



馬鞍山鋼鐵股份有限公司 Maanshan Iron & Steel Company Limited

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 323)

2005 First Quarterly Report

1. IMPORTANT

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

2. COMPANY INFORMATION

2.1 Basic information of the Company

Stock Abbreviation (A share)	Magang Stock	
Stock Code (A share)	600808	
Stock Abbreviation (H share)	Maanshan Iron & Steel	
Stock Code (H share)	00323	
	Secretary of the Board of Directors	Representative for securities affairs
Name	Su Jiangang	Hu Shunliang
Correspondence Address	No. 8 Hong Qi Zhong Road,	No. 8 Hong Qi Zhong Road,
Correspondence Address	Maanshan City,	Maanshan City,
	Anhui Province, the PRC	Anhui Province, the PRC
Telephone	86-555-2888158	86-555-2888158

2.2 Financial Information

2.2.1 Major accounting data and financial indicators

	As at the end of the reporting period	As at the end of the previous year	Increase (decrease) at the end of the reporting period as compared to the end of the previous year (%)
Total assets	34,535	31,461	9.77
Shareholders' funds (excluding minority interests)	18,485	17,436	6.02
Net assets per share (Yuan)	2.86	2.70	5.93
Adjusted net assets per share (Yuan)	2.86	2.70	5.93
	Reporting period	Beginning of the year to the end of the reporting period	Increase (decrease) in the reporting period as compared to the corresponding period of the previous year (%)
Net cash flow from operating activities	491	491	-69.60
Earnings per share (Yuan)	0.163	0.163	-30.34
Return on net assets (%)	5.68	5.68	a decrease of 3.41 percentage points
Return on net assets excluding non-recurring gains or losses (%)	5.85	5.85	a decrease of 3.77 percentage points
Non-recurring gains or losses			Amount
Net gain/loss on disposal of fixed assets			0.49
Other non-operating income and expenses			(18.5)
Income tax effect			0.07
Total			(1.43)

2.2.2 Profit statement (unaudited)

Item	In the reporting period (January to March)		Corresponding period of the previous year (January to March)	
	Consolidated	Parent Company	Consolidated	Parent Company
I. Principal operating income	8,482,066	8,584,181	6,456,478	6,460,644
Less: Cost of sales	(6,989,669)	(7,061,357)	(4,451,478)	(4,477,992)
Taxes and surcharges	(66,941)	(65,999)	(63,903)	(62,891)
II. Profit from principal operating activities	1,425,456	1,456,825	1,941,097	1,919,761
Add: Other operating profit	9,931	4,266	19,123	15,961
Less: Selling expenses	(39,276)	(38,991)	(26,159)	(28,228)
Administrative expenses	(153,444)	(142,242)	(126,825)	(123,305)
Financial expenses	17,975	37,544	(27,797)	(26,222)
III. Operating profit	1,260,642	1,317,402	1,779,439	1,757,967
Add: Investment income	(247)	9,887	-	17,973
Subsidies income	-	-	672	-
Non-operating income	793	617	3,745	3,745
Less: Non-operating expenses	(2,305)	(2,120)	(3,266)	(3,219)
IV. Profit before tax	1,258,883	1,325,786	1,780,590	1,776,466
Less: Income tax	(200,289)	(198,849)	(267,133)	(266,503)
Minority interests	(8,838)	-	(626)	-
Add: Unrecognised investment loss	-	-	-	-
V. Net profit	1,049,756	1,126,937	1,512,831	1,509,963

2.3 Shareholding of the 10 largest holders of shares in circulation

Total number of shareholders at the end of the reporting period:

A total of 149,998 shareholders, including 143,314 A share holders and 6,710 H share holders

Shareholding of the 10 largest holders of shares in circulation

Name of shareholders (in full)	Number of shares in circulation held at the end of the period (share)	Class (A, B, H share or others)
HKSCC (Nominees) Limited	1,636,294,997	H share
HSBC Nominees Limited	30,288,000	H share
上證50交易型開放式指數證券投資基金	19,255,241	A share
國元證券有限責任公司	4,770,450	A share
博時裕富證券投資基金	3,139,681	A share
華安上證180指數增強型證券投資基金	2,191,483	A share
興和證券投資基金	1,737,106	A share
陳秀華	1,581,717	A share
袁淑琴	1,413,800	A share
長城久泰中信標普300指數證券	1,372,928	A share

3. MANAGEMENT DISCUSSION AND ANALYSIS

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

During the first quarter of 2005, the steady but moderately fast growth of the national economy of the PRC has provided effective support to the market demand for iron and steel in the country. However, prices of raw materials, fuel and electricity increased significantly bringing significant pressures to the production and operation of iron and steel enterprises.

During the reporting period, the Group (the Company and its subsidiaries) has adjusted its product mix, optimised its production processes and strengthened its cost management, with an aim to maintain the upward trend of its production and operation.

During January to March 2005, the Group has produced a total of 1,880,000 tonnes of pig iron, 2,190,000 tonnes of crude steel and 2,040,000 tonnes of steel products, representing increases of 12.57%, 17.74% and 15.25%, respectively, as compared to the corresponding period of the previous year.

3.1.1 Principal operating activities or products representing 10% or more of principal operating income or profit from principal operating activities

Industry or Product Segments	Principal Operating Income	Cost of Sales	Gross Profit Margin (%)
Iron and steel industry	8,477.7	6,828.56	19.45
Including: connected transactions	N/A	N/A	N/A
Product Segment			
Plate belt	3,598.78	2,675.01	25.67
Shaped steel	1,836.11	1,492.19	18.73
Wire rod	2,473.02	2,275.29	8
Train wheel and wheel rim	334.18	287.73	13.9
Including: connected transactions	N/A	N/A	N/A

3.1.2 Profit structure during the reporting period (material changes in the percentages of total profit attributable to the principal operating profit, other operating profit, expenses for the period, return on investment, subsidies income and net non-operating income/expense as compared to the previous reporting period and their reasons)

Item	The reporting period		The previous reporting period		Percentage increase/decrease to total profit (%)
	Amount	Percentage to total profit (%)	Amount	Percentage to total profit (%)	
Profit from principal operating activities	1,425	113.19	5,769	143.22	a decrease of 30.03 percentage points
Expenses for the period	175	13.90	1,780	44.32	a decrease of 30.42 percentage points
Total profit	1,259	N/A	4,030	N/A	N/A

Percentages to total profit from principal operating activities and expenses for the period decreased as compared to the previous reporting period due to the increase of total profit during the reporting period.

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

During the reporting period, gross profit margin of the Group's principal operating activities of the Group was 17.59%, a decrease of 4.71 percentage points as compared to the previous reporting period. This was mainly attributed to the fact that the enhanced magnitude for the selling prices of steel products of the Company was lower than that for the purchasing costs of raw materials and fuels.

3.2 Analysis of impact of significant matters and solutions

A. Connected Transactions

During 1 January to 31 March 2005, the connected transactions between the Company and the Holding and its subsidiaries were continuing connected transactions during the normal course of business and had no impact on the profit of the Company.

Details of the amounts paid by the Company to the Holding in respect of the new "Service Agreement" are as follows (RMB'000):

Major item	Pricing basis	Total value	As a percentage of comparable transactions
On-the-job training	State prices	5,250.0	100
Food and sanitary services	Market prices	12,135.0	100
Environmental and hygiene services, and maintenance and repairs of roads	State prices	3,495.0	100
Carrying out and maintaining landscaping of factory districts	Market prices	6,182.5	100
Total		<u>27,062.5</u>	

The service fees shall be equal to or not higher 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 have been arrived at after negotiations between the Company and the Holding and shall not be higher than the market prices certified by the registered pricing appraiser(s) of the Maanshan Price Certification Centre.

Details of the amount paid by the Company to the Holding in respect of the "Sale and Purchase of Iron Ore Agreement" are as follows (RMB'000):

	Amount	As a percentage of comparable transactions (%)
Purchase of iron ore, limestone and dolomite	354,011	21.28

The price per tonne of iron ore that the Company purchased from the Holding each year has been arrived at after negotiations between the Company and the Holding from time to time. However, the price in each year shall not be higher than the weighted average price per tonne of similar type of iron ore supplied by the Company's three largest independent suppliers of iron ore in the preceding year. The price of limestone and dolomite has been arrived at after negotiations between the Company and the Holding from time to time. However, the price in each year shall not be higher than the weighted average price of limestone and dolomite supplied by the Company's three largest independent suppliers of limestone and dolomite in the preceding year.

Save for the connected transactions pursuant to the new "Service Agreement" and the new "Sale and Purchase of Iron Ore Agreement" mentioned above, details of the amounts in relation to other connected transactions made with Holding are as follows (RMB'000):

	Amount	As a percentage of comparable transactions (%)
Steel products and other products purchased by the Holding from the Company	N/A	N/A
Water and power supply, and telephone and other services acquired by the Holding from the Company	9,940	93.6
Payment by the Company for fixed assets and construction services	188,189	6.71
Payment by the Company for other services provided by the Holding	55,267	100

Those transactions adopting market prices as the pricing basis were on terms no less favourable to the Company than normal commercial terms.

B. In 1995, the Company deposited HK\$9.32 million with the representative office of China Venturetech Investment Corporation ("China Venturetech") in Shenzhen for the term of one year. The liquidation team of the People's Bank of China ("liquidation team") confirmed that the Company's claim included the principal of HK\$7.138 million and an interest amount of HK\$2.296 million after deduction of interest payment that the Company had received. On 21 July 2004, the liquidation team informed the Company of a debt repayment solution confirmed by the People's Bank of China: the liquidation team entrusts Huarong Asset Management Company to arrange for repayment to creditors other than the People's Bank and four State-owned sole proprietorship commercial banks, the proceeds from the disposal of all assets of former China Venturetech within five years. According to the disposal plan of Huarong Asset Management Company, repayment of 10% of the outstanding principal will be made in each of 2003, 2004 and 2005, respectively; and for 2006 and 2007, repayment will be made based on the actual realised amounts with the total repayment amount being determined by the final disposal result of the entire assets. In December 2004, the liquidation team carried out the first fund distribution for the repayment of debt, representing 10% of the principal, and the Company received RMB757,000. In February 2005, the liquidation team carried out the second fund distribution for the repayment of debt, representing 10% of the principal, and the Company received RMB757,000.

C. Enterprise Annuity

In order to establish a multi-layered pension system and a better social structure for enhancing the solidarity, pursuant to Order No. 20 - Trial Measures on Enterprise Annuities of the Ministry of Labour and Social Security and the relevant documents of the Anhui Provincial Government, the Company decided to set up an old age insurance supplementary system, effective 1 January 2005. The premium of enterprise annuity will be paid both by the Company and the employee. The contribution of the Company will be on the same basis and in the same proportion as the contribution of the employee. The contribution basis will be adjusted on 1 July every year. The annual payment of which should not exceed 1/12 of the total payroll of the Company in the preceding year. In 2005, the payment is approximately RMB65 million.

3.3 Changes in accounting policies, accounting estimates and scope of consolidation and significant accounting errors and their reasons

During the period, the Company and the Group have, pursuant to PRC Accounting Standards, adopted the same principal accounting policies and calculation methods in preparing the financial statements as those in preparing the annual financial statements of last reporting period.

As at 14 January 2005, the Company invested in RMB0.9 million setting up 馬鞍山馬鋼華陽設備診斷工程有限公司 with registered capital of RMB1 million. Its principal business includes technological consultation of facility evaluation, facility evaluation services and facility evaluation engineering. The company was consolidated in the financial statements for the period.

Save as disclosed above, there is no change in the scope of consolidation of the Company's financial statements for the period, as compared to the previous reporting period.

Maanshan Iron & Steel Company Limited
Gu Jianguo
Chairman

Maanshan City, Anhui Province, the PRC, 25 April 2005

As at the date of this announcement, directors of the Company included: Mr. Gu Jianguo, Mr. Gu Zhanggen, Mr. Zhu Changqiu, Mr. Shi Zhaogui, Mr. Zhao Jianming, Mr. Su Jiangang, Mr. Gao Haijian, Ms. Cheng Shaoyu*, Mr. Wu Junnian*, Mr. Shi Jianjun* and Mr. Chan Yuk Sing*.

* Independent Directors

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