



# 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 Third 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 third 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 relevant regulations on Disclosure of Information in Quarterly Reports for Listed Companies by the China Securities Regulatory Commission. The information in this report is the same as that published by the Shanghai Stock Exchange, and this announcement is published simultaneously in Shanghai and Hong Kong.
- 1.5 Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jianguang, Director and Deputy General Manager overseeing the accounting operations, and Mr. Guan Yagang, 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	Magang Stock (A share)	Maanshan Iron & Steel (H share)
Stock Code	600808 (A share)	00323 (H share)
Name	<b>Secretary of the Board of Directors</b> Su Jianguang	<b>Representative for securities affairs</b> Hu Shunliang
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#### 2.2 Financial information

##### 2.2.1 Major accounting data and financial indicators

Unit: RMB

	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	37,534,156,787	31,461,194,530	19.30
Shareholders' funds (excluding minority interests)	18,715,490,207	17,435,577,710	7.34
Net assets per share	2.90	2.70	7.41
Adjusted net assets per share	2.90	2.70	7.41
	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	N/A	4,622,901,303	N/A
Earnings per share	0.0894	0.4150	0.45
Return on net assets (%)	3.08	14.32	a decrease of 0.36 percentage point
Return on net assets excluding non-recurring gains or losses (%)	3.12	14.26	a decrease of 0.33 percentage point
Non-recurring gains or losses			Amount
Net gain/loss on disposal of fixed assets			8,276,566
Other non-operating income and expenses			(3,970,270)
Other expenses			(76,885)
Income tax effect			(1,060,562)
Total			<u>3,168,849</u>

##### 2.2.2 Profit statement (unaudited)

Unit: RMB

Item	July to September 2005		July to September 2004	
	Consolidated	The Company	Consolidated	The Company
Principal operating income	8,105,117,963	8,015,876,255	6,463,886,042	6,562,092,039
Less: Cost of sales	(7,123,554,192)	(7,113,272,624)	(5,310,654,133)	(5,418,303,959)
Taxes and surcharges	(57,384,840)	(56,418,331)	(55,564,424)	(54,350,371)
Profit from principal operating activities	924,178,931	846,185,300	1,097,667,485	1,089,437,709
Add: Other operating profit	44,762,462	729,308	14,507,764	13,310,400
Less: Selling expenses	(50,090,884)	(49,478,092)	(38,181,662)	(41,406,033)
Administrative expenses	(179,372,325)	(165,497,676)	(313,449,136)	(304,379,639)
Financial expenses	(56,891,103)	(62,510,870)	(86,569,787)	(89,429,136)
Operating profit	682,587,081	569,427,970	673,974,664	667,533,301
Add: Investment income	9,530,616	81,213,020	-	17,549,707
Subsidies income	1,992,600	-	-	-
Non-operating income	5,372,017	5,375,679	11,424,499	11,422,999
Less: Non-operating expenses	(1,331,742)	(1,297,353)	(862,795)	(850,966)
Profit before tax	698,150,572	654,719,316	684,536,368	695,655,041
Less: Income tax	(108,852,345)	(98,227,074)	(107,397,021)	(104,348,256)
Minority interests	(12,329,281)	-	(2,903,433)	-
Net profit	576,968,946	556,492,242	574,235,914	591,306,785

Unit: RMB

Item	January to September 2005		January to September 2004	
	Consolidated	The Company	Consolidated	The Company
Principal operating income	24,768,995,168	24,745,608,762	19,271,966,117	19,275,922,229
Less: Cost of sales	(20,668,005,247)	(20,780,801,946)	(14,842,416,147)	(14,904,883,605)
Taxes and surcharges	(173,838,404)	(170,291,930)	(146,141,358)	(142,697,564)
Profit from principal operating activities	3,927,151,517	3,794,514,886	4,283,408,612	4,228,341,060
Add: Other operating profit	88,680,021	11,465,421	28,342,374	21,441,087
Less: Selling expenses	(147,703,399)	(145,939,857)	(108,571,827)	(116,795,604)
Administrative expenses	(536,575,673)	(496,932,030)	(672,856,229)	(651,977,276)
Financial expenses	(123,218,092)	(101,371,332)	(157,264,686)	(155,348,626)
Operating profit	3,208,334,374	3,061,737,088	3,373,058,244	3,325,660,641
Add: Investment income	14,526,599	138,669,426	1,105,000	45,251,214
Subsidies income	1,992,600	-	672,381	-
Non-operating income	8,615,225	8,423,916	17,870,112	17,868,612
Less: Non-operating expenses	(4,385,814)	(4,236,955)	(2,268,936)	(2,209,472)
Profit before tax	3,229,082,984	3,204,593,475	3,390,436,801	3,386,570,995
Less: Income tax	(519,120,543)	(502,669,209)	(511,325,187)	(506,924,376)
Minority interests	(29,683,944)	-	(4,848,971)	-
Net profit	2,680,278,497	2,701,924,266	2,874,262,643	2,879,646,619

### 2.3 Shareholding of the 10 largest holders of shares in circulation

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

Unit: share

A total of 138,997 shareholders

#### 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	Class (A, B, H share or others)
HKSCC (Nominees) Limited	1,639,794,997	H share
HSBC Nominees Limited	30,378,000	H share
Shanghai Stock Exchange 50 ETF	19,353,741	A share
Guoyuan Securities Co., Ltd.	4,770,450	A share
Boshi Yufu Securities Investment Fund	3,086,153	A share
State Social Welfare Fund No.002	2,466,310	A share
Hua An Shanghai Stock Exchange Index 180 Securities Investment Fund – Growth Type	2,267,109	A share
CICC-HSBC-Morgan Stanley & Co. International Limited	2,225,100	A share
CICC-Standard Chartered-Citigroup Global Markets Limited	2,152,388	A share
Xinghe Securities Investment Fund	1,737,106	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 reporting period, as production capacity for iron and steel continued to increase and demand for steel products continued to slow down, the problem of oversupply in the steel product market has become more apparent, resulting in a continuous price fall for steel products. While prices of certain raw materials and fuels decreased, the magnitude of such decreases was smaller than that of steel products. As such, steel enterprises have been subject to much pressure to lower their profits. The Board expected that the oversupply of steel products will last for a certain period of time. Facing such market adversities, the Group maintained its efforts in planning production according to sales, adopting a niche marketing approach on production through conscientious coordination, and making timely adjustments on product mix to match customer needs and expected profit margins, with a view to increasing output of market-oriented and profitable products. On the other hand, the Group continued to strengthen the management and implemented comprehensive measures to achieve greater cost efficiency, thereby alleviating market pressure and ensuring steady growth in production operation. In the long-run, the iron and steel industry of the PRC will follow through “The Iron and Steel Industry Development Policies”, seizing opportunities arisen from market changes, adjusting the industry’s product mix and shaping a more consolidated industry. The iron and steel industry will therefore benefit from a healthy development.

During the reporting period, the Group has produced a total of 2,190,000 tonnes of pig iron, 2,510,000 tonnes of crude steel and 2,300,000 tonnes of steel products, representing increases of 17.74%, 17.84% and 21.05%, respectively, as compared to the corresponding period of the previous year. The production-to-sales ratio of steel products and payment collection ratio both reached 100%. The Group realised a principal operating income of RMB8,105 million, representing an increase of 25.39% as compared to the corresponding period last year. Net profit was maintained at the same level as that of the corresponding period last year.

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

Unit: RMB’000 (Unaudited)

Industry or Product Segment (July to September)	Principal operating income	Cost of sales from principal operating activities	Gross profit margin (%)
Iron and steel	8,015,876	7,113,273	11.26
Including: connected transactions	N/A	N/A	N/A
<b>Product Segment</b>			
Plate belt	2,826,832	2,527,296	10.68
Section steel	1,946,071	1,644,010	15.52
Wire rods	2,295,063	2,157,453	6
Train wheels and wheel rim	376,266	268,092	28.75
Including: connected transactions	N/A	N/A	N/A

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

Expenses for the period accounted for 41.02% of profit before tax, an increase of 20.44 percentage points as compared to the previous reporting period, mainly attributable to the decrease in profit before tax which led to a proportion-wise increase in expenses during the period.

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

During the reporting period, gross profit margin of the Group’s principal operating activities was 12.11%, a decrease of 6.61 percentage points as compared to the previous reporting period, mainly attributable to a decrease in selling prices of steel products during the reporting period.

#### 3.2 Significant matters and analysis on their impact and solutions

##### Connected Transactions

For the period between 1 July and 30 September 2005, all connected transactions between the Company and Holding and its subsidiaries were ongoing connected transactions conducted in the normal course of business and did not adversely affect the profit of the Company.

- Details of the amounts paid by the Company to Holding in respect of the “Service Agreement” are as follows (RMB’000):

Major item	Pricing basis	Total value	Proportion of transactions of the same category (%)
On-the-job training	State prices	5,250.0	100
Catering and sanitation services	Market prices	12,135.0	100
Environmental sanitation and maintenance of roads	State prices	3,495.0	100
Afforestation and management of factory districts	Market prices	6,182.5	100
Total		<u>27,062.5</u>	

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

- The payment made by the Company to Holding in respect of the “Sale and Purchase of Iron Ore Agreement” are as follows (RMB’000):

Item	Amount paid	Proportion of transactions of the same category (%)
Purchases of iron ore, limestone and marble	409,656	17.48

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

- Save for the connected transactions made pursuant to the “Service Agreement” and the “Sale and Purchase of Iron Ore Agreement” mentioned above, amounts of other connected transactions in the ordinary course of business with Holding are as follows (RMB’000):

Item	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	0	0
Water, electricity, telephone and other services acquired by Holding from the Company	4,544	57.07
Payment by the Company for fixed assets and construction services	8,953	0.23
Payment by the Company to Holding for other services	29,320	100

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

**Maanshan Iron & Steel Company Limited**  
**Gu Zhanggen**  
Representative Authorised by the Chairman

Maanshan City, Anhui Province, the PRC, 19 October 2005

As at the date of this announcement, directors of the Company included: Mr. Gu Jianguo, Mr. Gu Zhanggen, Mr. Zhu Changqiu, Mr. Zhao Jianming, Mr. Su Jianguang, Mr. Gao Haijian, Mr. Wong Chun Wa\*, Mr. Su Yong\*, Mr. Hui Leung Wah\* and Mr. Han Yi\*.

\* Independent Non-executive Directors

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