in which an amount of RMB104.8 million had been contributed as capital as at the end of the reporting period. The company is mainly engaged in stevedoring of materials at the ports, freight agency, multimodal transportation and storage services.
- The establishment of a joint venture Masteel (Jinhua) Processing Co., Ltd. in Jinhua, Zhejiang Province with 香港怡德實業有限公司 and 香港遠東實業投資有限公司, in which the Company holds a direct stake of 75%. The Company plans to contribute a capital amounting to RMB90 million, in which an amount of RMB63 million had been contributed as capital as at the end of the reporting period. The Company is mainly engaged in the production, processing and sales of steel plates, wires and section steel products, as well as the provision of storage and after-sales services.

### 11) FINANCIAL POSITION AND EXCHANGE RISKS

For the year ended 31 December 2005, the total amount of loans borrowed by the Group was RMB8,762 million, including loans for working capital of RMB2,267 million and construction loans of RMB6,495 million. Except for foreign currency loans amounting to US\$209 million and 2 million Euro, all other loans were denominated in RMB. Except for a foreign currency loan amounting to US\$208 million which carried interests at LIBOR plus a fixed percentage, all other loans carried interests calculated at fixed interest rates. Movements of the Group's bank loans followed the developments in our production and construction projects. No overdue payments have been recorded so far. On 30 December 2005, the Group issued one-year short-term commercial papers in an aggregate amount of RMB2,000 million.

As at 31 December 2005, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 51.08%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 52.09%.

At the present stage, other than internal resources, all capital requirements for the Group's 11-5 Master 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 RMB29,090 million.

As at 31 December 2005, the Group's cash and balances with financial institutions amounted to RMB3,255 million. Bills receivable amounted to RMB1,932 million (of which bank bills receivable due within three months amounted to RMB1,432 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

## Management Discussion and Analysis (continued)

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. Taking into consideration of the volatility on the exchange rate of Japanese Yen, the Company entered into a selective forex forward contract with HSBC in July 2005 to lock the risks arising from payments in Japanese Yen. Taking into consideration of the volatile characteristics on the exchange rate of Euro, the Company is actively seeking relevant risk management solutions, so as to ensure the construction projects under the 11-5 Plan will not be materially affected by the volatility of exchange rates.

### 12) CHANGES IN THE PRODUCTION OPERATION ENVIRONMENT FOR 2006

In 2006, the PRC economy will still maintain steady and relatively fast pace of growth, which will provide certain opportunities for the development of the iron and steel industry. However, overall speaking the oversupply problem and the structural imbalance between products may become more apparent. The Company will firmly position itself in the existing market and actively develop new products, explore new customers and expand into new markets. Our capability to withstand market risks will be strengthened through optimising product mix, reducing costs and enhancing efficiency.

The National Development and Reform Commission (the "NDRC") promulgated "The Iron and Steel Industry Development Policies" (the "Policies") on 20 July 2005, in an effort to enhance the overall technological standards of the domestic iron and steel industry, to carry forward structural adjustments, and to strengthen the competitiveness of the iron and steel industry in the international arena. The Policies lay down the policy guidelines in relation to the development plan, strategies, technology, organisational structure, investment and raw materials for iron and steel enterprises. The promulgation and implementation of the Policies will create a more favourable market environment for the Company's development and will also pose more stringent standards to the Company's environment protection efforts.

The Ministry of Finance and the State Administration of Taxation also published policies in 2005 in relation to the cancellation of Export VAT Refund Policy for primary steel products such as pig iron, steel billet and steel ingot, as well as a reduction in tax rebates rate for export of steel products and the imposition of value-added tax as stipulated on all domestic steel products sold by iron and steel enterprises to domestic processing and export enterprises for manufacturing export products, for which no more tax reduction or exemption will be granted. In view of the proportion of the Company's current exports being lower than 10%, such measures will therefore have insignificant impact on the Company.

### 13) LONG-TERM STRATEGIES OF THE COMPANY

Between 2006 and 2010, the Company will implement its 11-5 Master Plan for technological reforms and structural adjustments. By the end of 2007, a production capability of 5,000,000 tonnes of thin plates will be launched mainly for products either with a shortage in the PRC or applicable in automobiles and home appliances industries.

By that time, the overall profitability of the Company will be significantly enhanced. The Company's integral competitiveness and its capabilities to withstand market risks will strengthen significantly.



# Report of the Directors

## 1) DAILY WORK OF THE BOARD OF DIRECTORS

### (1) Description of the Board meetings in 2005 and details of the resolutions:

- On 5 January 2005, the Company convened the 20th meeting of the fourth session of the Board of Directors. The following resolutions were approved at the meeting: the budget of the Company for 2005; the implementation plan for the Company's "10-5" Structural adjustments and preliminary budgets of certain projects; the investment in the establishment of Ma'anshan BOC-Ma Steel Gases Company Limited; and the investment in the establishment of 馬鞍山馬鋼華陽設備診斷工程公司; matters regarding donations; notification on the new regulations by the China Securities Regulatory Commission (the "CSRC"), the SSE and the Hong Kong Stock Exchange and impact on the Company.
- On 16 March 2005, the Company convened the 21st meeting of the fourth session of the Board of Directors. The following resolutions were approved at the meeting: the investment in the establishment of Masteel (Jinhua) Processing Co., Ltd.; the nomination of candidates as directors and supervisors of Anhui Masteel Holly Packing Co. Ltd.; and approval on the establishment and alternations of relevant organisations of the Company. During the meeting, all directors also studied the relevant materials on the working meeting of the Anhui Securities and Futures Regulatory Commission.
- On 25 April 2005, the Company convened the 22nd meeting of the fourth 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 28 April 2005, the Company convened the 23rd meeting of the fourth 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 29 April 2005.
- On 13 July 2005, the Company convened the 24th meeting of the fourth 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 14 July 2005.
- On 15 August 2005, the Company convened the 25th meeting of the fourth 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 16 August 2005.
- On 31 August 2005, the Company convened the 1st 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 1 September 2005.



## Report of the Directors (continued)

- On 19 October 2005, the Company convened the 2nd 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 20 October 2005.
- On 29 December 2005, the Company convened the 3rd meeting of the fifth session of the Board of Directors. The following resolutions were resolved at the meeting: the budget of the Company for 2006; to approve the preliminary budget for the Company's investment in six projects including cold-rolled non-oriented silicon steel; to approve the extension of term of operation for 8 branches of the Company including Repair and Construction Company. During the meeting, all directors also studied the Company Law (amended), the Securities Law and the Opinions on Improving Quality of Listed Companies issued by the CSRC.

- (2) The Board of Directors completed the implementation of the profit appropriation plan approved at the Annual General Meeting held on 14 June 2005.
- (3) The Board of Directors determined the auditors' remuneration pursuant to the mandate granted at the general meeting.
- (4) The Board of Directors completed the submission for approval on the Articles of Association of the Company 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 RMB0.16 (TAX INCLUSIVE) PER SHARE FOR YEAR 2005. NO CAPITAL RESERVE FUND WILL BE TRANSFERRED TO SHARE CAPITAL.**

As audited by the domestic and international auditors, net profit of the Company for 2005 amounted to RMB2,787 million under PRC Accounting Standards and RMB2,677 million under Hong Kong Accounting Standards. After appropriating 10% from the Company's net profit under PRC Accounting Standards for contribution to the statutory common reserve and another 10% to the statutory public welfare fund and taken into account the Company's retained profit as at the end of 2004, the total profit available for distribution to shareholders for year 2005 amounted to RMB4,598 million under PRC Accounting Standards, and RMB4,544 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 2005 amounted to RMB4,544 million, while a dividend payment of RMB0.16 (tax inclusive) per share was recommended, thereby resulting in a total dividend payment of RMB1,033 million. The remaining undistributed profit will be carried forward to 2006.

## Report of the Directors (continued)

### 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 2005, 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 2005, all the external guarantees of the Company had been approved by the Board of Directors.
- (2) As at 31 December 2005, no guarantees were provided directly or indirectly to any company with a gearing ratio exceeding 70%. And no guarantees were provided by the Company to its controlling shareholder and other connected parties, non-legal person entities or individuals holding less than 50% of the Company’s shares.
- (3) As at 31 December 2005, 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 2005 consolidated financial statements.

### 5) OTHER MATTERS

- (1) For information analysed by business segments as at 31 December 2005, please refer to Note 3 to the Financial Statements prepared under Hong Kong Accounting Standards.
- (2) The Group’s profit for the year ended 31 December 2005 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 2005 are set out in Note V (10) to the financial statements prepared under PRC Accounting Standards and Systems and note 13 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

## Report of the Directors (continued)

### **(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 2005, 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 2005 are set out in Note V (31) to (33) to the financial statements prepared under PRC Accounting Standards and Systems and Note 35 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

### **(7) Charitable Donations**

Charitable donations made by the Group during the year totalled RMB2.8 million.

### **(8) 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.

### **(9) 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.

### **(10) 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

The Supervisory Committee convened six meetings in 2005 for making resolutions in relation to different matters. Major matters on the agenda of the meetings were: (1) to receive the report from the finance officer of the Company on the production operations and the financial position for 2004, and to review matters in relation to the Company's cancellation of bad debts, making of provision for inventory impairment as well as making provisions, write-off and reversing part of the assets impairment provisions; (2) to consider the increase in credit limit with respect to the guarantee for Ma Steel International Trade and Economic Corporation by the Company; (3) to consider the 2004 annual report, the Work Report of the Supervisory Committee of 2004, 2004 financial statements and the profit appropriation for 2004; (4) to consider the acquisition of the steel structure manufacturing and installation business and the electrical and mechanical installation business from Construction Co. Ltd. of Magang (Group) Holdings Co., Ltd.; (5) to discuss and approve the Order of Meeting for the Supervisory Committee of Maanshan Iron & Steel Company Limited; (6) to nominate the candidate for supervisor not representing staff for the fifth session, and to discuss and approve on the resolution in respect of the remuneration and payment method thereof for the fifth session of the Supervisory Committee; (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 reports and summary for the first half of 2005; (8) to consider the transfer of the equity interests in 五環報廢汽車回收拆解有限責任公司; 9) 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 2005. The Supervisory Committee considers that:

## 1) OPERATIONS IN COMPLIANCE WITH THE LAW

During the reporting period, the Company operated strictly in compliance with the relevant laws and regulations and the Articles of Association. Members of the Board of Directors, managers and senior management staff of the Company, holding themselves accountable to our shareholders, all performed their duties with diligence and devotion and have accomplished the missions delegated by the shareholders in a satisfactory manner.

## 2) INSPECTION ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee timely examined the production operations and the financial position of the Company in accordance with the monthly financial statements prepared and submitted by the finance department of the Company and listened to the explanations from the finance department on preparing every kind of financial statements of the Company, and reviewed the annual audit report prepared by Ernst & Young. In the opinion of the Supervisory Committee, the financial statements were prepared in compliance with relevant accounting standards and consistently followed the accounting practice; the financial statements truthfully and accurately reflected the financial position and operating results of the Company. The auditing opinions prepared by the Auditors are objective and fair.

# Report of the Supervisory Committee (continued)

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## 3) UTILISATION OF PROCEEDS

As at 31 December 1999, the proceeds recently raised by the Company had been fully utilised. There was no additional fund raised during the reporting period.

## 4) DEALINGS IN ASSETS

During the reporting period, the Company acquired the steel structure manufacturing and installation business and the electrical and mechanical installation business from Construction Co. Ltd. of Magang (Group) Holdings Co. Ltd., a subsidiary of Holding, and transferred 40% of equity interest in 五環報廢汽車回收拆解有限責任公司 held by the Company. The Supervisory Committee considers the acquisition or transfer price fair and reasonable and will not adversely affect the Company and its shareholders.

Save as the above, the Company has not conducted any transactions related to the acquisition or disposal of assets. No insider trading or infringement of the Company's interest or shareholders' interest has been identified by the Supervisory Committee.

## 5) CONNECTED TRANSACTIONS

During the reporting period, the connected transactions between the Company and Holding were made in accordance with the relevant provisions and with their decision-making procedures were in compliance with regulations. All connected transactions with prices determined on the basis of market prices were carried out in a fair and reasonable manner without prejudicing the interests of the Company and its shareholders.

# Corporate Governance

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. During the reporting period, the Company made improvements to its corporate governance structure continuously pursuant to the relevant requirements of the CSRC and the newly effective Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

## 1) CODE ON CORPORATE GOVERNANCE PRACTICES

On 31 August 2005, a new session of the Company's Board of Directors was established. Apart from the continuing existence of the Audit Committee, the new session of the Board of Directors additionally established the Remuneration Committee. During the reporting period, the Board of Directors also revised the System for the Work of Independent Directors of the Company, the Regulations for the Work of the Audit Committee of the Board of Directors, and the Management of Information Disclosure, as well as formulated the Regulations for the Work of the Remuneration Committee of the Board of Directors of the Company, the System for the Internal Reporting on Significant Information, the System for the Investor Relations Management and the Administration Measures of the External Guarantees.

The Company has complied with all code provisions of the Code on Corporate Governance in Appendix 14 of the Listing Rules in 2005.

### (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 two-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 qualified accountant of a listed corporation 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

## Corporate Governance (continued)

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 independent 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 2005

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
<i>Executive Director</i>					
Gu Jiangguo	9	7	2	0	100
Gu Zhanggen	9	8	0	1	89
Zhu Changqiu	9	8	0	1	89
Su Jiangang	9	9	0	0	100
Gao Haijian	9	8	0	1	89
<i>Non-executive Director</i>					
Shi Zhaogui	6	4	1	1	83
Zhao Jianming	9	9	0	0	100
<i>Independent Non-executive Director</i>					
Cheng Shaoxiu	6	6	0	0	100
Wu Junnian	6	3	3	0	100
Shi Jianjun	6	2	2	2	67
Chan Yuk Sing	6	3	3	0	100
Wong Chun Wa	3	3	0	0	100
Su Yong	3	3	0	0	100
Hui Leung Wah	3	3	0	0	100
Han Yi	3	3	0	0	100



## Corporate Governance (continued)

- 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 also 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 the other directors, which is three years. The term for the current non-executive directors is between 31 August 2005 and 31 August 2008.

- Performance of Duties by Independent Directors

In 2005, the independent directors for the fourth session of the Company's Board of Directors, namely Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing, and 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.

## Corporate Governance (continued)

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 fourth session of the Company's Board of Director, namely Madam Cheng Shaoxiu, Mr. Wu Junnian and Mr. Shi Jianjun 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.

## Corporate Governance (continued)

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 meets four times 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. 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.

## Corporate Governance (continued)

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 fifth session of the Company's directors did not exceed RMB4,300,000 (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).

On 31 August 2005, upon the election of the Company's new session of the Board of Directors, the Remuneration Committee of the Board of Directors was established, comprising 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 discussed the remuneration policies and the relevant procedures for formulating such policies with respect to all directors and senior management of the Company. Except Mr. Zhao Jianming, attendances of Mr. Su Yong, the Chairman of the Committee, and the other four members were 100%.

## Corporate Governance (continued)

### (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.

During the reporting period, as the fourth session of the Board of Directors expired on 31 August 2005, the Board of Directors convened a meeting on 13 July 2005 to discuss the candidates for the fifth session of the Board of Directors. Relevant information was published in the newspapers as designated for information disclosure by the Company, and was also published on the websites of the SSE and the Hong Kong Stock Exchange the next day for investors' information. Apart from Mr. Shi Zhaogui, a director, who attended the meeting by proxy of Mr. Su Jiangang, a director, and Mr. Wu Junnian and Mr. Chan Yuk Sing, who attended the meeting by proxy of Madam Cheng Shaoxiu, director, and exercised their respective voting rights, the remaining directors attended the meeting.

## Corporate Governance (continued)

### (4) Audit Committee

The Audit Committee of the Board of Directors was established, and the fourth session of the Audit Committee of the Board of Directors comprised Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing. Madam Cheng Shaoxiu was the Chairwoman of the Committee. Upon the new session of the Company's Board of Directors being elected on 31 August 2005, the Audit Committee for the fifth session of the Board of Directors was also elected. The new session of the Committee 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. The working regulations of the Committee were further revised. 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 of the fourth session of the Board of Directors met twice and duly performed its roles of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2004 annual accounts and 2005 interim 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 (%)
Cheng Shaoxiu	2	2	100
Wu Junnian	2	2	100
Shi Jianjun	2	1	50
Chan Yuk Sing	2	1	50

The Audit Committee of the fifth session of the Board of Directors met once and reviewed the accounts for the third quarter of 2005 of the Company. Attendances of Mr. Wong Chun Wa, the Chairman of the Committee and the other three members were 100%.

## Corporate Governance (continued)

### (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 and PRC Accounting Standards, respectively. The remuneration for the two accounting firms amounted to HK\$5.33 million. Among the total remuneration, HK\$4.78 million represented the annual audit fee and HK\$0.55 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. A resolution concerning the re-appointment of the two accounting firms as auditors of the Company for the next year will be proposed at the forthcoming Annual General Meeting of the Company.

As at 31 December 2005, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Company for twelve consecutive years. Mr. Ge Ming and Mr. Qin Tongzhou were the certified public accountants who have signed the Company's 2005 auditors' report. The previous auditors' report for the Company signed off by Mr. Ge Ming is the auditors' report for year 2001, while Mr. Qin Tongzhou has provided auditing services to the Company for three consecutive years.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company. Such service is not included in the scope of audit and the fee was HK\$9,300.

### (6) 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.
- The finance departments of the Company and its subsidiaries are empowered with the functions to monitor 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 2005 have been effective.



## Corporate Governance (continued)

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- 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 2005. The Board of Directors does not have any contrary opinion.

### **2) SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS OPERATIONS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER**

- (1) As regards employees, the Company's personnel in production, technical, financial and sales are independent for 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 any subordination to the departments at the controlling shareholder.
- (5) As regards business operations, the Company operates independent and stand-alone businesses with the competence of self determination on its 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 53, 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 2,900 shares in the Company.

**Mr. Gu Zhanggen**, aged 59, 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 2,900 shares in the Company.

**Mr. Zhu Changqiu**, aged 60, 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. Shi Zhaogui**, aged 61, Director of the Company. Mr. Shi was appointed Director of the Company since September 1993. He was appointed Deputy General Manager of the Company from September 1993 to September 1999 and was appointed Deputy General Manager of Magang (Group) Holding Company Limited from September 1999 to December 2005. Mr. Shi held 2,900 shares in the Company. Mr. Shi retired from the position of Director of the Company on 31 August 2005.

**Mr. Zhao Jianming**, aged 52, 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 51, 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 2,900 shares in the Company.

**Mr. Gao Haijian**, aged 49, 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.

## Directors, Supervisors, Senior Management and Staff (continued)

### Independent Directors

**Madam Cheng Shaoxiu**, aged 63, Independent Director of the Company. Madam Cheng was Chief Accountant of Anhui Guoyuan Holding (Group) Company Limited from May 2001 to September 2004. She has been Independent Director of the Company since September 1999. Madam Cheng is also Independent Director of 上海華源企業發展股份有限公司. Madam Cheng retired from the position of Independent Director of the Company on 31 August 2005.

**Mr. Wu Junnian**, aged 40, Independent Director of the Company. Mr. Wu was appointed as a lawyer of Taiji Law Firm in Shanghai since May 2002. Mr. Wu has been Independent Director of the Company since September 1999, and retired from the position of Independent Director of the Company on 31 August 2005.

**Mr. Shi Jianjun**, aged 51, Independent Director of the Company. Mr. Shi was appointed Executive Vice Principal of Nanjing University since January 2002. He has been Independent Director of the Company since September 2002 and is also Independent Director of Sinopec Yangtze Petrochemical Company Limited. Mr. Shi retired from the position of Independent Director of the Company on 31 August 2005.

**Mr. Chan Yuk Sing**, aged 44, Independent Director of the Company. Mr. Chan is a practising lawyer in Hong Kong. He became a partner of NORTON ROSE since September 2002. Mr. Chan has been Independent Director of the Company since September 2002, and retired from the position of Independent Director on 31 August 2005.

**Mr. Wong Chun Wa**, aged 32, 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. Mr. Wong became Independent Director of the Company on 31 August 2005.

**Mr. Su Yong**, aged 51, 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 44, Independent Director of the Company. Mr. Hui joined HSBC Investment Banking in 1990 and served as Corporate Finance Director, Chief Operationd 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.

## Directors, Supervisors, Senior Management and Staff (continued)

**Mr. Han Yi**, aged 42, 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. Gao Jinsheng**, aged 52, Chairman of the Supervisory Committee. Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company in June 2001, and retired from the positions of Supervisor and Chairman of the Supervisory Committee on 31 August 2005.

**Mr. Li Kezhang**, aged 58, 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 56, 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 42, 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

**Mr. Wang Xiaoxin**, aged 50, Independent Supervisor of the Company. Mr. Wang is Deputy President of China Construction Bank, Anhui provincial branch. He has been Supervisor of the Company since September 1999, and retired from being an Independent Supervisor on 31 August 2005.

**Mr. Jiang Yulin**, aged 48, Independent Supervisor of the Company. Mr. Jiang is Deputy President of Industrial and Commercial Bank of China, Anhui provincial branch. He has been Supervisor of the Company since September 2002, and retired from being an Independent Supervisor on 31 August 2005.

## Directors, Supervisors, Senior Management and Staff (continued)

**Madam Tang Xiaoqing**, aged 48, Independent Supervisor of the Company. Madam Tang is Deputy President of Bank of China, Anhui provincial branch. She has been Supervisor of the Company since September 2002, and was retired from being an Independent Supervisor on 31 August 2005.

**Madam Cheng Shaoxiu**, aged 63, Independent Supervisor of the Company. Madam Cheng became an Independent Supervisor of the Company on 31 August 2005.

**Madam An Qun**, aged 43, 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 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 52, 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 53, 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 42, 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 33, 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 2005, 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. It was required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

## Directors, Supervisors, Senior Management and Staff (continued)

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.

There were no changes in holdings of the Company's shares by the Company's Directors, Supervisors and senior management.

### 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 2005 are listed as follows:

Unit: RMB'000

Name	Duties	Emoluments (tax inclusive)
Gu Jianguo	Chairman	725.328
Gu Zhanggen	Vice Chairman	725.372
Zhu Changqiu	Director and General Manager	725.363
Su Jianguang	Director, Deputy General Manager, Chief Economist and Secretary to the Board of Directors	580.762
Gao Haijian	Director and Deputy General Manager	580.620
Hui Zhigang	Deputy General Manager	580.692
Shi Xiongliang	Deputy General Manager and Chief Engineer	580.858
Ding Yi	Deputy General Manager	580.019
Wan Hon Kau	Qualified Accountant	257.223

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.



## Directors, Supervisors, Senior Management and Staff (continued)

Annual emoluments received by 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 2005 are listed as follows:

(Unit: RMB'000)

<b>Name</b>	<b>Duties</b>	<b>Emoluments (tax inclusive)</b>
Gao Jinsheng	Chairman of the Supervisory Committee (retired on 31 August 2005)	387.131
Li Kezhang	Chairman of the Supervisory Committee (appointed from 31 August 2005)	580.937
Dou Qingxun	Supervisor	178.816

The above-mentioned emoluments received by independent supervisors from 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.

In 2005, Madam Cheng Xiaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing, all independent director of the fourth session of the Board of Directors of the Company, received an annual allowance for independent director of RMB30,000 each from the Company. Mr. Wang Xiaoxun, Mr. Jiang Yulin and Madam Tang Xiaoqing, all supervisor of the fourth session of the Supervisory Committee, received an annual allowance for independent supervisor of RMB20,000 each from the Company. Neither 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, nor Madam Cheng Xiaoxiu and Madam An Qun, all supervisors of the fifth session of the Supervisory Committee, have received the emoluments as their term of service were less than one year. Mr. Shi Zhaogui, formerly director, Mr. Zhao Jianming, presently director and Mr. Fang Jinrong, presently supervisor, received their emoluments at Holding, respectively.

In 2005, the total remunerations received by Directors, Supervisors and senior management from the Company amounted to RMB6,663,121. Except for the allowances for independent directors and independent supervisors aggregating RMB180,000, the remaining remunerations were amounts before taxation.

Besides, the total 2004 remunerations received by Directors, Supervisors and senior management (excluding Independent Directors and Independent Supervisors) from the Company as at December 2005 amounted to RMB6,146,893 (tax inclusive).

## Directors, Supervisors, Senior Management and Staff (continued)

### 3) PERSONNEL MOVEMENT

On 31 August 2005, the fifth session of the Board of Directors and the fifth session of the Supervisory Committee were elected by the shareholders' general meeting of the Company. Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi were newly elected as Independent Directors of the Company. Mr. Shi Zhaogui resigned as Director of the Company. Madam Cheng Shaoxiu, Mr. Wu Junnian, Mr. Shi Jianjun and Mr. Chan Yuk Sing resigned as Independent Directors of the Company. Mr. Fang Jinrong, Madam Cheng Shaoxiu and Madam An Qun were newly elected as Independent Supervisors of the Company. Mr. Gao Jinsheng resigned as Supervisor and Chairman of the Supervisory Committee. Mr. Wang Xiaoxin, Mr. Jiang Yulin and Madam Tang Xiaoqing resigned as Independent Supervisors of the Company.

There is no new appointment or removal of other directors, supervisors and senior management.

### 4) EMPLOYEES

As at the end of 2005, the Group had a total of 44,421 employees, of whom 37,907 were workers at production lines, 308 were sales representatives, 4,116 were technicians, 319 were financial staff and 2,581 were managerial staff. There were 9.93% of employees who had post-graduate qualifications or above. The number of resigned or retired staff for whom the Group was responsible for the pension amounted to 20,156.

# Movements in Share Capital and Shareholders

## 1) TABLE ON SHARE MOVEMENT

Unit: Shares

	Prior to the current movements		Current movements (+,-)						After current movements	
	Number of shares	(% )	New shares issue	Transferred		Additional issues	Others	Sub-total	Number of shares	(% )
				Bonus issues	from reserves					
I. Unlisted shares										
1. Promoter's shares										
Including:										
State-owned shares	4,034,560,000	62.50	-	-	-	-	-	-	4,034,560,000	62.50
Share owned by domestic legal persons	-	-	-	-	-	-	-	-	-	-
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
2. Issued legal person shares	87,810,000	1.36	-	-	-	-	-	-	87,810,000	1.36
3. Shares held by employees	-	-	-	-	-	-	-	-	-	-
4. Preferred shares and others	-	-	-	-	-	-	-	-	-	-
Total unlisted shares	4,122,370,000	63.86	-	-	-	-	-	-	4,122,370,000	63.86
II. Listed shares										
1. A shares	600,000,000	9.29	-	-	-	-	-	-	600,000,000	9.29
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	26.85	-	-	-	-	-	-	1,732,930,000	26.85
4. Others	-	-	-	-	-	-	-	-	-	-
Total listed shares	2,332,930,000	36.14	-	-	-	-	-	-	2,332,930,000	36.14
III. Total number of shares	6,455,300,000	100.00	-	-	-	-	-	-	6,455,300,000	100.00

There was no movement in the share capital of the Company during the three year ended 2005.

## 2) SHAREHOLDERS

- (1) The Company had a total of 136,772 shareholders, including 129,955 A share holders and 6,817 H share holders.

## Movements in Share Capital and Shareholders (continued)

(2) Shareholding of the 10 largest shareholders as at the end of the reporting period:

Magang (Group) Holding Company Limited (“Holding”), originally named as Maanshan Magang Holding Company, held 4,082,330,000 non-circulating A shares of the Company, of which 4,034,560,000 A shares were held on behalf of the State (representing approximately 62.50% of the total share capital of the Company) and 47,770,000 were legal person A shares (representing approximately 0.74% of the total share capital of the Company), 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.

Other shareholders who were among the 10 largest shareholders of the Company were as follows:

Name of shareholder	Type of shareholder	As a percentage to number of shares held (%)	Number of shares held (share)	Number of non-circulating shares held (share)	Number of pledged or frozen shares
HKSCC (Nominees) Limited	Foreign shareholders	25.409	1,640,234,997	0	unknown
HSBC (Nominees) Limited	Foreign shareholders	0.472	30,440,000	0	unknown
Shanghai Stock Exchange 50 ETF	Not applicable	0.350	22,592,541	0	unknown
Shanghai Quan Long Shiye Company Limited	Not applicable	0.152	9,800,000	9,800,000	unknown
景順長城內需增長開放式證券投資基金	Not applicable	0.103	6,651,118	0	unknown
景順長城優選股票證券投資基金	Not applicable	0.083	5,335,400	0	unknown
Guoyuan Securities Co., Ltd.	Not applicable	0.064	4,135,450	0	unknown
State Social Welfare Fund No. 002	Not applicable	0.062	3,973,610	0	unknown
CICC-Standard Chartered-Citigroup Global Markets Limited	Foreign shareholders	0.055	3,581,288	0	unknown

Note 1: There was no connected relationship between Holding and the other nine 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. INVESCO-Great Wall Asset Management Company Limited was the major shareholder of 景順長城內需增長開放式證券投資基金 and 景順長城優選股票證券投資基金. Save as disclosed above, the Company is not aware of whether the other nine shareholders had connected relationship or whether they were concerted parties.

## Movements in Share Capital and Shareholders (continued)

Note 2: 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 3: HKSCC (Nominees) Limited held 1,640,234,997 shares of the Company on behalf of multiple clients.

Note 4: Save as disclosed above, as at 31 December 2005, the Board of Directors is not aware of any parties or its associated companies who had any interests in or short positions of shares or underlying shares of the Company which was required to be recorded pursuant to Section 336 of the Securities and Futures Ordinance.

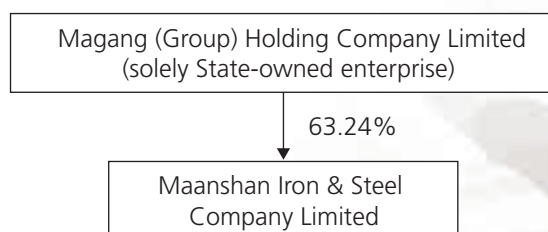
(3) Shareholding of 10 largest holders of shares in circulation at the end of the reporting period:

Name of shareholder	Number of circulating shares held (share)	Type of shares
HKSCC (Nominees) Limited	1,640,234,997	Overseas listed foreign shares
HSBC (Nominees) Limited	30,440,000	Overseas listed foreign shares
Shanghai Stock Exchange 50 ETF	22,592,541	RMB-denominated ordinary shares
景順長城內需增長開放式證券投資基金	6,651,118	RMB-denominated ordinary shares
景順長城優選股票證券投資基金	5,335,400	RMB-denominated ordinary shares
Guoyuan Securities Co., Ltd.	4,135,450	RMB-denominated ordinary shares
State Social Welfare Fund No. 002	3,973,610	RMB-denominated ordinary shares
CICC-Standard Chartered-Citigroup Global Markets Limited	3,581,288	RMB-denominated ordinary shares
銀河銀泰理財分紅證券投資基金	3,171,599	RMB-denominated ordinary shares
Boshi Yufu Securities Investment Fund	2,933,171	RMB-denominated ordinary shares

Note: INVESCO-Great Wall Asset Management Company Limited was the major shareholder of 景順長城內需增長開放式證券投資基金 and 景順長城優選股票證券投資基金. Save as disclosed above, the Company is not aware of whether the other ten circulating shareholders had connected relationship or whether they were concerted parties.

(4) As at 31 December 2005 and 31 March 2006, 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 Hong Kong Stock Exchange.

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



# Shareholders' General Meetings

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The Company convened two shareholders' general meetings in 2005.

## 1) ANNUAL GENERAL MEETING

On 14 June 2005, the Company convened an annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The working reports of the Board of Directors and of the Supervisory Committee for 2004, the audited financial statements and the profit distribution plan for 2004 were approved at the meeting. The appointment of Ernst & Young Hua Ming and Ernst & Young as auditors of the Company for 2005 and the authorisation of the Board of Directors to determine their remuneration were approved. The 11-5 Master Plan on technological reforms and structural adjustments of the Company was also approved.

The above matters were published in Shanghai Securities News, the South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 15 June 2005.

## 2) EXTRAORDINARY GENERAL MEETING

On 31 August 2005, the Company convened an extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The members of the fifth session of the Board of Directors and the supervisors of the fifth session of the Supervisory Committee were elected at the meeting. The proposed amendments to the Articles of Association, Order of Meeting for Shareholders' General Meeting, the Board of Directors and Supervisory Committee were approved. The remuneration for the fifth session of directors and supervisors of the Company were determined. It was also resolved that the Company would issue one-year short-term commercial papers of RMB2 billion.

The above matters were published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 1 September 2005.



# Significant Matters

## 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 acquisition of the steel structure manufacturing and installation business and the electrical and mechanical installation business from the Construction Co. Ltd of Magang (Group) Holdings Co., Ltd. (details as set out under "Connected Transactions" in this section regarding "Equity Transfer between the Company and Holding in 2005") and the transfer of 40% equity interests in 五環報廢汽車回收拆解有限責任公司, 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.

## Significant Matters (continued)

### 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. 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 which the Company and Holding may charge each other 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 new Service Agreement from 1 January 2005 to 31 December 2005 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

## Significant Matters (continued)

(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 2005, 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 prices of limestone and dolomite are determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price charged by the top three independent suppliers supplying the largest amounts of limestone and dolomite to the Company in the previous year of the contracting year.

The payment made by the Company to Holding in respect of the new Sales and Purchase of Iron Ore Agreement from 1 January 2005 to 31 December 2005 was as follows:

	Unit RMB'000	
	<b>Amount paid</b>	<b>Proportion of transactions of the same category (%)</b>
Purchases of iron ore, limestone and dolomite	1,408,068	15.74

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 new Sales and Purchase of Iron Ore Agreement with effect from 2004 to 2006. For the financial year ended 31 December 2005, the total value of the year of the agreed services did not exceed 8.74% of the audited cost of sales of the Company.

## Significant Matters (continued)

- (3) Save for the connected transactions made pursuant to the new Service Agreement and the new 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

	<b>Amount paid</b>	<b>Proportion of transactions of the same category (%)</b>
Steel products and other products purchased by Holding from the Company	8,479	0.03
Water, electricity, telephone and other services acquired by Holding from the Company	27,497	28.40
Payment by the Company for fixed assets and Construction services	266,777	4.68
Payment by the Company to Holding for other services	137,974	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 2005 and did not have any adversely impact on the Company's profits.

The auditors of the Company, Ernst & Young considers that the Service Agreement entered into by the Company and Holding and the continuing connected transactions under the Sales and Purchase of Iron Ore Agreement for the year 2005 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.

- Other connected transactions between the Company and Holding in 2005

On 28 April 2005, in order to broaden the sales mix, reduce construction costs and shorten construction schedules, it was decided by the Company's Board of Directors to acquire the steel structure manufacturing and installation business and the electrical and mechanical installation business of Construction Co. Ltd. of Magang (Group) Holdings Co., Ltd. (hereinafter referred to as the "Construction Company") under Holding with its own internal resources and was settled by cash. An acquisition agreement was entered into accordingly. The total consideration of the acquisition was RMB149,773,600, which was determined on the

## Significant Matters (continued)

basis of valuation conducted by Jiangsu Tianhang Accounting Firm as engaged by the Company on the steel structure manufacturing and installation business and the electrical and mechanical installation business of the Construction Company, for which its net asset value as at 31 January 2005 was RMB149,773,600. Transfer of property rights in the assets involved in this acquisition was completed and the debts and obligations were also assigned accordingly.

The Independent Directors consider that the terms of the transaction are in compliance with normal commercial rules. The terms are fair and reasonable, in line with the Company's overall development strategy and are in the best interests of the Company and its shareholders as a whole.

- As at 31 December 2005, save for ordinary business transactions, there is no amount due to or from the Company and connected parties.
- Material contracts with the controlling shareholder

Save for the above-mentioned new "Service Agreement" and the new "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, 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 2005.

- 6) The Company did not entrust, contract or lease any assets of other companies, nor 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 recognised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB67 million, which amount has not been recognised; guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully recognised.

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB7,795 million and a remaining balance of RMB7,728 million. The total guarantee amount represented 41.03% 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

## Significant Matters (continued)

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, neither the Company nor any shareholders who were interested in 5% or more of the Company's shares disclosed their commitment 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) CORPORATE PENSIONS

In order to establish the pension insurance system at various levels and to improve the social security system, it was decided by the Company to establish a supplementary pension insurance system commencing from 1 January 2005, in accordance with the Provisional Measures for Corporate Annuities, which is Order No. 20 of the Ministry of Labour and Social Security of the State and the relevant documents of the Anhui Provincial Government. The corporate annuities shall be contributed jointly by the Company and individual staff. The pension fee to be contributed by the Company is calculated from the contribution by the staff on the same basis and same proportion. The contribution base shall be adjusted once a year on 1 July. The total contribution to be made by the Company shall not exceed one twelfth of the total salary of the staff for the previous year. An amount of RMB61 million was paid in 2005.

### 9) 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 Masteel".

### 10) UNIFICATION OF INCOME TAX RATE AND CANCELLATION OF TAX REBATES OFFERED BY LOCAL GOVERNMENTS

As one of the nine pilot joint stock limited enterprises which formed the first batch of the 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 continued to be subject to an income tax rate of 15% and this was unrelated to the cancellation of tax rebates offered by local governments. As at the date of this report, no document from any authorities indicating any change in income tax rates applicable to the Company has been received.

# Report of the Auditors



安永會計師事務所

To the members

## **Maanshan Iron & Steel Company Limited**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 56 to 134 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

### **BASIS OF OPINION**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **Ernst & Young**

*Certified Public Accountants*

Hong Kong

11 April 2006



# Consolidated Income Statement

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
<b>REVENUE</b>	4	<b>32,083,096</b>	26,770,055
Cost of sales		<b>(27,369,971)</b>	(20,809,548)
Gross profit		<b>4,713,125</b>	5,960,507
Other income and gains	4	<b>194,433</b>	130,551
Selling and distribution costs		<b>(428,103)</b>	(368,503)
Administrative expenses		<b>(744,745)</b>	(1,432,147)
Other operating income/(expenses), net		<b>(19,555)</b>	1,710
Finance costs	6	<b>(362,470)</b>	(225,284)
Share of profits and losses of associates		<b>13,464</b>	(958)
<b>PROFIT BEFORE TAX</b>	5	<b>3,366,149</b>	4,065,876
Tax	9	<b>(415,334)</b>	(460,984)
<b>PROFIT FOR THE YEAR</b>		<b>2,950,815</b>	3,604,892
Attributable to:			
Equity holders of the parent	10	<b>2,909,943</b>	3,592,320
Minority interests		<b>40,872</b>	12,572
		<b>2,950,815</b>	3,604,892
<b>DIVIDEND</b>	11	<b>1,032,848</b>	1,420,166
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	12		
Basic		<b>45.08 cents</b>	55.65 cents
Diluted		<b>N/A</b>	N/A

# Consolidated Balance Sheet

(Prepared under Hong Kong accounting standards)

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	18,384,692	17,862,647
Prepaid land premiums	14	1,137,801	1,135,710
Construction in progress	15	7,476,730	2,042,098
Intangible asset	16	109,035	–
Investment in a jointly-controlled entity	18	234,000	–
Investments in associates	19	268,060	150,018
Available-for-sale equity investments	20	16,817	16,817
Held-to-maturity investments	21	10,919	13,579
Deferred tax assets	22	53,175	34,734
Total non-current assets		27,691,229	21,255,603
<b>CURRENT ASSETS</b>			
Inventories	23	5,168,472	4,754,184
Construction contracts	24	31,002	–
Trade and bills receivables	25	2,215,092	2,199,378
Prepayments, deposits and other receivables	26	559,386	791,556
Equity investments at fair value through profit or loss	27	13,568	13,568
Pledged deposits	28	142,114	8,620
Cash and cash equivalents	28	3,112,902	2,172,876
Total current assets		11,242,536	9,940,182
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	29	3,863,128	3,272,161
Other payables and accruals	30	4,495,428	4,444,514
Interest-bearing bank and other borrowings	31	2,191,361	1,350,763
Tax payable		118,021	188,157
Provisions	32	114,747	124,863
Total current liabilities		10,782,685	9,380,458
<b>NET CURRENT ASSETS</b>		459,851	559,724
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		28,151,080	21,815,327

## Consolidated Balance Sheet (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>28,151,080</b>	21,815,327
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	31	<b>8,570,816</b>	4,134,143
Deferred income		<b>498,086</b>	539,884
Provisions	32	<b>29,485</b>	40,258
Due to the ultimate holding company	33	<b>400,000</b>	–
Total non-current liabilities		<b>9,498,387</b>	4,714,285
Net assets		<b>18,652,693</b>	17,101,042
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	34	<b>6,455,300</b>	6,455,300
Reserves	35	<b>11,026,356</b>	9,149,261
Proposed final dividend	11	<b>1,032,848</b>	1,420,166
		<b>18,514,504</b>	17,024,727
<b>Minority interests</b>		<b>138,189</b>	76,315
Total equity		<b>18,652,693</b>	17,101,042

**Gu Jianguo**  
Director

**Su Jiangan**  
Director

# Consolidated Statement of Changes in Equity

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Attributable to equity holders of the parent											
	Notes	Issued	Share	Statutory		Reserve	Enterprise	Retained	Proposed	Total	Minority	Total
		share	premium	surplus	public				final			
	capital	account	reserve	welfare	fund	fund	profits	dividend	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004		6,455,300	4,864,976	533,110	532,839	698	348	1,045,136	1,355,613	14,788,020	35,420	14,823,440
Profit for the year and total income and expenses for the year recognised in the equity		-	-	-	-	-	-	3,592,320	-	3,592,320	12,572	3,604,892
Transfer to reserves		-	-	360,050	360,013	2,782	4,786	(727,631)	-	-	-	-
Arising from acquisition of a subsidiary	36	-	-	-	-	-	-	-	-	-	8,773	8,773
Final 2003 dividend declared		-	-	-	-	-	-	-	(1,355,613)	(1,355,613)	-	(1,355,613)
Proposed final 2004 dividend	11	-	-	-	-	-	-	(1,420,166)	1,420,166	-	-	-
Dividend paid to minority shareholders		-	-	-	-	-	-	-	-	-	(929)	(929)
Capital contribution by minority shareholders		-	-	-	-	-	-	-	-	-	20,479	20,479
At 31 December 2004 and 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 and total income and expenses for the year recognised in the equity		-	-	-	-	-	-	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	11	-	-	-	-	-	-	(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		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

# Consolidated Cash Flow Statement

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>3,366,149</b>	4,065,876
Adjustments for:			
Finance costs	6	<b>362,470</b>	225,284
Share of profits and losses of associates		<b>(13,464)</b>	958
Interest income	4, 5	<b>(22,103)</b>	(24,236)
Dividend income from an available-for-sale equity investment	5	<b>(5,281)</b>	(1,105)
Depreciation	5	<b>2,064,539</b>	1,789,443
Recognition of prepaid land premiums	5	<b>21,092</b>	21,047
Amortisation of a mine participation right	5	<b>1,115</b>	–
Recognition of deferred income	4, 5	<b>(48,498)</b>	(38,379)
Reversal of impairment provision for property, plant and equipment	5	–	(15,412)
Loss on disposal of items of property, plant and equipment, net	5	<b>19,114</b>	11,078
Provision against inventories	5	<b>75,464</b>	10,402
Provision/(reversal of provision) for doubtful debts	5	<b>554</b>	(18,194)
Exchange losses/(gains), net	5	<b>(154,743)</b>	197,183
Operating profit before working capital changes		<b>5,666,408</b>	6,223,945
Increase in inventories		<b>(401,012)</b>	(2,384,792)
Increase in construction contracts		<b>32,498</b>	–
Decrease in trade and bills receivables		<b>60,394</b>	133,822
Decrease in prepayments, deposits and other receivables		<b>247,295</b>	431,167
Increase in trade and bills payables		<b>850,403</b>	348,599
Increase/(decrease) in other payables and accruals		<b>(71,243)</b>	2,075,618
Increase in provisions for pension benefits and housing subsidies, net		<b>(20,889)</b>	(82,186)
Cash generated from operations		<b>6,363,854</b>	6,746,173
Income tax paid		<b>(503,911)</b>	(332,897)
Net cash inflow from operating activities		<b>5,859,943</b>	6,413,276

# Consolidated Cash Flow Statement (continued)

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Net cash inflow from operating activities		<b>5,859,943</b>	6,413,276
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>22,103</b>	24,236
Dividend income from an available-for-sale equity investment		<b>5,281</b>	1,105
Dividend income from an associate		<b>54</b>	–
Government subsidies granted for specific projects		<b>6,700</b>	–
Purchases of items of property, plant and equipment and construction in progress		<b>(8,351,010)</b>	(4,362,670)
Purchases of prepaid land premiums		<b>(23,182)</b>	(17,796)
Proceeds from disposal of items of property, plant and equipment		<b>25,176</b>	32,521
Purchases of available-for-sale equity investments		–	(400)
Proceeds from retrieval of held-to-maturity investments		<b>2,660</b>	2,660
Investment in a jointly-controlled entity		<b>(234,000)</b>	–
Investments in associates		<b>(104,832)</b>	(4,000)
Proceeds from disposal of an associate		<b>200</b>	–
Acquisition of a subsidiary/businesses	36	<b>(149,774)</b>	(11,511)
Retrieval of overdue fixed deposits		<b>1,514</b>	43,287
Decrease in time deposits with original maturity of more than three months		–	50,000
(Increase)/decrease in pledged deposits		<b>(133,677)</b>	1,206
Net cash outflow from investing activities		<b>(8,932,787)</b>	(4,241,362)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank and other borrowings		<b>17,113,844</b>	1,468,468
Repayment of bank borrowings		<b>(11,606,332)</b>	(2,165,880)
Capital contribution by minority shareholders		<b>23,267</b>	20,479
Interest paid		<b>(434,623)</b>	(294,448)
Dividend paid		<b>(1,011,522)</b>	(1,355,613)
Dividend paid to minority shareholders		<b>(2,265)</b>	(929)
Net cash inflow/(outflow) from financing activities		<b>4,082,369</b>	(2,327,923)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>1,009,525</b>	(156,009)
Cash and cash equivalents at beginning of year		<b>2,112,876</b>	2,261,629
Effect of foreign exchange rate changes, net		<b>(73,131)</b>	7,256
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<b>3,049,270</b>	2,112,876
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents	28	<b>3,049,270</b>	2,112,876

# Balance Sheet

(Prepared under Hong Kong accounting standards)

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	18,159,813	17,719,845
Prepaid land premiums	14	1,092,280	1,106,687
Construction in progress	15	7,415,242	1,982,417
Investments in subsidiaries	17	395,447	331,547
Investment in a jointly-controlled entity	18	234,000	–
Investments in associates	19	255,608	150,976
Available-for-sale equity investments	20	16,817	16,817
Held-to-maturity investments	21	10,919	13,579
Deferred tax assets	22	53,175	34,734
Total non-current assets		27,633,301	21,356,602
<b>CURRENT ASSETS</b>			
Inventories	23	4,884,277	4,624,528
Construction contracts	24	31,002	–
Trade and bills receivables	25	2,203,657	2,128,564
Prepayments, deposits and other receivables	26	401,481	654,146
Equity investments at fair value through profit or loss	27	13,568	13,568
Cash and cash equivalents	28	2,625,793	1,756,214
Total current assets		10,159,778	9,177,020
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	29	3,571,040	3,094,495
Other payables and accruals	30	4,185,665	4,262,421
Interest-bearing bank and other borrowings	31	2,158,503	1,261,084
Tax payable		109,470	182,230
Provisions	32	114,747	124,863
Total current liabilities		10,139,425	8,925,093
<b>NET CURRENT ASSETS</b>		20,353	251,927
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		27,653,654	21,608,529



## Balance Sheet (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>27,653,654</b>	21,608,529
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	31	<b>8,528,228</b>	4,087,366
Deferred income		<b>498,086</b>	539,884
Provisions	32	<b>29,485</b>	40,258
Due to the ultimate holding company	33	<b>400,000</b>	–
Total non-current liabilities		<b>9,455,799</b>	4,667,508
Net assets		<b>18,197,855</b>	16,941,021
<b>EQUITY</b>			
Issued capital	34	<b>6,455,300</b>	6,455,300
Reserves	35	<b>10,709,707</b>	9,065,555
Proposed final dividend	11	<b>1,032,848</b>	1,420,166
Total equity		<b>18,197,855</b>	16,941,021

**Gu Jianguo**  
Director

**Su Jiengang**  
Director

# Notes to Financial Statements

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 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.

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 the recovery forward contract, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) 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 2005. 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 in the previous 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 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 36, 37, and 38, HKFRSs 3 and 5, and HK(SIC)-Int 21 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

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

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

### (a) HKAS 17 – Leases

In prior years, leasehold land held for own use was stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the leasehold interest in land of the Group and the Company is classified as an operating lease, because the title of the land is not expected to pass to the Group and the Company by the end of lease term, and is reclassified from property, plant and equipment to prepaid land premiums. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the balance sheets of the Group and the Company for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

### (b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group and the Company classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB16,817,000 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group and the Company classified its investments in debt securities as long term investments, which were intended to be held to maturity and were stated at amortised cost with gains and losses recognised in the income statement when investments are derecognised or impaired. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB13,579,000 are designated as held-to-maturity investments under the transitional provisions of HKAS 39 and accordingly are stated at amortised cost with gains and losses recognised in the income statement when investments are derecognised or impaired, as well as through the amortisation process.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

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

### (b) HKAS 32 and HKAS 39 – Financial Instruments (continued)

In prior years, the Group and the Company classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB13,568,000 are designated as equity instruments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity and debt securities. Comparative amounts have been reclassified for presentation purposes.

## 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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## **2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

## **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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint ventures (continued)

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 entity 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.

### 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 non-current assets 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.



# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Associates (continued)

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 assets

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.

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.

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

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

- (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).

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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.

### Intangible assets

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 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 sub-lease for 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.

### 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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

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

#### Applicable to the year ended 31 December 2004:

The Group classified its debt investments and equity investments, other than subsidiaries, associates and a jointly-controlled entity, as long term investments and short term investments.

#### *Long term investments*

Long term investments are non-trading investments in unlisted debt and equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities, or the comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Investments in dated debt securities which are intended to be held to maturity are stated at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for impairment in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the income statement in period in which they arise.

#### *Short term investments*

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either 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 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, i.e., the date that the Group commits to purchase 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 classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

#### *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. Other long term investments that are intended to be held to maturity, such as bonds, 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. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 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 carried at amortised cost using the effective interest method. 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.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that 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 being 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.

#### *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 on 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; a discounted cash flow analysis and option pricing models.

### Impairment of financial assets (Applicable to the year ended 31 December 2005)

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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Impairment of financial assets (Applicable to the year ended 31 December 2005) (continued)**

#### *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 profit or loss.

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.

#### *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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.



# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Impairment of financial assets (Applicable to the year ended 31 December 2005) (continued)**

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

### **Derecognition of financial assets (Applicable to the year ended 31 December 2005)**

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.

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.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

### **Derecognition of financial liabilities (Applicable to the year ended 31 December 2005)**

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

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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### **Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005)**

The Group uses derivative financial instruments such as the recovery forward contract to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of the recovery forward contract is calculated by reference to market values for similar instruments.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005) (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a fair value hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Fair value hedges*

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005) (continued)**

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

#### *Cash flow hedges*

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **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.

### **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.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 within three months 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.

### 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 from 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.

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

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

- 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.

### 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.



# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 discount 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.

### 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.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 date 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 profit or loss. 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 rates 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 ruling 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.

### 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 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 payable 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 payable are related to the past service of such employees, and were previously charged to the income statement on a one-off basis.

## Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

### 2.5 SIGNIFICANT ACCOUNTING ESTIMATES

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 useful lives are less than previously estimated lives and will write off technically obsolete or non-strategic assets that have been abandoned or sold.

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 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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 2.5 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

### Income tax

The Group is subject to income taxes in various regions within the PRC. As a result of 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 provisions in the period in which the differences realised.

## 3. 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.

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

## 4. 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:

	<b>2005</b> <b>RMB'000</b>	2004 RMB'000 (Restated)
Revenue		
Sale of goods	<b>32,083,096</b>	26,770,055
<b>Other income and gains</b>		
Interest income	<b>22,103</b>	24,236
Recognition of deferred income	<b>48,498</b>	38,379
Trading of iron ores	<b>90,859</b>	8,500
Others	<b>32,973</b>	59,436
	<b>194,433</b>	130,551

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 5. PROFIT BEFORE TAX

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

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Cost of inventories sold (note i)		<b>27,369,971</b>	20,809,548
Depreciation	13	<b>2,064,539</b>	1,789,443
Recognition of prepaid land premiums	14	<b>21,092</b>	21,047
Amortisation of a mine participation right (note ii)	16	<b>1,115</b>	–
Provision/(reversal of provision) for doubtful debts, net (note iii)		<b>554</b>	(18,194)
Auditors' remuneration		<b>5,027</b>	5,110
Staff costs (excluding directors' and supervisors' remuneration (note 7)):			
Wages and salaries		<b>1,497,463</b>	1,311,835
Welfare and benefits		<b>471,540</b>	418,427
Pension scheme contributions		<b>368,228</b>	273,766
		<b>2,337,231</b>	2,004,028
Contingent rents under operating leases in respect of land and buildings		<b>36,250</b>	36,250
Foreign exchange differences:			
Foreign exchange losses/(gains), net		<b>(156,927)</b>	226,140
Less: Foreign exchange differences capitalised in construction in progress		<b>2,184</b>	(28,957)
		<b>(154,743)</b>	197,183
Loss on disposal of items of property, plant and equipment, net		<b>19,114</b>	11,078
Reversal of impairment provision for property, plant and equipment (note iii)		–	(15,412)
Gross rental income		<b>(1,250)</b>	–
Bank interest income		<b>(22,103)</b>	(24,236)
Dividend income from an available-for-sale equity investment		<b>(5,281)</b>	(1,105)
Recognition of deferred income (note iv)		<b>(48,498)</b>	(38,379)

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 5. PROFIT BEFORE TAX (continued)

Notes:

- (i) Included in the cost of inventories sold for the year is a provision against inventories of approximately RMB75,464,000 (2004: approximately RMB10,402,000).
- (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 and the reversal of impairment provision for property, plant and equipment 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 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.

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Interest on bank loans and other loans wholly repayable within five years	<b>457,908</b>	260,676
Less: Interest capitalised in construction in progress	<b>(95,438)</b>	(35,392)
	<b>362,470</b>	225,284

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 7. 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:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Fees	<b>180</b>	180
Other emoluments:		
Salaries, allowances and benefits in kinds	<b>701</b>	730
Performance related bonuses	<b>3,743</b>	3,689
Pension scheme contributions	<b>40</b>	8
	<b>4,484</b>	4,427
	<b>4,664</b>	4,607



## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 7. 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:

	2005 RMB'000	2004 RMB'000
<i>Independent Directors</i>		
Ms. Cheng Shaoxiu	30	30
Mr. Wu Junnian	30	30
Mr. Shi Jianjun	30	30
Mr. Chan Yuk Sing	30	30
Mr. Wong Chun Wa	–	–
Mr. Su Yong	–	–
Mr. Hui Leung Wah	–	–
Mr. Han Yi	–	–
	120	120
<i>Independent Supervisors</i>		
Mr. Wang Xiaoxin	20	20
Mr. Jiang Yulin	20	20
Ms. Tang Xiaoqing	20	20
Ms. Cheng Shaoxiu	–	–
Mr. An Qun	–	–
	60	60
	180	180

There were no other emoluments payable to the independent directors and independent supervisors during the year (2004: Nil).

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

### (b) Executive directors and Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kinds RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>2005</b>					
<i>Executive directors</i>					
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 Jianguo	–	87	489	5	581
Mr. Gao Haijian	–	87	489	5	581
	–	498	2,811	28	3,337
<i>Supervisors</i>					
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

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

### (b) Executive directors and Supervisors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kinds RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2004					
<i>Executive directors</i>					
Mr. Gu Jianguo	–	108	579	1	688
Mr. Gu Zhanggen	–	108	579	1	688
Mr. Zhu Changqiu	–	108	579	1	688
Mr. Shi Zhaogui	–	–	–	–	–
Mr. Zhao Jianming	–	–	–	–	–
Mr. Su Jianguang	–	87	463	1	551
Mr. Gao Haijian	–	87	463	1	551
	–	498	2,663	5	3,166
<i>Supervisors</i>					
Mr. Gao Jinsheng	–	87	463	1	551
Mr. Li Kezhang	–	87	463	1	551
Mr. Dou Qingxun	–	58	100	1	159
	–	232	1,026	3	1,261
	–	730	3,689	8	4,427

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

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2004: five) directors and supervisors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2004: nil) non-director or supervisor, highest paid employee for the year are as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Salaries, allowances and benefits in kind	<b>87</b>	–
Performance related bonuses	<b>489</b>	–
Pension scheme contributions	<b>5</b>	–
	<b>581</b>	–

The number of non-director and supervisor, highest paid employee whose remuneration fell within the following band is as follows:

	<b>Number of employees</b>	
	<b>2005</b>	2004
Nil to RMB1,000,000	<b>1</b>	–

### 9. TAX

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Group:		
Current – Mainland China		
Charge for the year	<b>377,121</b>	441,331
(Overprovision)/underprovision in prior years	<b>52,424</b>	(1,061)
Current – Hong Kong	<b>808</b>	989
Current – Elsewhere	<b>3,422</b>	–
Deferred (note 22)	<b>(18,441)</b>	19,725
Total tax charge for the year	<b>415,334</b>	460,984

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 9. TAX (continued)

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 authorisation from 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.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2004: 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 countries 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			
	2005		2004	
	RMB'000	%	RMB'000	%
Profit before tax	<b>3,366,149</b>		<b>4,065,876</b>	
Tax at the applicable tax rate	<b>504,922</b>	<b>15</b>	609,881	15
Tax relief granted	<b>(31,137)</b>	<b>(1)</b>	(9,943)	–
Income not subject to tax	<b>(12,170)</b>	–	(7,988)	–
Expenses not deductible for tax	<b>2,593</b>	–	7,861	–
Tax concessions in respect of purchases of PRC manufacturing plant, machinery and equipment *	<b>(19,914)</b>	<b>(1)</b>	(110,333)	(3)
Other tax concessions	<b>(89,793)</b>	<b>(2)</b>	(36,713)	(1)
Adjustments in respect of current tax of previous periods	<b>52,424</b>	<b>1</b>	(1,061)	–
Effect of different tax rates of subsidiaries	<b>8,409</b>	–	9,280	–
Tax charge at the Group's effective rate	<b>415,334</b>	<b>12</b>	<b>460,984</b>	<b>11</b>

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 9. TAX (continued)

- \* The amount represents a tax concession, approved by the Maanshan City local tax bureau, in respect of the purchases of PRC manufacturing plant, machinery and equipment. The tax concession is calculated as 40% of purchases of PRC manufactured plant, machinery and equipment 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 RMB6,313,000 (2004: Nil) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately RMB2,677,000,000 (2004: approximately RMB3,520,406,000) (note 35(b)).

## 11. DIVIDEND

	2005 RMB'000	2004 RMB'000
Proposed final – RMB16 cents per ordinary share (2004: RMB22 cents)	<u>1,032,848</u>	<u>1,420,166</u>

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

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of approximately RMB2,909,943,000 (2004: approximately RMB3,592,320,000) and 6,455,300,000 (2004: 6,455,300,000) ordinary shares in issue during the year.

No diluted earnings per share amount is presented as the Company does not have any dilutive potential ordinary shares.

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 13. 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
<b>31 December 2005</b>				
At 31 December 2004 and 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	<u>5,964,103</u>	<u>11,627,697</u>	<u>270,847</u>	<u>17,862,647</u>
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 36)	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	(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	<u>5,932,141</u>	<u>12,271,420</u>	<u>181,131</u>	<u>18,384,692</u>
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	<u>5,932,141</u>	<u>12,271,420</u>	<u>181,131</u>	<u>18,384,692</u>

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 13. 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 (Restated)
<b>31 December 2004</b>				
At 1 January 2004:				
Cost	8,074,446	11,223,930	505,361	19,803,737
Accumulated depreciation and impairment	(2,034,252)	(3,716,585)	(298,722)	(6,049,559)
Net carrying amount	<u>6,040,194</u>	<u>7,507,345</u>	<u>206,639</u>	<u>13,754,178</u>
At 1 January 2004, net of accumulated depreciation and impairment	6,040,194	7,507,345	206,639	13,754,178
Additions	7,948	16,429	28,567	52,944
Acquisition of a subsidiary (note 36)	26,452	13,888	800	41,140
Transfers from construction in progress (note 15)	730,866	5,027,203	73,947	5,832,016
Reversal of impairment provision during the year recognised in the income statement	7,009	8,403	–	15,412
Write-off of impairment provision	20,189	47,909	–	68,098
Depreciation provided during the year	(436,708)	(1,300,118)	(52,617)	(1,789,443)
Reclassifications	(373,703)	358,754	14,949	–
Disposals/write-off	(58,144)	(52,116)	(1,438)	(111,698)
At 31 December 2004, net of accumulated depreciation and impairment	<u>5,964,103</u>	<u>11,627,697</u>	<u>270,847</u>	<u>17,862,647</u>
At 31 December 2004:				
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	<u>5,964,103</u>	<u>11,627,697</u>	<u>270,847</u>	<u>17,862,647</u>



## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 13. 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
<b>31 December 2005</b>				
At 31 December 2004 and 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	<u>5,879,783</u>	<u>11,573,411</u>	<u>266,651</u>	<u>17,719,845</u>
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 36)	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	<u>5,822,945</u>	<u>12,163,863</u>	<u>173,005</u>	<u>18,159,813</u>
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	<u>5,822,945</u>	<u>12,163,863</u>	<u>173,005</u>	<u>18,159,813</u>

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 13. 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 (Restated)
<b>31 December 2004</b>				
At 1 January 2004:				
Cost	8,058,884	11,208,231	499,986	19,767,101
Accumulated depreciation and impairment	(2,029,256)	(3,711,447)	(296,146)	(6,036,849)
Net carrying amount	<u>6,029,628</u>	<u>7,496,784</u>	<u>203,840</u>	<u>13,730,252</u>
At 1 January 2004, net of accumulated depreciation and impairment				
	6,029,628	7,496,784	203,840	13,730,252
Additions	407	5,292	27,458	33,157
Transfers from construction in progress (note 15)	694,249	5,000,414	73,635	5,768,298
Reversal of impairment provision during the year recognised in the income statement	7,009	8,403	–	15,412
Write-off of impairment provision	20,189	47,909	–	68,098
Depreciation provided during the year	(434,294)	(1,297,761)	(51,808)	(1,783,863)
Reclassifications	(379,261)	364,312	14,949	–
Disposals/write-off	(58,144)	(51,942)	(1,423)	(111,509)
At 31 December 2004, net of accumulated depreciation and impairment	<u>5,879,783</u>	<u>11,573,411</u>	<u>266,651</u>	<u>17,719,845</u>
At 31 December 2004:				
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	<u>5,879,783</u>	<u>11,573,411</u>	<u>266,651</u>	<u>17,719,845</u>

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

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of approximately RMB30,762,000 were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 31 to the financial statements.

At the balance sheet date, certificate of ownership in respect of the Group's building with a net book value of RMB24,000,000 had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

### 14. PREPAID LAND PREMIUMS

#### Group

	2005 RMB'000	2004 RMB'000 (Restated)
Carrying amount at 1 January:		
As previously reported	–	–
Effect of adopting HKAS 17 (note 2.2(a))	<b>1,135,710</b>	863,809
As restated	<b>1,135,710</b>	863,809
Additions	<b>23,183</b>	287,796
Acquisition of a subsidiary (note 36)	–	5,152
Recognised during the year	<b>(21,092)</b>	(21,047)
Carrying amount at 31 December	<b>1,137,801</b>	1,135,710

#### Company

	2005 RMB'000	2004 RMB'000 (Restated)
Carrying amount at 1 January:		
As previously reported	–	–
Effect of adopting HKAS 17 (note 2.2(a))	<b>1,106,687</b>	839,456
As restated	<b>1,106,687</b>	839,456
Additions	<b>6,188</b>	287,796
Recognised during the year	<b>(20,595)</b>	(20,565)
Carrying amount at 31 December	<b>1,092,280</b>	1,106,687

The leasehold land is held under a medium term lease and is situated in the PRC.

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 14. PREPAID LAND PREMIUMS (continued)

At the balance sheet date, certificates of ownership in respect of certain of the Group's land use rights with an aggregate net book value of approximately RMB305,053,000 has not been issued by the relevant government authorities. The directors represented that the Group is in the process of obtaining the relevant certificates.

The leasehold land with a carrying amount of approximately RMB1,240,000 was leased to a jointly-controlled entity of the Company, Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC – Ma Steel") under an operating lease arrangement (2004: Nil). Further details of which are included in note 38 to the financial statements.

### 15. CONSTRUCTION IN PROGRESS

	<b>Group</b> RMB'000 (Restated)	<b>Company</b> RMB'000 (Restated)
<b>31 December 2005</b>		
Cost:		
At beginning of year	2,116,098	2,056,417
Additions	7,928,760	7,845,025
Acquisition of businesses (note 36)	49,855	49,855
Transfers to property, plant and equipment (note 13)	(2,543,983)	(2,462,055)
At 31 December 2005	<u>7,550,730</u>	<u>7,489,242</u>
Accumulated impairment:		
At beginning of year and 31 December 2005	74,000	74,000
At 31 December 2005, net of impairment	<u><u>7,476,730</u></u>	<u><u>7,415,242</u></u>
<b>31 December 2004</b>		
Cost:		
At beginning of year	3,297,573	3,326,312
Additions	4,648,787	4,498,403
Acquisition of a subsidiary (note 36)	1,754	–
Transfers to property, plant and equipment (note 13)	(5,832,016)	(5,768,298)
At 31 December 2004	<u>2,116,098</u>	<u>2,056,417</u>
Accumulated impairment:		
At beginning of year and 31 December 2004	74,000	74,000
At 31 December 2004, net of impairment	<u><u>2,042,098</u></u>	<u><u>1,982,417</u></u>

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)  
31 December 2005

## 16. INTANGIBLE ASSET

### Group

	Mine participation right RMB'000
Cost at 1 January 2005	–
Additions	110,150
Amortisation provided during the year	(1,115)
At 31 December 2005	<u>109,035</u>
At 31 December 2005:	
Cost	110,150
Accumulated amortisation	(1,115)
Net carrying amount	<u>109,035</u>

## 17. INVESTMENTS IN SUBSIDIARIES

### Company

	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	<u>395,447</u>	<u>331,547</u>

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 17. INVESTMENTS IN SUBSIDIARIES (continued)

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		Principal activities
			Direct	Indirect	
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (note ii)	PRC	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services
Design & Research Institute of Maanshan Iron & Steel Company Limited (note i)	PRC	RMB20,490,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects
MG Control Technique Company Limited (note i)	PRC	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") (note ii)	PRC	US\$4,290,000	70	–	Production, sale and transportation of slag products and provision of related consultancy services
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK\$4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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### 17. INVESTMENTS IN SUBSIDIARIES (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		Principal activities
			Direct	Indirect	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (note ii)	PRC	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	Australia	AUD21,737,900	100	–	Production and sale of iron ores through an unincorporated joint venture
MG Trading and Development GmbH	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services
Ma Steel International Trade and Economic Corporation (note i)	PRC	RMB50,000,000	100	–	Import of machinery and raw materials and export of steel products
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)") (note i)	PRC	RMB12,000,000	–	80	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage and after-sales services
Anhui Masteel Holly Packing Co., Ltd. (note ii)	PRC	RMB30,000,000	71	–	Provision of packing materials for steel and other products; production and sale of metallic products, plastic, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on-site packing services

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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## 17. INVESTMENTS IN SUBSIDIARIES (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		Principal activities
			Direct	Indirect	
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd (notes i, iii)	PRC	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, iii)	PRC	RMB120,000,000	75	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services

Notes:

- (i) Registered as limited companies under the PRC law
- (ii) Registered as Sino-foreign joint ventures under the PRC law
- (iii) Newly incorporated during the year

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

## 18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	–	–	234,000	–
Share of net assets	234,000	–	–	–
	<b>234,000</b>	–	<b>234,000</b>	–



# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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## 18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

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

Name	Place of registration	Percentage of			Principal activities
		Ownership interest	Voting power	Profit sharing	
Ma'anshan BOC-Ma Steel Gases Company Limited	PRC	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 sales services, technical services and other related services

The financial information of the jointly-controlled entity as at 31 December 2005 shared by the Group is presented as follows:

	RMB'000
Non-current assets	219,195
Current assets	14,952
Current liabilities	(147)
Net assets	<u>234,000</u>

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

## 19. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	–	–	<b>255,608</b>	150,976
Share of net assets	<b>268,060</b>	150,018	–	–
	<u><b>268,060</b></u>	<u>150,018</u>	<u><b>255,608</b></u>	<u>150,976</u>

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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### 19. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the Company's associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Company	Principal activities
濟源市金馬焦化有限 公司(「濟源市金馬焦化」) (note ii)	PRC	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)	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
馬鞍山市五環報廢汽車 回收拆解有限責任公司 (「五環汽車」) (notes ii, iii)	PRC	–	Recycling and dismantling of scrap motor vehicles and trading of steel products
上海大宗鋼鐵電子交易中心 有限公司 (note ii)	PRC	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 (notes i, ii)	PRC	45	Provision of loading/unloading and cargos forwarding agency services; storage, transmitting of cargos and division/merge of cargos in containers; provision of general services to ships, repair and manufacture of spare parts of ships

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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## 19. INVESTMENTS IN ASSOCIATES (continued)

Notes:

- (i) Newly incorporated during the year
- (ii) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms
- (iii) The equity interest in 五環汽車 was disposed of during the year. As at 31 December 2005, the Company did not hold any equity interest in 五環汽車.

The Group's shareholdings in the associates all comprise equity shares held by the Company.

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

	<b>2005</b> <b>RMB'000</b>	2004 RMB'000
Assets	<b>1,680,038</b>	1,236,649
Liabilities	<b>(1,229,570)</b>	(812,450)
Turnover	<b>1,715,920</b>	671,988
Net profit/(loss)	<b>27,289</b>	(5,101)

## 20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	<b>Group and Company</b>	
	<b>2005</b> <b>RMB'000</b>	2004 RMB'000
Unlisted equity investments, at fair value	<b>16,817</b>	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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 21. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2005 RMB'000	2004 RMB'000
Debt investments	<u>10,919</u>	<u>13,579</u>

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.

## 22. DEFERRED TAX

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

### Group and Company

	2005					
Deferred tax assets	Repair and maintenance expenses RMB'000	Housing subsidies RMB'000	Asset provisions RMB'000	Early retirement benefits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	–	–	38,078	7,831	–	45,909
Deferred tax credited/ (charged) to the income statement during the year (note 9)	9,024	3,639	3,122	(1,792)	4,448	18,441
Gross deferred tax assets at 31 December 2005	<u>9,024</u>	<u>3,639</u>	<u>41,200</u>	<u>6,039</u>	<u>4,448</u>	<u>64,350</u>

### Deferred tax liabilities

Gross deferred tax liabilities at 1 January 2005 and 31 December 2005	<u>11,175</u>
Net deferred tax assets at 31 December 2005	<u>53,175</u>

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 22. DEFERRED TAX (continued)

### Group and Company

2004

#### Deferred tax assets

	<b>Asset provisions</b> RMB'000	<b>Early retirement benefits</b> RMB'000	<b>Total</b> RMB'000
At 1 January 2004	54,803	10,831	65,634
Deferred tax charged to the income statement during the year (note 9)	<u>(16,725)</u>	<u>(3,000)</u>	<u>(19,725)</u>
Gross deferred tax assets at 31 December 2004	<u><u>38,078</u></u>	<u><u>7,831</u></u>	<u><u>45,909</u></u>

#### Deferred tax liabilities

	<b>Furnace relining costs</b> RMB'000
Gross deferred tax liabilities at 1 January 2004 and 31 December 2004	<u>11,175</u>
Net deferred tax assets at 31 December 2004	<u><u>34,734</u></u>

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or the joint venture 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.

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 23. INVENTORIES

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Raw materials	2,973,684	3,143,887	2,829,103	3,142,044
Work in progress	638,586	548,152	627,427	528,270
Finished goods	360,528	380,766	232,293	272,894
Spare parts	1,195,674	681,379	1,195,454	681,320
	<b>5,168,472</b>	<b>4,754,184</b>	<b>4,884,277</b>	<b>4,624,528</b>

At 31 December 2005, the carrying amount of the Group's inventories was pledged as security for the Group's bills payables amounting to approximately RMB23,930,000 (2004: Nil), as further detailed in note 29 to the financial statements.

### 24. CONSTRUCTION CONTRACTS

	Group and Company	
	2005 RMB'000	2004 RMB'000
Gross amount due from contract customers	<b>31,002</b>	–
Contract costs incurred plus recognised profits less recognised losses to date	<b>188,542</b>	–
Less: Progress billings	<b>(157,540)</b>	–
	<b>31,002</b>	–

At 31 December 2005, retentions held by customers for contract works included in trade receivables amounted to approximately RMB16 million (2004: Nil).

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 25. 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 amount of the trade receivables. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Trade receivables:				
Within three months	188,665	252,788	170,906	234,120
Four to six months	32,819	8,130	5,757	3,196
Seven to twelve months	49,014	4,688	27,711	4,207
One to two years	12,578	8,757	12,422	8,355
Two to three years	407	2,189	407	2,189
	<b>283,483</b>	276,552	<b>217,203</b>	252,067
Bills receivables	<b>1,931,609</b>	1,922,826	<b>1,986,454</b>	1,876,497
	<b>2,215,092</b>	2,199,378	<b>2,203,657</b>	2,128,564

Bills receivables will mature within one year.

Included in both the Group's and the Company's trade and bills receivables are amounts due from Holding and its subsidiaries aggregating approximately RMB32,365,000 (2004: approximately RMB1,466,000). Such balances principally arose from normal trading activities.

### 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB3,049,000 (2004: approximately RMB40,490,000) for the purchase of raw materials and the provision of support services from Holding.

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2005 RMB'000	2004 RMB'000
Equity investments listed in the PRC, at market value	<b>13,568</b>	13,568

The above investments as at 31 December 2005 were classified as held for trading.

### 28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005 RMB'000	2004 RMB'000
Cash and bank balances	<b>3,027,462</b>	2,112,876
Time deposits and balances with financial institutions, net of provisions	<b>227,554</b>	68,620
	<b>3,255,016</b>	2,181,496
Less: Pledged deposits for trading facilities	<b>(142,114)</b>	(8,620)
Cash and cash equivalents in the consolidated balance sheet	<b>3,112,902</b>	2,172,876
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<b>(63,632)</b>	(60,000)
Cash and cash equivalents in the consolidated cash flow statement	<b>3,049,270</b>	2,112,876

	Company	
	2005 RMB'000	2004 RMB'000
Cash and bank balances	<b>2,562,161</b>	1,696,613
Time deposits and balances with financial institutions, net of provisions	<b>63,632</b>	59,601
Cash and cash equivalents	<b>2,625,793</b>	1,756,214



## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB2,523,465,000 (2004: RMB1,934,612,000). 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 four non-bank financial institutions, in aggregate, amounting to approximately HK\$123 million (2004: approximately HK\$128 million).

	Notes	2005 HK\$'000	2004 HK\$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	23,317	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	3,491	8,608
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	48,000	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	48,125	48,125
		<b>122,933</b>	<b>128,050</b>

Notes:

- (i) 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.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

Notes: (continued)

- (ii) 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). Up to 31 December 2005, the Company has received an accumulated repayment of approximately RMB2,271,000. On 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated and the Company was entitled to a final repayment of RMB3,632,000. The amount proved to be irrecoverable was written off in the current year. On 14 February 2006, the Company received the rest of the repayment of RMB3,632,000.
- (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.

Except for the balance with China Venturetech, the directors are unable to estimate, as at the date on which these financial statements were approved, the principal amount of the outstanding deposits the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the three remaining overdue fixed deposits.

## 29. 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	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Within one year	3,820,295	3,176,820	3,554,133	3,068,762
One to two years	36,029	83,700	11,749	19,827
Two to three years	1,549	4,784	1,491	963
Over three years	5,255	6,857	3,667	4,943
	<b>3,863,128</b>	<b>3,272,161</b>	<b>3,571,040</b>	<b>3,094,495</b>

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

Included in the Group's and the Company's trade payables are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB170,850,000 (2004: approximately RMB81,805,000). Such balances principally arose from normal trading activities.

At 31 December 2005, the carrying amounts of the Group's inventories and cash deposits were pledged as security for the Group's trading facilities for the issuance of bank bills amounting to RMB23,930,000 (2004: Nil) and RMB142,114,000 (2004: RMB8,620,000), respectively.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 30. OTHER PAYABLES AND ACCRUALS

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

Included in the Group's and the Company's other payables and accruals are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB67,392,000 (2004: approximately RMB116,400,000). Such balances principally arose from normal trading activities.

## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group		Company	
			2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
<b>Current</b>						
Bank loans – unsecured	0.25-5.22	2006	159,690	1,350,763	158,503	1,261,084
Short term commercial papers – unsecured	3.19	2006	2,000,000	–	2,000,000	–
Other loans – unsecured	5.02, 5.22	2006	31,671	–	–	–
			<b>2,191,361</b>	1,350,763	<b>2,158,503</b>	1,261,084
<b>Non-current</b>						
Bank loans – unsecured	0.25-6.12	2007-2019	8,562,664	4,125,909	8,528,228	4,087,366
Other loan – secured	5.49	2007	6,000	6,063	–	–
Other loan – unsecured	5.49	2007	2,152	2,171	–	–
			<b>8,570,816</b>	4,134,143	<b>8,528,228</b>	4,087,366
			<b>10,762,177</b>	5,484,906	<b>10,686,731</b>	5,348,450
Analysed into:						
Bank loans repayable:						
Within one year			159,690	1,350,763	158,503	1,261,084
In the second year			480,358	2,987,888	460,171	3,132,907
In the third to fifth years, inclusive			8,039,619	1,007,061	8,036,057	837,459
Beyond five years			42,687	130,960	32,000	117,000
			<b>8,722,354</b>	5,476,672	<b>8,686,731</b>	5,348,450
Short term commercial papers and other borrowings repayable:						
Within one year			2,031,671	–	2,000,000	–
In the second year			8,152	–	–	–
In the third to fifth years, inclusive			–	8,234	–	–
			<b>2,039,823</b>	8,234	<b>2,000,000</b>	–
			<b>10,762,177</b>	5,484,906	<b>10,686,731</b>	5,348,450

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

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### 31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Certain of the bank loans of approximately RMB4,831,511,000 (2004: approximately RMB4,173,352,000) and RMB16,623,000 (2004: approximately RMB20,939,000) are guaranteed by Holding and Sinosteel Trading Company, respectively.

Except for bank and other borrowings of approximately RMB1,688,093,000 and RMB16,623,000 which are denominated in United States dollars and Euros, respectively, all other borrowings are denominated in RMB.

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 are redeemable on 28 December 2006.

Other loans of approximately RMB9,823,000 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 RMB30,762,000.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000
<b>Current</b>				
Bank loans – unsecured	14,647	145,043	44,856	1,305,907
Short term commercial papers	2,000,000	–	–	–
Other loans – unsecured	31,671	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Non-current</b>				
Bank loans – unsecured	2,372,436	6,190,228	1,909,543	2,216,366
Other loan – secured	6,000	–	6,063	–
Other loan – unsecured	2,152	–	2,171	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Company			
	2005		2004	
	Fixed rate RMB'000	Floating rate RMB'000	Fixed rate RMB'000	Floating rate RMB'000
<b>Current</b>				
Bank loans – unsecured	13,460	145,043	23,460	1,237,624
Short-term commercial papers	<u>2,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Non-current</b>				
Bank loans – unsecured	<u>2,338,000</u>	<u>6,190,228</u>	<u>1,871,000</u>	<u>2,216,366</u>

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.

## 32. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees RMB'000	Housing subsidies RMB'000	Total RMB'000
At 1 January 2005	52,203	112,918	165,121
Amounts utilised during the year	<u>(11,945)</u>	<u>(8,944)</u>	<u>(20,889)</u>
At 31 December 2005	40,258	103,974	144,232
Portion classified as current liabilities	<u>(10,773)</u>	<u>(103,974)</u>	<u>(114,747)</u>
Non-current portion	<u>29,485</u>	<u>–</u>	<u>29,485</u>

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.

## 33. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to Holding is unsecured, interest-free and is repayable after 1 January 2007.

# Notes to Financial Statements (continued)

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## 34. SHARE CAPITAL

		Group and Company	
		2005 RMB'000	2004 RMB'000
Registered, issued and fully paid:			
4,034,560,000	Unlisted state owned shares	<b>4,034,560</b>	4,034,560
87,810,000	Unlisted legal person A shares	<b>87,810</b>	87,810
600,000,000	Individual A shares of RMB1.00 each	<b>600,000</b>	600,000
1,732,930,000	H shares of RMB1.00 each	<b>1,732,930</b>	1,732,930
<u>6,455,300,000</u>		<u><b>6,455,300</b></u>	<u>6,455,300</u>

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.

## 35. 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 59 of the financial statements.

### (b) Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004	4,864,976	530,653	530,653	1,039,033	6,965,315
Profit for the year	–	–	–	3,520,406	3,520,406
Transfer to reserves	–	357,350	357,350	(714,700)	–
Proposed final 2004 dividend	–	–	–	(1,420,166)	(1,420,166)
At 31 December 2004 and 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	<u>4,864,976</u>	<u>1,166,670</u>	<u>1,166,670</u>	<u>3,511,391</u>	<u>10,709,707</u>

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 35. RESERVES (continued)

In accordance with the Company Law of the PRC and the articles of associations of the Company and certain of its subsidiaries, they are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capital of these companies. Part of the SSR 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 accordance with the Company Law of the PRC, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax to the statutory public welfare fund (the "PWF"). PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of these companies.

When the PWF is used, the lower of the cost of assets and the balance of the PWF should be transferred to the SSR. These reserves are not distributable unless these companies are dissolved. When the related assets are sold, the amount which was originally transferred from the PWF to the SSR should be transferred back.

Certain of the Company's subsidiaries are 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, reserve fund and employee bonus and welfare fund. The allocation rates are determined by their respective board of directors.

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB278.7 million (2004: approximately RMB357.4 million) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of approximately RMB2,787 million (2004: approximately RMB3,574 million) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the share of the subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with the percentage of investment held by the Group, was approximately RMB8.1 million (2004: approximately RMB2.7 million), approximately RMB6.9 million (2004: approximately RMB2.7 million), approximately RMB7.6 million (2004: approximately RMB2.8 million) and approximately RMB5.5 million (2004: approximately RMB4.8 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.

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 35. RESERVES (continued)

As at 31 December 2005, the Company had retained profits of approximately RMB3,511 million (31 December 2004: approximately RMB2,368 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC accounting standards and regulations or 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 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB5.45 billion (2004: approximately RMB5.43 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.

## 36. BUSINESS COMBINATIONS

### (a) 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, which amounted 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 was assumed by the Company, which was not significant.

### (b) Acquisition of a subsidiary

On 15 November 2004, the Company acquired a 71% equity interest in Holly Packing from Holding at a consideration of approximately RMB21,478,000. Holly Packing is mainly engaged in production of packing materials and on-site packing services. The consideration was determined on the basis of the carrying amount of the net asset value of Holly Packing as at 30 September 2004 which was audited by Jiangsu Talent Certified Public Accountants. In the opinion of the directors, the carrying amounts of the assets and liabilities acquired by the Company on the completion date approximated to their fair values.



## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 36. BUSINESS COMBINATIONS (continued)

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

	Notes	2005 RMB'000	2004 RMB'000
Property, plant and equipment, net	13	54,396	41,140
Prepaid land premiums	14	–	5,152
Construction in progress	15	49,855	1,754
Cash and cash equivalents		–	9,967
Inventories		88,740	2,294
Construction contracts		63,500	–
Trade and bills receivables		76,108	361
Prepayments, deposits and other receivables		20,825	3,855
Bank borrowings		–	(26,000)
Trade payables		(113,421)	(1,256)
Other payables and accruals		(89,100)	(7,184)
Tax payable		(1,129)	168
Minority interests		–	(8,773)
		<b>149,774</b>	<b>21,478</b>
Satisfied by cash		<b>149,774</b>	<b>21,478</b>

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

	2005 RMB'000	2004 RMB'000
Cash consideration	149,774	21,478
Cash and cash equivalents acquired	–	(9,967)
Net outflow of cash and cash equivalents in respect of the aforesaid acquisitions	<b>149,774</b>	<b>11,511</b>

Since the aforesaid acquisitions, Holly Packing contributed RMB11 million to the Group's consolidated turnover and RMB1 million to the Group's consolidated profit attributable to equity holders of the parent for the year ended 31 December 2004 whereas the Businesses' contributions to the Group's consolidated turnover and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2005 were not significant.

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 36. BUSINESS COMBINATIONS (continued)

Had these combinations taken place at the beginning of the year, the Group's consolidated turnover and consolidated profit attributable to equity holders of the parent would have been RMB32,083 million and RMB2,910 million for the year ended 31 December 2005, respectively, and RMB26,770 million and RMB3,605 million for the year ended 31 December 2004, respectively.

### 37. CONTINGENT LIABILITIES

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	<b>7,795,113</b>	2,559,075
Bills discounted with recourse	–	311,000	–	311,000
	<b>–</b>	<b>311,000</b>	<b>7,795,113</b>	<b>2,870,075</b>

### 38. OPERATING LEASE ARRANGEMENTS

The Group leases its leasehold land (note 14 to the financial statements) under operating lease arrangements with BOC-Ma Steel for 18 years since 2005. The periodic rent is fixed during the operating lease periods.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2005 RMB'000	2004 RMB'000
Within one year	<b>1,250</b>	–
In the second to fifth years, inclusive	<b>5,000</b>	–
After five years	<b>15,000</b>	–
	<b>21,250</b>	–

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 39. CAPITAL COMMITMENTS

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

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Authorised, but not contracted for:				
Blast Furnaces Project	2,089,447	119,396	2,089,447	119,396
Converters Project	861,321	121,960	861,321	121,960
Wheel Line Project	371,086	91,035	371,086	91,035
Construction Steel Lines Project	3,355,414	985,211	3,355,414	983,932
Coking Stoves Project	1,120,768	134,169	1,120,768	134,169
Public Auxiliary Utilities Project	964,589	262,758	964,589	262,758
Energy-saving and Environment Protection Project	232,125	23,712	232,125	23,712
Other projects	2,049,663	63,446	2,047,568	63,446
	<b>11,044,413</b>	<b>1,801,687</b>	<b>11,042,318</b>	<b>1,800,408</b>
Contracted, but not provided for:				
Blast Furnaces Project	1,146,893	632	1,146,893	632
Converters Project	1,440,998	35,805	1,440,998	35,805
Wheel Line Project	15,698	2,970	15,698	2,970
Construction Steel Lines Project	4,711,870	200,274	4,711,870	182,855
Coking Stoves Project	626,902	26,745	626,902	26,745
Public Auxiliary Utilities Project	682,275	219,072	682,275	219,072
Energy-saving and Environment Protection Project	103,657	46,501	103,657	46,501
Other projects	1,107,654	80,852	1,100,384	80,852
	<b>9,835,947</b>	<b>612,851</b>	<b>9,828,677</b>	<b>595,432</b>
Total	<b>20,880,360</b>	<b>2,414,538</b>	<b>20,870,995</b>	<b>2,395,840</b>

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 39. CAPITAL COMMITMENTS (continued)

(b) The commitments for capital contributions at the balance sheet date were as follows:

	Group		Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Contracted, but not provided for	<b>7,668</b>	–	<b>34,668</b>	–

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

	2005 RMB'000	2004 RMB'000
Authorised, but not contracted for	<b>31,202</b>	–
Contracted, but not provided for	<b>148,218</b>	–
Total	<b>179,420</b>	–

## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 40. RELATED PARTY TRANSACTIONS

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

	Notes	2005 RMB'000	2004 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore, limestone and dolomite	(i)	1,408,068	964,679
Fees paid for welfare, support services and other services	(ii), (iii)	206,210	240,718
Rental expenses	(iii)	36,250	36,250
Agency fee paid	(iii)	3,784	4,795
Purchases of property, plant and equipment and construction services	(iii)	266,777	279,689
Fees received for the supply of utilities, services and other consumable goods	(iii)	(27,497)	(32,708)
Sale of steel and other by-products	(iii)	(8,479)	(3,564)
Acquisition of a subsidiary	(iv)	–	21,478
Acquisition of businesses	(v)	149,774	–
Transactions with associates of the Company:			
Purchases of coke	(vi)	598,732	157,821
Transactions with minority shareholders:			
Purchase of net assets	(vii)	–	16,376
Transactions with the jointly-controlled entity of the Company:			
Rental income	(viii)	(1,250)	–
Construction fees income	(viii)	(7,440)	–

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 40. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The terms for the purchases of iron ore, limestone and dolomite 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 a 71% equity interest in Holly Packing on 15 November 2004 from Holding for a cash consideration of approximately RMB21,478,000. Further details of the transaction are included in note 36(b) to the financial statements.
  - (v) 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 RMB149,774,000. Further details of the transaction are included in note 36(a) to the financial statements.
  - (vi) These transactions were made between the Group and 濟源市金馬焦化和 滕州盛隆煤焦化 and were conducted in accordance with the terms mutually agreed between them.
  - (vii) The Group signed an agreement with 安徽鑫鋼商貿有限公司 in 2004 for the purchase of net assets at a consideration of approximately RMB16,376,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants. 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu).
  - (viii) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.
- (b) Other transactions with related parties:
- (i) Holding has guaranteed certain bank loans made to the Group up to RMB4,831,511,000 (2004: RMB4,173,352,000) as at the balance sheet date at nil consideration, as further detailed in note 31 to the financial statements.
  - (ii) Profit Access Investments Limited, a minority shareholder of Anhui Masteel K. Wah, granted loans of US\$206,000 to the Group in 2005 (2004: US\$986,000). Further details of the transaction are included in note 31 to the financial statements.
- (c) Further details on balances with Holding and its subsidiaries and a minority shareholder are set out in notes 25, 26, 29, 30, 31, and 33 to the financial statements.

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 40. RELATED PARTY TRANSACTIONS (continued)

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

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Short term employee benefits	<b>6,608</b>	6,314
Post-employment benefits	<b>53</b>	13
Total compensation paid to key management personnel	<b>6,661</b>	6,327

Further details of directors' and supervisors' emoluments are included in note 7 to the financial statements.

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

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

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, short term commercial papers, 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 Group also entered into a recovery forward contract to manage the currency risks arising from its operations and sources of finance.

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:

# Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 interest rate risk.

At 31 December 2005, approximately 41% (2004: 36%) of the Group's interest-bearing borrowings bore interest at fixed rates.

### Foreign currency risk

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

During the year, the Company entered into a recovery forward contract, which does not qualify for hedging accounting, to manage its risks associated with foreign currency fluctuations. Under the recovery forward contract, the Company has an option to exercise the contract to buy a total of JPY17,931 million by selling US\$166 million over the period from January 2006 to October 2006 when the exchange rate ranges from US\$/JPY 94 to US\$/JPY 124 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US\$/JPY 124. As at 31 December 2005, the fair value of the recovery forward contract was insignificant.

### 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 amount 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 and other available sources of financing. 20% of the Group's debts would mature in less than one year at 31 December 2005 (2004: 25%).



## Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

### 42. 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	2005 RMB'000	2004 RMB'000
<b>Net profit</b>			
Profit attributable to equity holders of the parent under Hong Kong accounting standards		<b>2,909,943</b>	3,592,320
Add back:			
Deferred tax (income)/expense	(i)	<b>(18,441)</b>	19,725
Employee bonus and welfare fund	(ii)	<b>4,616</b>	2,141
Deduct:			
Recognition of deferred income	(iii)	<b>(48,498)</b>	(38,379)
Profit attributable to equity holders of the parent under PRC accounting standards		<b>2,847,620</b>	3,575,807
<b>Shareholders' equity</b>			
Equity attributable to equity holders of the parent under Hong Kong accounting standards		<b>18,514,504</b>	17,024,727
Add back:			
Deferred income	(iii)	<b>585,369</b>	562,069
Deduct:			
Deferred tax assets	(i)	<b>(53,175)</b>	(34,734)
Recognition of deferred income	(iii)	<b>(90,483)</b>	(41,985)
Provision for furnace relining costs	(iv)	<b>(74,499)</b>	(74,499)
Equity attributable to equity holders of the parent under PRC accounting standards		<b>18,881,716</b>	17,435,578

## Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

### **42. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)**

#### **(i) Deferred tax**

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 assets recognised as at 31 December 2005 amounted to approximately RMB53.2 million (2004: approximately RMB34.7 million). The movement in the deferred tax assets resulted in a deferred tax income of approximately RMB18.4 million in the current year (2004: deferred tax expense of approximately RMB19.7 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 2004 and 31 December 2005.

#### **(ii) Employee bonus and welfare fund**

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB4,616,000 (2004: approximately RMB2,141,000).

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

# Notes to Financial Statements (continued)

(Prepared under Hong Kong accounting standards)

31 December 2005

## 42. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

### (iii) Deferred income (continued)

Under Statement of Standard Accounting Practice No. 35, "Accounting for government grants and disclosure of assistance" ("HKSSAP 35"), 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 RMB23.3 million received in the current and prior year, were completed. As at 31 December 2005, accumulated deferred income amounting to approximately RMB585 million (31 December 2004: approximately RMB562 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB48.5 million (2004: approximately RMB38.4 million) was released to the current year's income statement. As at 31 December 2005, the accumulated deferred income released amounted to approximately RMB90.5 million (31 December 2004: approximately RMB42.0 million). HKAS 20 replaced HKSSAP 35 and became effective on 1 January 2005. The adoption of HKAS 20 did not result in any impact on the above treatment.

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 2005, accumulated specific payables transferred to the capital reserve amounted to approximately RMB585 million (31 December 2004: approximately RMB562 million).

### (iv) Furnace relining costs

Under HKSSAP 28, "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. HKAS 37 replaced HKSSAP 28 and became effective on 1 January 2005. The adoption of HKAS 37 did not result in any impact on the above treatment.

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 (2004: Nil), and the remaining provision as at 31 December 2005 amounted to approximately RMB74.5 million (2004: approximately RMB74.5 million).

## Notes to Financial Statements (continued)

*(Prepared under Hong Kong accounting standards)*

31 December 2005

### 43. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company, upon request and authorised by Holding, announced the proposal 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 Proposal").

According to the State Share Reform Proposal, Holding proposes to offer 3.4 of its State-owned shares to each circulating A shareholder for every 10 Circulating A Shares they held upon the close of business on the State Share Reform Proposal's record date in accordance with an execution arrangement. On the first business date upon the implementation of the State Share Reform Proposal, the then Non-circulating Shares will be entitled to be listed and become circulating shares.

On 20 February 2006, the State Share Reform Proposal was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han [2006] No. 52). On 27 February 2006, the State Share Reform Proposal was approved by the relevant shareholders in the "Relevant Shareholders' Meeting to the State Share Reform". On 17 March 2006, the State Share Reform Proposal was approved by the Ministry of Commerce (Shang Zi Pi [2006] No. 886). Accordingly, all relevant approvals for the implementation of the State Share Reform Proposal have been obtained. The then non-circulating shares are entitled to be listed and become circulating shares since 31 March 2006.

### 44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs during the current year, the presentation of certain comparative amounts have been reclassified to conform with the current year's presentation.

### 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2006.

# Report of the Auditors

**ERNST & YOUNG HUA MING**

安永华明会计师事务所

Ernst & Young Hua Ming (2006) Shen Zi No. 233744-02

To the members

**Maanshan Iron & Steel Company Limited**

We have audited the attached consolidated balance sheet and company balance sheet of Maanshan Iron & Steel Company Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2005, consolidated statement of income and profit appropriation and company statement of income and profit appropriation, and consolidated cash flow statement and company cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the Company's management, our responsibility is to express an opinion on these financial statements based on our audit.

We planned and conducted our audit in accordance with Independent Auditing Standards for Chinese Certified Public Accountants to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements, it also includes an assessment of the accounting policies adopted, and the significant accounting estimates made by the management in the preparation of the financial statements, and an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above comply with the requirements of Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises" and present fairly, in all material aspects, the financial position of the Company and the Group as of 31 December 2005, and results of their operations and 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*

11 April 2006

# Consolidated Balance Sheet

(Prepared under PRC accounting standards)

31 December 2005

	Note V	31 December 2005 RMB	31 December 2004 RMB
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions	1	3,255,015,677	2,181,496,179
Short term investments	3	13,568,593	13,568,593
Bills receivable	4	1,931,609,265	2,233,825,798
Trade receivables	5	283,482,921	276,552,306
Other receivables	6	179,272,265	87,349,876
Prepayments	7	377,901,381	693,349,620
Inventories	8	5,199,473,669	4,754,183,701
Total current assets		11,240,323,771	10,240,326,073
<b>LONG TERM INVESTMENTS:</b>			
Long term equity investments	9	518,876,716	166,835,223
Long term debt investment	9	10,918,870	13,578,870
Total long term investments		529,795,586	180,414,093
<b>FIXED ASSETS:</b>			
Cost	10	27,919,518,755	25,423,116,672
Less: Accumulated depreciation	10	(9,411,080,281)	(7,436,723,575)
Net book value	10	18,508,438,474	17,986,393,097
Less: Impairment provision	10	(117,056,844)	(117,056,844)
Fixed assets, net	10	18,391,381,630	17,869,336,253
Construction materials	11	3,018,828,077	468,967,130
Construction in progress	12	4,727,901,749	1,843,130,392
Total fixed assets		26,138,111,456	20,181,433,775
<b>INTANGIBLE AND OTHER ASSETS:</b>			
Intangible assets	13	970,146,049	859,020,589
<b>TOTAL ASSETS</b>		<b>38,878,376,862</b>	<b>31,461,194,530</b>

The accompanying notes form an integral part of the financial statements

# Consolidated Balance Sheet (continued)

(Prepared under PRC accounting standards)

31 December 2005

	Note V	31 December 2005 RMB	31 December 2004 RMB
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
<b>CURRENT LIABILITIES:</b>			
Short term loans	14	112,372,660	1,580,921,650
Bills payable	15	655,567,000	80,000,000
Short term commercial papers	16	2,000,000,000	–
Accounts payable	17	3,207,561,493	3,192,160,560
Deposits received	18	3,430,012,919	3,482,897,857
Wages payable	19	102,958,705	45,276,065
Welfares payable	20	91,069,612	62,006,866
Taxes payable	21	493,789,755	711,333,016
Other taxes payable	22	20,307,877	48,824,630
Other payables	23	488,726,535	326,017,667
Accrued charges	24	99,117,648	70,321,211
Long term loans due within a year	25	78,988,309	80,841,669
Total current liabilities		<b>10,780,472,513</b>	9,680,601,191
<b>LONG TERM LIABILITIES:</b>			
Long term loans	26	8,570,815,511	4,134,143,501
Specific payables	27	3,200,000	19,800,000
Other long term liabilities	28	503,984,331	114,757,600
Total long term liabilities		<b>9,077,999,842</b>	4,268,701,101
Total liabilities		<b>19,858,472,355</b>	13,949,302,292
<b>MINORITY INTERESTS</b>	29	<b>138,188,599</b>	76,314,528
<b>SHAREHOLDERS' FUNDS:</b>			
Share capital	30	6,455,300,000	6,455,300,000
Capital reserve	31	5,450,345,095	5,427,045,095
Surplus reserves	32	2,380,147,996	1,794,626,973
including: statutory public welfare fund	32	1,178,385,368	892,852,471
Retained profits	33	4,595,922,817	3,758,605,642
including: cash dividend proposed by directors	43	1,032,848,000	1,420,166,000
Total shareholders' funds		<b>18,881,715,908</b>	17,435,577,710
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>38,878,376,862</b>	31,461,194,530

The accompanying notes form an integral part of the financial statements

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguo**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006

# Consolidated Statement of Income and Profit Appropriation

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	Note V	2005 RMB	2004 RMB
Principal operating income	34	<b>32,083,096,010</b>	26,770,054,518
Less: Cost of sales	34	<b>(27,294,506,637)</b>	(20,799,145,940)
Taxes and surcharges	35	<b>(219,107,015)</b>	(201,984,489)
Profit from principal operating activities		<b>4,569,482,358</b>	5,768,924,089
Add: Other operating profit	36	<b>116,214,796</b>	38,994,166
Less: Selling expenses		<b>(208,996,377)</b>	(166,518,840)
Administrative expenses	37	<b>(929,639,074)</b>	(1,212,907,394)
Financial expenses	38	<b>(209,482,151)</b>	(406,824,514)
Operating profit		<b>3,337,579,552</b>	4,021,667,507
Add: Investment income	39	<b>18,745,331</b>	147,188
Subsidies income	40	<b>1,992,600</b>	672,381
Non-operating income	41	<b>342,974</b>	27,164,217
Less: Non-operating expenses	42	<b>(36,393,600)</b>	(20,013,978)
Profit before tax		<b>3,322,266,857</b>	4,029,637,315
Less: Income tax		<b>(433,775,030)</b>	(441,258,757)
Minority interests	29	<b>(40,871,867)</b>	(12,571,745)
Net profit		<b>2,847,619,960</b>	3,575,806,813
Add: Retained profits at beginning of year		<b>3,758,605,642</b>	2,268,184,065
Profit available for distribution		<b>6,606,225,602</b>	5,843,990,878
Less: Transfers to statutory surplus reserve	33	<b>(286,812,511)</b>	(360,050,300)
Transfers to statutory public welfare fund	33	<b>(285,532,897)</b>	(360,013,180)
Transfers to reserve fund	33	<b>(7,632,717)</b>	(2,782,082)
Transfers to enterprise expansion fund	33	<b>(5,542,898)</b>	(4,785,952)
Transfers to employee bonus and welfare fund	33	<b>(4,615,762)</b>	(2,140,722)
Profit available for distribution to shareholders		<b>6,016,088,817</b>	5,114,218,642
Less: Ordinary share dividend payable		<b>(1,420,166,000)</b>	(1,355,613,000)
Retained profits at end of year		<b>4,595,922,817</b>	3,758,605,642

The accompanying notes form an integral part of the financial statements

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguang**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006



# Consolidated Cash Flow Statement

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	Note V	2005 RMB	2004 RMB
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		<b>39,284,980,552</b>	33,873,192,804
Refunds of taxes		<b>1,892,206</b>	12,801,589
Cash received relating to other operating activities		<b>2,335,575</b>	7,317,252
<b>Sub-total of cash inflows</b>		<b>39,289,208,333</b>	33,893,311,645
Cash paid for goods and services		<b>(27,295,972,571)</b>	(22,697,057,168)
Cash paid to and on behalf of employees		<b>(2,293,159,331)</b>	(2,015,699,841)
Cash paid for all taxes		<b>(3,067,212,822)</b>	(2,192,122,883)
Cash paid relating to other operating activities	44	<b>(461,922,093)</b>	(886,155,039)
<b>Sub-total of cash outflows</b>		<b>(33,118,266,817)</b>	(27,791,034,931)
<b>Net cash flows from operating activities</b>		<b>6,170,941,516</b>	6,102,276,714
<b>2. Cash flows from investing activities:</b>			
Cash received from disposal of investments		<b>2,860,000</b>	2,660,000
Cash received from returns on investments		<b>27,439,112</b>	25,340,561
Net cash received from disposal of fixed assets, intangible assets and other long term assets		<b>25,175,989</b>	32,521,281
Cash received from retrieval of pledged deposits and overdue deposits		<b>1,837,894</b>	44,493,283
Cash received relating to other investing activities	45	<b>6,700,000</b>	–
<b>Sub-total of cash inflows</b>		<b>64,012,995</b>	105,015,125
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		<b>(8,374,192,126)</b>	(4,380,466,097)
Cash paid for acquisitions of investments		<b>(338,831,800)</b>	(4,400,000)
Cash paid for acquisition of businesses or a subsidiary	46	<b>(149,773,584)</b>	(11,511,295)
Increase in pledged deposits		<b>(134,000,000)</b>	–
<b>Sub-total of cash outflows</b>		<b>(8,996,797,510)</b>	(4,396,377,392)
<b>Net cash flows from investing activities</b>		<b>(8,932,784,515)</b>	(4,291,362,267)

The accompanying notes form an integral part of the financial statements

## Consolidated Cash Flow Statement (continued)

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	2005 RMB	2004 RMB
<b>3. Cash flows from financing activities:</b>		
Cash received from investments by others	23,267,121	20,479,162
Cash received from borrowings	<u>17,113,842,160</u>	<u>1,779,467,779</u>
<b>Sub-total of cash inflows</b>	<b>17,137,109,281</b>	<b>1,799,946,941</b>
Cash repayments of borrowings	<b>(11,917,331,618)</b>	(2,165,880,184)
Cash paid for distribution of dividend or profits and for interest expenses	<u>(1,448,410,583)</u>	<u>(1,650,990,875)</u>
<b>Sub-total of cash outflows</b>	<b>(13,365,742,201)</b>	<b>(3,816,871,059)</b>
<b>Net cash flows from financing activities</b>	<u><b>3,771,367,080</b></u>	<u>(2,016,924,118)</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u><b>(73,130,570)</b></u>	<u>7,256,443</u>
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	<u><b>936,393,511</b></u>	<u><b>(198,753,228)</b></u>

# Consolidated Cash Flow Statement (continued)

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	2005 RMB	2004 RMB
<b>Supplementary information</b>		
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	2,847,619,960	3,575,806,813
Add: Minority interests	40,871,867	12,571,745
Provision/(reversal of provision) for bad debts	553,755	(18,194,096)
Provision for inventories	75,464,166	10,401,537
Reversal of impairment provision for fixed assets	-	(15,411,808)
Depreciation of fixed assets	2,064,538,556	1,789,442,561
Amortisation of intangible assets	22,207,400	21,047,433
Increase/(decrease) in accrued charges	5,512,221	(24,818,550)
Loss on disposal of fixed assets, intangible assets and other long term assets, net	19,114,220	11,078,414
Financial expenses	185,623,276	398,232,149
Investment income	(18,745,330)	(147,188)
Increase in inventories	(368,513,624)	(2,384,790,928)
Decrease in receivables from operating activities	610,044,174	256,007,172
Increase in payables from operating activities	686,650,875	2,471,051,460
<b>Net cash flows from operating activities</b>	<b>6,170,941,516</b>	<b>6,102,276,714</b>
<b>2. Investing and financing activities that do not involve cash receipts and payments:</b>		
	-	-
<b>3. Net increase/(decrease) in cash and cash equivalents:</b>		
Cash and balances with financial institutions at end of year	3,109,269,252	2,172,875,741
Less: Cash and balances with financial institutions at beginning of year	(2,172,875,741)	(2,371,628,969)
Add: Balance of cash equivalents at end of year	-	-
Less: Balance of cash equivalents at beginning of year	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>936,393,511</b>	<b>(198,753,228)</b>

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguang**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006

# Company Balance Sheet

(Prepared under PRC accounting standards)

31 December 2005

	Note V	31 December 2005 RMB	31 December 2004 RMB
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions		2,625,793,200	1,756,213,758
Short term investments		13,568,593	13,568,593
Bills receivable		1,986,453,537	2,187,496,998
Trade receivables	5	217,203,609	252,066,804
Other receivables	6	22,408,276	20,622,495
Prepayments		379,072,433	633,524,165
Inventories		4,915,277,790	4,624,527,816
Total current assets		10,159,777,438	9,488,020,629
<b>LONG TERM INVESTMENTS:</b>			
Long term equity investments	9	1,173,559,564	594,426,011
Long term debt investment	9	10,918,870	13,578,870
Total long term investments		1,184,478,434	608,004,881
<b>FIXED ASSETS:</b>			
Cost		27,654,753,443	25,255,552,089
Less: Accumulated depreciation		(9,377,882,621)	(7,418,650,692)
Net book value		18,276,870,822	17,836,901,397
Less: Impairment provision		(117,056,844)	(117,056,844)
Fixed assets, net		18,159,813,978	17,719,844,553
Construction materials		3,013,302,877	468,967,130
Construction in progress		4,671,938,945	1,783,450,071
Total fixed assets		25,845,055,800	19,972,261,754
<b>INTANGIBLE AND OTHER ASSETS:</b>			
Intangible assets		822,280,314	836,687,520
<b>TOTAL ASSETS</b>		<b>38,011,591,986</b>	<b>30,904,974,784</b>

The accompanying notes form an integral part of the financial statements

# Company Balance Sheet (continued)

(Prepared under PRC accounting standards)

31 December 2005

	Note V	31 December 2005 RMB	31 December 2004 RMB
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
<b>CURRENT LIABILITIES:</b>			
Short term loans		80,702,000	1,492,638,475
Bills payable		335,567,000	–
Short term commercial papers		2,000,000,000	–
Accounts payable		3,235,473,002	3,094,495,284
Deposits received		3,115,902,605	3,210,215,328
Wages payable		97,561,911	35,951,974
Welfares payable		83,999,949	59,383,567
Taxes payable		488,345,802	710,358,263
Other taxes payable		19,412,734	45,927,724
Other payables		511,898,607	437,428,922
Accrued charges		92,760,693	70,248,068
Long term loans due within a year		77,800,936	79,445,694
Total current liabilities		<b>10,139,425,239</b>	<b>9,236,093,299</b>
<b>LONG TERM LIABILITIES:</b>			
Long term loans		8,528,227,671	4,087,366,149
Specific payables		3,200,000	19,800,000
Other long term liabilities		503,984,331	114,757,600
Total long term liabilities		<b>9,035,412,002</b>	<b>4,221,923,749</b>
Total liabilities		<b>19,174,837,241</b>	<b>13,458,017,048</b>
<b>SHAREHOLDERS' FUNDS:</b>			
Share capital	30	6,455,300,000	6,455,300,000
Capital reserve	31	5,450,345,095	5,427,045,095
Surplus reserves	32	2,333,339,350	1,776,006,748
including: statutory public welfare fund	32	1,166,669,675	888,003,374
Retained profits		4,597,770,300	3,788,605,893
including: cash dividend proposed by directors	43	1,032,848,000	1,420,166,000
Total shareholders' funds		<b>18,836,754,745</b>	<b>17,446,957,736</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>38,011,591,986</b>	<b>30,904,974,784</b>

The accompanying notes form an integral part of the financial statements

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguang**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006

# Company Statement of Income and Profit Appropriation

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	Note V	2005 RMB	2004 RMB
Principal operating income	34	<b>31,998,588,914</b>	26,686,664,870
Less: Cost of sales	34	<b>(27,512,160,269)</b>	(20,840,285,495)
Taxes and surcharges		<b>(213,737,343)</b>	(196,513,306)
Profit from principal operating activities		<b>4,272,691,302</b>	5,649,866,069
Add: Other operating profit		<b>11,957,707</b>	22,174,113
Less: Selling expenses		<b>(202,641,639)</b>	(170,727,687)
Administrative expenses		<b>(861,967,126)</b>	(1,170,730,349)
Financial expenses		<b>(175,274,567)</b>	(410,060,611)
Operating profit		<b>3,044,765,677</b>	3,920,521,535
Add: Investment income	39	<b>187,482,534</b>	74,511,553
Subsidies income		–	–
Non-operating income		<b>162,362</b>	27,160,788
Less: Non-operating expenses		<b>(36,165,544)</b>	(19,916,965)
Profit before tax		<b>3,196,245,029</b>	4,002,276,911
Less: Income tax		<b>(409,582,020)</b>	(428,769,896)
Net profit		<b>2,786,663,009</b>	3,573,507,015
Add: Retained profits at beginning of year		<b>3,788,605,893</b>	2,285,413,280
Profit available for distribution		<b>6,575,268,902</b>	5,858,920,295
Less: Transfers to statutory surplus reserve		<b>(278,666,301)</b>	(357,350,701)
Transfers to statutory public welfare fund		<b>(278,666,301)</b>	(357,350,701)
Profit available for distribution to shareholders		<b>6,017,936,300</b>	5,144,218,893
Less: Ordinary share dividend payable		<b>(1,420,166,000)</b>	(1,355,613,000)
Retained profits at end of year		<b>4,597,770,300</b>	3,788,605,893

The accompanying notes form an integral part of the financial statements

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguang**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006

# Company Cash Flow Statement

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	2005 RMB	2004 RMB
<b>1. Cash flows from operating activities:</b>		
Cash received from sale of goods or rendering of services	37,739,760,196	33,165,191,425
Cash received relating to other operating activities	162,362	6,641,442
<b>Sub-total of cash inflows</b>	<b>37,739,922,558</b>	<b>33,171,832,867</b>
Cash paid for goods and services	(26,554,511,238)	(21,688,440,835)
Cash paid to and on behalf of employees	(2,263,759,724)	(2,005,943,925)
Cash paid for all taxes	(2,984,144,340)	(2,160,714,244)
Cash paid relating to other operating activities	(417,878,645)	(877,400,798)
<b>Sub-total of cash outflows</b>	<b>(32,220,293,947)</b>	<b>(26,732,499,802)</b>
<b>Net cash flows from operating activities</b>	<b>5,519,628,611</b>	<b>6,439,333,065</b>
<b>2. Cash flows from investing activities:</b>		
Cash received from disposal of investments	2,860,000	2,660,000
Cash received from returns on investments	23,706,774	24,313,677
Net cash received from disposal of fixed assets, intangible assets and other long term assets	24,657,443	32,333,303
Cash received from retrieval of pledged deposits and overdue deposits	1,514,316	43,287,158
Cash received relating to other investing activities	6,700,000	–
<b>Sub-total of cash inflows</b>	<b>59,438,533</b>	<b>102,594,138</b>
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(7,917,624,948)	(4,306,765,307)
Cash paid for acquisitions of investments	(402,731,800)	(4,400,000)
Cash paid for acquisition of businesses or a subsidiary	(149,773,584)	(21,478,316)
<b>Sub-total of cash outflows</b>	<b>(8,470,130,332)</b>	<b>(4,332,643,623)</b>
<b>Net cash flows from investing activities</b>	<b>(8,410,691,799)</b>	<b>(4,230,049,485)</b>

## Company Cash Flow Statement (continued)

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	2005 RMB	2004 RMB
<b>3. Cash flows from financing activities:</b>		
Cash received from borrowings	<u>17,082,171,500</u>	<u>1,683,950,905</u>
<b>Sub-total of cash inflows</b>	<u>17,082,171,500</u>	<u>1,683,950,905</u>
Cash repayments of borrowings	<u>(11,827,756,881)</u>	<u>(2,158,608,025)</u>
Cash paid for distribution of dividend or profits and for interest expenses	<u>(1,434,377,888)</u>	<u>(1,644,065,286)</u>
<b>Sub-total of cash outflows</b>	<u>(13,262,134,769)</u>	<u>(3,802,673,311)</u>
<b>Net cash flows from financing activities</b>	<u>3,820,036,731</u>	<u>(2,118,722,406)</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u>(63,026,186)</u>	<u>(9,248,260)</u>
<b>5. Net increase in cash and cash equivalents</b>	<u><u>865,947,357</u></u>	<u><u>81,312,914</u></u>



# Company Cash Flow Statement (continued)

(Prepared under PRC accounting standards)

Year ended 31 December 2005

	2005 RMB	2004 RMB
<b>Supplementary information</b>		
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	2,786,663,009	3,573,507,015
Add: Provision/(reversal of provision) for bad debts	553,755	(18,249,258)
Provision for inventories	75,464,166	10,401,537
Reversal of impairment provision for fixed assets	–	(15,411,808)
Depreciation of fixed assets	2,047,886,228	1,783,861,084
Amortisation of intangible assets	20,594,665	20,565,038
Decrease in accrued charges	(771,591)	(24,728,131)
Loss on disposal of fixed assets, intangible assets and other long term assets, net	19,087,457	11,078,414
Financial expenses	170,878,906	408,041,465
Investment income	(187,482,534)	(74,511,553)
Increase in inventories	(213,973,630)	(2,362,646,935)
Decrease in receivables from operating activities	585,350,156	508,040,399
Increase in payables from operating activities	215,378,024	2,619,385,798
Net cash flows from operating activities	<u>5,519,628,611</u>	<u>6,439,333,065</u>
<b>2. Investing and financing activities that do not involve cash receipts and payments:</b>		
	–	–
<b>3. Net increase in cash and cash equivalents:</b>		
Cash and balances with financial institutions at end of year	2,622,161,115	1,756,213,758
Less: Cash and balances with financial institutions at beginning of year	(1,756,213,758)	(1,674,900,844)
Add: Balance of cash equivalents at end of year	–	–
Less: Balance of cash equivalents at beginning of year	–	–
<b>Net increase in cash and cash equivalents</b>	<u>865,947,357</u>	<u>81,312,914</u>

Company Representative:

**Gu Jianguo**

11 April 2006

Chief Accountant:

**Su Jianguang**

11 April 2006

Head of Accounting Department:

**Guan Yagang**

11 April 2006

# Notes to Financial Statements

*(Prepared under PRC accounting standards)*

31 December 2005

## 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.

## 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”.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 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.

### 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 9. Bad debts provision (continued)

The Group adopted the provision method under which specific and general provisions were made to account for bad debt losses on trade and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of trade and other receivables based on the ageing analysis. Full provision is made for those trade and other receivables that have been specifically identified as irrecoverable, while general provision is made for the remaining balance after taking into account the ageing analysis. The general provision was determined in accordance with the financial and cash flow status of the debtor, using the percentages below:

Ageing	Bad debts general provision percentage (Net of post balance sheet date settlement)	
	Trade receivables	Other receivables
1 to 6 months	–	–
7 to 12 months	10%	–
13 to 24 months	25%	40%
25 to 36 months	50%	60%
over 36 months	100%	100%

### 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 labour and an appropriate proportion of production overheads. Cost of spare parts are charged to the income statement when issued for production as production cost for the period and hence included in the cost of finished goods sold. Inventories, other than spare parts, are determined on weighted average basis. Inventories are accounted for using perpetual inventory system.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 10. Inventories (continued)

Contract costs incurred comprise direct materials, direct labour, utilisation 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 loss) 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 11. Long term investments (continued)

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

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

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

### 12. Fixed assets

Fixed assets represent tangible assets held for the purposes of production of products, provision of services, leasing or operational use. They are of relatively high value and have useful lives exceeding 1 year.

Fixed assets are recorded at cost of acquisition. The cost of fixed assets which is purchased separately comprise its purchase price, value added tax, import duties and other related taxes, and any directly attributable expenditures for bringing the asset to its working condition for its intended use, such as transportation and installation costs. Interest and exchange differences arising from specific borrowings that are incurred in bringing the fixed asset to its working condition are capitalised. If the future economic benefits brought about by the incurrence of subsequent overhaul and technical improvement costs are greater than those originally estimated, then such costs will be capitalised as fixed assets. In the prior years, furnace relining costs were 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 12. Fixed assets (continued)

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

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



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 14. Construction in progress (continued)

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.

### 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 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.

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.

### 17. Short term commercial papers

The short term commercial papers 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.

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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

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

### 19. Revenue recognition (continued)

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.

### 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. All significant inter-company transactions and balances within the Group are eliminated in consolidation.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 1 May 2005, the refunds rate was 13%, but was adjusted to 11% – 13% 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## III. TAX (continued)

### 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. After obtaining authorization from their respective tax bureau, they can enjoy the tax holidays starting from year 2004. 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.

## 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 Note i :

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	
						RMB	%
<b>Subsidiaries</b>							
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	RMB20,490,000	RMB20,490,000	7,500,000	58.96	7.86
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	Design of automation systems; purchase, installation and repair of automation, computer and communication systems	RMB8,000,000	RMB8,000,000	7,500,000	93.75	4.18

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### 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 RMB	Percentage of equity held by the Company	
						directly	indirectly
						%	%
<b>Subsidiaries (continued)</b>							
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 consultancy 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 and provision of storage and after-sales services	RMB12,000,000	RMB12,000,000	–	–	80
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services	RMB120,000,000	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

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 RMB	Percentage of equity held by the Company	
						directly	indirectly
						%	%
<b>Subsidiaries (continued)</b>							
Anhui Masteel Holly Packing Co. ("Holly Packing")	Anhui, PRC	Provision of packing materials for steel and other products; production and sale of metallic products, plastic, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on-site packing services	RMB30,000,000	RMB30,000,000	21,478,316	71	-
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment") (Note i)	Anhui, PRC	Provision of equipment inspection and technical 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)") (Note i)	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	RMB82,129,760	63,000,000	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	Australia	Production and sale of iron ores through an unincorporated joint venture	AUD21,737,900	AUD21,737,900	126,312,415	100	-

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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	
						RMB	directly
						%	%
<b>Associates</b>							
濟源市金馬焦化有限公司 (「濟源市金馬焦化」)	Henan, PRC	Production and sale of coke, tar, benzene and coal gas	RMB200,000,000	RMB200,000,000	80,000,000	40	–
滕州盛隆煤焦化有限公司 (「滕州盛隆煤焦化」)	Shandong, PRC	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services	RMB208,800,000	RMB208,800,000	66,776,000	32	–
馬鞍山市五環報廢汽車·回收拆解有限責任公司 (「五環汽車」) (Note ii)	Anhui, PRC	Recycling and dismantling of scrap motor vehicles and trading of steel products	RMB500,000	RMB500,000	–	–	–
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 and steel e-commerce and related services; provision of iron and 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」) (Note i)	Anhui, PRC	Provision of loading/unloading and cargos forwarding agency services; storage, transmitting of cargos and division/merge of cargos in containers; provision of general services to ships, repair and manufacture of spare parts of ships	RMB250,000,000	RMB205,623,292	104,831,800	45	–



## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### 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	
						RMB	directly
						%	%
<b>Jointly-controlled enterprise ("JCE")</b>							
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") (Note i, iii)	Anhui, PRC	Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sales services, technical services and other related services	RMB468,000,000	RMB468,000,000	234,000,000	50	-
Total					885,054,800		

Note i: Newly incorporated during the year

Note ii: The investment in 五環汽車 (RMB 200,000, 40% equity interest) held by the Company was sold during the year. As at 31 December 2005, the Company did not have any equity interest in 五環汽車.

Note iii: Ma'anshan BOC is jointly controlled by BOC (China) Investment Company Limited and the Company, and hence proportionate consolidation should be applied. Since Ma'anshan BOC is still at pre-operating stage and has not commenced commercial production, 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 Ma'anshan BOC. This treatment complies with the new Accounting Standards for Business Enterprises which will become effective on 1 January 2007.

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

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS

### 1. Cash and balances with financial institutions

	31 December 2005			31 December 2004		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand	RMB179,223	1.0000	179,223	RMB105,616	1.0000	105,616
Balances with financial institutions (Note 2)	RMB2,387,389,191 HK\$3,696,567 US\$27,105,931 EUR50,884,207 JPY21,825,153 AUD1,257,644	1.0000 1.0403 8.0702 9.5797 0.0687 5.9219	2,387,389,191 3,859,056 218,803,290 487,455,441 1,499,733 7,447,641	RMB1,919,394,341 HK\$1,364,893 US\$16,749,730 EUR1,430,777 JPY337,797 -	1.0000 1.0637 8.2765 11.2627 0.079701 -	1,919,394,341 1,451,839 138,642,156 16,114,419 26,922 -
Other balances with financial institutions	RMB135,897,049 (Note) US\$1,221,978 (Note) EUR269,246 JPY112	1.0000 8.0702 9.5797 0.0687	135,897,049 9,905,749 2,579,297 7	RMB15,111,783 US\$10,003,781 EUR31,226 JPY93,850,305	1.0000 8.2765 11.2627 0.079701	15,111,783 82,817,450 351,690 7,479,963
Total			<u>3,255,015,677</u>			<u>2,181,496,179</u>

Note: Included in the balances were US\$1,000,000 (equivalent to RMB8,114,340) and RMB134,000,000 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.

The increase in the Group's cash and balances with financial institutions by 49% was mainly attributable to the increase of bank loans and the issue of RMB2 billion short term commercial papers at year end.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four non-bank financial institutions, aggregating approximately HK\$123 million (31 December 2004: approximately HK\$128 million).

	Notes	<b>31 December 2005 HK\$'000</b>	31 December 2004 HK\$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	<b>23,317</b>	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	<b>3,491</b>	8,608
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	<b>48,000</b>	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	<b>48,125</b>	48,125
		<b>122,933</b>	128,050

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

- (i) GITIC was declared bankrupt by 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.
- (ii) 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). Up to 31 December 2005, the Company has received an accumulated repayment of approximately RMB2,271,000. On 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated and the Company was entitled to a final repayment of RMB3,632,000. The amount proved to be irrecoverable was written off in current year. On 14 February 2006, the Company received the rest repayment of RMB3,632,000.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 2. Balances with financial institutions (continued)

- (iii) Ningbo CITIC is now in liquidation and the Company has registered its debts with the liquidator. SEG is currently in the process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed. Up to the approval date of the financial statements, no repayments have been received from Ningbo CITIC and SEG.

Except for the balance with China Venturetech, the directors are unable to estimate, as at the date on which these financial statements were approved, the principal amount of the outstanding deposits the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the three remaining overdue fixed deposits.

### 3. Short term investments

Item	31 December 2005		31 December 2004	
	Investment cost RMB	Provision for decline in value RMB	Investment cost RMB	Provision for decline in value RMB
Equity investment	Note	<u>13,568,593</u>	<u>13,568,593</u>	<u>–</u>

Note:

Name of investee company	Class of share	Number of shares held	Investment cost RMB	Closing market unit price RMB	Market price at year end RMB
China Petroleum & Chemical Corporation	Circulating share	1,800,000	7,596,000	4.66	8,388,000
Baoshan Iron & Steel Company Limited	Circulating share	1,743,197	<u>5,972,593</u>	4.12	<u>7,181,972</u>
Total			<u>13,568,593</u>		<u>15,569,972</u>

The year end market prices of the shares were the closing market prices as at 31 December 2005 as disclosed in Shanghai Stock Exchange.

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

The movement of provision for decline in value of short term investments for the year 2005 is disclosed in the supplementary information of the financial statements.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 4. Bills receivable

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Bank bills	<b><u>1,931,609,265</u></b>	<u>2,233,825,798</u>
Including: Discounted bills with recourse yet to mature (Note 14)	<u>–</u>	<u>311,000,000</u>

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

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

### 5. Trade receivables

Trade receivables ageing analysis:

	Group				31 December 2004			
	31 December 2005		Provision for		Balance RMB	Ratio %	bad debts RMB	Ratio %
	Balance RMB	Ratio %	bad debts RMB	Ratio %				
Within one year	270,498,124	81	–	–	265,606,835	83	–	–
One to two years	17,486,861	5	(4,908,558)	28	10,963,979	3	(2,208,085)	20
Two to three years	8,259,890	3	(7,853,396)	95	4,379,155	1	(2,189,578)	50
Over three years	36,536,094	11	(36,536,094)	100	40,532,016	13	(40,532,016)	100
Total	<u>332,780,969</u>	<u>100</u>	<u>(49,298,048)</u>		<u>321,481,985</u>	<u>100</u>	<u>(44,929,679)</u>	

	Company				31 December 2004			
	31 December 2005		Provision for		Balance RMB	Ratio %	bad debts RMB	Ratio %
	Balance RMB	Ratio %	bad debts RMB	Ratio %				
Within one year	204,374,088	77	–	–	241,522,676	81	–	–
One to two years	15,723,061	6	(3,300,034)	21	10,507,474	4	(2,152,923)	20
Two to three years	8,259,890	3	(7,853,396)	95	4,379,155	1	(2,189,578)	50
Over three years	36,536,094	14	(36,536,094)	100	40,532,016	14	(40,532,016)	100
Total	<u>264,893,133</u>	<u>100</u>	<u>(47,689,524)</u>		<u>296,941,321</u>	<u>100</u>	<u>(44,874,517)</u>	

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 5. Trade receivables (continued)

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

Reason	Group and Company	
	2005 RMB	2004 RMB
Bankrupt or liquidated debtors	–	10,789,947
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	<b>357,613</b>	<b>1,545,200</b>
Total	<b>357,613</b>	<b>12,335,147</b>

The five largest trade receivables of the Group and the Company amounted to RMB45,834,351 and RMB41,369,270 respectively, which accounted for 14% and 16% of the gross trade receivables of the Group and the Company respectively.

Except for those as stated in Note VI point 6, the balance of trade receivables does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

The movement of bad debts provision for trade receivables for the year of 2005 is disclosed in the supplementary information of the financial statements.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 6. Other receivables

Other receivables ageing analysis:

	31 December 2005				31 December 2004			
	Balance	Ratio	Provision for		Balance	Ratio	Provision for	
			bad debts	Ratio			bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	174,855,093	85	-	-	85,932,312	72	(256,051)	-
One to two years	2,925,579	2	(509,854)	17	566,424	-	(221,450)	39
Two to three years	2,361,612	1	(2,250,672)	95	4,772,672	4	(3,694,962)	77
Over three years	25,302,728	12	(23,412,221)	93	28,676,597	24	(28,425,666)	99
Total	<u>205,445,012</u>	<u>100</u>	<u>(26,172,747)</u>		<u>119,948,005</u>	<u>100</u>	<u>(32,598,129)</u>	

	31 December 2005				31 December 2004			
	Balance	Ratio	Provision for		Balance	Ratio	Provision for	
			bad debts	Ratio			bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	18,061,977	37	-	-	19,468,662	37	(256,051)	1
One to two years	2,905,638	6	(509,854)	18	553,624	1	(221,450)	40
Two to three years	2,361,612	5	(2,250,672)	95	4,772,672	9	(3,694,962)	77
Over three years	25,251,796	52	(23,412,221)	93	28,425,666	53	(28,425,666)	100
Total	<u>48,581,023</u>	<u>100</u>	<u>(26,172,747)</u>		<u>53,220,624</u>	<u>100</u>	<u>(32,598,129)</u>	

The increase in the Group's net other receivables by 105% was mainly attributable to the increase in advance paid to custom for import duty and tax.

The five largest other receivables of the Group and the Company amounted to RMB7,760,348, which accounted for 4% and 16% of the gross other receivables of the Group and the Company respectively.

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

The movement of bad debts provision for other receivables for the year of 2005 is disclosed in the supplementary information of the financial statements.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 7. Prepayments

Prepayments ageing analysis:

	31 December 2005			31 December 2004		
	Balance RMB	Ratio %	Reason of outstanding	Balance RMB	Ratio %	Reason of outstanding
Within one year	297,726,499	79	N/A	632,873,830	91	N/A
One to two year	20,432,951	5	Note	60,475,790	9	Note
Two to three year	59,741,931	16	Note	–	–	N/A
Total	<u>377,901,381</u>	<u>100</u>		<u>693,349,620</u>	<u>100</u>	

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

The Group's prepayment decreased by 45% was mainly attributable to the decrease in prepayment for materials and spare parts.

Except for those as stated in Note VI point 6, the balance of prepayments does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

### 8. Inventories

	31 December 2005		31 December 2004	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	2,973,683,772	–	3,148,886,346	(5,000,000)
Work in progress	641,585,619	(3,000,000)	551,152,217	(3,000,000)
Construction contract	31,002,486	–	–	–
Finished goods	407,365,707	(46,838,109)	390,422,739	(9,656,900)
Spare parts	1,266,795,977	(71,121,783)	751,517,186	(70,137,887)
Total	<u>5,320,433,561</u>	<u>(120,959,892)</u>	<u>4,841,978,488</u>	<u>(87,794,787)</u>

Included in the Group's inventories were finished goods amounting to RMB23,930,323 which have been pledged to bank as securities for issue of bank bills to the Company's subsidiaries.

The movement of provision for impairment of inventories for the year 2005 is disclosed in the supplementary information of the financial statements.



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 9. Long term investments

Item	Group			
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2005 RMB
Long term equity investments				
Interests in a JCE (ii)	–	234,000,000	–	234,000,000
Interests in associates (iii)	150,018,188	118,295,893	(254,400)	268,059,681
Other equity investments (iv)	16,817,035	–	–	16,817,035
	166,835,223	352,295,893	(254,400)	518,876,716
Long term debt investment				
Other debt investment (v)	13,578,870	–	(2,660,000)	10,918,870
Total	180,414,093	352,295,893	(2,914,400)	529,795,586

Item	Company			
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2005 RMB
Long term equity investments				
Interests in subsidiaries (i)	427,590,788	232,637,203	(5,545,143)	654,682,848
Interests in a JCE (ii)	–	234,000,000	–	234,000,000
Interests in associates (iii)	150,018,188	118,295,893	(254,400)	268,059,681
Other equity investments (iv)	16,817,035	–	–	16,817,035
	594,426,011	584,933,096	(5,799,543)	1,173,559,564
Long term debt investment				
Other debt investment (v)	13,578,870	–	(2,660,000)	10,918,870
Total	608,004,881	584,933,096	(8,459,543)	1,184,478,434

The total of long term investments and short term investments amounted to RMB543,364,179, which represented 3% of the Group's net assets.

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

The increase in the Group's and Company's long term investments by 194% and 95% were mainly attributable to the increase in investments in subsidiaries, associates and a jointly-controlled entity.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 9. Long term investments (continued)

#### (i) Interests in subsidiaries

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Investment cost		Company						
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Adjustment for gain or loss			Closing balance	
								Opening balance	Current year's share of profit	Dividend received/ receivable		Accumulated increase/ (decrease)
%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Ma Steel International Trade Corp.	N/A	100	50,000,000	50,000,000	-	-	50,000,000	22,188,603	58,955,175	-	81,143,778	131,143,778
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	13,962,200	20,407,469	-	34,369,669	41,869,669
MG Control Technique	N/A	93.75	6,649,632	7,500,000	-	-	7,500,000	1,913,550	622,103	-	2,535,653	10,035,653
Anhui Masteel K. Wah	30 years	70	24,854,930	24,854,930	-	-	24,854,930	(1,165,378)	4,716,759	-	3,551,381	28,406,311
Ma Steel (Wuhu)	30 years	70	8,225,885	8,225,885	-	-	8,225,885	26,620,179	9,235,107	-	35,855,286	44,081,171
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	80,000,000	-	-	80,000,000	7,852,700	10,142,123	-	17,994,823	97,994,823
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	18,846,563	6,283,452	-	25,130,015	29,231,703
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	(576,360)	300,399	-	(275,961)	1,297,805
Holly Packing	20 years	71	21,478,316	21,478,316	-	-	21,478,316	6,401,731	52,904,400	(5,545,143)	53,760,988	75,239,304
Huayang Equipment	20 years	90	900,000	-	900,000	-	900,000	-	556,188	-	556,188	1,456,188
Ma Steel (Jinhua)	50 years	75	63,000,000	-	63,000,000	-	63,000,000	-	6,203	-	6,203	63,006,203
Maanshan Iron and Steel (Australia) Proprietary Limited	N/A	100	126,312,415	126,312,415	-	-	126,312,415	-	4,607,825	-	4,607,825	130,920,240
<b>Total</b>				<b>331,547,000</b>	<b>63,900,000</b>	<b>-</b>	<b>395,447,000</b>	<b>96,043,788</b>	<b>168,737,203</b>	<b>(5,545,143)</b>	<b>259,235,848</b>	<b>654,682,848</b>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 9. Long term investments (continued)

#### (ii) Interests in a JCE

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Group and Company								
				Investment cost				Adjustment for gain or loss				
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Current			Closing balance	
								Opening balance	share of profit	Dividend received/ receivable		Accumulated increase/ (decrease)
%	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

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Group and Company								
				Investment cost				Adjustment for gain or loss				
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Current			Closing balance	
								Opening balance	profit/(loss)	Dividend received/ receivable		Accumulated increase/ (decrease)
%	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	1,255,844	9,825,750	-	11,081,594	91,081,594
滕州盛隆煤焦化	50 Years	32	66,776,000	66,776,000	-	-	66,776,000	(1,580,406)	742,771	-	(837,635)	65,938,365
五環汽車	N/A	40	200,000	200,000	-	(200,000)	-	54,400	-	(54,400)	-	-
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	-	-	4,000,000	(687,650)	4,061	-	(683,589)	3,316,411
馬鞍山港口公司	20 Years	45	104,831,800	-	104,831,800	-	104,831,800	-	2,891,511	-	2,891,511	107,723,311
Total			150,976,000	104,831,800	(200,000)	255,607,800	(957,812)	13,464,093	(54,400)	12,451,881	268,059,681	

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 9. Long term investments (continued)

#### (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
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.01	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.04	4,559,109
河南龍宇能源股份有限公司	Legal person shares	6,500,138	0.66	10,000,000
Others				1,450,000
Total				<u>16,817,035</u>

#### (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	<u>10,918,870</u>	Nil	2006-2009	<u>-</u>	<u>-</u>	<u>10,918,870</u>

The movement of provision for long term investments for the year 2005 is disclosed in the supplementary information of the financial statements.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 10. Fixed assets

	Buildings and structures RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
<b>Cost</b>				
At 1 January 2005	8,422,377,602	16,382,166,304	618,572,766	25,423,116,672
Additions	2,549,952	17,489,308	12,455,747	32,495,007
Acquisition of businesses (Note 46)	35,718,135	30,092,542	6,043,700	71,854,377
Transferred from construction in progress (Note 12)	565,730,762	1,900,296,192	77,956,107	2,543,983,061
Reclassifications	(269,172,800)	548,300,813	(279,128,013)	-
Disposal	(59,970,578)	(71,849,772)	(20,110,012)	(151,930,362)
At 31 December 2005	8,697,233,073	18,806,495,387	415,790,295	27,919,518,755
<b>Accumulated depreciation</b>				
At 1 January 2005	2,441,192,103	4,647,806,603	347,724,869	7,436,723,575
Provided during the year	458,779,765	1,553,188,963	52,569,828	2,064,538,556
Acquisition of businesses (Note 46)	7,548,487	8,386,776	1,523,040	17,458,303
Reclassifications	(129,991,797)	278,400,232	(148,408,435)	-
Disposal	(29,519,211)	(59,371,304)	(18,749,638)	(107,640,153)
At 31 December 2005	2,748,009,347	6,428,411,270	234,659,664	9,411,080,281
<b>Net book value</b>				
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	<u>5,938,831,826</u>	<u>12,271,419,173</u>	<u>181,130,631</u>	<u>18,391,381,630</u>
At 31 December 2004				
Net book value	5,981,185,499	11,734,359,701	270,847,897	17,986,393,097
Less: Impairment provision	(10,391,900)	(106,664,944)	-	(117,056,844)
Net book value, net of impairment provision	<u>5,970,793,599</u>	<u>11,627,694,757</u>	<u>270,847,897</u>	<u>17,869,336,253</u>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 RMB1.4 billion.

At the balance sheet date, certain of the Group's equipments with a net book value of approximately RMB30.8 million were pledged to secure a loan granted to by Profit Access Investments Limited. Further details of the transaction are included in note 26 to the financial statements.

At the balance sheet date, certificate of ownership in respect of the Group's building with a net book value of RMB24,000,000 had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

The movement of provision for impairment of fixed assets for the year 2005 is disclosed in the supplementary information of the financial statements.

### 11. Construction materials

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Prepayments for equipment used in construction projects	<b><u>3,018,828,077</u></b>	<u>468,967,130</u>

The increase in the Group's construction materials by 544% was mainly attributable to the increase in the amount of equipment prepayment for construction projects of "Eleventh Five Year Plan".

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2005:

Name of project	Budgeted cost	At	Acquisition	Addition	Transferred to	At	Source of fund	Percentage of completion
		1 January 2005	of businesses (Note 46)	during the year	fixed assets (Note 10)	31 December 2005		
	RMB'000	RMB	RMB	RMB	RMB	RMB		%
1. Blast Furnaces Project	6,406,971	102,453,526	-	779,598,395	(120,248,678)	761,803,243	Internally generated funds and loans from financial institution	2-100
<i>Including borrowing costs capitalised:</i>		-	-	11,765,964	-	11,765,964		
2. Converters Project	4,098,131	67,454,176	-	700,737,749	(293,055,262)	475,136,663	Internally generated funds and loans from financial institution	1-100
<i>Including borrowing costs capitalised:</i>		-	-	3,026,339	-	3,026,339		
3. Wheel Line Project	797,530	19,395,891	-	194,536,969	(55,459,185)	158,473,675	Internally generated funds and loans from financial institution	19-100
<i>Including borrowing costs capitalised:</i>		-	-	(2,944,000)	2,944,000	-		
4. Construction Steel Lines Project	16,977,710	656,910,680	49,735,199	1,600,867,689	(928,068,123)	1,379,445,445	Internally generated funds and loans from financial institution	1-100
<i>Including borrowing costs capitalised:</i>		2,956,790	-	55,562,025	(15,400,686)	43,118,129		
5. Coking Stoves Project	2,867,000	141,584,963	-	279,985,527	(141,660,000)	279,910,490	Internally generated funds and loans from financial institution	1-100
<i>Including borrowing costs capitalised:</i>		-	-	8,784,000	-	8,784,000		
6. Public Auxiliary Utilities Project	3,059,275	719,319,321	-	745,426,934	(227,706,488)	1,237,039,767	Internally generated funds and loans from financial institution	2-100
<i>Including borrowing costs capitalised:</i>		559,980	-	1,950,485	(1,263,275)	1,247,190		

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 12. Construction in progress (continued)

Name of project	Budgeted cost	At 1 January 2005	Acquisition of businesses (Note 46)	Addition during the year	Transferred to fixed assets (Note 10)	At 31 December 2005	Source of fund	Percentage of completion
	RMB'000	RMB	RMB	RMB	RMB	RMB		%
7. Energy-saving and Environment Protection Project	495,970	65,533,097	-	145,959,494	(178,456,295)	33,036,296	Internally generated funds	37-100
8. Other Projects	N/A	144,478,738	-	931,906,462	(599,329,030)	477,056,170	Internally generated funds	N/A
<i>Including borrowing costs capitalised:</i>		-	-	15,108,480	-	15,108,480	and loans from financial institution	
		1,917,130,392	49,735,199	5,379,019,219	(2,543,983,061)	4,801,901,749		
Less: Impairment provision		(74,000,000)	-	-	-	(74,000,000)		
		<u>1,843,130,392</u>	<u>49,735,199</u>	<u>5,379,019,219</u>	<u>(2,543,983,061)</u>	<u>4,727,901,749</u>		

The increase in the Group's construction in progress by 157% was mainly attributable to the construction for the "Eleventh Five Year Plan" in 2005.

The capitalisation rates of interest are 5.18% – 5.76% per annum.

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

The movement of provision for impairment of construction in progress for the year 2005 is disclosed in the supplementary information of the financial statements.



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 13. Intangible assets

	Method of acquisition	Original amount RMB	Accumulated amortisation RMB	At 1 January 2005 RMB	Additions during the year RMB	Amortisation during the year RMB	At 31 December 2005 RMB	Remaining years of amortisation
Mine Participation right (Note 1)	Purchase	-	-	-	110,150,400	(1,115,704)	109,034,696	25 years
Land use rights (Note 2)	Purchase	1,069,247,380	(210,226,791)	859,020,589	23,182,460	(21,091,696)	861,111,353	37 to 50 years
		<u>1,069,247,380</u>	<u>(210,226,791)</u>	<u>859,020,589</u>	<u>133,332,860</u>	<u>(22,207,400)</u>	<u>970,146,049</u>	

Note 1: The Group has 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 sub-lease for 25 years.

Note 2: At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB35.1 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

At the balance sheet date, the net book value of land use right leased out is approximately RMB1.24 million (2004: Nil).

### 14. Short term loans

Type	Annual interest rate %	Maturity date	31 December 2005 RMB	31 December 2004 RMB
Unsecured loans	LIBOR to 5.22	1/2006 -3/2006	<b>112,372,660</b>	1,181,638,475
Guaranteed loans	-	-	-	20,000,000
Secured loans (Note 4)	-	-	-	311,000,000
Trust Receipt loans	-	-	-	68,283,175
			<u><b>112,372,660</b></u>	<u>1,580,921,650</u>

Note: LIBOR represents London Interbank Offered Rate.

The decrease in the Group's short term loans by 93% was mainly attributable to the change of the Group's sources of financing from bank loans to the issue of RMB2 billion short term commercial papers.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 15. Bills payable

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Bank bills	<b>655,567,000</b>	<u>80,000,000</u>

The increase in the Group's bills payable by 719% was mainly attributable to the increase in using bank bills for payment of material purchase in year of 2005.

Balances with financial institutions amounting to US\$1 million and RMB134 million and inventories amounting to RMB23,930,323 have been pledged to banks as securities for issue of bank bills by the Company's subsidiaries. The balances with financial institutions and inventories 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.

### 16. Short term commercial papers

Name	Interest payable during the year RMB	Accumulated interest payable RMB	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Short term commercial papers	-	-	<b>2,000,000,000</b>	<u>-</u>

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 are redeemable on 28 December 2006.

### 17. Accounts payable

Certain of the Group's accounts payable are aged over three years as a result of delay in settlement of construction fee.

Except for those as stated in Note VI point 6, the balance of accounts payable does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 18 Deposits received

The ageing of deposits received is within one year.

Except for those as stated in Note VI point 6, the balance of deposits received does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

### 19. Wages payable

The increase in the Group's wages payable by 127% was mainly due to the increase of bonus payable for the year of 2005.

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

### 20. Welfares payable

The increase in the Group's welfares payable by 47% was mainly attributable to the increase in wages in year of 2005.

### 21. Tax payable

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Corporate income tax	<b>118,021,576</b>	188,156,698
VAT	<b>330,870,312</b>	453,045,322
Business tax	<b>1,673,353</b>	2,844,399
City construction and maintenance tax	<b>7,377,600</b>	38,688,982
Other taxes	<b>35,846,914</b>	28,597,615
Total	<b>493,789,755</b>	711,333,016

The decrease in the Group's tax payable by 31% was mainly due to the decrease in VAT payable for the year of 2005.

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

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 22. Other taxes payable

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Education surcharge	<b>5,079,358</b>	16,580,992
Flood prevention fund	<b>13,484,963</b>	29,608,637
Other taxes	<b>1,743,556</b>	2,635,001
Total	<b><u>20,307,877</u></b>	<u>48,824,630</u>

The decrease in the Group's other taxes payable by 58% was mainly attributable to the decrease in education surcharge and flood prevention fund payable.

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

#### 23. Other payables

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Staff housing subsidies	<b>103,973,323</b>	112,917,521
Sales rebate	<b>116,044,016</b>	–
Construction fee	<b>77,954,188</b>	50,345,347
Maintenance and inspection fee	<b>61,900,561</b>	58,847,651
Labour costs	<b>50,111,147</b>	57,285,421
Others	<b>78,743,300</b>	46,621,727
Total	<b><u>488,726,535</u></b>	<u>326,017,667</u>

The increase in the Group's other payables by 50% was mainly because of the accrual of sales rebate for the year of 2005.

Certain of the Group's other payables are aged over three years because 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.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 24. Accrued charges

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Loan interests	<b>58,712,708</b>	33,928,492
Retirement benefits payable to early retired employees	<b>10,773,268</b>	11,945,072
Maintenance fee	<b>4,862,311</b>	6,375,237
Others	<b>24,769,361</b>	18,072,410
Total	<b>99,117,648</b>	70,321,211

The increase in the Group's accrued charges by 41% was mainly attributable to the increase in accrued loan interests.

### 25. Long term loans due within a year

Lender	31 December 2005			31 December 2004			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
The Industrial and Commercial Bank of China	RMB	260,000	260,000	RMB	260,000	260,000	12/2006	2.88	Unsecured
China Construction Bank	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2006	2.4	Unsecured
	USD	7,972,657	64,340,936	USD	7,972,657	65,985,694	4/2006 – 10/2006	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China	EUR	123,947	1,187,373	EUR	123,947	1,395,975	3/2006 – 9/2006	0.25	Guaranteed by Sinosteel Trading Company
Total			<b>78,988,309</b>			<b>80,841,669</b>			

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 26. Long term loans

Lender	31 December 2005			31 December 2004			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
The Industrial and Commercial Bank of China	RMB	2,057,000,000	2,057,000,000	RMB	707,000,000	707,000,000	11/2007 – 4/2008	5.49, 5.184	Guaranteed by Holding
	-	-	-	EUR	73,000,000	822,177,100	N/A	N/A	N/A
China Construction Bank	RMB	1,117,000,000	1,117,000,000	RMB	808,000,000	808,000,000	1/2010 – 12/2010	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	600,000,000	600,000,000	-	-	-	12/2008	5.184	Unsecured
	USD	20,000,000	161,404,000	-	-	-	2/2009	LIBOR(3 months)+1	Unsecured
	USD	3,986,329	32,170,471	USD	11,958,986	98,978,549	4/2007	LIBOR(6 months)+0.5	Guaranteed by Holding
Bank of China	RMB	212,000,000	212,000,000	RMB	182,000,000	182,000,000	3/2007 – 7/2009	5.76	Guaranteed by Holding
	RMB	110,000,000	110,000,000	-	-	-	12/2008	Central Bank benchmark rate	Unsecured
	EUR	1,611,308	15,435,846	EUR	1,753,254	19,543,653	3/2007 – 9/2019	0.25	Guaranteed by Sinosteel Trading Company
	-	-	-	EUR	115,000,000	1,295,210,500	N/A	N/A	N/A
	USD	66,000,000	532,633,200	-	-	-	5/2009– 7/2009	LIBOR(3 months) +1 LIBOR(3 months) +0.85	Unsecured

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 26. Long term loans (continued)

Lender	31 December 2005			31 December 2004			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
Agricultural Bank of China	RMB	894,000,000	894,000,000	RMB	174,000,000	174,000,000	2/2007 – 9/2008	5.49, 5.76	Guaranteed by Holding
	RMB	600,000,000	600,000,000	-	-	-	9/2008	5.184	Unsecured
Huishang Bank	RMB	169,000,000	169,000,000	RMB	19,000,000	19,000,000	6/2007 – 5/2009	5.49, 4.7	Unsecured
	RMB	360,000,000	360,000,000	-	-	-	9/2008	5.184	Guaranteed by Holding
China CITIC Bank	RMB	400,000,000	400,000,000	-	-	-	8/2008	4.32	Unsecured
	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	-	-	-	10/2008– 11/2008	Central Bank benchmark rate less 10%	Unsecured
	USD	50,000,000	403,510,000	-	-	-	10/2008– 11/2008	LIBOR(6 months) +0.4	Unsecured
The Export-import Bank Of China	RMB	95,000,000	95,000,000	-	-	-	8/2007 – 8/2012	3.78	Guaranteed by Holding
Profit Access Investment Company Limited (Note)	USD	986,000	8,151,994	USD	986,000	8,233,699	6/2007 – 8/2007	5.49	Secured
Total			<u>8,570,815,511</u>						<u>4,134,143,501</u>

Note: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. 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 RMB30.76 million as at 31 December 2005.

The increase in the Group's long term loans by 107% was mainly attributable to the increase in the long term loans for the construction for the "Eleventh Five Year Plan".

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 27. Specific payables

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Government subsidies for specific construction projects	<b>3,200,000</b>	19,800,000

The decrease in the Group's government subsidies for specific construction projects by 84% was attributable to the completion of certain projects and the transfer of the respective subsidies to the capital reserve.

#### 28. Other long term liabilities

	<b>31 December 2005 RMB</b>	31 December 2004 RMB
Payable to Holding	<b>400,000,000</b>	–
Accrued charges for furnace relining	<b>74,499,299</b>	74,499,299
Retirement benefits payable to early retired employees	<b>29,485,032</b>	40,258,301
Total	<b>503,984,331</b>	114,757,600

The increase in the Group's other long term liabilities by 339% was mainly attributable to the increase in payable to Holding. The payable to Holding is interest-free, unsecured and is repayable after 1 January 2007.

#### 29. Minority interests

The increase in the minority interests in consolidated balance sheet by 81% was mainly attributable to the injection of capitals 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 income statement by 225% was mainly attributable to the increase in profits of certain non-wholly owned subsidiaries during the year.



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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:

	<b>Group and Company</b>	
	<b>31 December 2005 RMB</b>	31 December 2004 RMB
<b>A. Unlisted shares</b>		
1. Shares held by promoter:		
(1) State-owned shares	<b>4,034,560,000</b>	4,034,560,000
(2) Shares owned by domestic legal persons	-	-
(3) Shares owned by foreign legal persons	-	-
(4) Others	-	-
2. Legal person A shares	<b>87,810,000</b>	87,810,000
3. Shares held by employees	-	-
4. Preferred shares and others	-	-
Total unlisted shares	<b>4,122,370,000</b>	4,122,370,000
<b>B. Listed shares</b>		
1. A shares	<b>600,000,000</b>	600,000,000
2. B shares	-	-
3. H shares	<b>1,732,930,000</b>	1,732,930,000
4. Others	-	-
Total listed shares	<b>2,332,930,000</b>	2,332,930,000
<b>C. Total share capital</b>	<b>6,455,300,000</b>	6,455,300,000

There was no change in share capital during the year.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 31. Capital reserve

	Group and Company			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	562,069,700	23,300,000	–	585,369,700
	<u>5,427,045,095</u>	<u>23,300,000</u>	<u>–</u>	<u>5,450,345,095</u>

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

### 32. Surplus reserves

	Group			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Statutory surplus reserve	893,159,696	286,812,511	–	1,179,972,207
Statutory public welfare fund	892,852,471	285,532,897	–	1,178,385,368
Reserve fund	3,479,930	7,632,717	–	11,112,647
Enterprise expansion fund	5,134,876	5,542,898	–	10,677,774
Total	<u>1,794,626,973</u>	<u>585,521,023</u>	<u>–</u>	<u>2,380,147,996</u>

	Company			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Statutory surplus reserve	888,003,374	278,666,301	–	1,166,669,675
Statutory public welfare fund	888,003,374	278,666,301	–	1,166,669,675
Total	<u>1,776,006,748</u>	<u>557,332,602</u>	<u>–</u>	<u>2,333,339,350</u>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 32. Surplus reserves (continued)

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capitals of these companies. Part of the SSR may be capitalised as these companies' share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals of these companies.

In accordance with the Company Law of the PRC, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax to statutory public welfare fund (the "PWF").

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB278,666,301 (2004: RMB357,350,701) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of RMB2,786,663,009 (2004: RMB3,573,507,015) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the share of subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB8,146,210 (2004: RMB2,699,599), RMB6,866,596 (2004: RMB2,662,479), RMB7,632,717 (2004: RMB2,782,082) and RMB5,542,898 (2004: RMB4,785,952), respectively.

The Group's and the Company's surplus reserves increased by 33% and 31% were mainly attributable to the profit appropriation for the year of 2005.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 33. Retained profits

	Note	Group RMB
Retained profits at beginning of year		3,758,605,642
Add: the Group's net profit for the year		2,847,619,960
Less: Transfer to SSR		(286,812,511)
Transfer to PWF		(285,532,897)
Transfer to reserve fund		(7,632,717)
Transfer to enterprise expansion fund		(5,542,898)
Transfer to employee bonus and welfare fund		(4,615,762)
Ordinary share dividend payable		(1,420,166,000)
Retained profits at end of year		<u>4,595,922,817</u>
Including: Cash dividend proposed by directors	43	<u>1,032,848,000</u>

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

As at 31 December 2005, the Company had retained profits of approximately RMB4.54 billion (31 December 2004: approximately RMB3.79 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 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB5.45 billion (31 December 2004: approximately RMB5.43 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue. At the same date, the Company did not have any capitalisation issue.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	2005			2004		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
	RMB	RMB	RMB	RMB	RMB	RMB
Sale of steel products	30,143,438,308	25,853,648,022	4,289,790,286	25,493,392,474	19,948,799,211	5,544,593,263
Sale of pig iron	793,112	629,353	163,759	16,108,418	8,511,450	7,596,968
Sale of steel billets	479,308,861	406,276,901	73,031,960	249,752,091	216,741,656	33,010,435
Others	1,459,555,729	1,033,952,361	425,603,368	1,010,801,535	625,093,623	385,707,912
<b>Total</b>	<b>32,083,096,010</b>	<b>27,294,506,637</b>	<b>4,788,589,373</b>	<b>26,770,054,518</b>	<b>20,799,145,940</b>	<b>5,970,908,578</b>

Category	2005			2004		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
	RMB	RMB	RMB	RMB	RMB	RMB
Sale of steel products	30,143,438,308	25,853,648,022	4,289,790,286	25,493,392,474	19,948,799,211	5,544,593,263
Sale of pig iron	793,112	629,353	163,759	16,108,418	8,511,450	7,596,968
Sale of steel billets	479,308,861	406,276,901	73,031,960	249,752,091	216,741,656	33,010,435
Others	1,375,048,633	1,251,605,993	123,442,640	927,411,887	666,233,178	261,178,709
<b>Total</b>	<b>31,998,588,914</b>	<b>27,512,160,269</b>	<b>4,486,428,645</b>	<b>26,686,664,870</b>	<b>20,840,285,495</b>	<b>5,846,379,375</b>

Sales to the five largest customers of the Group and the Company for the year amounted to RMB4,207,312,389 and RMB4,161,350,621, which accounted for 13% of the Group's and the Company's total sales amounts respectively.

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

The increase in the Group's and the Company's cost of sales by 31% and 32% respectively was mainly attributable to the increase in purchase cost of raw materials.

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 35. Taxes and surcharges

	2005 RMB	2004 RMB
City construction and maintenance tax	131,303,393	122,193,047
Education surcharge	56,272,883	52,263,033
Local education surcharge	18,757,628	17,650,290
Other taxes	12,773,111	9,878,119
Total	<u>219,107,015</u>	<u>201,984,489</u>

The calculation bases of the Group's taxes and surcharges and the related tax rates are disclosed in Note III to the financial statements.

#### 36. Other operating profit

The increase in the Group's other operating profit by 198% was mainly attributable to the increase in the trading of imported iron ore.

#### 37. Administrative expenses

	2005 RMB	2004 RMB
Staff cost	282,614,051	212,622,840
Welfare and support services	95,795,830	95,790,000
Removal compensation and demolition expenses	76,990,800	484,198,000
Provision for inventories	75,464,166	10,401,537
Taxes and duties	55,109,722	42,475,418
Joint office expenses	46,767,059	34,613,469
Depreciation and amortisation charges	42,326,809	38,638,427
Environmental protection fee	34,574,233	26,144,276
One-off staff medical insurance	–	109,606,800
Others	219,996,404	158,416,627
Total	<u>929,639,074</u>	<u>1,212,907,394</u>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 38. Financial expenses

	2005 RMB	2004 RMB
Interest expenses	362,470,045	225,284,228
Less: Interest income	(22,103,475)	(24,235,561)
Exchange loss	46,862,358	359,880,964
Less: Exchange gain	(201,605,652)	(162,697,482)
Others	23,858,875	8,592,365
Total	<b>209,482,151</b>	<b>406,824,514</b>

The decrease in the Group's financial expenses by 49% was mainly attributable to the increase in foreign exchange gain and decrease in foreign exchange loss.

### 39. Investment income

	Group		Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Investment income from investment in subsidiaries	–	–	168,737,203	74,364,365
Share of profit/(losses) of associates	13,464,093	(957,812)	13,464,093	(957,812)
Other equity investment income	5,281,238	1,105,000	5,281,238	1,105,000
	<b>18,745,331</b>	<b>147,188</b>	<b>187,482,534</b>	<b>74,511,553</b>

The increase in the Group's investment income by 126 times was mainly attributable to the increase in the share of profits of associates during the year. The increase in the Company's investment income by 152% was mainly attributable to the increase in investment income calculated under equity method.

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

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 40. Subsidies income

	2005 RMB	2004 RMB
Subsidies income for steel export	–	672,381
Subsidies from fiscal authority	<b>1,992,600</b>	–
	<b>1,992,600</b>	672,381

### 41. Non-operating income

The decrease in the Group's non-operating income by 99% was mainly attributable to the decrease in gain on disposal of fixed assets.

### 42. Non-operating expenses

The increase in the Group's non-operating expenses by 82% was mainly attributable to no reversal of fixed assets impairment during the year.

### 43. Cash dividend proposed by directors

	Group and Company	
	2005 RMB	2004 RMB
Proposed final cash dividend – RMB16 cents (2004: RMB22 cents) per ordinary share	<b>1,032,848,000</b>	<b>1,420,166,000</b>

Proposed ordinary share dividend is determined based on the profit appropriation plan for the year ended 2005 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 RMB659,579,200, RMB96,000,000 and RMB277,268,800 respectively. The proposed dividend is subject to approval by the shareholders at the annual general meeting.



## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 44. Cash paid relating to other operating activities

	2005 RMB	2004 RMB
Real estate tax	34,407,366	30,286,081
Environmental improvement fee	34,574,233	26,144,276
Welfare and support services	95,795,830	95,790,000
Export related costs	8,392,268	6,731,649
Unloading cost	17,249,060	5,362,318
Packing fee	19,118,316	14,841,406
Flood prevention fund	17,277,444	9,417,619
Stamp duty	18,479,780	10,820,168
Rental fee	6,345,554	5,340,000
Repair and maintenance expenses	13,797,253	23,479,574
Removal compensation and demolition expenses	76,990,800	484,198,000
One-off staff medical insurance	–	109,606,800
Others	119,564,189	64,137,148
Total	<u>461,992,093</u>	<u>886,155,039</u>

#### 45. Cash received relating to other financing activities

	2005 RMB	2004 RMB
Government subsidies for specific construction projects	<u>6,700,000</u>	<u>–</u>

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

#### 46. Cash paid relating to acquisition of businesses/a subsidiary

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 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 the Construction Company for management and the profit and loss was assumed by the Company, which was not significant.

Net assets acquired:

	Notes	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	10	71,854,377
Less: Accumulated depreciation	10	(17,458,303)
Net book value		54,396,074
Construction materials		120,000
Construction in progress	12	49,735,199
Accounts payable		(113,420,805)
Deposits received		(82,241,475)
Welfares payable		(3,810,465)
Taxes payable		(1,228,776)
Other taxes payable		(41,673)
Other payables		(2,907,567)
		<u>149,773,584</u>
Cash paid		<u>149,773,584</u>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 46 Cash paid relating to acquisition of businesses/a subsidiary (continued)

On 15 November 2004, the Company acquired a 71% equity interest in Holly Packing from Holding at a consideration of approximately RMB21,478,000. Holly Packing is mainly engaged in production of packing materials and on-site packing services. The consideration was determined on the basis of the carrying amount of the net asset value of Holly Packing as at 30 September 2004 which was audited by Jiangsu Talent Certified Public Accountants.

The net assets of Holly Packing at the date of transfer were set out below:

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

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

### 46 Cash paid relating to 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	21,478,316
Cash and balances with financial institutions	(9,967,021)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>11,511,295</u>

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

	Notes	2005 RMB'000	2004 RMB'000
<b>Net profit</b>			
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		<b>2,909,943</b>	3,592,320
Add back:			
Deferred tax (income) /expense	(i)	<b>(18,441)</b>	19,725
Employee bonus and welfare fund	(ii)	<b>4,616</b>	2,141
Deduct:			
Transfer of deferred income	(iii)	<b>(48,498)</b>	(38,379)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u><b>2,847,620</b></u>	<u>3,575,807</u>

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000
<b>Shareholders' funds</b>			
Shareholders' funds under Hong Kong accounting standards		<b>18,514,504</b>	17,024,727
Add back:			
Deferred income	(iii)	<b>585,369</b>	562,069
Deduct:			
Deferred tax assets	(i)	<b>(53,175)</b>	(34,734)
Recognition of deferred income	(iii)	<b>(90,483)</b>	(41,985)
Provision for furnace relining costs	(iv)	<b>(74,499)</b>	(74,499)
Shareholders' funds under PRC accounting standards		<b>18,881,716</b>	17,435,578

#### (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 2004 and 31 December 2005.

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 assets recognised as at 31 December 2005 amounted to approximately RMB53.2 million (2004: approximately RMB34.7 million). The movement in the deferred tax assets resulted in a deferred tax income of approximately RMB18.4 million in the current year (2004: deferred tax expense of approximately RMB19.7 million).

#### (ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounting to approximately RMB4,616,000 (2004: approximately RMB2,141,000).

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 (continued)

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

Under Hong Kong accounting standards, the appropriation to the employee bonus and welfare fund is accounted for as a staff cost and is charged to the current year's 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 2005, accumulated specific payables transferred to the capital reserve amounted to approximately RMB585 million (31 December 2004: approximately RMB562 million).

Under Statement of Standard Accounting Practice No. 35, "Accounting for government grants and disclosure of assistance" ("HKSSAP 35"), upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful life of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB23.3 million received in the current and prior year, were completed. As at 31 December 2005, accumulated deferred income amounting to approximately RMB585 million (31 December 2004: approximately RMB562 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB48.5 million (2004: approximately RMB38.4 million) was released to the current year's income statement. As at 31 December 2005, the accumulated deferred income released amounted to approximately RMB90.5 million (31 December 2004: approximately RMB42.0 million). HKAS 20 replaced HKSSAP 35 and became effective on 1 January 2005. The adoption of HKAS 20 did not result in impact on the above treatment.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## 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 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 (2004: Nil), and the remaining provision as at 31 December 2005 amounted to approximately RMB74.5 million (2004: approximately RMB74.5 million).

Under HKSSAP 28, "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. HKAS 37 replaced HKSSAP 28 and became effective on 1 January 2005. The adoption of HKAS 37 did not result in impact on the above treatment.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. Related party involving control relationship

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

As at 31 December 2005, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries of Holding become the Company's related parties.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Name	At 1 January 2005 RMB'000	Increase during the year during the year RMB'000	Decrease during the year during the year RMB'000	At 31 December 2005 RMB'000
Holding	6,298,290	—	—	6,298,290

### 3. Stock or equity interest held by related party who could control the Company and the changes

Name	At 1 January 2005 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2005 RMB'000	Ratio %
Holding	4,082,330	63.24	—	—	—	—	4,082,330	63.24

### 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責任公司	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
馬鋼集團實業發展有限責任公司潤滑油分公司	Subsidiary of Holding
馬鋼集團易凡工貿有限公司	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責任公司	Subsidiary of Holding



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

### 4. Related parties without control relationship (continued)

Name	Relationship with the Company
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)控股有限公司通訊技術服務部	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
安徽馬鋼吉順智能停車設備有限公司	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
馬鋼集團建設有限責任公司機電安裝分公司	Subsidiary of Holding
馬鋼集團建設有限責任公司鋼結構製作安裝分公司	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
馬鋼比歐西	JCE of the Group
利達投資有限公司	Minority shareholder of the Group
安徽鑫鋼商貿有限公司	Minority shareholder of the Group

## Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

### VI. 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:

	Notes	2005 RMB	2004 RMB
Transactions with Holding and its subsidiaries:			
Purchases of iron ore, limestone and dolomite	(i)	<b>1,408,067,891</b>	964,679,248
Fees paid for welfare, support services and other services	(ii), (iii)	<b>206,210,276</b>	240,717,842
Rental	(iii)	<b>36,250,000</b>	36,250,000
Agency fee	(iii)	<b>3,784,137</b>	4,794,695
Purchases of fixed assets and provision of construction services	(iii)	<b>266,777,687</b>	279,689,245
Fees received for the supply of utilities, services and other consumable goods	(iii)	<b>(27,496,787)</b>	(32,707,795)
Sale of steel products and other by-products	(iii)	<b>(8,478,679)</b>	(3,563,797)
Acquisition of a subsidiary	(iv)	–	21,478,316
Acquisition of businesses	(v)	<b>149,773,584</b>	–
Transactions with associates of the Group:			
Purchases of coke	(vi)	<b>598,732,282</b>	157,821,033
Transactions with minority shareholders:			
Purchase of net assets	(vii)	–	16,376,230
Transactions with a jointly-controlled entity of the Group:			
Rental income	(viii)	<b>(1,250,000)</b>	–
Construction fee income	(viii)	<b>(7,440,000)</b>	–

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. 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, limestone and dolomite from Holding were in accordance with an agreement dated 9 October 2003 between the Company and Holding.
  - (ii) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services, were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
  - (iii) The other transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and related parties.
  - (iv) The Company acquired a 71% interest in Holly Packing on 15 November 2004 from Holding for RMB21.5 million. Further details of the transaction are included in Note V point 46 to the financial statements.
  - (v) 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 on contractual price of approximately RMB150 million. Further details of the transaction are included in Note V point 46 to the financial statements.
  - (vi) The transactions between the Group and 濟源市金馬焦化 and 滕州盛隆煤焦化 were made according to the terms mutually agreed between the Group and them.
  - (vii) 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu) and is a minority shareholder of Ma Steel (Cihu). In 2004, the Group signed an agreement with 安徽鑫鋼商貿有限公司 for the purchase of net assets at a consideration of approximately RMB16,380,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants.
  - (viii) The transactions between the Group and Ma'anshan BOC were made according to the terms mutually agreed between the Group and the company.
- (i), (ii), (iii), (vi) and (viii) of the above transactions were carried out in the normal course of business of the Group.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

- (2) Holding provided guarantee for certain bank loans of the Group with an approximate amount of RMB4,800 million at the balance sheet date at nil consideration (2004: RMB 4,200 million). Further details of the transaction are included in Note V point 25 and point 26 to the financial statements.
- (3) During the year, Profit Access Investment Limited, a minority shareholder of Anhui Masteel K. Wah, granted loans of US\$206,000 to the Group (2004: US\$986,000).
- (4) Further details on balances with Holding and its subsidiaries are set out in Note VI point 6.

### 6. Receivable from/payable to related parties

	<b>31 December 2005 RMB</b>	31 December 2004 RMB	Details
<b>Prepayments:</b>			
Holding	–	36,484,400	Prepayment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	<b>2,467,871</b>	1,351,360	Trade and construction fee
馬鞍山市聯營乙炔廠	–	2,609,044	Trade
Others	<b>581,147</b>	45,000	
Total	<b>3,049,018</b>	<b>40,489,804</b>	

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

### 6. Receivable from/payable to related parties (continued)

#### Accounts payable:

	<b>31 December 2005 RMB</b>	31 December 2004 RMB	Details
Holding	<b>106,906,075</b>	8,345,823	Construction fee, Payment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	<b>29,168,313</b>	55,448,235	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	<b>17,219,156</b>	5,765,630	Construction and maintenance fees
馬鋼集團康泰建安實業有限 責任公司	<b>678,295</b>	1,103,440	Construction fee
馬鋼集團力生有限責任公司	<b>3,557,418</b>	2,600,862	Construction fee
馬鋼集團實業發展有限責任公司 潤滑油分公司	<b>3,049,623</b>	2,943,240	Trade
馬鋼集團鋼渣綜合利用有限 責任公司	<b>9,904</b>	2,852,007	Trade
馬鞍山市聯營乙炔廠	<b>218,729</b>	1,040,883	Processing fee
馬鋼集團南山礦業有限責任公司	<b>3,800,806</b>	–	Trade
馬鋼集團姑山礦業有限責任公司	<b>2,920,165</b>	–	Trade
Others	<b>3,322,360</b>	1,704,467	
<b>Total</b>	<b>170,850,844</b>	<b>81,804,587</b>	

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

### 6. Receivable from/payable to related parties (continued)

	<b>31 December 2005 RMB</b>	31 December 2004 RMB	Details
<b>Trade receivables:</b>			
馬鋼集團建設有限責任公司	<b>27,325,799</b>	956,776	Trade and electricity fee
馬鋼集團康泰置地發展 有限責任公司	<b>1,048,877</b>	–	Trade
馬鞍山馬鋼嘉華商品混凝土 有限公司	<b>3,217,616</b>	–	Trade
Others	<b>772,495</b>	508,740	
Total	<b><u>32,364,787</u></b>	<u>1,465,516</u>	
<b>Deposits received:</b>			
馬鋼集團姑山礦業 有限責任公司	<b>55,662,819</b>	93,688,647	Trade
安徽馬鋼比亞西焊網 有限公司	<b>9,106,633</b>	14,062,281	Trade
馬鋼集團康泰置地發展 有限責任公司	–	6,727,260	Construction fee
Others	<b>2,622,943</b>	1,921,480	
Total	<b><u>67,392,395</u></b>	<u>116,399,668</u>	
<b>Other long term liability:</b>			
Holding	<b><u>400,000,000</u></b>	–	Dividend

Except for other long term liability due to Holding which is interest-free, unsecured and contracted to be repaid after 1 January 2007, the balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VII. CONTINGENT LIABILITIES

As at 31 December 2005, the Company had given guarantees amounted to approximately RMB7.8 billion (31 December 2004: approximately RMB2.6 billion), in order for certain of its subsidiaries to obtain banking facilities.

Save as aforesaid, the Group and the Company had no significant contingent liabilities as at the balance sheet date.

## VIII. COMMITMENTS

### 1. 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 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Authorised, but not contracted for:				
Blast Furnaces Project	2,089,447	119,396	2,089,447	119,396
Converters Project	861,321	121,960	861,321	121,960
Wheel Line Project	371,086	91,035	371,086	91,035
Construction Steel Lines Project	3,355,414	985,211	3,355,414	983,932
Coking Stoves Project	1,120,768	134,169	1,120,768	134,169
Public Auxiliary Utilities Project	964,589	262,758	964,589	262,758
Energy-saving and Environment Protection Project	232,125	23,712	232,125	23,712
Other Projects	2,049,663	63,446	2,047,568	63,446
	<b>11,044,413</b>	1,801,687	<b>11,042,318</b>	1,800,408

# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VIII. COMMITMENTS (continued)

### 1. Capital commitments (continued)

	Group		Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Contracted, but not provided for:				
Blast Furnaces Project	1,146,893	632	1,146,893	632
Converters Project	1,440,998	35,805	1,440,998	35,805
Wheel Line Project	15,698	2,970	15,698	2,970
Construction Steel Lines Project	4,711,870	200,274	4,711,870	182,855
Coking Stoves Project	626,902	26,745	626,902	26,745
Public Auxiliary Utilities Project	682,275	219,072	682,275	219,072
Energy-saving and Environment Protection Project	103,657	46,501	103,657	46,501
Other Projects	1,107,654	80,852	1,100,384	80,852
	<b>9,835,947</b>	612,851	<b>9,828,677</b>	595,432
Total	<b>20,880,360</b>	2,414,538	<b>20,870,995</b>	2,395,840

(2) The commitments for capital contributions at the balance sheet date were as follows:

	Group		Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Contracted, but not provided for	<b>7,668</b>	—	<b>34,668</b>	—



# Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

## VIII. COMMITMENTS (continued)

### 1. Capital commitments (continued)

- (3) The Group's share of the capital commitments of the jointly-controlled entity, which were 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 2005 RMB'000	31 December 2004 RMB'000
Authorised, but not contracted for	31,202	–
Contracted, but not provided for	148,218	–
	<u>179,420</u>	<u>–</u>

### 2. Foreign currency option transaction commitments

During the year, the Company entered into a recovery forward contract to manage its risks associated with foreign currency fluctuations. Under the contract about recovery forward contract, the Company has an option to exercise the contract to buy a total of JPY17,931 million by selling US\$166 million over the period from January 2006 to October 2006 when the exchange rate is ranged from US\$/JPY 94 to US\$/JPY 124 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US\$/JPY 124.

## IX. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company, upon requested and authorised by Holding, announced the proposal 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 Proposal").

According to the State Share Reform Proposal, Holding proposes to offer 3.4 of its State-owned shares to each Circulating A Shareholder for every 10 Circulating A Shares they held upon the close of business on the State Share Reform Proposal's Record Date in accordance with the execution arrangement. On the first business date upon the implementation of the State Share Reform Proposal, the then Non-circulating Shares will be entitled to be listed and become circulating shares.

## Notes to Financial Statements (continued)

*(Prepared under PRC accounting standards)*

31 December 2005

### **IX. POST BALANCE SHEET EVENT (continued)**

On 20 February 2006, the State Share Reform Proposal was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han [2006] No. 52). On 27 February 2006, the State Share Reform Proposal was approved by the relevant shareholders in the "Relevant Shareholders' Meeting to the State Share Reform". On 17 March 2006, the State Share Reform Proposal was approved by the Ministry of Commerce (Shang Zi Pi [2006] No. 886). Accordingly, all relevant approvals for the implementation of the State Share Reform Proposal have been obtained. The then non-circulating shares are entitled to be listed and become circulating shares since 31 March 2006.

### **X. COMPARATIVE AMOUNTS**

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

### **XI. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 11 April 2006.

## Supplementary Information

(Prepared under PRC accounting standards)

31 December 2005

### RETURN ON NET ASSETS AND EARNINGS PER SHARE

Items	Profit during the reporting period RMB'000	Return on net assets (%)		Earnings per share (RMB)	
		Fully Diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	4,569,482	24.20	24.23	0.708	0.708
Operating profit	3,337,580	17.68	17.70	0.517	0.517
Net profit	2,847,620	15.08	15.10	0.441	0.441
Net profit excluding non-recurring gains or losses	<u>2,877,608</u>	<u>15.24</u>	<u>15.26</u>	<u>0.446</u>	<u>0.446</u>

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

	2005 RMB	2004 RMB
Net profit	<b>2,847,619,960</b>	3,575,806,813
Add/(deduct):		
Loss on disposal of fixed assets, net	<b>19,114,220</b>	11,078,414
Subsidies income	<b>(1,992,600)</b>	(672,381)
Other non-operating income and expense items	<b>16,936,405</b>	(2,816,845)
Reversal of impairment provisions made in prior years	–	(15,411,808)
Income tax effect	<b>(4,070,001)</b>	(980,282)
Total	<u><b>2,877,607,984</b></u>	<u>3,567,003,911</u>

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.

## Supplementary Information (continued)

(Prepared under PRC accounting standards)

31 December 2005

### PROVISION MOVEMENT SCHEDULE

#### Group

Item	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year				At 31 December 2005 RMB
			Reversal on upward revaluation of assets RMB	Other transfer-outs RMB	Total RMB		
1. Provision for bad debts:	77,527,808	4,725,982	X	X	(6,782,995)	75,470,795	
including: Trade receivables	44,929,679	4,725,982	X	X	(357,613)	49,298,048	
Other receivables	32,598,129	-	X	X	(6,425,382)	26,172,747	
2. Provision for decline in value of short term investments	-	-	-	-	-	-	
3. Provision for inventories:	87,794,787	75,816,807	(352,641)	(42,299,061)	(42,651,702)	120,959,892	
including: Raw materials	5,000,000	-	(352,641)	(4,647,359)	(5,000,000)	-	
Work in progress	3,000,000	-	-	-	-	3,000,000	
Construction contract	-	-	-	-	-	-	
Finished goods	9,656,900	37,181,209	-	-	-	46,838,109	
Spare parts	70,137,887	38,635,598	-	(37,651,702)	(37,651,702)	71,121,783	
4. Provision for impairment of long term investments	-	-	-	-	-	-	
5. Provision for impairment of fixed assets:	117,056,844	-	-	-	-	117,056,844	
including: Buildings and structures	10,391,900	-	-	-	-	10,391,900	
Plant, machinery and equipment	106,664,944	-	-	-	-	106,664,944	
6. Provision for impairment of intangible assets	-	-	-	-	-	-	
7. Provision for impairment of construction in progress	74,000,000	-	-	-	-	74,000,000	
8. Provision for impairment of designated loan	-	-	-	-	-	-	

## Supplementary Information (continued)

(Prepared under PRC accounting standards)

31 December 2005

### PROVISION MOVEMENT SCHEDULE

#### Company

Item	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year			At 31 December 2005 RMB
			Reversal on upward revaluation of assets RMB	Other transfer-outs RMB	Total RMB	
1. Provision for bad debts:	77,472,646	3,172,620	x	x	(6,782,995)	73,862,271
including: Trade receivables	44,874,517	3,172,620	x	x	(357,613)	47,689,524
Other receivables	32,598,129	–	x	x	(6,425,382)	26,172,747
2. Provision for decline in value of short term investments	–	–	–	–	–	–
3. Provision for inventories:	87,794,787	75,816,807	(352,641)	(42,299,061)	(42,651,702)	120,959,892
including: Raw materials	5,000,000	–	(352,641)	(4,647,359)	(5,000,000)	–
Work in progress	3,000,000	–	–	–	–	3,000,000
Construction contract	–	–	–	–	–	–
Finished goods	9,656,900	37,181,209	–	–	–	46,838,109
Spare parts	70,137,887	38,635,598	–	(37,651,702)	(37,651,702)	71,121,783
4. Provision for impairment of long term investments	–	–	–	–	–	–
5. Provision for impairment of fixed assets:	117,056,844	–	–	–	–	117,056,844
including: Buildings and structures	10,391,900	–	–	–	–	10,391,900
Plant, machinery and equipment	106,664,944	–	–	–	–	106,664,944
6. Provision for impairment of intangible assets	–	–	–	–	–	–
7. Provision for impairment of construction in progress	74,000,000	–	–	–	–	74,000,000
8. Provision for impairment of designated loan	–	–	–	–	–	–

## Documents Available for Inspection

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- 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 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

