

**INTERIM REPORT**  
**2007**



**MAANSHAN IRON & STEEL COMPANY LIMITED**

H Share Stock Code:323

A Share Stock Code:600808

# Contents

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## **IMPORTANT**

The board of directors (the “Board of Directors”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jiangang, Director and Deputy General Manager overseeing the accounting operations, and Mr. Guan Yagang, Planning and Finance Manager in charge of the Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the interim report.

The financial statements contained in this interim report have not been audited, but have been reviewed by the Company’s audit committee.

# I. Company Profile

## 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 Jianguo
Representative for Securities Affairs	:	Hu Shunliang
Company's Registered Office and Correspondence 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> (A Shares) <a href="http://www.magang.com.hk">http://www.magang.com.hk</a> (H Shares)
Email Address	:	<a href="mailto:mggfdms@magang.com.cn">mggfdms@magang.com.cn</a>
Telephone	:	86-555-2888158
Fax	:	86-555-2887284
Place of Listing, Stock Name and Stock Code of A Shares	:	Shanghai Stock Exchange/Magang Stock/600808
Place of Listing, Stock Name and Stock Code of H Shares	:	The Stock Exchange of Hong Kong Limited/ Maanshan Iron & Steel/323
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 Information Disclosure	:	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
The Company's Interim Report is Available at	:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited

Maanshan Iron & Steel Company Limited (the “Company”) is principally engaged in the manufacture and sale of iron and steel products. Currently, it is one of the largest iron and steel producers and marketers in the PRC. The manufacturing process primarily involves iron-making, steel-making and steel rolling. The Company's principal product is steel products which come in four major categories: steel plates, section steel, wire rods, train wheels and wheel rims, with a full range of models and specifications designed for a variety of applications. About 90% of these products are sold in the domestic market.

## 2. MAJOR FINANCIAL DATA AND INDICATORS

### (1) Major financial data and indicators of the Company and its subsidiaries (the "Group") prepared under PRC Accounting Standards (RMB'000)

	As at the end of the reporting period	As at the end of the previous year	Increase/(decrease) of the end of the reporting period as compared to the end of the previous year (%)
Total assets	65,329,180	54,851,010	19.10
Shareholders' equity	21,093,675	20,846,781	1.18
Net assets per share (RMB)	3.27	3.23	1.18

	Reporting period (January to June)	Corresponding period of the previous year	Increase/(decrease) of the reporting period as compared to the corresponding period of the previous year (%)
Operating profit	1,428,436	1,312,804	8.81
Profit before tax	1,336,016	1,313,729	1.70
Net profit	1,086,083	1,065,144	1.97
Net profit excluding non-recurring gains or losses	1,166,817	1,064,447	9.62
Basic earnings per share (RMB)	0.1682	0.1650	1.94
Diluted earnings per share (RMB)	0.1520	Not applicable	Not applicable
Return on net assets (%)	5.149	5.109	Up 0.04 pct pt
Net cash flows from operating activities	(1,329,560)	2,224,234	(159.78)
Net cash flows per share from operating activities (RMB)	(0.2060)	0.3446	(159.78)

Note: The above-mentioned indicators such as net profit, net profit excluding non-recurring gains or losses, shareholders' equity, basic and diluted earnings per share and net assets per share are based on figures attributable to shareholders of the listed Company.

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

Item	Amount
Net loss on disposal of non-current assets	(94,304)
Other non-operating income and expenses	(2,248)
Government subsidies	1,504
Income tax effect	14,234
Non-recurring gains or losses attributable to minority shareholders	80
Total non-recurring gains or losses, net	(80,734)

# I. Company Profile (Continued)

## (2) Effects on net profit and net assets of differences in the consolidated accounting statements prepared under PRC Accounting Standards and Hong Kong Accounting Standards (Unit: RMB'000)

	Net profit	Net assets
Prepared under Hong Kong Accounting Standards	1,145,125	21,080,769
Add:		
Deferred income	–	588,570
Less:		
Recognition of deferred income	(25,012)	(165,247)
Provision for furnace relining costs	–	(63,324)
	<hr/>	<hr/>
Prepared under PRC Accounting Standards	<u>1,120,113</u>	<u>21,440,768</u>

## II. Movements in Share Capital and Major Shareholding Structure

### 1. TABLE ON SHARE MOVEMENT

During the reporting period, 87,810,000 domestic legal person shares which were subject to selling restrictions became available for listing and trading on 2 April 2007 when the lock-up period ended. Movements in the share capital structure are as follows:

	Prior to the current movements		Current movements (+,-)					Unit: Shares After current movements	
	Number of shares	(% )	New		Transferred		Sub-total	Number of shares	(% )
			shares issue	Bonus issues	from reserves	Others			
I. Shares subject to selling restrictions									
1. State-owned shares	3,830,560,000	59.34	-	-	-	-	-	3,830,560,000	59.34
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares									
Including:									
Shares owned by domestic legal person	87,810,000	1.36	-	-	-	-87,810,000	-87,810,000	-	-
Shares owned by domestic natural person	-	-	-	-	-	-	-	-	-
4. Foreign-owned shares									
Including:									
Shares owned by foreign legal person	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural person	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions									
1. RMB-denominated ordinary shares	804,000,000	12.45	-	-	-	+87,810,000	+87,810,000	891,810,000	13.81
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	26.85	-	-	-	-	-	1,732,930,000	26.85
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	6,455,300,000	100.00	-	-	-	-	-	6,455,300,000	100.00

## II. Movements in Share Capital and Major Shareholding Structure (Continued)

### 2. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE

#### (1) The number of shareholders and details of the 10 largest shareholders

Unit: Shares

Total number of shareholders The Company had a total of 222,739 shareholders, including 221,067 A-share holders and 1,672 H-share holders at the end of the reporting period.

#### Shareholding of the 10 largest shareholders

Name of shareholder	Type of shareholder	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	59.34	3,830,560,000	3,830,560,000	0
HKSCC (Nominees) Limited	Foreign shareholder	25.68	1,657,722,997	0	unknown
HSBC (Nominees) Limited	Foreign shareholder	0.48	31,040,000	0	unknown
易方達價值成長混合型證券投資基金	Others	0.46	29,642,480	0	unknown
上投摩根中國優勢證券投資基金	Others	0.37	23,994,596	0	unknown
Morgan Stanley China A Share Fund	Foreign shareholder	0.32	20,366,616	0	unknown
華安中小盤成長股票型證券投資基金	Others	0.22	14,386,786	0	unknown
中歐新趨勢股票型證券投資基金(LOF)	Others	0.15	9,421,698	0	unknown
嘉實主題精選混合型證券投資基金	Others	0.12	7,999,921	0	unknown
易方達平穩增長證券投資基金	Others	0.11	7,000,000	0	unknown

## 2. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE (continued)

### (1) The number of shareholders and details of the 10 largest shareholders (continued)

Shareholding of the 10 largest shareholders not subject to selling restrictions

Name of shareholder	Number of shares held not subject to selling restrictions	Type of shares
HKSCC (Nominees) Limited	1,657,722,997	Overseas listed foreign shares
HSBC (Nominees) Limited	31,040,000	Overseas listed foreign shares
易方達價值成長混合型證券投資基金	29,642,480	RMB-denominated ordinary shares
上投摩根中國優勢證券投資基金	23,994,596	RMB-denominated ordinary shares
Morgan Stanley China A Share Fund	20,366,616	RMB-denominated ordinary shares
華安中小盤成長股票型證券投資基金	14,386,786	RMB-denominated ordinary shares
中歐新趨勢股票型證券投資基金(LOF)	9,421,698	RMB-denominated ordinary shares
嘉實主題精選混合型證券投資基金	7,999,921	RMB-denominated ordinary shares
易方達平穩增長證券投資基金	7,000,000	RMB-denominated ordinary shares
大成創新成長混合型證券投資基金	6,794,613	RMB-denominated ordinary shares
Description of any connected relationships or concerted actions among the above -mentioned shareholders	There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and the other shareholders mentioned above, nor were they concerted parties. E Fund Management Co., Ltd. was the manager of both 易方達價值成長混合型證券投資基金 and 易方達平穩增長證券投資基金. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.	

During the reporting period, Holding had disposed of 47,770,000 shares of the Company it held as a domestic legal person. 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 during the reporting period.

HKSCC (Nominees) Limited held 1,657,722,997 H shares of the Company on behalf of multiple clients.

## II. Movements in Share Capital and Major Shareholding Structure (Continued)

### 2. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE (continued)

(2) Save as those disclosed above, details of the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 30 June 2007 are as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (Shares)	Approximate percentage of the Company's issued H shares (%)
Morgan Stanley	Interests of entities controlled by substantial shareholders	227,589,925 (Long position)	13.13
		23,313,617 (Short position)	1.35
JPMorgan Chase & Co.	Note 1 Custodian	153,139,213 (Long position)	8.84
		108,754,000 (Lending pool)	6.28
Halbis Capital Management (Hong Kong) Limited	Investment Manager	111,084,000 (Long position)	6.41
UBS AG	Note 2	107,426,000 (Long position)	6.20
		24,716,000 (Short position)	1.43
Citigroup Inc.	Note 3	88,235,921 (Long position)	5.09
		4,969,700 (Short position)	0.29
		23,334,000 (Lending pool)	1.35
The Goldman Sachs Group, Inc.	Interests of entities controlled by substantial shareholders	88,018,247 (Long position)	5.08

Note 1: JPMorgan Chase & Co. has a long position of 153,139,213 shares, among which 44,385,213 shares were held as the actual owner, and 108,754,000 shares as the custodian.

Note 2: UBS AG has a long position of 92,961,000 shares and a short position of 18,918,000 shares as the actual owner; a long position of 6,740,000 shares as an entity entitled to guaranteed interests in the shares; and a long position of 7,725,000 shares and a short position of 5,798,000 shares in the form of interests held by legal entities controlled by the substantial shareholder.

Note 3: Citigroup Inc. has a long position of 63,327,921 shares and a short position of 4,969,700 shares in the form of interests held by legal entities controlled by the substantial shareholder; a long position of 1,574,000 shares as an entity entitled to guaranteed interests in the shares; and a long position of 23,334,000 shares as a custodian.

### 3. NUMBER OF SHARES HELD BY THE SHAREHOLDER SUBJECT TO SELLING RESTRICTIONS AND ITS SELLING RESTRICTIONS

Unit: Shares

Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Time of listing and trading	Additional listed and tradeable shares	Selling restrictions
Magang (Group) Holding Company Limited	3,830,560,000	31 March 2009	3,830,560,000	NOTE

Note: After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the tradeable date of the shares, and the state-owned shares held by Holding will also not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

### III. Bonds with Warrants

**1. DETAILS OF THE 10 LARGEST HOLDERS OF “06馬鋼債” AS AT THE END OF THE REPORTING PERIOD:**

<b>Name of bond holder</b>	<b>Number of bonds held</b>
Ping An Insurance (Group) Company of China, Ltd.	649,892,000
New China Life Insurance Co., Ltd.	541,629,000
China Pacific Life Insurance Co., Ltd.	515,146,000
China International Capital Corporation Limited	408,559,000
National Social Security Fund No.305	272,536,000
China Marine Finance Co., Ltd.	266,157,000
Tai Kang Life Insurance Co., Ltd. – 萬能一個險萬能	251,748,000
China Life Reinsurance Co., Ltd.	235,300,000
China Credit Trust Co., Ltd. – 2007 Zhong Cheng Xin Tuo Zi FT No.002	200,000,000
Sino-Life Insurance Co., Ltd.	166,096,000

**2. DURING THE REPORTING PERIOD, THE COMPANY HAS NOT ADJUSTED THE PROPORTION OF EXERCISE RIGHTS AND EXERCISE PRICE OF THE WARRANTS AND THERE WERE NO MATERIAL CHANGES IN THE PROFITABILITY, ASSET CONDITION AND CREDIT CONDITION OF HOLDING, THE GUARANTOR.**

## IV. Directors, Supervisors and Senior Management

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As at the end of the reporting period, Directors Mr Gu Jianguo, Mr Gu Zhanggen and Mr Su Jiangang held 3,886 shares each in the Company. There were no changes during the reporting period. None of the remaining directors, supervisors or senior management held any shares of the Company.

Save as disclosed above, as at 30 June 2007, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which were required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance.

During the reporting period, 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 legal corporations.

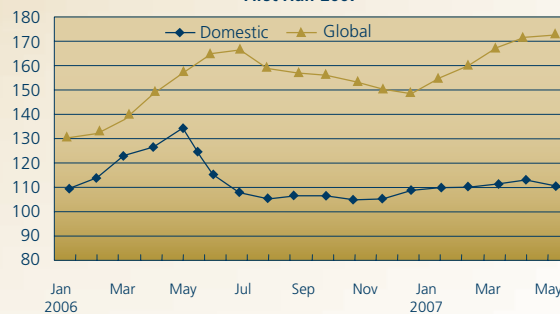
The Articles of Association of the Company has set out clearly the code of behaviour for the Company's directors, supervisors and senior management in dealing with the securities of the Company. All directors of the Company have confirmed in writing that during the reporting period, directors of the Company complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

During the reporting period, there was no new appointment or removal of other directors, supervisors and senior management.

## V. Management Discussion and Analysis

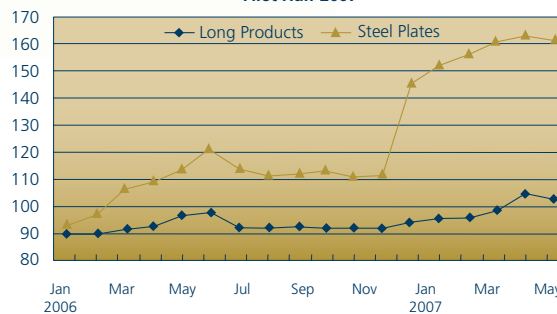
During the first half of 2007, the world economy maintained a relatively fast pace of growth. The global steel product market saw a boom in demand, with market prices rising each month. China's year-on-year GDP growth rate during the first half was approximately 11.5%, with the national economy showing a development trend of relatively fast growth, improved quality and enhanced efficiency, slower growth in fixed asset investments, and enhanced co-ordination among industries. At the year's beginning, driven by both domestic demand and exports, the domestic steel product market witnessed increases in production volume and market prices of steel products. Between April and June, the State had introduced four rounds of measures to limit iron and steel product exports. Steel product prices began to drop in mid-May, and further declined in June. The consolidated price index for steel products was 113.34 by the end of May, and dropped 2.32% to 110.71 by the end of June.

**Consolidated Indices for Global and Domestic Steel Product Prices:  
First Half 2007**



With domestic steel product prices declining after an initial hike, the price trends of different types of products varied. As for steel plates, following the commencement of certain new projects of iron and steel enterprises and the release of production capacity by commenced projects, market supply rose substantially and resulted in stage-wise and structural conflicts with market demand. In May-June, prices of most steel plate products such as hot-rolled thin plates, cold-rolled thin plates and galvanised plates all reported considerable decreases, except medium plates whose prices remained stable due to the relatively fast growth in demand among downstream industries. The demand and supply of long products were basically balanced, with prices relatively stable in general.

**Price Indices for Domestic Long Products and Steel Plates:  
First Half 2007**



On the other hand, external purchase prices for raw materials and fuel as well as transportation costs for iron and steel enterprises continued to rise further during the reporting period, leading to an increase in the production costs of iron as well as steel. According to China Iron & Steel Association's data, the domestic average prices of raw materials for iron and steel increased by over 15% year-on-year during the first half, among which the prices of coke and pig iron for iron-making reported year-on-year increases of over 20%, while scrap steel prices rose by approximately 10% over the same period last year. Meanwhile, due to a continued rise in ocean freight prices, transportation costs for imported iron ore climbed further.

## 1. PRODUCTION OPERATION

During the first half of 2007, the Company adhered to the working theme of “Pushing forward standardisation work, accelerating the implementation of the low-cost strategy and the brand strategy”. On this premise, the Company demonstrated the entrepreneurial spirit, pro-actively coping with the difficulties brought by the gradual completion of certain projects of the new area and the system inspection and maintenance of the old area. Objectives were set for each operating level with accountabilities laid down. As a result, production operation was able to maintain a stable upswing. Major achievements are demonstrated by the following:

- **Pushing forward standardisation work with utmost effort to enhance the variety and quality of products.** The Company pushed forward its standardisation work with the following central thinking: achieving defined standards as the objective; rolling out standardisation work as the groundwork; developing the information system as a means; and formulating position-based standardised operations as the starting point. Accordingly, certain operational, management and technical standards will be cleared up, modified and enhanced through vertical interaction and horizontal coordination. All management requirements, technical indicators and market exigencies will be fully embodied by the standards, thereby providing strong support to a further stabilisation of the production order and an enhancement of product variety and quality.
- **Strengthening the organisation and production work of the new and old areas to achieve a dynamic balance in logistics and steady growth in production.** During the first half, certain projects of the new area were gradually completed with equipment testing and trial production conducted. Meanwhile, the old area underwent a round of large-scale system inspection and maintenance. The Company's original production equilibrium was broken, thereby making production organisation more difficult. In response, the Company adhered to its principle of ensuring stability, balance and efficiency, whilst strengthening production organisation and optimising resource supply, as well as effectively protecting its public facilities. Accordingly, production was on a stable upswing. During the reporting period, the Group produced 5,530,000 tonnes of pig iron, 6,200,000 tonnes of crude steel and 5,710,000 tonnes of steel products, representing year-on-year increases of 19.18%, 16.54% and 15.82%, respectively. Among these, the Company produced 4,980,000 tonnes of pig iron, 5,530,000 tonnes of crude steel and 5,080,000 tonnes of steel products, representing year-on-year increases of 9.93%, 6.76% and 6.28%, respectively.
- **Improving sales and marketing services and reinforcing sales and marketing channels, leading to timely recovery of funds.** Through measures such as in-depth market research, segmenting of consumer markets and enhanced strategic cooperation, production was guided by sales and a balance of production and sales and a timely recovery of funds were ensured. During the first half, the Group sold 5,670,000 tonnes of steel products, among which exports amounted to approximately 630,000 tonnes. The receivable recovery ratio of steel products was 99.1%, with the cash recovery ratio reaching 97.7%. Apart from these, the Company also actively sought strategic customers and engaged in strategic cooperation with certain well-known enterprises in the downstream industries, with specific reference to the sales characteristics of the high-end steel plates produced in the new area.

## V. Management Discussion and Analysis (Continued)

### 1. PRODUCTION OPERATION (continued)

- **Promoting technological advancement to develop new products of high technical standards and high value-added.** The Company's "Research on Steel Used for Heavy Haul Train Wheels and its Key Technologies" was among the first batch being officially established under the "Project 863" of the State's Eleventh Five-Year Plan. Various new products, including H-shaped steel for automobile chassis, pipeline steel of the new area, 40-tonne axle-load train wheels, and so forth. During the first half, the Company produced about 450,000 tonnes of new products including wire rods for standard parts, Japanese standard coil-coating plates for export and fingerprint-resistant galvanised plates.
- **Good progress in the construction of the new area, resulting in early achievement of section-by-section targets.** The new area's iron-making blast furnaces A and B and the steel-making converter No.1 have commenced operation; the steel-making converter No.2 and the hot-rolled thin plate production line have commenced trial production, while the cold-rolled thin plate production line and the galvanising line have commenced equipment testing. The section-by-section targets for the new area's project construction were achieved earlier than scheduled. The old area's technological renovation projects, such as the cold-rolled silicon steel line and phase 2 of the train wheel rolling system capacity enhancement project, progressed as scheduled.
- **Applying new technologies and techniques on saving energy to reduce energy consumption and pollutant emissions.** The Company adopted the "resource enhancement principle" to improve the quality of resources and fuels and to enhance its economic and technical indicators, with a view to achieving energy savings and lower emissions as well as reduced consumption during the production process. Applications of new technologies to save energy and reduce consumption were promoted. Energy-saving and environmental protection projects such as the coke dry quenching equipment and the gas-steam combined cycle power plant (CCPP) were simultaneously installed during the construction of the new area.

## 2. RESULTS OF THE GROUP'S PRINCIPAL OPERATING ACTIVITIES FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

- Operating income amounted to RMB21,027 million, up 25.71% year-on-year. Operating profit was RMB1,428 million, up 8.81% year-on-year. Net profit attributable to shareholders of the parent company was RMB1,086 million, up 1.97% year-on-year.
- The iron and steel segment accounted for about 92.45% of the operating income, as well as approximately 84.30% of the gross operating profit (RMB million):

Business segment/ Product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/(decrease) of operating income (%)	Year-on-year increase/(decrease) of operating cost (%)	Year-on-year increase/(decrease) of gross profit margin
Iron and steel Product Segment	19,439	17,388	10.55	26.05	27.41	Down 0.96 pct pt
Steel plate	7,156	6,460	9.73	33.66	34.50	Down 0.56 pct pt
Section steel	4,362	3,936	9.77	11.59	10.87	Up 0.59 pct pt
Wire rods	6,497	6,093	6.22	36.15	38.07	Down 1.30 pct pts
Train wheels and wheel rims	1,187	675	43.13	5.70	4.33	Up 0.74 pct pt

During the reporting period, the Group sold 1,960,000 tonnes of steel plates, up 21.74% year-on-year; 1,340,000 tonnes of section steel, down 2.19% year-on-year; 2,250,000 tonnes of wire rods, up 26.40% year-on-year; and 120,000 tonnes of train wheels and wheel rims, up 9.09% year-on-year.

- Geographical distribution of principal operating activities (RMB million):

Region	Percentage (%)	Operating income	Year-on-year increase/ (decrease) of operating income (%)
Anhui	37	7,655	61
Jiangsu	16	3,229	1
Shanghai	16	3,345	35
Zhejiang	8	1,718	-8
Guangdong	4	845	35
Other PRC regions	8	1,653	-8
Exports	11	2,305	64

## V. Management Discussion and Analysis (Continued)

### 3. PROFIT BREAKDOWN

Changes in the Group's profit breakdown during the reporting period prepared under PRC Accounting Standards (Unit: RMB million):

Item	January to June 2007	January to December 2006
Operating cost	<b>18,594</b>	30,965
Non-operating income and expenses, net	<b>92</b>	5
Profit before tax	<b>1,336</b>	2,757

Operating cost accounted for 1,391.77% of the profit before tax, up 268.63 percentage points over last year, mainly a result of increased costs in raw material purchases during the reporting period. Non-operating income and expenses, net, were equivalent to 6.89% of the profit before tax, up 6.70 percentage points over last year, primarily attributable to increased net loss from disposal of non-current assets during the reporting period. The gross margin of principal operating activities was 11.59%, a decrease of 0.56 percentage point as compared to the previous year.

### 4. FINANCIAL POSITION AND EXCHANGE RISKS

As at 30 June 2007, the total amount of loans borrowed by the Group was RMB21,328 million, including loans for working capital of RMB8,516 million and construction loans of RMB12,812 million. Except for foreign currency loans amounting to US\$194 million, 742 million Yen and 2 million Euro, all other loans were denominated in RMB. Except for a foreign currency loan amounting to US\$130 million which carried interests at LIBOR plus a fixed percentage and a RMB9,788 million loan which carried interests at a fixed percentage over the People's Bank of China benchmark rate, all other loans carried interests calculated at fixed interest rates. Movements of the Group's bank loans followed the developments in production and construction projects. No overdue payments have been recorded so far.

As at 30 June 2007, in accordance with the PRC Accounting Standards for Business Enterprises, the Group's gearing ratio (total liabilities/total assets) stood at 67.18%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 67.67%.

Presently, other than internal resources and the proceeds from the issuance of the Bonds with Warrants, all capital requirements for the construction of the Company's development projects under the Eleventh Five-year 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 RMB30,677 million.

#### 4. FINANCIAL POSITION AND EXCHANGE RISKS (continued)

During the reporting period, the Group's net cash outflow from operating activities was approximately RMB1,330 million, down 159.78% year-on-year. The major reasons were: (1) In order to optimise the borrowing structure and reduce funding costs, the Company issued two batches of 1-year financial products in June 2007 for an amount of RMB3,000 million. The Company used the proceeds to repay part of the bank borrowings and supplemented its working fund, thereby reducing the discounting volume of bankers' acceptance bills received from the sales of steel products. The Group's cash inflow from operating activities decreased accordingly; (2) During the reporting period, the amount paid by the Company for purchases of raw materials and fuel increased substantially as the Company's production scale expanded. The Group's production operation and funding position were solid during the reporting period.

As at 30 June 2007, the Group's cash and balances with financial institutions amounted to RMB3,698 million. Bills receivable amounted to RM4,844 million (of which bank bills receivable due within three months amounted to RMB2,789 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bankers' 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 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.

## V. Management Discussion and Analysis (Continued)

### 5. INVESTMENTS OF THE COMPANY

During the reporting period, the Group expended a total of RMB5,531 million on construction in progress, down 14.27% from the same period last year.

- **Use of fundraising proceeds**

In 2006, the net proceeds from the Company's issuance of bonds with warrants, excluding issuing fees, amounted to approximately RMB5,355.65 million. Upon securing of the proceeds, the Company followed the stipulations under the "Management System for Specified Depositing and Utilisation of Fundraising Proceeds of Maanshan Iron & Steel Company Limited" to strictly enforce the specified account depositing system for fundraising proceeds, with the proceeds solely used to invest in the 5,000,000-tonne cold and hot thin plate production project as undertaken in the fundraising prospectus. During the reporting period, RMB1,509.30 million of the fundraising proceeds had been used. As at the end of the reporting period, such fundraising proceeds had been used up and the entire amount was used on the 5,000,000-tonne thin plate production project. Details of the undertaken investment projects funded by fundraising proceeds are as follows (RMB million):

Undertaken project	Planned investment amount	Any changes to the project	Actual investment in the project	Revenue generated	Meeting planned progress or not	Meeting planned revenue or not
5,000,000 tonnes cold and hot thin plate production project	5,355.65	No	5,355.65	Not applicable	Yes, in construction	Not applicable
Total	5,355.65	—	5,355.65	—	—	—

- Major investment projects financed by sources other than fundraising proceeds (RMB million)

Project name	Total investment	Construction progress
The cold-rolled silicon steel line	1,030	In equipment installation stage
Phase II of the train wheel rolling system capacity enhancement project	380	In civil construction stage

## 6. INTERNAL CONTROL

The Company's internal control system encompasses the whole production operation process which includes financial budgeting and accounting, production planning, purchases of materials, product sales, external investments, human resource management and internal auditing. The system ensures an orderly conduct of various work of the Company and forms a regulated management system, giving effective control over operating risks.

The finance departments of the Company and its subsidiaries are empowered with the functions of monitoring 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, within a limited scope, the internal control systems and their execution by the Company and its subsidiaries in relation to the preparation of financial statements 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 accounting and finance department of the Company submitted the work report on internal control inspection and supervision to the Audit Committee of the Board of Directors at the end of each year and six-month period. 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 has confirmed that the internal control systems and the risk management procedures of the Company and its subsidiaries were effective in the first half of 2007.

## 7. THE PRODUCTION AND OPERATING ENVIRONMENT AND COPING STRATEGIES

Demand in the international steel product market will remain robust, as it is estimated that the global economy will continue to report solid development in the second half. In the meantime, the domestic economy will maintain a relatively fast pace of growth. The State will adopt austerity measures which include appropriate fiscal and currency policies to prevent the relatively fast-growing economy from becoming overheated.

Judging from the demand and supply of the domestic iron and steel industry in the second half, the production capacity released by completed projects and increased production capacity brought by newly completed projects will increase the supply of certain steel products. The State policy to limit steel product exports will also divert part of the intended steel product exports to the domestic market, while the State's escalated effort to phase out obsolete production capacity will reduce the supply of certain steel products. From the supply side, the rapid development of the construction, automobile, home appliance and shipbuilding industries has set the platform for growth for steel product consumption.

As for the cost aspect, the production and operation of iron and steel will face increased pressure, as prices of major raw materials, fuels and materials for iron and steel production and ocean freight costs will continue to hover at high levels in the second half.

## V. Management Discussion and Analysis (Continued)

### 7. THE PRODUCTION AND OPERATING ENVIRONMENT AND COPING STRATEGIES (continued)

In light of the above-mentioned production and operating environment, the Company will accelerate its change in the mode of economic growth in the second half. With a new development platform, the Company will base on the principle of ensuring stable, balanced and efficient production, and will focus its work on achieving profitability for the new area and on enhancing benchmarks attainment, product quality and management effectiveness. The goal is to accelerate product development, reduce costs and enhance efficiency. Major measures include:

- Strengthening the analysis on the price trends of the resource market and the research on procurement strategies; broadening the resource supply channels and strengthening controls over the purchasing costs of raw materials, fuels, materials, spare parts and components; and improving the mode of logistics to reduce costs.
- Enhancing the grasp on the sophisticated technical equipment in the new area and attaining a full control of production techniques and skills as soon as possible; improving on production/technical indices, realising stable and smooth production in the new area; enhancing management, saving energy and reducing consumption, thereby raising all technical-economic indicators of the new area; pursuing product research and development in the new area to expand product variety and enhance quality; striving for increased production of products with high add-value and high technical quality to achieve higher economic efficiency as soon as possible.
- Strengthening the effort on product development in a market-oriented manner; utilising the internal and external technological resources of the Company to facilitate a smooth operation of the integrated “production-academic studies-research” development approach; maximising the proportion of high-profit products.
- Closely monitoring market changes and striving to meet market demands; channelling market information on hot-selling and high-profit products and guiding production with reference to the profitability of different products; devoting the best effort to the market promotion and market development work for new products, particularly those from the new area, so as to broaden the market for products; dedicating the best effort to the technical service expert team's after-sale services for customers and so as to win a stable and long-term market as a result.
- Taking advantage of the impact of energy-saving projects to fully utilise all sorts of residue gas, heat and power to generate electricity, so as to enhance energy consumption efficiency as a result; pushing forward the recycling of solid wastes and fully utilising useful resources in solid wastes such as fuel coal ash slag, water slag from blast furnaces, steel slag, mud, etc, with a view to enhancing the recycling and utilisation level of resources, saving energy and reducing emission, and developing a recycling economy.

# VI. Significant Matters

## 1. CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clear and unambiguous.

During the reporting period, to further regulate the Company's information disclosure work and to effectively safeguard the legal interests of the Company, its shareholders and its investors, the Company timely amended the information disclosure management measures in accordance with the "Regulations on Information Disclosure of Listed Companies" issued by the China Securities Regulatory Commission (the "CSRC").

The Company has, to the best knowledge of the Board of Directors, complied with the requirements of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the reporting period, and no deviation from the code provisions was found.

## 2. PROFIT DISTRIBUTION PLAN AND IMPLEMENTATION

- (1) The Company's profit distribution plan and implementation for the previous year: a cash dividend of RMB0.13 per share was declared to all shareholders on the basis of a total share capital of 6,455,300,000 shares as at the end of 2006, whereas H share dividends were distributed in Hong Kong dollar. The proposal was approved at the shareholders' general meeting held on 12 June 2007, and relevant announcements were made on 13 June 2007 both within and outside the PRC. The entitlement registration date for A shares was 10 July 2007, ex-dividend date was 11 July 2007, and dividend payment date was 19 July 2007; the register of members of H shares was closed from 11 May to 12 June 2007 (both dates inclusive) during which period no transfer of H shares was effected. Dividend cheques for H shares were posted to the respective holders of H shares on 19 July 2007.
- (2) The Company will not implement profit distribution for the first half of 2007 and no transfer to share capital from capital reserve fund will be conducted.

## 3. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company had no material litigation and arbitration during the reporting period.

## VI. Significant Matters (Continued)

### 4. OVERDUE DEPOSITS

In 1996, the Company deposited HK\$48 million with CITIC Ningbo Inc. ("CITIC Ningbo") for a term of 1 year but CITIC Ningbo did not repay the amount upon maturity. In May 2001, the liquidation team of CITIC Ningbo recognised the Company's creditor rights at approximately HK\$48.42 million, equivalent to approximately RMB51.36 million. In 1996, the Company deposited HK\$50 million with SEG International Trust & Investment Corporation for a term of 9 months. Upon maturity, the defendant gradually repaid in stages approximately RMB6.88 million. The Company won a favourable ruling in court litigation and applied for court enforcement, but the defendant was subsequently closed down by the People's Bank of China for restructuring. Accordingly, the enforcement was terminated. In 1996, the Company deposited HK\$36.46 million with the Shenzhen Branch of Guangdong International Trust & Investment Corporation for a term of 1 year. Since August 2000, the liquidation team had carried out three property distributions upon bankruptcy and a total of RMB7,103,000 has been received by the Company. Such events have been disclosed in the annual reports from 1997 to 2006 and the interim reports from 1998 to 2006.

As at 30 June 2007, the Company's outstanding balance of deposits due from CITIC Ningbo amounted to HK\$48 million, equivalent to RMB49.93 million. The accrued interests receivable was about RMB2.11 million. The outstanding balance of deposits due from SEG International Trust & Investment Corporation amounted to approximately HK\$48.12 million, equivalent to about RMB50.06 million. The outstanding balance of deposits due from Guangdong International Trust & Investment Corporation was approximately HK\$23.32 million, equivalent to about RMB24.26 million and the accrued interests receivable amounted to about RMB2.88 million. The total principal of such overdue deposits was about RMB124.25 million, with accrued interests receivable of approximately RMB4.99 million. Full provisions of bad debts had been made for such amounts in 1998. As assessed by the Board of Directors, it is believed that the likelihood of recovery is very slim as such overdue deposits are already 11 years old. After consideration, it is decided that such overdue deposits and the corresponding bad debt provision will be written off. The write-offs will have no impact on the Company's profit and loss for the current period. Upon writing off the above-mentioned overdue deposits, the Company will remain entitled to the rights to request the above debtors repay the owed amounts and the Company will continue to seek recovery of the principal and accrued interests of the overdue deposits.

5. During the reporting period, save as the shares issued by the following listed companies, the Company did not hold any equity interests in other listed companies, non-listed financial enterprises or companies that were seeking listing status (shareholding unit: shares; amount: RMB):

Stock code	Abbreviation	Shareholding	Shareholding percentage in the relevant company	Initial investment cost	Item category in accounting
000709	Tang Steel Corp	1,304,160	0.058%	4,559,109	Long-term equity investment
600618	Shanghai Chlor-Alkali	164,578	0.014%	807,926	Long-term equity investment
Other securities investments held at the end of the reporting period					
		-	-	-	-
Total		-	-	5,367,035	-

6. During the reporting period, 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.

## 7. CONNECTED TRANSACTIONS

- (1) For the period between 1 January and 30 June 2007, all the ongoing connected transactions between the Company and Holding and its subsidiaries conducted in the normal course of business were settled in cash and had no adverse impact on the profit of the Company.
- During the reporting period, the payment made by the Company to Holding in respect of the "Sale and Purchase of Iron Ore Agreement" between 2007 and 2009 are as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore	830,368	22

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 charged by the top three independent suppliers supplying the largest amounts of iron ore to the Group in the previous year of the contracting year.

## VI. Significant Matters (Continued)

### 7. CONNECTED TRANSACTIONS (continued)

- During the reporting period, save for the connected transactions made pursuant to the "Sale 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 (RMB'000):

	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	2,373	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	21,889	14
Payment by the Company for fixed assets and construction services	118,087	2
Payment by the Company to Holding for other services	100,243	100

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

#### (2) Material contracts with the controlling shareholder

Save for the "Sale and Purchase of Iron Ore Agreement" for 2007-2009 as mentioned above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder as at 30 June 2007.

### 8. CAPITAL UTILISATION

As at 30 June 2007, save for ordinary business transactions and dividends payable to Holding, there was no amount due to or from the Company and connected parties, and neither the controlling shareholder nor its subsidiaries utilised the Company's capital for non-operational purposes.

- There had been no material entrustment, contract or lease made by the Company in relation to any assets of other companies, or vice versa, that took place or subsisted during the reporting period. There had been no entrustment with any other parties made by the Company to implement cash assets management on its behalf that took place or subsisted during the reporting period.

## 10. GUARANTEES

- **Guarantees**

The Company was in strict compliance with the relevant requirements under the “Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Connected Parties and Listed Companies’ Provision of External Guarantees to Other Parties” (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)(Zheng Jian Fa [2003] No. 56) and the “Circular of China Securities Regulatory Commission and China Banking Regulatory Commission on Regulating the External Guarantees Provided by Listed Companies” (《關於規範上市公司對外擔保行為的通知》) (Zheng Jian Fa [2005] No. 120). The Company provided guarantees to Ma Steel International Trade and Economic Cooperation, a wholly-owned subsidiary, amounting to RMB5,291 million, which amount has been fully recognised; to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB63.21 million, which amount has not been recognised; and to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlled subsidiary, amounting to RMB14 million, which amount has been fully recognised.

During the reporting period, the external guarantees incurred amounted to RMB3,950 million, with a remaining balance of RMB5,305 million. The total guarantee amount represented 25.30% of the Company’s net assets as at the end of the reporting period. The guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of Directors beforehand. 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 needed for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the issuing of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery. The guarantees for Anhui Masteel K. Wah New Building Materials Co., Ltd. were only provided for land construction and purchase of equipment. All the guarantees were not applicable for external investments, provisions of guarantees for external parties, provisions of loans to external parties, or grants to external parties.

- **Independent Directors’ opinions**

Pursuant to the provisions under Zheng Jian Fa [2003] No. 56 and Zheng Jian Fa [2005] No. 120, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, independent directors of the Company, have furnished their independent opinions in respect of the Company’s cumulative and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:

- (1) As at 30 June 2007, all the Company’s external guarantees have been approved by the Board of Directors beforehand, with the approval procedures meeting the relevant requirements.
- (2) As at 30 June 2007, no guarantee was provided by the Company either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company’s external guarantees, no guarantees were provided to any shareholders, their actual controlling persons or any of their connected parties, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.
- (3) As at 30 June 2007, total amount of the Company’s cumulative and current period’s external guarantees represented less than 50% of the net assets as stated in the consolidated financial statements of the latest accounting year.

## VI. Significant Matters (Continued)

11. In the process of the State Share Reform carried out in 2006, Holding made the following special undertakings which extend to the reporting period:

- (1) After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the date of obtaining the circulation right, and the State-owned shares held by Holding also will not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to be bound by the same undertakings and for the same period as undertaken by Holding.
- (2) Holding pays all the costs and expenses arising from the State Share Reform.

Moreover, Holding makes representations as follows:

- (1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the CSRC and the Shanghai Stock Exchange, and will bear any relevant legal liabilities.
- (2) Holding will perform its undertakings in a faithful manner and bear any relevant legal liabilities. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

Save for the above-mentioned undertakings, during the reporting period there was no commitment made by the Company or any shareholders interested in 5% or more of the Company's shares that took place or subsisted during the reporting period and might significantly affect the operating results and financial conditions of the Company.

12. The Company re-appointed Ernst & Young Hua Ming and Ernst & Young respectively as the PRC and international auditors of the Company.

13. During the reporting period, none of the Company and its directors, supervisors, senior management, Company shareholder, actual controller, acquirer were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market, published reprimand or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges. The CSRC and its delegated institutions had not inspected or made corrective suggestions to the Company either.

**14.** The list of the Company's ad hoc announcements during the reporting period:

<b>No.</b>	<b>Announcement Title</b>	<b>Date</b>
1	Announcement on Resolution Passed at the 2007 First Extraordinary General Meeting	2 February 2007
2	Announcement on the Listing of Circulating Shares that are Subject to Selling Restrictions	28 March 2007
3	Announcement on Resolutions of the Board of Directors	18 April 2007
4	Announcement on Resolutions of the Supervisory Committee	18 April 2007
5	Notice of Annual General Meeting	26 April 2007
6	Announcement on Resolutions of the Board of Directors	29 May 2007
7	Announcement on Resolutions of the Supervisory Committee	29 May 2007
8	Announcement on Resolutions Passed at the Annual General Meeting	13 June 2007
9	Announcement on Resolutions of the Board of Directors	21 June 2007
10	Announcement on Resolutions of the Supervisory Committee	21 June 2007

All the above announcements were published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>).

**15. INCOME TAX**

On 5 July 2007, the Company noticed through the news media that the State Administration of Taxation had published a notice, ordering the relevant local tax authorities to rectify immediately any continued application of the already expired concessionary policy for the nine companies listed overseas in 1993. The income tax differences for previous years arising from the applicable expired concessionary tax policy shall be treated in accordance with the relevant rules under the Law on the Administration of Tax Collection. Accordingly, the Company published an announcement regarding the issue on the websites of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, as well as the Shanghai Securities News on 6 July 2007. As at the time of disclosure in this report, the Company had not yet received any notice from the tax authorities requesting the Company to adjust its income tax rate. Accordingly, the Company continued to adopt the 15% income tax rate for the reporting period, the same as in the previous fiscal year.

"The Enterprise Income Tax Law of the People's Republic of China" was approved at the fifth meeting of the tenth session of the National People's Congress closed on 16 March 2007, and will be implemented on 1 January 2008. The new enterprise income tax law introduces a series of changes, such as the unified enterprise income tax rate of 25% for both domestic and foreign enterprises. As the detailed implementation guidelines and management rules are not yet available, it is impossible to make reasonable estimates on the future financial impact on the Company to be brought by implementation of the new enterprise income tax law.

## VII. Financial Statements

### CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2007

	Note VI	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB (Restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions	1	3,698,277,732	4,160,704,714
Bills receivable	3	4,843,561,918	681,137,717
Trade receivables	4	833,252,784	582,420,964
Prepayments	5	924,684,464	608,716,305
Other receivables	6	272,799,121	160,637,099
Inventories	7	8,711,069,644	6,540,131,949
Total current assets		<u>19,283,645,663</u>	<u>12,733,748,748</u>
<b>NON-CURRENT ASSETS:</b>			
Held-to-maturity investment	8	8,258,870	8,258,870
Long term equity investments	9	604,569,748	580,331,440
Investment properties	10	1,257,530	3,559,300
Fixed assets	11	26,857,472,072	18,752,595,064
Construction materials		2,097,817,912	2,334,055,945
Constructions in progress	12	14,771,531,886	18,732,921,149
Intangible assets	13	1,577,651,200	1,570,974,980
Deferred tax assets	14	126,975,000	134,565,000
Total non-current assets		<u>46,045,534,218</u>	<u>42,117,261,748</u>
<b>TOTAL ASSETS</b>		<u><b>65,329,179,881</b></u>	<u><b>54,851,010,496</b></u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

(Prepared under PRC accounting standards)

30 June 2007

	Note VI	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB (Restated)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short term loans	16	970,756,986	399,018,506
Bills payable	17	1,909,029,220	1,346,880,982
Accounts payable	18	7,111,636,420	4,650,841,361
Deposits received	19	5,454,743,728	3,924,584,355
Payroll and benefits payable	20	298,771,010	297,882,337
Taxes payable	21	177,492,702	299,623,169
Interests payable		55,609,420	66,785,238
Dividends payable	22	1,651,201,308	408,654,914
Other payables	23	786,028,222	766,937,747
Non-current liabilities due within one year	24	1,351,655,442	409,752,537
Total current liabilities		<b>19,766,924,458</b>	12,570,961,146
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans	25	19,054,601,991	15,713,139,994
Bonds payable	26	4,740,088,415	4,672,376,376
Specific payables	27	116,266,523	116,566,523
Other non-current liabilities	28	96,543,959	496,543,959
Deferred tax liabilities	14	113,987,000	124,144,000
Total non-current liabilities		<b>24,121,487,888</b>	21,122,770,852
Total liabilities		<b>43,888,412,346</b>	33,693,731,998
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	29	6,455,300,000	6,455,300,000
Capital reserve	30	6,039,008,494	6,039,008,494
Surplus reserves	31	2,637,160,200	2,637,160,200
Retained profits		5,962,206,482	5,715,312,635
including: cash dividend proposed by directors		–	1,032,848,000
Equity attributable to equity holders of the parent		<b>21,093,675,176</b>	20,846,781,329
Minority interests	32	347,092,359	310,497,169
Total shareholder's equity		<b>21,440,767,535</b>	21,157,278,498
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>65,329,179,881</b>	54,851,010,496

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

The financial statements from page 28 to page 129 are signed by persons below

Company Representative:  
**Gu Jianguo**

Chief Accountant:  
**Su Jiangang**

Head of Accounting Department:  
**Guan Yagang**

16 August 2007

16 August 2007

16 August 2007

Maanshan Iron & Steel Company Limited

## VII. Financial Statements (Continued)

### CONSOLIDATED INCOME STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	Note VI	For the six months ended 30 June	
		2007 Unaudited RMB	2006 Unaudited RMB (Restated)
<b>Revenue</b>	33	<b>21,026,711,954</b>	16,726,984,448
Less: Cost of sales		<b>(18,593,648,477)</b>	(14,736,483,124)
Taxes and surcharges	34	<b>(168,102,325)</b>	(117,384,317)
Selling expenses		<b>(123,702,417)</b>	(124,171,646)
Administrative expenses		<b>(442,987,192)</b>	(368,837,619)
Financial expenses	35	<b>(307,700,336)</b>	(137,282,094)
Assets impairment losses	36	–	54,857,357
Add: Investment income	37	<b>37,865,269</b>	15,120,523
including: Share of profits and losses of associates and a jointly controlled entity		<b>37,865,269</b>	9,825,562
<b>Operating profit</b>		<b>1,428,436,476</b>	1,312,803,528
Add: Non-operating income	38	<b>4,264,068</b>	2,060,142
Less: Non-operating expenses	39	<b>(96,684,665)</b>	(1,134,728)
including: Loss/(gain) on disposal of non-current assets		<b>(94,304,468)</b>	1,676,553
<b>Profit before tax</b>		<b>1,336,015,879</b>	1,313,728,942
Less: Income tax	40	<b>(215,902,529)</b>	(231,534,610)
<b>Net profit</b>		<b>1,120,113,350</b>	1,082,194,332
Attributable to:			
Equity holders of the parent		<b>1,086,082,847</b>	1,065,144,001
Minority interests		<b>34,030,503</b>	17,050,331
<b>EARNINGS PER SHARE</b>	41		
Basic		<b>16.82 cents</b>	16.50 cents
Diluted		<b>15.20 cents</b>	N/A

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June 2007						
	Attributable to equity holders of the parent						Total shareholder's equity
	Share capital (Note VI.29)	Capital reserve (Note VI.30)	Surplus reserves (Note VI.31)	Retained profits (Note III.24)	Total	Minority interests	
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
1. At 1 January 2007	6,455,300,000	5,453,545,095	2,637,160,200	5,576,101,635	20,122,106,930	310,497,169	20,432,604,099
Add: Adjustments on application of New PRC Standards	-	585,463,399	-	139,211,000	724,674,399	-	724,674,399
2. At 1 January 2007 (restated)	6,455,300,000	6,039,008,494	2,637,160,200	5,715,312,635	20,846,781,329	310,497,169	21,157,278,498
3. Increase/(decrease) during the period							
1) Net profit	-	-	-	1,086,082,847	1,086,082,847	34,030,503	1,120,113,350
2) Gains or losses recognised in equity	-	-	-	-	-	-	-
3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	27,818,021	27,818,021
4) Profits distribution							
a. Final 2006 dividend declared	-	-	-	(839,189,000)	(839,189,000)	-	(839,189,000)
b. Dividend paid to minority shareholders	-	-	-	-	-	(25,253,334)	(25,253,334)
5) Transfers within shareholders' equity	-	-	-	-	-	-	-
4. At 30 June 2007	<u>6,455,300,000</u>	<u>6,039,008,494</u>	<u>2,637,160,200</u>	<u>5,962,206,482</u>	<u>21,093,675,176</u>	<u>347,092,359</u>	<u>21,440,767,535</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June 2006						
	Attributable to equity holders of the parent						Total shareholder's equity Unaudited RMB
	Share capital Unaudited RMB	Capital reserve Unaudited RMB	Surplus reserves Unaudited RMB	Retained profits Unaudited RMB	Total Unaudited RMB	Minority interests Unaudited RMB	
1. At 1 January 2006	6,455,300,000	5,450,345,095	2,380,147,996	4,595,922,817	18,881,715,908	138,188,599	
Add: Adjustments on application of New PRC Standards	-	-	-	64,350,000	64,350,000	-	64,350,000
2. At 1 January 2006 (restated)	6,455,300,000	5,450,345,095	2,380,147,996	4,660,272,817	18,946,065,908	138,188,599	19,084,254,507
3. Increase/(decrease) during the period							
1) Net profit	-	-	-	1,065,144,001	1,065,144,001	17,050,331	1,082,194,332
2) Gains or losses recognised in equity	-	-	-	-	-	-	-
3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	107,870,240	107,870,240
4) Profits distribution							
a. Final 2005 dividend declared	-	-	-	(1,032,848,000)	(1,032,848,000)	-	(1,032,848,000)
b. Dividend paid to minority shareholders	-	-	-	-	-	(25,591,369)	(25,591,369)
5) Transfers within shareholders' equity	-	-	-	-	-	-	-
4. At 30 June 2006	6,455,300,000	5,450,345,095	2,380,147,996	4,692,568,818	18,978,361,909	237,517,801	19,215,879,710

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)  
Period ended 30 June 2007

		For the six months ended 30 June	
	Supplementary information	2007 Unaudited RMB	2006 Unaudited RMB
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		22,926,983,338	19,187,113,629
Refunds of taxes		–	501,386
Cash received relating to other operating activities		<u>3,964,068</u>	<u>2,060,142</u>
Sub-total of cash inflows		<u>22,930,947,406</u>	<u>19,189,675,157</u>
Cash paid for goods and services		(21,038,384,224)	(14,156,030,132)
Cash paid to and on behalf of employees		(1,252,866,467)	(1,109,417,927)
Cash paid for all taxes		(1,817,980,095)	(1,565,406,871)
Cash paid relating to other operating activities (Note VI.42)		<u>(151,277,002)</u>	<u>(134,585,815)</u>
Sub-total of cash outflows		<u>(24,260,507,788)</u>	<u>(16,965,440,745)</u>
Net cash flows from operating activities (note)	(1)	<u>(1,329,560,382)</u>	<u>2,224,234,412</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from returns on investments		36,561,848	18,529,587
Net cash received from disposal of fixed assets, intangible assets and other long term assets		20,928,159	3,795,093
Cash received from retrieval of pledged deposits and overdue deposits		<u>–</u>	<u>3,632,085</u>
Sub-total of cash inflows		<u>57,490,007</u>	<u>25,956,765</u>
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(3,445,814,602)	(5,853,544,092)
Cash paid for acquisitions of investments		(2,700,000)	(7,668,200)
Increase in pledged deposits		<u>(327,565,312)</u>	<u>(422,106,062)</u>
Sub-total of cash outflows		<u>(3,776,079,914)</u>	<u>(6,283,318,354)</u>
Net cash flows from investing activities		<u>(3,718,589,907)</u>	<u>(6,257,361,589)</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	Supplementary information	For the six months ended 30 June	
		2007 Unaudited RMB	2006 Unaudited RMB
<b>3. Cash flows from financing activities:</b>			
Cash received from capital contribution		27,818,021	310,182,835
Cash received from borrowings		11,630,760,852	6,423,656,677
Sub-total of cash inflows		11,658,578,873	6,733,839,512
Cash repayments of borrowings		(6,804,344,125)	(2,258,719,196)
Cash paid for distribution of dividend or profits and for interest expenses		(585,253,589)	(294,635,322)
Sub-total of cash outflows		(7,389,597,714)	(2,553,354,518)
Net cash flows from financing activities		4,268,981,159	4,180,484,994
<b>4. Effect of foreign exchange rate changes on cash</b>		(10,602,004)	11,388,261
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	(3)	(789,771,134)	158,746,078

Note: The net cash outflow from operating activities is mainly due to the significant increase in bills receivable and the large volume raw materials and fuel purchase for the 11-5 plan new production lines.

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB (Restated)
<b>Supplementary information</b>		
<b>(1) Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	1,086,082,847	1,065,144,001
Add: Minority interests	34,030,503	17,050,331
Reversal of provision against inventories	–	(37,181,209)
Reversal of impairment of constructions in progress	–	(17,676,148)
Depreciation of fixed assets	1,322,823,590	1,137,892,924
Depreciation of investment properties	17,225	–
Amortisation of intangible assets	21,162,633	12,259,806
Loss/(gain) on disposal of fixed assets, intangible assets and other long term assets, net	94,304,468	(1,676,553)
Financial expenses	295,515,511	120,495,896
Investment income	(37,865,269)	(15,120,523)
Decrease in deferred tax assets	7,590,000	6,628,000
Decrease in deferred tax liabilities	(10,157,000)	–
Increase in inventories	(2,170,937,695)	(1,344,986,576)
Increase in receivables from operating activities	(4,853,386,202)	(685,150,545)
Increase in payables from operating activities	2,881,259,007	1,966,555,008
Net cash flows from operating activities	<u>(1,329,560,382)</u>	<u>2,224,234,412</u>
<b>(2) Investing and financing activities that do not involve cash receipts and payments:</b>		
Capital contributed in non-cash assets and liabilities by a minority shareholder (Note VI.43)	–	(202,312,595)
<b>(3) Net increase/(decrease) in cash and cash equivalents:</b>		
Cash and balances with financial institutions at end of period (Note VI.1)	2,839,796,920	3,268,015,330
Less: Cash and balances with financial institutions at beginning of period	(3,629,568,054)	(3,109,269,252)
Add: Balance of cash equivalents at end of period	–	–
Less: Balance of cash equivalents at beginning of period	–	–
Net increase/(decrease) in cash and cash equivalents	<u>(789,771,134)</u>	<u>158,746,078</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### COMPANY BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2007

	Note VI	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB (Restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and balances with financial institutions		1,760,267,910	2,808,993,288
Bills receivable		4,603,772,402	613,910,339
Trade receivables	4	985,813,275	539,362,472
Prepayments		898,312,888	733,451,150
Other receivables	6	55,063,316	50,088,671
Inventories		7,682,346,465	6,075,927,157
Total current assets		15,985,576,256	10,821,733,077
<b>NON-CURRENT ASSETS:</b>			
Held-to-maturity investment		8,258,870	8,258,870
Long term equity investments	9	1,773,568,468	1,749,314,443
Investment properties		19,416,706	19,619,230
Fixed assets		25,585,430,842	17,794,289,162
Construction materials		2,086,560,600	2,324,778,635
Constructions in progress		14,740,562,358	18,655,455,975
Intangible assets		1,229,946,653	1,228,644,614
Deferred tax assets		126,975,000	134,565,000
Total non-current assets		45,570,719,497	41,914,925,929
<b>TOTAL ASSETS</b>		<b>61,556,295,753</b>	<b>52,736,659,006</b>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## COMPANY BALANCE SHEET (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

	Note VI	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB (Restated)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short term loans		200,000,000	200,000,000
Bills payable		202,409,675	365,380,982
Accounts payable		7,353,702,570	4,628,322,903
Deposits received		4,753,395,621	3,667,107,146
Payroll and benefits payable		235,568,521	272,275,325
Taxes payable		142,068,006	253,459,226
Interests payable		52,000,833	66,785,238
Dividends payable		1,645,701,308	407,802,582
Other payables		566,894,005	541,690,161
Non-current liabilities due within one year		1,327,180,556	381,328,044
Total current liabilities		<u>16,478,921,095</u>	<u>10,784,151,607</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans		19,040,015,000	15,697,870,000
Bonds payable		4,740,088,415	4,672,376,376
Specific payables		116,266,523	116,566,523
Other non-current liabilities		96,543,959	496,543,959
Deferred tax liabilities		113,987,000	124,144,000
Total non-current liabilities		<u>24,106,900,897</u>	<u>21,107,500,858</u>
Total liabilities		<u>40,585,821,992</u>	<u>31,891,652,465</u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	29	6,455,300,000	6,455,300,000
Capital reserve	30	6,039,008,494	6,039,008,494
Surplus reserves	31	2,564,661,890	2,564,661,890
Retained profits		5,911,503,377	5,786,036,157
including: cash dividend proposed by directors		–	1,032,848,000
Total shareholder's equity		<u>20,970,473,761</u>	<u>20,845,006,541</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><b>61,556,295,753</b></u>	<u><b>52,736,659,006</b></u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### COMPANY INCOME STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2007

		<b>For the six months ended 30 June</b>	
	Note VI	<b>2007 Unaudited RMB</b>	2006 Unaudited RMB (Restated)
<b>Revenue</b>	33	<b>21,538,496,170</b>	16,612,739,225
Less: Cost of sales		<b>(19,439,198,630)</b>	(14,707,740,937)
Taxes and surcharges		<b>(154,655,370)</b>	(111,835,867)
Selling expenses		<b>(116,552,176)</b>	(120,553,315)
Administrative expenses		<b>(361,645,382)</b>	(321,529,530)
Financial expenses		<b>(274,518,431)</b>	(129,691,979)
Assets impairment losses		–	54,857,357
Add: Investment income	37	<b>38,159,847</b>	90,125,482
including: Share of profits and losses of associates and a jointly controlled entity		<b>38,159,847</b>	9,825,562
<b>Operating profit</b>		<b>1,230,086,028</b>	1,366,370,436
Add: Non-operating income		<b>1,158,478</b>	1,804,866
Less: Non-operating expenses		<b>(96,015,028)</b>	(1,124,398)
including: Loss/(gain) on disposal of non-current assets		<b>(94,295,000)</b>	1,676,553
<b>Profit before tax</b>		<b>1,135,229,478</b>	1,367,050,904
Less: Income tax		<b>(170,573,258)</b>	(211,685,636)
<b>Net profit</b>		<b>964,656,220</b>	1,155,365,268
<b>EARNINGS PER SHARE</b>			
Basic		<b>14.94 cents</b>	17.90 cents
Diluted		<b>13.50 cents</b>	N/A

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June 2007				
	Share capital	Capital reserve	Surplus reserve	Retained profits	Total shareholder's equity
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	(Note VI.29)	(Note VI.30)	(Note VI.31)		
	RMB	RMB	RMB	RMB	RMB
1. At 1 January 2007	6,455,300,000	5,453,545,095	2,564,661,890	5,646,825,157	20,120,332,142
Add: Adjustments on application of New PRC Standards	–	585,463,399	–	139,211,000	724,674,399
2. At 1 January 2007 (restated)	6,455,300,000	6,039,008,494	2,564,661,890	5,786,036,157	20,845,006,541
3. Increase/(decrease) during the period					
1) Net profit	–	–	–	964,656,220	964,656,220
2) Gains or losses recognised in equity	–	–	–	–	–
3) Capital contribution and withdrawal by shareholders	–	–	–	–	–
4) Profits distribution Final 2006 dividend declared	–	–	–	(839,189,000)	(839,189,000)
5) Transfers within shareholders' equity	–	–	–	–	–
4. At 30 June 2007	<u>6,455,300,000</u>	<u>6,039,008,494</u>	<u>2,564,661,890</u>	<u>5,911,503,377</u>	<u>20,970,473,761</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June 2006				
	Share capital	Capital reserve	Surplus reserve	Retained profits	Total shareholder's equity
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
1. At 1 January 2006	6,455,300,000	5,450,345,095	2,333,339,350	4,597,770,300	18,836,754,745
Add: Adjustments on application of New PRC Standards	–	–	–	64,350,000	64,350,000
2. At 1 January 2006 (restated)	6,455,300,000	5,450,345,095	2,333,339,350	4,662,120,300	18,901,104,745
3. Increase/(decrease) during the period					
1) Net profit	–	–	–	1,155,365,268	1,155,365,268
2) Gains or losses recognised in equity	–	–	–	–	–
3) Capital contribution and withdrawal by shareholders	–	–	–	–	–
4) Profits distribution					
Final 2005 dividend declared	–	–	–	(1,032,848,000)	(1,032,848,000)
5) Transfers within shareholders' equity	–	–	–	–	–
4. At 30 June 2006	<u>6,455,300,000</u>	<u>5,450,345,095</u>	<u>2,333,339,350</u>	<u>4,784,637,568</u>	<u>19,023,622,013</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## COMPANY CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2007

		For the six months ended 30 June	
	Supplementary information	2007 Unaudited RMB	2006 Unaudited RMB
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		22,033,160,336	19,054,477,447
Cash received relating to other operating activities		858,478	1,804,866
Sub-total of cash inflows		<u>22,034,018,814</u>	<u>19,056,282,313</u>
Cash paid for goods and services		(21,139,145,562)	(14,279,023,182)
Cash paid to and on behalf of employees		(1,075,432,921)	(1,080,451,345)
Cash paid for all taxes		(1,652,922,591)	(1,503,361,961)
Cash paid relating to other operating activities		(133,970,132)	(116,660,504)
Sub-total of cash outflows		<u>(24,001,471,206)</u>	<u>(16,979,496,992)</u>
Net cash flows from operating activities (note)	(1)	<u>(1,967,452,392)</u>	<u>2,076,785,321</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from returns on investments		69,078,838	4,106,494
Net cash received from disposal of fixed assets, intangible assets and other long term assets		20,916,119	2,530,401
Cash received from retrieval of pledged deposits and overdue deposits		-	3,632,085
Sub-total of cash inflows		<u>89,994,957</u>	<u>10,268,980</u>
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		(2,828,993,173)	(6,058,949,193)
Cash paid for acquisitions of investments		(57,511,290)	(272,163,200)
Increase in pledged deposits		(9,000,000)	(37,000,000)
Sub-total of cash outflows		<u>(2,895,504,463)</u>	<u>(6,368,112,393)</u>
Net cash flows from investing activities		<u>(2,805,509,506)</u>	<u>(6,357,843,413)</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### COMPANY CASH FLOW STATEMENT (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	Supplementary information	For the six months ended 30 June	
		2007 Unaudited RMB	2006 Unaudited RMB
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		<u>10,779,374,000</u>	<u>5,960,000,000</u>
Sub-total of cash inflows		<u>10,779,374,000</u>	<u>5,960,000,000</u>
Cash repayments of borrowings		<u>(6,520,128,044)</u>	(1,744,845,396)
Cash paid for distribution of dividend or profits and for interest expenses		<u>(528,478,007)</u>	<u>(259,784,722)</u>
Sub-total of cash outflows		<u>(7,048,606,051)</u>	<u>(2,004,630,118)</u>
Net cash flows from financing activities		<u>3,730,767,949</u>	<u>3,955,369,882</u>
<b>4. Effect of foreign exchange rate changes on cash</b>		<u>(15,531,429)</u>	<u>(6,867,093)</u>
<b>5. Net increase in cash and cash equivalents</b>	(3)	<u>(1,057,725,378)</u>	<u>(332,555,303)</u>

Note: The net cash outflow from operating activities is mainly due to the significant increase in bills receivable and the large volume raw materials and fuel purchase for the 11-5 plan new production lines.

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## COMPANY CASH FLOW STATEMENT (CONTINUED)

(Prepared under PRC accounting standards)

Period ended 30 June 2007

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB (Restated)
<b>Supplementary information</b>		
<b>(1) Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	964,656,220	1,155,365,268
Add: Reversal of provision against inventories	–	(37,181,209)
Reversal of impairment of constructions in progress	–	(17,676,148)
Depreciation of fixed assets	1,264,810,084	1,114,639,372
Depreciation of investment properties	202,524	–
Amortisation of intangible assets	14,697,961	10,518,541
Loss/(gain) on disposal of fixed assets, intangible assets and other long term assets, net	94,295,000	(1,676,553)
Financial expenses	267,647,569	118,786,252
Investment income	(38,159,847)	(90,125,482)
Decrease in deferred tax assets	7,590,000	6,628,000
Decrease in deferred tax liabilities	(10,157,000)	–
Increase in inventories	(1,606,419,308)	(1,299,464,017)
Increase in receivables from operating activities	(4,602,713,483)	(763,462,638)
Increase in payables from operating activities	1,676,097,888	1,880,433,935
Net cash flows from operating activities	<u>(1,967,452,392)</u>	<u>2,076,785,321</u>
<b>(2) Investing and financing activities that do not involve cash receipts and payments:</b>		
	<u>–</u>	<u>–</u>
<b>(3) Net decrease in cash and cash equivalents:</b>		
Cash and balances with financial institutions at end of period	1,751,267,910	2,289,605,812
Less: Cash and balances with financial institutions at beginning of period	(2,808,993,288)	(2,622,161,115)
Add: Balance of cash equivalents at end of period	–	–
Less: Balance of cash equivalents at beginning of period	–	–
Net decrease in cash and cash equivalents	<u>(1,057,725,378)</u>	<u>(332,555,303)</u>

The accompanying notes from page 44 to page 129 form an integral part of the financial statements.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2007

#### 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), 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 headquarter of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC. 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 and related by-products.

The registered capital of the Company amounts to RMB6,455,300,000, and the share number is 6,455.3 million, including 3,830.56 million state-owned shares and 2,624.74 million public individual A and H shares. The nominal value of each share is RMB1.

The parent and ultimate parent is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

#### II. BASIS OF PREPARATION AND STATEMENT OF ADOPTION OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

In accordance with "Circular on Issue of the 38 Specific Accounting Standards" (Cai Kuai [2006] No.3) issued by Ministry of Finance ("MOF"), commencing from 1 January 2007, the Company has adopted the "Accounting Standards for Business Enterprises" and its application guides (the "New PRC Standards") issued by MOF in 2006. These financial statements are prepared in accordance with New PRC Standards. The Company has retrospectively adjusted relevant items in relevant periods and restated the financial statements in accordance with Accounting Standards for Business Enterprises No.38 "first-time adoption of Accounting Standards for Business Enterprises" and "Q&A on Criteria of Information Disclosure by Companies Offering Securities to the Public No.7 – Preparation and Disclosure of Comparative Financial Information in Transition Period of Former and New Accounting Standards" (Zheng Jian Kuai Ji Zi [2007] No.10) issued by China Securities Regulatory Commission ("CSRC"). Please refer to Note III.24 for the details of the impact.

The financial statements are prepared on an ongoing basis.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

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### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information stated in the financial statements is prepared in accordance with the below significant accounting policies and accounting estimates.

#### 1. Financial year

The financial year of the Group is from 1 January to 31 December of each calendar year.

#### 2. Reporting currency

Renminbi, in which these financial statements are presented, is used as the Group's reporting and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's overseas subsidiaries use their respective local currencies for reporting purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

#### 3. Basis of accounting and measurement

The Group's accounts have been prepared on an accrual basis, and they have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value.

#### 4. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the six months ended 30 June 2007. Subsidiaries refer to the investee companies controlled by the Group.

The subsidiaries adopt the same accounting period and accounting policies as the Company when preparing consolidated financial statements. All significant intro-group transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the share of the shareholder's equity of the consolidated subsidiaries not held by the Group, and is presented separately in the consolidated financial statements.

#### Business combination involving entities not under common control

The Group uses the purchase method to account for business combination involving entities not under common control. The cost of a business combination is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer for control of the acquiree at the acquisition date. At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities acquired by the Group are recognised at the fair value.

# VII. Financial Statements (Continued)

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 4. Basis of consolidation (continued)

##### Business combination involving entities not under common control (continued)

The Group recognises the cost, being the excess of the acquirer's cost of a business combination over the acquirer's interest in the identifiable net fair value of the acquiree obtained in the business combination, as goodwill. Goodwill is measured as the net amount of the cost and accumulated impairment. If the acquirer's cost of a business combination is less than the acquirer's interest in the identifiable net fair value of the acquiree obtained in the business combination, such difference will be recognised in profit and loss immediately after reassessment.

The acquiree's operating results are included in consolidation since the date on which the Group obtains control, until the date that such control ceases.

##### Business combination involving entities under common control

The Group adopts the pooling of interests method to account for business combination involving entities under common control. The assets and liabilities acquired from acquiree are recorded under book value, except for adjustments made due to difference in accounting policies applied to the acquirer and the acquiree, and therefore, no goodwill is raised and recognised. The difference between net assets acquired in the business combination and carrying amount of consideration is recorded in share holder's equity. The net profit the acquiree earned before acquisition date is included in consolidated income statement of the period.

#### 5. 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.

#### 6. Foreign currency

##### Foreign currency transaction

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recognised as translation amount of reporting currency at current exchange rates of the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into reporting currency at the current exchange rates of the balance sheet date. The consequential exchange gains or losses are dealt with in the current period's income statement except for those related to borrowings to finance the acquisition or construction of fixed assets, which are accounted for according to the requirements relating to the capitalisation of borrowing costs.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 6. Foreign currency (continued)

##### Translation of overseas businesses

The Group translates reporting currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated 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; all income statement items are translated at the average exchange rates during the period. Exchange differences arising from the translation mentioned above are recognised as the exchange fluctuation reserve, and are presented separately in the shareholder's equity of balance sheet. When such overseas businesses disposes, related exchange fluctuation reserve will be ceased to current profit and loss of the same period. All cash flow statement items are translated into Renminbi at the average exchange rates during the period.

#### 7. 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 initially recognised at cost, which comprises of purchase cost, processing cost, and other costs.

Cost of delivered inventories, other than spare parts, are determined on weighted average basis. Cost of spare parts, lower price consumables and packing materials are charged to the income statement when issued.

Inventories are accounted for using perpetual inventory system.

Inventories are stated at the lower of cost and net realisable value. Provision is determined as the excess of carrying value of the inventories over its net realisable value, and is charged to profit and loss of current period. Net realisable value is the estimated selling prices in the ordinary course of business less any estimated costs of completion and estimated selling expenses and taxes. Provision is considered on an individual basis for finished goods and work in progress, and on category basis for raw materials and spare parts.

Contract costs incurred comprise direct materials, direct labour, utilization 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 period end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognised as current expenses.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 8. Long term equity investments

Long term equity investments are initially recorded at initial investment cost on acquisition.

The cost method is applied for long term equity investments when the Group can control the investee company, and the investee companies are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured.

When the cost method is adopted, profits or cash dividends declared to be distributed by the investee companies are recognised as investment income in the current period. Such investment income shall not exceed the distribution amount of accumulated net profit after the investment acquired by the Group. The excess of profits and cash dividends are treated as a recovery of initial investment cost.

The equity method is applied for long term equity investments when investee companies are jointly controlled or significantly influenced by the Group.

When the equity method is adopted, the initial cost of the investment in excess of the investor's share of investee company's fair value of the identifiable net asset is recorded in initial investment cost; if the amount of initial cost of the investment falls short of the investor's share of investee company's fair value of the identifiable net asset, such difference is charged to income statement in the period, and initial investment cost is adjusted accordingly.

When the equity method is adopted, after the acquisition of the equity investment, the Group's share of the investee company's net profit or loss in current period is recognised as investment income and the carrying amount of the investment is adjusted accordingly. The Group's share of profits distribution or cash dividends declared by the investee company is deducted from the carrying amount of the investment. The Group's share of the investee company's net loss are recognised as investment loss and deducted from the carrying amount of the investment to the extent that the carrying amount of the investment is zero, except for which the Group has extra obligation to assume loss of the investee company. For the adjustments to the shareholder's equity of investee company other than net profit or loss, the Group adjusts both carrying amount of investment cost and shareholder's equity accordingly, and transfers the adjusted amount to income statement in the period when the investment is disposed.

When long term equity investments are disposed, the differences between carrying amount and actual proceeds received will be charged to income statement. The changes of the investee company's equity other than net profit or loss, which are recorded in equity, are proportionately transferred from equity to income statement when the investment is disposed.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 9. Investment properties

Investment properties are interests in land and buildings, including land use rights for lease, held to earn rental income and/or for capital appreciation.

Investment properties are initially measured at cost.

The Group accounts for investment properties under cost method. Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life.

#### 10. Fixed assets

Fixed assets represent tangible assets with useful lives exceeding 1 year, which are held for the purposes of production of products, provision of services, leasing or operational use.

Fixed assets are recognised in situations where it can be clearly demonstrated that their related future economic benefits flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met, otherwise, is recorded as expenses in the current period.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprise its purchase price, 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.

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	<b>Estimated useful life</b> (year)	<b>Estimated residual value</b> (%)	<b>Annual depreciation rate</b> (%)
Buildings and structures	10-20	3	4.9-9.7
Plant, machinery and equipment	10	3	9.7
Transportation vehicles and equipment	5	3	19.4

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjust if appropriate, at least at each balance sheet date.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 11. Construction in progress

Construction in progress includes all costs incurred during the preparation period before 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, etc.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

#### 12. 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.

#### 13. Intangible assets

The Group's intangible assets represent land use rights and iron ore mining rights, which are initially measured at cost.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets without certain useful lives.

The useful lives of the Group's intangible assets are as follows:

	<b>Useful life</b>
Land use rights	50 years
Mining rights	25 years

Intangible assets with finite useful lives are amortised over the useful lives on straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

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### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 14. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset will be derecognised when, and only when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred, and the transfer qualifies for derecognition.

A financial liability is fully or partially derecognised when, and only when, the current obligation specified in the contract is fully or partially discharged.

##### Classification and measurement of financial assets

The Group classifies its financial assets into four categories when initial recognition, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value when initial recognition. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise of trading financial assets and those that are designated by the Group as at fair value through profit or loss upon initial recognition. Trading financial assets includes financial assets acquired principally for the purpose of sale in short term, and derivatives. Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in income statement in the current period.

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than those that meet the definition of the other three categories. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

# VII. Financial Statements (Continued)

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 14. Financial instruments (continued)

##### Classification and measurement of 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. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised, impaired, or amortised.

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

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the other three categories of financial instruments. The Group measures available-for-sale financial assets at fair value upon subsequent recognition. The premium or discount is amortised using the effective interest method, with interests recognised in income statement. The fair value changes of available-for-sale financial assets are recognised as a separate part of capital reserves. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in capital reserves in prior period are transferred to income statement in current period.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

##### Classification and measurement of financial liabilities

The Group classifies its financial liabilities as: financial liabilities at fair value through profit or loss, and other financial liabilities. For those not classified as financial liabilities at fair value through profit or loss, its transaction costs are recognised as initial cost.

###### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise of trading financial liabilities and those that are designated by the Group as at fair value through profit or loss upon initial recognition. Such financial liabilities are measured under fair value method subsequently. All realised and unrealised gains or losses are recognised in income statement in the current period.

###### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

###### *Financial guarantee contracts*

Financial guarantee contracts are initially recognised at fair value, and subsequently measured at the higher of (i) the fixed amount of provisions and (ii) the amount initially recognised less, where appropriate, cumulative amortisation.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 14. Financial instruments (continued)

##### Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. Such techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

##### Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

##### *Financial assets carried at amortised cost*

If there is objective evidence that the financial asset carried at amortised cost impaired, the asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred), the reduced amount is recognised in income statement in current period. The present value of estimated future cash flows is determined with the financial asset's original effective interest rate, taking into account the carrying amount of guarantees.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in current period when objective evidence of impairment exists. Assets that are individually insignificant are also assessed individually. Assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

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 and recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms. The carrying amount of the receivables is reduced through the use of an allowance account (bad debt provision). Impaired debts are derecognised when they are assessed as uncollectible.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 14. Financial instruments (continued)

##### Impairment of financial assets (continued)

###### *Financial assets carried at cost*

If there is objective evidence that an impairment loss on the financial asset 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 discounted at the current market rate of return for a similar financial asset, and recognised in profit or loss. Impairment losses on these assets are not reversed.

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

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in capital reserve due to decline in the fair value shall be removed from capital reserve and recognised in profit or loss. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted of any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

##### **Financial assets transfer**

Financial assets transfer refers to that the Group releases or delivers financial assets to an entity (transfer-in entity) other than the issuer of the financial assets.

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the financial asset shall be derecognised; if the Group retains substantially all the risks and rewards of ownership of the financial asset, the financial asset shall continue to be recognised.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case: (i) if the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; (ii) if the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset and recognises the associated liabilities.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 15. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs commences when:

- (i) expenditures for the assets are being incurred;
- (ii) borrowing costs are incurred;
- (iii) the acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale has commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense.

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following method:

- For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income.
- For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

#### 16. Impairment of non-financial assets

The Group determines the impairment of assets other than inventories, deferred tax assets and financial assets according to following method:

As at the balance sheet date, whether an indication of impairment exists is assessed. If indications of impairment are present, the asset's recoverable amount is estimated to perform impairment test. For all goodwill acquired in business combinations and intangible assets with an indefinite life, an annual impairment test is performed no matter whether there is any indication of impairment.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 16. Impairment of non-financial assets (continued)

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. The CGU is recognised based on whether the cash inflows generated by the CGU are largely independent to that of other assets or CGUs.

When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to income statement and an impairment allowance is provided.

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated CGUs based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated CGUs, the goodwill is allocated to associated groups of CGUs. The associated CGUs or groups of CGUs represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

If indications of impairment are present for the CGUs (or groups of CGUs) to which goodwill has been allocated firstly test the CGUs (or groups of CGUs) to which goodwill has not been allocated and recognise the associated impairment loss. Then compare the carrying amount of the CGUs (or groups of CGUs) to which goodwill has been allocated, with its recoverable amount. If the recoverable amount is lower than the carrying amount, impairment loss of goodwill is recognised.

Impairment losses cannot be reversed in succeeding accounting periods.

#### 17. Provisions

A provision is recognised when:

- the obligation is a present obligation assumed by the Group;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 18. Revenue

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

##### Revenue from the sale of goods

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 the relevant amounts of costs can be measured reliably.

##### Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction.

##### Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and effective interest rate.

##### Lease income

Lease income from operating lease is recognised over the lease terms on a straight-line basis.

#### 19. Lease

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed finance lease. All the other leases are termed operating leases.

Operating lease rentals are charged to associated assets costs or the income statement over the lease terms on a straight-line basis.

# VII. Financial Statements (Continued)

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 20. Payroll and benefits payables

Payroll and benefits for employees, including payroll, bonus, allowances, subsidies, welfare fee, social insurances, housing funds and etc., are recognised in the accounting period the employee served. Payroll and benefits payables that due over 1 year after balance sheet date, if the discounted effect is significant, is presented with their present values.

#### 21. Income tax

Income tax comprises current and deferred tax. Current and deferred tax is normally recognised as income or expense in the profit or loss for the period, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; or, tax arising from an item that has been recognised directly in equity, which recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

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 purpose.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

- (1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to temporary differences associated with subsidiaries, joint ventures and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 21. Income tax (continued)

- (2) as to deductible temporary differences associated with subsidiaries, joint ventures and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the balance sheet date.

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.

#### 22. 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 is used to compensate expenses or losses in future periods, the fair value is credited to a deferred income account and is charged to income statement over the periods to match the grant on a systematic basis to the costs that it is intended to compensate. When 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.

#### 23. Significant accounting judgements and estimates

##### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements:

##### *Operating lease – the Group as lessor*

The Group signed lease contracts on the investment properties. As the Group retained all the risks and rewards associated to ownership of these properties, the leases are accounted as operating leases.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 23. Significant accounting judgements and estimates (continued)

##### Judgements (continued)

###### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

##### Accounting estimation uncertainty

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 the useful lives are less than the 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 III 16. An asset's recoverable amount is calculated as the higher of the asset's or CGU'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 is 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 23. Significant accounting judgements and estimates (continued)

##### Accounting estimation uncertainty (continued)

###### *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.

###### *Income tax*

The Group is subject to income taxes in various regions within the PRC. Due to 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 provision in the period in which the differences realised.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 24. First-time adoption of Accounting Standards for Business Enterprises

As stated in Note II, the Group has adopted the New PRC Standards since 1 January 2007. The cumulative impact is as following:

##### Net profit attributable to equity holders of the parent

	Note	For six months ended 30 June 2006 Unaudited RMB
Before retrospective adjustments		1,071,772,001
Adjustment: Income tax	(ii)	(6,628,000)
After retrospective adjustments		<u>1,065,144,001</u>

##### Equity attributable to equity holders of the parent

	Notes	30 June 2006 Unaudited RMB	31 December 2006 Unaudited RMB
Before retrospective adjustments		18,920,639,909	20,122,106,930
Adjustments:			
Recognition of equity component of bonds with warrants (Note VI.30)	(i)	–	714,253,399
Income tax Including: Income tax recognised in capital reserves (Note VI.30)	(ii)	–	(128,790,000)
Income tax recognised in retained profits	(ii)	57,722,000	139,211,000
After retrospective adjustments		<u>18,978,361,909</u>	<u>20,846,781,329</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### 24. First-time adoption of Accounting Standards for Business Enterprises (continued)

Notes:

- (i) Recognition of equity component of bonds with warrants

Under the Accounting Standards for Business Enterprises No. 37, "Presentation of Financial Instruments", the bonds with warrants issued on 13 November 2006 are determined as a compound financial instrument and should be separately classified as liability and equity components. When conducting the splitting, the fair value of the liability component should be firstly determined, and the carrying amount of the equity component is then determined by deducting the fair value of the liability component from the issue price of the compound financial instrument as a whole. Direct issue costs of the compound financial instrument should be allocated between the liability and equity component according to the proportions of their fair values. The retrospective adjustment has been made to related accounts.

- (ii) Income tax

Under the Accounting Standards for Business Enterprises No. 18, "Income taxes", deferred tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. The retrospective adjustment has been made to related accounts.

### IV. TAX

The principal kinds of taxes and the related rates are as follows:

- (i) Value-added tax ("VAT")

The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refunds rates of 8%-13%. Since April 2007, tax refunds for export of certain products were cancelled and the refunds rates for other products were adjusted to 5%-13%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.

- (ii) Business tax

Payable based on 3%-5% of the taxable income.

- (iii) City construction and maintenance tax

Payable based on 7% of the net VAT and business tax to be paid.

- (iv) Education surcharge

Payable based on 3% of the net VAT and business tax to be paid.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### IV. TAX (CONTINUED)

- (v) Local education surcharge  
Payable based on 1% of the net VAT and business tax to be paid.
- (vi) Flood prevention fund  
Payable based on 0.06% of last year's taxable income.
- (vii) Real estate tax  
Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
- (viii) 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 period 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. 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 period.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

The consolidated financial statements include the subsidiaries below, which was same with prior year:

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 %
<u>Subsidiaries</u>							
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	150,215,427	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, construction supervision and contract service	RMB50,000,000	RMB50,000,000	46,162,230	58.96	7.86
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	RMB8,000,000	RMB8,000,000	10,423,870	93.75	4.18
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 consultation services	USD4,290,000	USD4,290,000	31,391,005	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	42,506,592	70	30

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### V. 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 %
<i>Subsidiaries (continued)</i>							
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; provision of storage and after-sales services	RMB30,000,000	RMB30,000,000	-	-	92
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	90,633,833	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	HKD4,800,000	HKD4,800,000	39,713,102	80	20
Anhui Masteel Holly Industrial Co. ("Holly Industrial")	Anhui, PRC	Production and sale of packing materials for steel and other products; provision of on-site packing service; research & development, production and sale of vehicle spare parts, electronic engineering products, macromolecular compound materials; processing and sale of metallic products	RMB30,000,000	RMB30,000,000	74,788,765	71	-

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### V. SUBSIDIARIES, JOINT CONTROL 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 %
<i>Subsidiaries (continued)</i>							
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Anhui, PRC	Provision of equipment inspection technique consultancy services, equipment inspection services and work	RMB1,000,000	RMB1,000,000	3,004,801	90	-
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	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	RMB120,000,000	90,626,684	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	2,047,819	100	-
Maanshan Iron & Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Australia	Production and sales of iron ore through an unincorporated joint venture	AUD21,737,900	AUD21,737,900	158,643,097	100	-

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### V. SUBSIDIARIES, JOINT CONTROL 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 %
<i>Subsidiaries (continued)</i>							
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Anhui, PRC	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services	RMB500,000,000	RMB334,495,000	251,779,464	71	-
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing")	Anhui, PRC	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, construction steel framework products; provision of storage and transportation services	RMB120,000,000	RMB96,400,000	73,187,957	61	28
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing")	Jiangsu, PRC	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sales and storage services (except dangerous products)	USD20,000,000	USD20,000,000	117,079,496	71	-

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### V. 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 %
<u>Associates</u>							
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	-
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 & steel e-commerce and related services; provision of iron & 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")	Anhui, PRC	Loading/unloading, cargo forwarding agency service, storage, transmitting of cargo and division or merge of cargo in containers; provision of general services to ships, repairing and manufacturing of spare parts	RMB250,000,000	RMB250,000,000	112,500,000	45	-

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### V. 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 %
<u>Associates (continued)</u>							
安徽奧馬特汽車變速系統有限公司 ("奧馬特變速系統")	Anhui, PRC	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	RMB50,000,000	RMB13,471,500	-	-	31.95
安徽馬鋼立體智能停車設備有限公司 ("馬鋼智能停車")	Anhui, PRC	Development, production installation, and sales of automatic parking equipments, storage equipments, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters and provision of related integration and consulting services	USD2,500,000	USD2,500,000	-	-	25
<u>Jointly-controlled entity ("JCE")</u>							
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Anhui, PRC	Manufacture and sale of air products (hydrogen, oxygen, argon and other gases) in gas and liquid states and other industrial gases, provision of products related sales and supply work and technical services and other related services	RMB468,000,000	RMB468,000,000	234,000,000	50	-
Total					1,679,480,142		

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VI. MAJOR NOTES TO FINANCIAL STATEMENTS

#### 1. Cash and balances with financial institutions

	30 June 2007 Unaudited			31 December 2006 Audited		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
Cash on hand						
-RMB	-	-	869,504	-	-	200,631
Balances with financial institutions						
-RMB	-	-	2,537,635,169	-	-	3,306,174,722
-HKD (note 2)	18,193,538	0.9744	17,728,398	305,323	1.0047	306,691
-USD	23,300,663	7.6155	177,446,705	19,946,528	7.8087	155,789,281
-EUR	1,272,841	10.2337	13,025,885	3,209,257	10.2665	32,947,833
-JPY	136,012,836	0.0618	8,408,858	1,030,670,853	0.0656	67,642,928
-AUD	12,972,344	6.4607	83,810,426	9,702,434	6.1579	59,746,618
			<u>2,838,055,441</u>			<u>3,622,608,073</u>
Others						
-RMB	-	-	851,505,991	-	-	526,197,697
-USD	1,000,000	7.6155	7,615,500	1,000,184	7.8087	7,838,098
-EUR	-	-	-	363,170	10.2665	3,728,484
-JPY	3,741,220	0.0618	231,296	2,007,165	0.0656	131,731
			<u>859,352,787</u>			<u>537,896,010</u>
Total			<u><u>3,698,277,732</u></u>			<u><u>4,160,704,714</u></u>

The balances of cash and cash equivalents are as follows:

	30 June 2007 Unaudited RMB	30 June 2006 Unaudited RMB
Cash and bank balances	3,698,277,732	3,832,235,732
Less : Pledged deposits for trading facilities	(858,480,812)	(564,220,402)
Cash and cash equivalents	<u><u>2,839,796,920</u></u>	<u><u>3,268,015,330</u></u>

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 2. Balances with financial institutions

As at balance sheet date, following overdue Hong Kong dollar fixed deposit with non-bank financial institutions has been fully liquidated.

	Notes	30 June 2007 Unaudited HKD'000	31 December 2006 Audited HKD'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	–	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(ii)	–	48,000
SEG International Trust & Investment Corporation ("SEG")	(ii)	–	48,125
		<u>–</u>	<u>119,442</u>

- (i) 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. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the period from 1 January 2005 to the balance sheet date, no repayments have been received from GITIC.
- (ii) The Company has registered its debts with the liquidators. Up to the balance sheet date, no repayments have been received from Ningbo CITIC and SEG.

As the ageing of the aforesaid overdue deposit is over 11 years, the directors opined that the possibility to recover these overdue deposits is remote. Based on the above factors, the overdue fixed deposits and relevant provisions had been written off in current period.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 3. Bills receivable

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Bills receivable	<b>4,843,561,918</b>	681,137,717

As at the balance sheet date, the Group does not hold any discounted bills with recourse yet to mature.

The increase in the Group's bills receivable by 611% was mainly attributable to the decrease in payments by bills endorsement for materials purchase.

As at balance sheet date, the balance of bills receivable does not contain any amount due from shareholders who hold 5% or above of the Company's equity interests.

#### 4. Trade receivables

The Group's credit terms are usually 30 to 90 days. And trade receivables are interest free.

Trade receivables ageing analysis:

	<b>Group</b>		<b>Company</b>	
	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Trade receivables				
Within one year	<b>825,596,379</b>	569,139,754	<b>982,695,370</b>	529,392,156
One to two years	<b>10,172,386</b>	11,991,603	<b>6,424,178</b>	9,061,019
Two to three years	<b>7,815,410</b>	7,842,899	<b>6,525,854</b>	6,963,324
Over three years	<b>34,910,008</b>	34,385,996	<b>34,910,008</b>	34,385,996
	<b>878,494,183</b>	623,360,252	<b>1,030,555,410</b>	579,802,495
Less: Provision for bad debts	<b>(45,241,399)</b>	(40,939,288)	<b>(44,742,135)</b>	(40,440,023)
Total	<b>833,252,784</b>	582,420,964	<b>985,813,275</b>	539,362,472

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 4. Trade receivables (continued)

Trade receivables balance analysis:

	Group							
	30 June 2007 Unaudited				31 December 2006 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Individually significant	745,448,658	85	(34,557,854)	5	579,605,024	93	(32,835,948)	6
Other insignificant	133,045,525	15	(10,683,545)	8	43,755,228	7	(8,103,340)	19
<b>Total</b>	<b>878,494,183</b>	<b>100</b>	<b>(45,241,399)</b>		<b>623,360,252</b>	<b>100</b>	<b>(40,939,288)</b>	

	Company							
	30 June 2007 Unaudited				31 December 2006 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Individually significant	947,025,460	92	(34,557,854)	4	534,142,988	92	(32,835,948)	6
Other insignificant	83,529,950	8	(10,184,281)	12	45,659,507	8	(7,604,075)	17
<b>Total</b>	<b>1,030,555,410</b>	<b>100</b>	<b>(44,742,135)</b>		<b>579,802,495</b>	<b>100</b>	<b>(40,440,023)</b>	

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 4. Trade receivables (continued)

Analysis of the amount of bad debts provision written off in the current period:

Reason	Group and Company	
	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Bankrupt or liquidated debtors	–	307,795

The top five largest trade receivables of the Group and the Company amounted to RMB217,435,264 and RMB425,709,520, which accounted for 25% and 41% of the gross trade receivables of the Group and the Company respectively. The ageing of such balances are within one year.

The increase in the Group's trade receivables by 43% was mainly attributable to the increase in export sales with credit terms.

Except for those as stated in Note VIII.5, the balance of trade receivables does not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

The movement of bad debts provision for trade receivables for the current period is disclosed in Note VI.15.

#### 5. Prepayments

Prepayments ageing analysis:

	30 June 2007 Unaudited		31 December 2006 Audited	
	Balance RMB	Ratio %	Balance RMB	Ratio %
Within one year	826,111,031	89	517,690,362	85
One to two years	19,065,270	2	11,517,780	2
Two to three years	–	–	20,000,000	3
Over three years	79,508,163	9	59,508,163	10
Total	<u>924,684,464</u>	<u>100</u>	<u>608,716,305</u>	<u>100</u>

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 5. Prepayments (continued)

Analysis of balances aged over one year:

	30 June 2007 Unaudited			31 December 2006 Audited		
	Balance RMB	Ratio %	Reason of outstanding	Balance RMB	Ratio %	Reason of outstanding
Individually significant	59,508,163	60	Note	59,508,163	65	Note
Other insignificant	39,065,270	40	Note	31,517,780	35	Note
Total	<b>98,573,433</b>	<b>100</b>		<b>91,025,943</b>	<b>100</b>	

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

The increase in the Group's prepayment by 52% was mainly attributable to the increase in prepayment for coal purchase.

Except for those as stated in Note VIII.5, the balance of prepayments does not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

#### 6. Other receivables

Other receivables ageing analysis:

	Group		Company	
	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Other receivables				
Within one year	271,513,606	159,246,588	53,895,730	48,777,104
One to two years	892,156	676,445	826,279	648,433
Two to three years	2,405,625	2,197,702	2,404,505	2,197,702
Over three years	18,666,730	24,689,111	18,615,798	24,638,179
	<b>293,478,117</b>	186,809,846	<b>75,742,312</b>	76,261,418
Less: Provision for bad debts	<b>(20,678,996)</b>	(26,172,747)	<b>(20,678,996)</b>	(26,172,747)
Total	<b>272,799,121</b>	160,637,099	<b>55,063,316</b>	50,088,671

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 6. Other receivables (continued)

Other receivables balance analysis:

	Group							
	30 June 2007 Unaudited				31 December 2006 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Individually significant	263,067,342	90	(15,141,389)	6	135,365,086	72	(11,987,110)	9
Other insignificant	30,410,775	10	(5,537,607)	18	51,444,760	28	(14,185,637)	28
<b>Total</b>	<b>293,478,117</b>	<b>100</b>	<b>(20,678,996)</b>		<b>186,809,846</b>	<b>100</b>	<b>(26,172,747)</b>	

	Company							
	30 June 2007 Unaudited				31 December 2006 Audited			
	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %	Balance RMB	Ratio %	Provision for bad debts RMB	Ratio %
Individually significant	57,463,491	76	(15,141,389)	26	34,031,502	45	(11,987,110)	35
Other insignificant	18,278,821	24	(5,537,607)	30	42,229,916	55	(14,185,637)	34
<b>Total</b>	<b>75,742,312</b>	<b>100</b>	<b>(20,678,996)</b>		<b>76,261,418</b>	<b>100</b>	<b>(26,172,747)</b>	

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 6. Other receivables (continued)

Analysis of the amount of bad debts provision written off in the current period:

Reason	Group and Company	
	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	<b>5,493,751</b>	–

The top five largest other receivables of the Group and the Company both amounted to RMB8,488,475, which accounted for 3% and 11% of the gross trade receivables of the Group and the Company respectively. Except for RMB2,026,532 with ageing over 3 years, the ageing of such receivables is within 1 year.

The increase in the Group's other receivables by 70% was mainly attributable to the increase in prepayments of import customs and taxes.

At the balance sheet date, the balance of other receivables does not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

The movement of bad debts provision for trade receivables for the current period is disclosed in Note VI.15.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 7. Inventories

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Raw materials	<b>4,476,387,092</b>	3,593,290,386
Work in progress	<b>800,178,213</b>	538,136,776
Construction contract	<b>56,437,757</b>	51,118,889
Finished goods	<b>1,343,921,625</b>	665,523,682
Spare parts	<b>2,121,074,846</b>	1,783,832,105
Less: impairment provision	<b>(86,929,889)</b>	(91,769,889)
Total	<b>8,711,069,644</b>	6,540,131,949

The Group's inventories amounting to RMB334,050,976 have been pledged to banks as securities for issue of bank bills for the Company's subsidiaries.

The increase in the Group's inventories by 33% was mainly attributable to the increase in raw materials and finished goods.

The movement of impairment provision against inventories for the current period is disclosed in Note VI.15.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 8. Held-to-maturity investments

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Debt investments	<b>8,258,870</b>	8,258,870

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.

The Group has assessed the holding intention and capacity as at the balance sheet date, and no changes have been noticed.

The movement of impairment provision of held-to-maturity investments for the current period is disclosed in Note VI.15.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments

	Group		Company	
	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Long term investments under equity method				
Jointly Controlled Entity ("JCE") (i)	<b>228,447,560</b>	234,000,000	<b>228,447,560</b>	234,000,000
Associates (ii)	<b>356,605,153</b>	329,514,405	<b>343,399,731</b>	316,014,405
Long term investments under cost method				
Subsidiaries (iii)	–	–	<b>1,182,204,142</b>	1,182,483,003
Other equity investments (iv)	<b>19,517,035</b>	16,817,035	<b>19,517,035</b>	16,817,035
	<b>604,569,748</b>	580,331,440	<b>1,773,568,468</b>	1,749,314,443
Less: impairment provision	–	–	–	–
Total	<b>604,569,748</b>	580,331,440	<b>1,773,568,468</b>	1,749,314,443

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

The movement of impairment provision of long term investment for the current period is disclosed in Note VI.15.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments (continued)

##### (i) Investments in JCE

Name of investee	Percentage of capital held by the Company	Initial investment cost	Group and Company								
			Investment cost				Adjustment for gain or loss				
			Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Cash dividend received during the period	Accumulated increase/(decrease)	Closing balance
			Audited	Unaudited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited
	%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
BOC-Ma Steel	50	234,000,000	234,000,000	-	-	234,000,000	-	(5,552,440)	-	(5,552,440)	228,447,560

##### (ii) Investments in associates

Name of investees	Percentage of capital held by the Group	Initial investment cost	Group								
			Investment cost				Adjustment for gain or loss				
			Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Cash dividend received during the period	Accumulated increase/(decrease)	Closing balance
			Audited	Unaudited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited
	%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
濟源市金馬焦化	40	80,000,000	80,000,000	-	-	80,000,000	29,116,860	13,409,348	(11,033,477)	31,492,731	111,492,731
滕州盛隆煤焦化	32	66,776,000	66,776,000	-	-	66,776,000	10,058,581	21,717,528	-	31,776,109	98,552,109
上海鋼鐵電子	20	4,000,000	4,000,000	-	-	4,000,000	4,204,437	5,027,298	(4,000,000)	5,231,735	9,231,735
馬鞍山港口公司	45	112,500,000	112,500,000	-	-	112,500,000	9,358,527	3,558,113	(1,293,484)	11,623,156	124,123,156
奧馬特變速系統	45	9,000,000	9,000,000	-	-	9,000,000	-	(294,378)	-	(294,378)	8,705,422
馬鋼智能停車	25	4,500,000	4,500,000	-	-	4,500,000	-	-	-	-	4,500,000
Total			276,776,000	-	-	276,776,000	52,738,405	43,417,709	(16,326,961)	79,829,153	356,605,153

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments (continued)

##### (ii) Investments in associates (continued)

Name of investees	Percentage of registered capital held by the Company	Company									
		Investment cost					Adjustment for gain or loss				
		Initial investment cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Cash dividend received during the period	Accumulated increase/(decrease)	Closing balance
		Audited	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited
	%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
濟源市金馬焦化	40	80,000,000	80,000,000	-	-	80,000,000	29,116,860	13,409,348	(11,033,477)	31,492,731	111,492,731
滕州盛隆煤焦化	32	66,776,000	66,776,000	-	-	66,776,000	10,058,581	21,717,528	-	31,776,109	98,552,109
上海鋼鐵電子	20	4,000,000	4,000,000	-	-	4,000,000	4,204,437	5,027,298	(4,000,000)	5,231,735	9,231,735
馬鞍山港口公司	45	112,500,000	112,500,000	-	-	112,500,000	9,358,527	3,558,113	(1,293,484)	11,623,156	124,123,156
Total			263,276,000	-	-	263,276,000	52,738,405	43,712,287	(16,326,961)	80,123,731	343,399,731

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments (continued)

##### (iii) Investments in subsidiaries

Name of investees	Company Investment cost				
	Initial cost	Opening balance	Increase during the period	Decrease during the period	Closing Balance
	RMB	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Ma Steel International Trade Corp	50,000,000	150,215,427	–	–	150,215,427
Design & Research Institute	7,500,000	57,953,870	–	(11,791,640)	46,162,230
MG Control Technique	7,500,000	10,423,870	–	–	10,423,870
Anhui Mastee K. Wah	24,854,930	31,391,005	–	–	31,391,005
Ma Steel (Wuhu)	8,225,885	42,506,592	–	–	42,506,592
Ma Steel (Guangzhou)	80,000,000	105,873,033	–	(15,239,200)	90,633,833
Ma Steel (HK)	4,101,688	39,713,102	–	–	39,713,102
MG Trading	1,573,766	2,047,819	–	–	2,047,819
Holly Industrial	21,478,316	97,139,584	–	(22,350,819)	74,788,765
Huayang Equipment	900,000	3,080,393	–	(75,592)	3,004,801
Ma Steel (Jinhua)	90,000,000	96,259,584	–	(5,632,900)	90,626,684
Ma Steel (Australia)	126,312,415	158,643,097	–	–	158,643,097
Ma Steel (Hefei)	355,000,000	251,779,464	–	–	251,779,464
MS (Hefei) Processing	73,200,000	73,187,957	–	–	73,187,957
MS (Yangzhou) Processing	61,651,010	62,268,206	54,811,290	–	117,079,496
		<u>1,182,483,003</u>	<u>54,811,290</u>	<u>(55,090,151)</u>	<u>1,182,204,142</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments (continued)

##### (iv) Other investments

Name of investees	Group and Company Investment cost				
	Initial cost	Opening balance	Increase during the period	Decrease during the period	Closing Balance
	RMB	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
河南龍宇能源 股份有限公司	10,000,000	10,000,000	–	–	10,000,000
唐山鋼鐵股份 有限公司	4,559,109	4,559,109	–	–	4,559,109
上海氯碱化工 股份有限公司	807,926	807,926	–	–	807,926
中國第十七冶 金建設有限公司	2,700,000	–	2,700,000	–	2,700,000
Others	1,450,000	1,450,000	–	–	1,450,000
		16,817,035	2,700,000	–	19,517,035

##### (v) Major financial information of a JCE

#### Group and Company For the six months ended 30 June 2007

Name of investee	Total assets	Total liabilities	Revenue	Net loss
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
BOC-Ma Steel	843,246,989	386,351,869	65,699,674	(11,104,880)

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 9. Long term investments (continued)

(vi) Major financial information of associates

#### Group For the six months ended 30 June 2007

Name of investees	Total assets	Total liabilities	Revenue	Net profit /(loss)
	Unaudited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
濟源市金馬焦化	763,051,602	482,258,187	518,470,657	33,523,370
滕州盛隆煤焦化	854,868,804	554,042,861	582,188,743	67,867,275
上海鋼鐵電子	1,005,053,877	951,389,030	59,399,893	31,562,628
馬鞍山港口公司	749,345,403	470,688,263	75,483,939	10,737,984
奧馬特變速系統	12,846,315	2,979	–	(524,784)
馬鋼智能停車	36,468,434	22,536,310	6,054,341	(339,956)

#### Company For the six months ended 30 June 2007

Name of investees	Total assets	Total liabilities	Revenue	Net profit
	Unaudited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
濟源市金馬焦化	763,051,602	482,258,187	518,470,657	33,523,370
滕州盛隆煤焦化	854,868,804	554,042,861	582,188,743	67,867,275
上海鋼鐵電子	1,005,053,877	951,389,030	59,399,893	31,562,628
馬鞍山港口公司	749,345,403	470,688,263	75,483,939	10,737,984

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 10. Investment properties

Cost method for subsequent measurement

	<b>Land use rights</b> Unaudited RMB
Cost	
1 January 2007	–
Adjustment on application of New PRC Standards	4,145,293
1 January 2007 (restated)	4,145,293
Transferred to intangible assets (Note 13)	(2,422,651)
30 June 2007	1,722,642
Accumulated depreciation	
1 January 2007	–
Adjustment on application of New PRC Standards	585,993
1 January 2007 (restated)	585,993
Provided during the period	17,225
Transferred to intangible assets (Note 13)	(138,106)
30 June 2007	465,112
Impairment provision	
1 January 2007 and 30 June 2007	–
Net book value	
30 June 2007	1,257,530
1 January 2007 (restated)	3,559,300

The movement of impairment provision of investment properties for the current period is disclosed in Note VI.15.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 11. Fixed assets

	<b>Buildings and structures</b> Unaudited RMB	<b>Plant, machinery and equipment</b> Unaudited RMB	<b>Transportation vehicles and equipment</b> Unaudited RMB	<b>Total</b> Unaudited RMB
Cost				
1 January 2007	9,456,399,717	20,556,252,974	395,131,002	30,407,783,693
Adjustment on application of New PRC Standards	(59,601,772)	–	–	(59,601,772)
1 January 2007 (restated)	9,396,797,945	20,556,252,974	395,131,002	30,348,181,921
Additions	5,961,469	37,562,221	6,830,030	50,353,720
Transferred from constructions in progress (Note 12)	3,049,266,330	6,438,313,339	4,999,836	9,492,579,505
Reclassifications	(150,323,430)	150,919,048	(595,618)	–
Disposal	(1,255,988)	(184,762,353)	(1,751,753)	(187,770,094)
30 June 2007	12,300,446,326	26,998,285,229	404,613,497	39,703,345,052
Accumulated depreciation				
1 January 2007	3,284,184,432	7,974,004,727	248,492,242	11,506,681,401
Adjustment on application of New PRC Standards	(1,770,188)	–	–	(1,770,188)
1 January 2007 (restated)	3,282,414,244	7,974,004,727	248,492,242	11,504,911,213
Provided during the period	278,422,017	1,021,504,877	22,896,696	1,322,823,590
Reclassifications	(15,186,524)	15,415,974	(229,450)	–
Disposal	(737,897)	(70,148,287)	(1,651,283)	(72,537,467)
30 June 2007	3,544,911,840	8,940,777,291	269,508,205	12,755,197,336
Impairment provision				
1 January 2007 and 30 June 2007	5,252,400	85,423,244	–	90,675,644
Net book value				
30 June 2007	<u>8,750,282,086</u>	<u>17,972,084,694</u>	<u>135,105,292</u>	<u>26,857,472,072</u>
1 January 2007 (restated)	<u>6,109,131,301</u>	<u>12,496,825,003</u>	<u>146,638,760</u>	<u>18,752,595,064</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 11. Fixed assets (continued)

The cost of fully depreciated fixed assets which are still in use amounted to approximately RMB2.2 billion and the net book value amounted to approximately RMB70 million.

At the balance sheet date, certain of the Group's equipments with a net book value of approximately RMB26.4 million were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in Note VI.24 to the financial statements.

The increase in the Group's fixed assets by 43% was mainly attributable to the transfer from constructions in progress during the period.

At the balance sheet date, certificates of ownership in respect of the Group's buildings with a net book value of RMB78.4 million had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

The movement of impairment provision of fixed assets for the current period is disclosed in Note VI.15.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 12. Constructions in progress

Name of projects	Budget cost	Adjustment on application of		Opening balance (Restated)	Additions during the period	Transferred to fixed assets (Note 11)	Closing balance	Source of fund	Percentage of completion
		Opening balance Audited	New PRC Standards Unaudited						
	RMB'000	RMB	RMB	RMB	RMB	RMB	RMB		%
1. Blast Furnaces Project	6,872,100	3,637,094,588	(63,210,588)	3,573,884,000	1,543,192,355	(4,554,070,000)	563,006,355	Internally	37-100
<i>Including borrowing costs capitalised:</i>		181,012,112	(63,210,588)	117,801,524	61,585,506	(177,892,355)	1,494,675	generated funds and loans from financial institution	
2. Converters Project	4,431,870	2,843,102,096	-	2,843,102,096	744,093,132	(1,320,000,000)	2,267,195,228	Internally	85-100
<i>Including borrowing costs capitalised:</i>		57,061,560	-	57,061,560	44,576,623	(33,879,395)	67,758,788	generated funds and loans from financial institution	
3. Wheel Line Project	506,420	25,178,233	-	25,178,233	8,729,038	-	33,907,271	Internally generated funds	86-100
4. Construction Steel Lines Project	17,132,820	6,847,737,203	(63,210,587)	6,784,526,616	1,611,491,321	(1,400,000,000)	6,996,017,937	Internally	13-100
<i>Including borrowing costs capitalised:</i>		284,842,219	(63,210,587)	221,631,632	160,271,036	-	381,902,668	generated funds and loans from financial institution	
5. Coking Stoves Project	2,807,350	1,528,778,171	-	1,528,778,171	429,957,627	(950,000,000)	1,008,735,798	Internally	48-100
<i>Including borrowing costs capitalised:</i>		69,523,740	-	69,523,740	45,482,288	-	115,006,028	generated funds and loans from financial institution	
6. Public Auxiliary Utilities Project	4,847,189	3,405,924,218	-	3,405,924,218	574,261,275	(902,854,510)	3,077,330,983	Internally	22-100
<i>Including borrowing costs capitalised:</i>		55,736,895	-	55,736,895	31,737,840	(30,000,000)	57,474,735	generated funds and loans from financial institution	

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 12. Constructions in progress (continued)

Name of projects	Budget cost	Adjustment on application of		Opening balance	Additions during the period	Transferred to fixed assets (Note 11)	Closing balance	Source of fund	Percentage of completion
		Opening balance	New PRC Standards						
		Audited	Unaudited						
		RMB'000	RMB						
7. Energy-saving and Environment Protection Project	107,730	37,559,790	-	37,559,790	21,186,189	-	58,745,979	Internally generated funds	74-100
8. Other Projects	N/A	533,968,025	-	533,968,025	598,279,305	(365,654,995)	766,592,335	Internally generated funds and loans from financial institution	N/A
<i>Including borrowing costs capitalised:</i>		15,108,480	-	15,108,480	-	-	15,108,480		
		18,859,342,324	(126,421,175)	18,732,921,149	5,531,190,242	(9,492,579,505)	14,771,531,886		
Less: Impairment provision		-	-	-	-	-	-		
		18,859,342,324	(126,421,175)	18,732,921,149	5,531,190,242	(9,492,579,505)	14,771,531,886		

The capitalisation rates of interest are 1.4% to 7.29% per annum.

The movement of impairment provision of constructions in progress for the current period is disclosed in Note VI.15.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 13. Intangible assets

	Land use rights Unaudited RMB	Mining right Unaudited RMB	Total Unaudited RMB
Cost			
1 January 2007	1,661,740,128	119,103,568	1,780,843,696
Adjustment on application of New PRC Standards	55,456,479	–	55,456,479
1 January 2007 (restated)	1,717,196,607	119,103,568	1,836,300,175
Additions	16,317,484	9,236,824	25,554,308
Transfer from investment properties (Note 10)	2,422,651	–	2,422,651
30 June 2007	1,735,936,742	128,340,392	1,864,277,134
Accumulated depreciation			
1 January 2007	258,543,938	5,597,062	264,141,000
Adjustment on application of New PRC Standards	1,184,195	–	1,184,195
1 January 2007 (restated)	259,728,133	5,597,062	265,325,195
Provided during the period	18,871,963	2,290,670	21,162,633
Transfer from investment properties (Note 10)	138,106	–	138,106
30 June 2007	278,738,202	7,887,732	286,625,934
Impairment provision			
1 January 2007 and 30 June 2007	–	–	–
Net book value			
30 June 2007	1,457,198,540	120,452,660	1,577,651,200
1 January 2007 (restated)	1,457,468,474	113,506,506	1,570,974,980

One subsidiary of the Company, Ma Steel (Australia), has 10% interest in an Australian unincorporated joint venture, in which Ma Steel (Australia) does not have joint control or is not in a position to exercise significant influence. During 2005, together with the other participants of this joint venture, Ma Steel (Australia) purchased a mine participation right in Australia in the form of sub-lease for 25 years.

The movement of impairment provision of intangible assets for the current period is disclosed in Note VI.15.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 14. Deferred tax assets/(liabilities)

##### Recognised deferred tax assets:

	Repair and maintenance expenses Unaudited RMB	Asset impairment provisions Unaudited RMB	Pre- operation expenses Unaudited RMB	Payroll & benefits payable Unaudited RMB	Sales incentive payable Unaudited RMB	Others Unaudited RMB	Total Unaudited RMB
1 January 2007	-	-	-	-	-	-	-
Adjustment on application of New PRC Standards	24,628,000	32,264,000	23,101,000	27,421,000	22,728,000	4,423,000	134,565,000
1 January 2007 (restated)	24,628,000	32,264,000	23,101,000	27,421,000	22,728,000	4,423,000	134,565,000
Recorded in profits and losses	-	-	-	(7,590,000)	-	-	(7,590,000)
30 June 2007	24,628,000	32,264,000	23,101,000	19,831,000	22,728,000	4,423,000	126,975,000

##### Recognised deferred tax liabilities:

	Bonds with warrants Unaudited RMB
1 January 2007	-
Adjustment on application of New PRC Standards	(124,144,000)
1 January 2007 (restated)	(124,144,000)
Recorded in profits and losses	10,157,000
30 June 2007	(113,987,000)

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 15. Assets impairment provisions

	Opening balance	Increase during the period	Decrease during the period		Closing balance
			Reversal	Write-off	
			Unaudited RMB	Unaudited RMB	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Provision for bad debts	67,112,035	4,302,111	–	(5,493,751)	65,920,395
including: Trade receivables	40,939,288	4,302,111	–	–	45,241,399
Other receivables	26,172,747	–	–	(5,493,751)	20,678,996
Impairment provisions against Inventory	91,769,889	–	–	(4,840,000)	86,929,889
including: Finished goods	4,840,000	–	–	(4,840,000)	–
Spare parts	86,929,889	–	–	–	86,929,889
Impairment provisions of held-to-maturity investments	–	–	–	–	–
Impairment provisions of long term equity investments	–	–	–	–	–
Impairment provisions of fixed assets	90,675,644	–	–	–	90,675,644
Impairment provisions of constructions in progress	–	–	–	–	–
Impairment provisions of intangible assets	–	–	–	–	–
<b>Total</b>	<b>249,557,568</b>	<b>4,302,111</b>	<b>–</b>	<b>(10,333,751)</b>	<b>243,525,928</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 16. Short term loans

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Unsecured loans	<b>440,000,000</b>	380,000,000
Trust receipt loans	<b>530,756,986</b>	19,018,506
	<b>970,756,986</b>	399,018,506

The increase in the Group's short term loans by 143% was mainly attributable to the increase in working capital loans borrowed for payment of imported raw materials.

The interest rates of the above short term loan are 5.75%-6.16% per annum.

#### 17. Bills payable

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Bank bills	<b>1,909,029,220</b>	1,346,880,982

Balances with financial institutions amounting to RMB850,865,312 and inventories amounting to RMB334,050,976 have been pledged to banks as securities for issue of bank bills by the Company's subsidiaries, and were not readily available for payment or sale.

At the balance sheet date, the balance of bills payable does not contain any amount due to shareholders who hold 5% or above of the Company's equity interests.

The increase in the Group's bills payable by 42% was mainly attributable to the increase in payments by bank bills for materials purchase.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 18. Accounts payable

The trade payables are interest free and are normally settled within three months.

The increase in the Group's accounts payable by 53% was mainly attributable to the increase in payables for equipment purchases for the "11-5 Plan" constructions.

Certain of the Group's accounts payable amounting to RMB275,826,411 aged over one year as a result of delay in settlement of construction fee.

Except for those as stated in Note VIII.5, the balance of account payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

#### 19. Deposits received

The increase in the Group's deposits received by 39% was mainly attributable to the increase in revenue.

The ageing of deposits received is within one year.

Except for those as stated in Note VIII.5, the balance of deposits received does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 20. Payroll and benefits payable

	<b>Opening balance</b>	<b>Increase during the period</b>	<b>Payment during the period</b>	<b>Closing balance</b>
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Salaries, bonus and subsidies	145,612,912	810,749,804	(799,579,755)	156,782,961
Welfare	68,124,566	65,104,066	(46,984,280)	86,244,352
Social insurance	58,926,358	297,354,309	(333,796,071)	22,484,596
Housing fund	10,938,025	41,307,507	(45,564,415)	6,681,117
Labor union fee and employee education fee	8,635,130	29,588,692	(19,723,839)	18,499,983
Supplementary pension scheme	5,645,346	34,663,426	(32,230,771)	8,078,001
Total	<u>297,882,337</u>	<u>1,278,767,804</u>	<u>(1,277,879,131)</u>	<u>298,771,010</u>

The closing balance includes performance-related wages of RMB500,175 brought forward from prior years.

#### 21. Taxes payable

	<b>30 June 2007 Unaudited RMB</b>	<b>31 December 2006 Audited RMB</b>
Corporate income tax	<b>59,018,110</b>	93,109,562
VAT	<b>50,611,697</b>	100,355,879
Flood prevention fund	<b>37,067,626</b>	26,909,152
City construction and maintenance tax	<b>16,108,806</b>	31,132,303
Education surcharge	<b>6,897,160</b>	13,344,540
Business tax	<b>504,189</b>	1,849,836
Other taxes	<b>7,285,114</b>	32,921,897
Total	<u><b>177,492,702</b></u>	<u>299,623,169</u>

The decrease in the Group's taxes payable by 41% was mainly attributable to the decrease in the balance of unpaid corporate income tax and VAT.

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

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 22. Dividends payable

	<b>30 June 2007 Unaudited RMB</b>	Reason	31 December 2006 Audited RMB
Holding	<b>1,297,972,800</b>	Unpaid	400,000,000
Shareholders of circulating shares	<b>353,228,508</b>	Unpaid	8,654,914
Total	<b>1,651,201,308</b>		408,654,914

The 2006 profit appropriation plan of the Company has been approved at 2006 annual general meeting held at 12 June 2007.

The increase in the Group's dividends payable by 304% was mainly attributable to unpaid dividend of 2006 and transfer from other non-current liabilities. For further details, please refer to Note VI.28.

Except for those as stated in Note VIII.5, the balance of dividends payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 23. Other payables

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Construction, maintenance and inspection fee	<b>293,247,152</b>	229,605,094
Sales incentive	<b>170,556,550</b>	151,517,642
Payable to a minority shareholder	<b>168,620,150</b>	168,620,150
Freights	<b>52,694,058</b>	8,324,952
Housing subsidy	<b>36,633,447</b>	43,330,067
Bidding deposits	<b>24,657,973</b>	31,542,194
Direct issue cost of bonds with warrants	–	64,350,000
Others	<b>39,618,892</b>	69,647,648
Total	<b>786,028,222</b>	766,937,747

As at the balance sheet date, the balance of other payables does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

Certain of the Group's other payables amounting to RMB33,206,872 aged over one year as a result of delay in settlement of construction and maintenance service fees.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 24. Non-current liabilities due within one year

	Note	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Long term loans		1,302,674,886	409,752,537
Bonds payable	26	48,980,556	–
Total		<b>1,351,655,442</b>	<b>409,752,537</b>

Included in long term loans due within one year is RMB8.2 million loans granted by a minority shareholder of Anhui Masteel K. Wah, Profit Access Investments Limited. The loans bear interest at a rate of 5.49% per annum (with reference to RMB loan interest rate of Huishang Bank). The loans are secured by the pledge of certain equipment of Anhui Masteel K. Wah with an aggregate net book value of approximately RMB26.4 million as at balance sheet date.

The increase in the Group's non-current liabilities by 230% was mainly attributable to the increase in long term loans due within one year.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 25. Long term loans

Lenders	30 June 2007 Unaudited		31 December 2006 Audited		Conditions of borrowing		
	Original currency	RMB equivalent	Original currency	RMB equivalent			
The Industrial and Commercial Bank of China ("ICBC")	RMB	-	2,100,000,000	RMB	-	1,700,000,000	Guaranteed by Holding
	RMB	-	850,000,000	RMB	-	900,000,000	Unsecured
China Construction Bank ("CCB")	RMB	-	1,560,000,000	RMB	-	1,377,000,000	Guaranteed by Holding
	RMB	-	500,000,000	RMB	-	1,000,000,000	Unsecured
Bank of China	RMB	-	3,000,000,000	RMB	-	1,930,000,000	Guaranteed by Holding
	RMB	-	600,000,000	RMB	-	900,000,000	Unsecured
	USD	30,000,000	228,465,000	-	-	-	Unsecured
	EUR	1,425,388	14,586,991	EUR	1,487,361	15,269,994	Guaranteed by Sino-Steel
Agricultural Bank of China	RMB	-	1,800,000,000	RMB	-	2,220,000,000	Guaranteed by Holding
	RMB	-	600,000,000	RMB	-	600,000,000	Unsecured
Huishang Bank	RMB	-	360,000,000	RMB	-	360,000,000	Guaranteed by Holding
	RMB	-	350,000,000	-	-	-	Unsecured
China CITIC Bank	RMB	-	400,000,000	RMB	-	400,000,000	Unsecured
	USD	50,000,000	380,775,000	USD	50,000,000	390,435,000	Unsecured
China Merchant Bank	RMB	-	400,000,000	RMB	-	400,000,000	Unsecured
	USD	50,000,000	380,775,000	USD	50,000,000	390,435,000	Unsecured

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 25. Long term loans

Lenders	30 June 2007		31 December 2006		Conditions of borrowing		
	Original currency	RMB equivalent	Original currency	RMB equivalent			
The Export-import Bank of China	RMB	-	80,000,000	RMB	-	580,000,000	Guaranteed by Holding
Bank of Communications	RMB	-	1,000,000,000	RMB	-	1,000,000,000	Guaranteed by Holding
	-	-	-	RMB	-	500,000,000	Unsecured
Industrial Bank	RMB	-	500,000,000	RMB	-	300,000,000	Unsecured
Shanghai Pudong Development Bank	RMB	-	400,000,000	RMB	-	600,000,000	Unsecured
Shenzhen Development Bank	RMB	-	150,000,000	RMB	-	150,000,000	Guaranteed by Holding
China Everbright Bank	RMB	-	400,000,000	-	-	-	Unsecured
Zhonghai Trust & Investment Co., Ltd	RMB	-	2,000,000,000	-	-	-	Guaranteed by CCB
CITIC Trust & Investment Co., Ltd	RMB	-	1,000,000,000	-	-	-	Guaranteed by ICBC
			19,054,601,991			15,713,139,994	

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 26. Bonds payable

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. Since the declaration of dividends on 13 July 2007, the conversion price has been adjusted to RMB3.33 each. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares. Up to the balance sheet date, no warrants were exercised.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 26. Bonds payable (continued)

The carrying amount of the liability component of the bonds with warrants at 30 June 2007 is arrived at as follows:

	Unaudited RMB
Nominal value of bonds with warrants	5,500,000,000
Equity component (net of deferred tax)	(604,228,899)
Deferred tax liability	(128,790,000)
Direct transaction costs attributable to the liability component	(125,584,500)
	<hr/>
Liability component at the issue date	4,641,396,601
From issue date to 31 December 2006	
Interest expense	30,979,775
Less: Interest paid	–
	<hr/>
Carrying amount as at 31 December 2006 and 1 January 2007	4,672,376,376
From 1 January 2007 to 30 June 2007	
Interest expense	116,692,595
Less: Interest paid	–
Current portion due within one year (Note 24)	(48,980,556)
	<hr/>
Carrying amount as at 30 June 2007	<u>4,740,088,415</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 27. Specific payables

	Opening balance	Increase during the period	Decrease during the period		Closing balance
			Transfer	Others	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Government subsidies for specific construction projects	116,566,523	–	–	(300,000)	116,266,523

#### 28. Other non-current liabilities

	30 June 2007 Unaudited RMB	31 December 2006 Audited RMB
Payables to Holding	–	400,000,000
Accrued charges for furnace relining	74,499,299	74,499,299
Retirement benefits payable to early retired employees	22,044,660	22,044,660
Total	96,543,959	496,543,959

The decrease in the Group's non-current term liabilities by 81% was mainly attributable to the payables to Holding due within one year, being transferred into the current liability.

As at the balance sheet date, the balance of other non-current liabilities does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 29. 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:

	Opening balance		Group and Company		Closing balance	
	Audited	Ratio	Increase/(decrease)	Unaudited	Unaudited	Ratio
	RMB	%		RMB	RMB	%
<b>A. Shares with selling restriction</b>						
1. State-owned shares	3,830,560,000	59.34	–	3,830,560,000	59.34	
2. Other domestically owned shares	87,810,000	1.36	(87,810,000)	–	–	
Including:						
Shares owned by domestic legal persons	87,810,000	1.36	(87,810,000)	–	–	
Shares owned by domestic natural persons	–	–	–	–	–	
Sub-total	3,918,370,000	60.70	(87,810,000)	3,830,560,000	59.34	
<b>B. Shares without selling restriction</b>						
1. A shares	804,000,000	12.45	87,810,000	891,810,000	13.81	
2. H shares	1,732,930,000	26.85	–	1,732,930,000	26.85	
Sub-total	2,536,930,000	39.30	87,810,000	2,624,740,000	40.66	
<b>C. Total</b>	<b>6,455,300,000</b>	<b>100.00</b>	<b>–</b>	<b>6,455,300,000</b>	<b>100.00</b>	

On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares (including state-owned shares and legal person A shares, collectively as "Non-circulating Shares") into listed and circulating A shares ("Circulating A Shares") (the "State Share Reform") have been obtained. The then Non-circulating Shares have been entitled to be listed and become Circulating A Shares since 31 March 2006 (the "Listing Date").

After the implementation of the State Share Reform, the state-owned shares held by Holding and the entire legal person A shares are not listed for trading or transferred within 12 months from the Listing Date and the state-owned shares held by Holding are also not listed for trading and transferred in the following 24 months (collectively as "Selling Restriction"). However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 29. Share capital (continued)

In accordance with the execution arrangement of the State Share Reform, on 2 April 2007, the entire 87,810,000 legal person A shares were released from Selling Restriction, and were transferred to Circulating A Shares, i.e., individual A shares.

#### 30. Capital reserve

	Group and Company			
	Equity component of bonds with warrants	Share premium	Specific payables transferred-in	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
At 1 January 2006	–	4,864,975,395	585,369,700	5,450,345,095
Addition	–	–	3,200,000	3,200,000
At 31 December 2006 and at 1 January 2007	–	4,864,975,395	588,569,700	5,453,545,095
Adjustment on application of New PRC Standards (Note III.24)				
Recognition of equity component of bonds with warrants	714,253,399	–	–	714,253,399
Income taxes recognised in capital reserve	(128,790,000)	–	–	(128,790,000)
At 1 January 2007 (restated)	585,463,399	4,864,975,395	588,569,700	6,039,008,494
Increase/(decrease) during the period	–	–	–	–
At 30 June 2007	585,463,399	4,864,975,395	588,569,700	6,039,008,494

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 31. Surplus reserves

	Group			
	Opening balance	Increase during the period	Decrease during the period	Closing Balance
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Statutory reserve	2,595,773,913	–	–	2,595,773,913
Reserve fund	23,046,968	–	–	23,046,968
Enterprise expansion fund	18,339,319	–	–	18,339,319
Total	<u>2,637,160,200</u>	<u>–</u>	<u>–</u>	<u>2,637,160,200</u>

	Company			
	Opening balance	Increase during the period	Decrease during the period	Closing Balance
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Statutory reserve	<u>2,564,661,890</u>	<u>–</u>	<u>–</u>	<u>2,564,661,890</u>

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 reserve (the "SR") until such reserves reach 50% of the registered capitals of these companies. Part of the SR 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.

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 the enterprise expansion fund, the reserve fund and the employee bonus and welfare fund. The allocation rates are determined by their respective boards of directors.

The Company and its subsidiaries did not allocate any SR, enterprise expansion fund, reserve fund, statutory public welfare fund in current period.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 32. Minority interests

Minority interests of the Group's major subsidiaries are as following:

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
Ma Steel (Hefei)	<b>112,008,768</b>	102,838,050
Ma Steel (Guangzhou)	<b>50,370,654</b>	52,930,250
Holly Industrial	<b>39,572,461</b>	39,676,731
Design & Research Institute	<b>33,213,360</b>	32,605,702
Ma Steel (Jinhua)	<b>31,649,295</b>	32,086,528
MS (Yangzhou) Processing	<b>48,659,555</b>	25,433,493
Anhui Masteel K. Wah	<b>14,333,210</b>	13,453,288
MS (Hefei) Processing	<b>13,115,173</b>	7,798,308
Others	<b>4,169,883</b>	3,674,819
Total	<b>347,092,359</b>	310,497,169

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 33. Revenue and cost of sales

Revenue is stated as follows:

	Group		Company	
	For the six months ended 30 June Unaudited		For the six months ended 30 June Unaudited	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB
Principle operating income	20,750,104,896	16,142,229,487	21,183,925,441	16,299,630,219
Other operating income	276,607,058	584,754,961	354,570,729	313,109,006
Total revenue	<u>21,026,711,954</u>	<u>16,726,984,448</u>	<u>21,538,496,170</u>	<u>16,612,739,225</u>
Top five largest customers	<u>2,188,412,219</u>	<u>2,503,757,540</u>	<u>2,188,412,219</u>	<u>1,946,851,074</u>
Percentage to total revenue	<u>10%</u>	<u>15%</u>	<u>10%</u>	<u>12%</u>

Principle operating income and cost of sales are stated as follows:

Category	Group		Group	
	For the six months ended 30 June 2007 Unaudited		For the six months ended 30 June 2006 Unaudited	
	Principle operating income RMB	Cost of sales RMB	Principle operating income RMB	Cost of sales RMB
Sale of steel products	19,202,252,746	17,164,413,612	15,158,231,321	13,412,634,264
Sale of steel billets	236,065,209	223,036,212	263,630,503	233,964,092
Sale of coke by-products	242,967,551	162,904,894	226,056,684	154,562,320
Sale of pig iron	681,525	562,178	330,690	252,432
Others	1,068,137,865	795,075,663	493,980,289	379,957,328
Total	<u>20,750,104,896</u>	<u>18,345,992,559</u>	<u>16,142,229,487</u>	<u>14,181,370,436</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 33. Revenue and cost of sales (continued)

Category	Company			
	For the six months ended 30 June 2007 Unaudited		For the six months ended 30 June 2006 Unaudited	
	Principle operating income RMB	Cost of sales RMB	Principle operating income RMB	Cost of sales RMB
Sale of steel products	19,517,688,312	17,644,238,345	15,325,477,213	13,584,768,342
Sale of steel billets	236,065,209	228,046,846	263,630,503	233,964,092
Sale of coke by-products	242,967,551	164,133,267	226,056,684	154,562,320
Sale of pig iron	681,525	562,178	330,690	252,432
Others	1,186,522,844	1,060,267,722	484,135,129	424,202,694
Total	<u>21,183,925,441</u>	<u>19,097,248,358</u>	<u>16,299,630,219</u>	<u>14,397,749,880</u>

#### 34. Taxes and surcharges

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
City construction and maintenance tax	96,559,196	69,352,112
Education surcharge	41,382,512	29,722,334
Local education surcharge	13,794,171	9,907,445
Customs duty	9,014,373	—
Other taxes	7,352,073	8,402,426
Total	<u>168,102,325</u>	<u>117,384,317</u>

The increase in the Group's taxes and surcharges by 43% was mainly attributable to the increase in revenue.

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

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 35. Financial expenses

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
Interest expenses	668,861,095	324,969,913
Less: Interest capitalisation	(362,973,293)	(177,943,580)
Interest income	(20,234,887)	(13,234,627)
Exchange gain, net	(9,457,404)	(20,755,810)
Less: Exchange gain capitalisation	19,320,000	7,460,000
Others	12,184,825	16,786,198
Total	<b>307,700,336</b>	<b>137,282,094</b>

The increase in the Group's financial expenses by 124% was mainly attributable to the increase in interest expenses of bank loans and bonds payable.

Both interest capitalisation and exchange gain capitalisation have been recorded in the cost of constructions in progress.

#### 36. Assets impairment losses

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
Reversal of impairment provision against inventory	–	(37,181,209)
Reversal of impairment provision of constructions in progress	–	(17,676,148)
Total	<b>–</b>	<b>(54,857,357)</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 37. Investment income

	Group		Company	
	For the six months ended		For the six months ended	
	30 June 2007 Unaudited RMB	30 June 2006 Unaudited RMB	30 June 2007 Unaudited RMB	30 June 2006 Unaudited RMB
Share of profits and losses of subsidiaries	–	–	–	74,993,536
Share of profits and losses of associates and a JCE	<b>37,865,269</b>	9,825,562	<b>38,159,847</b>	9,825,562
Other equity investment income	–	5,294,961	–	5,306,384
Total	<b>37,865,269</b>	15,120,523	<b>38,159,847</b>	90,125,482

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

The increase in the Group's investment income by 150% was mainly attributable to the increase in the share of profits and losses of associates during the period.

#### 38. Non-operating income

The increase in the Group's non-operating income by 107% was mainly attributable to the increase in government subsidies received during the period.

#### 39. Non-operating expenses

The increase in the Group's non-operating expenses by 84 times was mainly attributable to the increase in loss on the disposal of fixed assets during the period.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 40. Income tax

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
Current income tax expense	218,469,529	224,906,610
Deferred tax expense/(income)	(2,567,000)	6,628,000
Total	<u>215,902,529</u>	<u>231,534,610</u>

The Group's income tax is provided based on estimated assessable profits in PRC and effective tax rate. Profits tax of estimated assessable profits which were earned in or derived from overseas is provided at prevailing tax rate based on existing legislations, interpretations and practice in respect thereof.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 41. Earnings per share

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent as used in the basic earnings per share calculation	<b>1,086,082,847</b>	1,065,144,001
	For the six months ended 30 June	
	2007 Unaudited Number of shares	2006 Unaudited Number of shares
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	<b>6,455,300,000</b>	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	<b>692,296,937</b>	–
	<b>7,147,596,937</b>	6,455,300,000

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

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

	For the six months ended 30 June	
	2007 Unaudited RMB	2006 Unaudited RMB
Freight charges	52,770,621	54,927,132
Environmental improvement fee	13,568,321	12,995,289
Stamp duties	10,226,839	7,458,138
Packing fee	8,419,947	9,806,051
Loading expenses	6,802,509	7,195,869
Insurance fee	6,591,528	6,202,743
Repair and maintenance expenses	5,387,346	4,229,475
Office expenses	4,552,329	2,800,780
Rental fee	3,021,505	3,332,706
Board meeting fee	2,205,218	1,719,392
Others	37,730,839	23,918,240
Total	<b>151,277,002</b>	<b>134,585,815</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

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

#### 43. Non-cash assets and liabilities contributed by a minority shareholder

On 28 April 2006, the Company and Hefei Investment Holding Company Limited (“Hefei Investment Holding”) entered into a Venturers’ Agreement for the establishment of Ma Steel (Hefei). Pursuant to the Venturers’ Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in Ma Steel (Hefei), respectively.

On 10 May 2006, Ma Steel (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of Ma Steel (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two installments. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to Ma Steel (Hefei) and Hefei Investment Holding has also contributed cash of RMB299,312,595 and certain assets (including certain prepaid land premiums and production equipment located in Hefei City used for the manufacture of iron and steel products) and liabilities amounting to a net liability value of RMB202,312,595 to Ma Steel (Hefei).

Details of the net liability value of RMB202,312,595 injected into Ma Steel (Hefei) by Hefei Investment Holding are as follows:

	RMB
Prepayments	26,635,700
Inventory	115,342,635
Fixed assets	602,287,638
Construction in progress	640,000
Intangible assets	154,104,000
Short term loan	(476,620,150)
Bills payable	(219,200,000)
Accounts payable	(290,311,383)
Deposits received	(102,410,482)
Accrued charges	(12,780,553)
	<hr/>
	(202,312,595)
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## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### VII. SEGMENT INFORMATION

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 and related by-products, no business segmental analysis is presented.

The analysis of the Group's secondary segment information, geographical segment, is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on geographical segment assets and capital expenditure is provided.

#### For the six months ended 30 June

	2007			2006		
	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Combined Unaudited RMB'000	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Combined Unaudited RMB'000
Revenue	<u>18,737,114</u>	<u>2,289,598</u>	<u>21,026,712</u>	<u>15,325,149</u>	<u>1,401,835</u>	<u>16,726,984</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### 1. Recognition criteria of related party

Parties are considered to be related if one party is:

- 1) the parent of the Group;
- 2) the subsidiaries of the Group;
- 3) the fellow subsidiaries of the Group;
- 4) able to jointly control the Group;
- 5) able to exercise significant influence over the Group;
- 6) jointly-controlled entity of the Group;
- 7) associates of the Group;
- 8) major individual investors of the Group and a close member of his/her family;
- 9) a member of key management personnel of the Group or the parent and a close member of his/her family;
- 10) the entities controlled, jointly controlled or significantly influenced by major individual investors of the Group, key management personnel of the Group or the parent and a close member of his/her family.

The entities without relationships other than being under common control of the nation with the Group are not considered as related parties.

The related party transactions disclosed in the financial statements are those carried out between the Group and the related parties beyond the consolidation scope, not including the transactions carried out within the Group.

#### 2. Parent company and subsidiary company

Name of parent company	Registered place	Business nature	Share of equity interests	Share of voting rights	Registered capital RMB
Holding	Anhui, PRC	Manufacturing	59.34%	59.34%	6,298,290,000

As at balance sheet date, the registered and paid-in capital remained unchanged.

The details of the subsidiaries of the Company are stated in Note V to the financial statements.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### 3. Other related parties who carried out transactions with the Group

Names	Relationship with the Company
馬鋼(集團)控股有限公司桃冲礦業公司	Controlled by Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Controlled by Holding
馬鋼(集團)控股有限公司有線電視中心	Controlled by Holding
馬鋼(集團)控股有限公司通訊技術服務部	Controlled by Holding
馬鋼(集團)控股有限公司馬鋼日報社	Controlled by Holding
馬鋼(集團)控股有限公司安冶機械廠	Controlled by Holding
馬鋼(集團)控股有限公司塑鋼廠	Controlled by Holding
馬鋼集團建設有限責任公司	Controlled by Holding
馬鋼集團建築路橋有限責任公司	Controlled by Holding
馬鋼集團南山礦業有限責任公司	Controlled by Holding
馬鋼集團姑山礦業有限責任公司	Controlled by Holding
馬鋼集團設計研究院有限責任公司	Controlled by Holding
馬鞍山市湖西有限責任公司	Controlled by Holding
馬鋼集團康泰置地發展有限公司	Controlled by Holding
馬鋼集團康泰物業有限責任公司	Controlled by Holding
馬鋼集團康泰建安實業有限責任公司	Controlled by Holding
馬鋼集團力生有限責任公司	Controlled by Holding
馬鋼集團楚江假日國際旅游有限責任公司	Controlled by Holding
馬鋼集團實業發展有限責任公司	Controlled by Holding
黃山太白山莊	Controlled by Holding
馬鋼神馬冶金有限責任公司	Controlled by Holding
馬鋼集團鋼渣綜合利用有限責任公司	Controlled by Holding
馬鋼實業生興爐料加工有限責任公司	Controlled by Holding
安徽馬鋼比亞西焊網有限公司	Controlled by Holding
馬鞍山市聯營乙炔廠	Controlled by Holding
馬鞍山馬鋼永固螺絲制品有限公司	Controlled by Holding
馬鋼集團動力機電安裝有限責任公司	Controlled by Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Controlled by Holding

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

#### 3. Other related parties who carried out transactions with the Group (continued)

Names	Relationship with the Company
馬鞍山市華鑫軋鋼廠	Controlled by Holding
深圳粵海馬鋼實業有限公司	Controlled by Holding
馬鞍山博力建設監理有限公司	Controlled by Holding
安徽馬鋼技師學院	Controlled by Holding
巢湖市馬鋼五頂山礦業有限公司	Controlled by Holding
馬鞍山實發冶金工貿有限責任公司	Controlled by Holding
安徽冶金科技職業學院	Controlled by Holding
安徽馬鋼羅河礦業有限公司	Controlled by Holding
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
馬鞍山港口公司	Associate of the Group
馬鋼智能停車	Associate of the Group
BOC-Ma Steel	JCE of the Group

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the period:

	Notes	For the six months ended 30 June			
		2007		2006	
		Unaudited		Unaudited	
		Amount	%	Amount	%
		RMB		RMB	
Transactions with Holding and its subsidiaries:					
Purchases of iron ore	(i)	830,368,272	22	813,956,423	19
Fees paid for welfare, support services and other services	(ii), (iii)	79,726,061	100	86,173,773	100
Rental expenses	(iii)	18,125,000	100	18,125,000	100
Agency fee paid	(iii)	2,391,585	100	2,034,707	100
Purchases of fixed assets and construction services	(iii)	118,086,811	2	116,111,744	1
Fees received for the supply of utilities, services and other consumable goods	(iii)	(21,888,691)	14	(6,953,936)	4
Sale of steel products and related by products	(iii)	(2,372,621)	–	(4,549,145)	–
Transactions with associates of the Group:					
Purchases of coke	(iv)	311,132,915	40	411,216,519	54
Loading expenses	(iv)	59,836,335	25	38,775,358	18
Transactions with a JCE of the Group:					
Rental income	(v)	(625,000)	90	(625,000)	89
Construction fee income	(v)	(200,000)	–	(246,000)	–
Power supply income	(v)	(29,463,248)	11	–	–
Purchase of gas	(v)	65,699,145	99	–	–

- (i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 1 January 2007 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, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 15 February 2007 entered into between the Company and Holding.
- (iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the period: (continued)

(iv) These transactions were made between the Group and 濟源市金馬焦化, 滕州盛隆煤焦化, 馬鞍山港口公司 and were conducted in accordance with the terms mutually agreed between the parties.

(v) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

All the above transactions were carried out in the normal course of business of the Group.

- (2) Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting to RMB20 billion (31 December 2006: approximately RMB15 billion) as at the balance sheet date at nil consideration. The details are disclosed in Note VI.25 and 26.
- (3) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VIII.5.

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
<u>Prepayments:</u>		
Holding and its subsidiaries		
馬鋼集團建設有限責任公司	<b>7,524,400</b>	26,328,100
Others	<b>3,041,870</b>	1,018,542
Total	<b>10,566,270</b>	27,346,642
Percentage to the balance of the Group	<b>1%</b>	4%
<u>Accounts payable:</u>		
Holding and its subsidiaries		
Holding	<b>126,198,599</b>	136,339,089
馬鋼集團建設有限責任公司	<b>32,615,894</b>	21,610,018
馬鋼集團建築路橋有限責任公司	<b>15,751,020</b>	25,938,446
Others	<b>6,817,037</b>	13,567,162
Total	<b>181,382,550</b>	197,454,715
Percentage to the balance of the Group	<b>3%</b>	4%
Associates and a JCE of the Group		
BOC-Ma Steel	<b>25,874,332</b>	–
馬鞍山港口公司	<b>11,163,697</b>	6,524,273
滕州盛隆煤焦化	<b>3,925,916</b>	368,571
濟源市金馬焦化	<b>99,307</b>	469,100
Total	<b>41,063,252</b>	7,361,944
Percentage to the balance of the Group	<b>1%</b>	–

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	<b>30 June 2007 Unaudited RMB</b>	31 December 2006 Audited RMB
<u>Trade receivables:</u>		
Holding and its subsidiaries		
馬鋼集團康泰置地發展有限公司	<b>6,809,811</b>	–
馬鋼集團建設有限責任公司	–	6,406,519
Others	<b>2,044,823</b>	4,027,493
Total	<b>8,854,634</b>	10,434,012
Percentage to the balance of the Group	<b>1%</b>	2%
<u>Deposits received:</u>		
Holding and its subsidiaries		
Holding	<b>48,160,508</b>	44,200,000
馬鋼集團建設有限責任公司	<b>1,887,779</b>	9,144,804
馬鋼集團姑山礦業有限責任公司	–	59,156,440
Others	<b>630,805</b>	7,248,853
Total	<b>50,679,092</b>	119,750,097
Percentage to the balance of the Group	<b>1%</b>	3%
Associates of the Group		
馬鞍山港口公司	<b>5,775,208</b>	–
Percentage to the balance of the Group	–	–
<u>Dividends payable:</u>		
Holding	<b>1,297,972,800</b>	400,000,000
Percentage to the balance of the Group	<b>79%</b>	98%
<u>Other long term liabilities:</u>		
Holding	–	400,000,000
Percentage to the balance of the Group	–	81%

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

#### IX. CONTINGENT LIABILITIES

1. As at 30 June 2007, the Company had granted guarantees amounting to approximately RMB5,305 million (31 December 2006: approximately RMB7,728 million) to banks in connection with facilities granted to its subsidiaries.
2. As announced by the Company on 5 July 2007, the State Administration of Taxation (the "SAT") issued a notice (the "Notice") in June 2007 about the change in concessionary income tax policy applicable for nine state-owned enterprises (including the Company) which were listed in Hong Kong in 1993. According to the Notice, the SAT ordered the relevant local tax authorities to immediately rectify any of the expired concessionary policy for the abovementioned nine companies and treat any of the income tax differences for previous years arising therefrom in accordance with the relevant rules under the Law on the Administration of Tax Collection.

At this stage, the relevant implementation rules have not yet been announced and the Company is still in the process of communication with the tax authority regarding the matter. Accordingly, the directors of the Company consider that the amount of the potential exposure cannot be estimated reliably, and therefore, no provision has been recognised as at the balance sheet date.

#### X. LEASE ARRANGEMENTS

Significant operating lease:

The Group leases its investment properties under operating lease arrangement to BOC-Ma Steel for 18 years. The rent is fixed during the operating lease period.

<b>Remaining lease period</b>	<b>Minimum lease receivable</b> unaudited RMB
Within 1 year, inclusive	1,250,000
1 to 2 years, inclusive	1,250,000
2 to 3 years, inclusive	1,250,000
Over 3 years	15,625,000
	<hr/>
	19,375,000

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### XI. COMMITMENTS

1. The commitments of the Group as at the balance sheet date were as follows:

	<b>30 June 2007 Unaudited RMB'000</b>	31 December 2006 Audited RMB'000
Capital commitment		
Authorised, but not contracted for	<b>6,226,232</b>	5,217,641
Contracted, but not provided for	<b>2,850,677</b>	4,093,227
Total	<b>9,076,909</b>	9,310,868
Investment commitment		
Contracted, but not fully contributed	<b>13,500</b>	13,500

2. Share of the commitments of the JCE by the Group (not included in Note 1 above) as at the balance sheet date were as follows:

	<b>30 June 2007 Unaudited RMB'000</b>	31 December 2006 Audited RMB'000
Capital commitment		
Authorised, but not contracted for	–	10,952
Contracted, but not provided for	<b>6,873</b>	39,351
Total	<b>6,873</b>	50,303
Other commitment		
Contracted, but not provided for	<b>4,750</b>	5,000

## VII. Financial Statements (Continued)

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(Prepared under PRC accounting standards)

30 June 2007

### XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

#### 1. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank and other borrowings, bonds with warrants, 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 and bills payables, and other payables which arise directly from its operations.

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:

##### *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 cash flow interest rate risk. At 30 June 2007, approximately 50% (31 December 2006: 63%) of the Group's interest-bearing borrowings bore interest at fixed rates. The significant rise of interest rate may impact the operating result of the Group.

##### *Foreign currency risk*

The businesses of the Group are principally located in Mainland China. 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 these foreign currencies can affect the Group's results of operations.

##### *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 amounts 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, bonds with warrants and other available sources of financing. 9% of the Group's debts would mature in less than one year at 30 June 2007 (31 December 2006: 4%).

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

(Prepared under PRC accounting standards)

30 June 2007

### **XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS (CONTINUED)**

#### **2. Fair value**

The fair value of the liability component of the bonds with warrant issued by the Group is determined using a market rate on the issuing date for an equivalent bond without the detachable share purchase warrants. The remainder amount is included in shareholders' equity as equity component of the bonds with warrant.

The fair value of the long term loans of the Group is determined using the interest rate of loans with similar term and life. There is no significant difference between the fair value and carrying amount.

There is no significant difference between the fair values and carrying amounts for cash and cash equivalents, accounts receivable, bills receivable, held-to-maturity investment and short term loans of the Group.

### **XIII. POST BALANCE SHEET EVENTS**

The Company proposed to issue 20,000,000 short term commercial papers with a nominal value of RMB100 each, amounting to RMB2 billion in total. The short term commercial papers will be issued at par and have a maturity of one year from the date of issuance. The proceeds from the issue will be used to finance the working capital of the Company.

The proposal of issuance has been approved in the extraordinary general meeting held on 1 February 2007. Up to reporting date, the proposal is pending for approval of the People's Bank of China.

### **XIV. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the current period's presentation according to the first-time adoption of New PRC Standards during the period.

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

These financial statements were approved by the board of directors on 16 August 2007.

## VII. Financial Statements (Continued)

### SUPPLEMENTARY INFORMATION

30 June 2007

#### I. RECONCILIATION STATEMENT OF DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

The material differences between the 2007 interim consolidated financial statements prepared under PRC and Hong Kong accounting standards are summarised as follows:

	Notes	Net profit Unaudited RMB'000	Shareholders' equity Unaudited RMB'000
Prepared under Hong Kong accounting standards		1,145,125	21,080,769
Add back:			
Deferred income	(i)	–	588,570
Deduct:			
Recognition of deferred income	(i)	(25,012)	(165,247)
Provision for furnace relining costs	(ii)	–	(63,324)
Prepared under PRC accounting standards		<u>1,120,113</u>	<u>21,440,768</u>

##### (i) Deferred income

Government grants for specific construction projects are accounted for as deferred income under Hong Kong accounting standards; whereas such grants are accounted for as specific payables under "Accounting System for Business Enterprises" and relevant accounting standards issued by MOF in 2000 (the "Former PRC Standards").

Under the Former PRC Standards, 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 30 June 2007, accumulated specific payables transferred to the capital reserve amounted to approximately RMB589 million.

Under Statement of Standard Accounting Practice No. 20, Accounting for government grants and disclosure of assistance ("HKSSAP 20"), 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. As at 30 June 2007, accumulated deferred income amounting to approximately RMB589 million should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB25 million was released to the current period's income statement. As at 30 June 2007, the accumulated deferred income released amounted to approximately RMB165 million.

## SUPPLEMENTARY INFORMATION (CONTINUED)

30 June 2007

### I. RECONCILIATION STATEMENT OF DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (CONTINUED)

#### (ii) Furnace relining costs

Under the Former PRC Standards, 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. No furnace relining cost was incurred in the current period. The remaining provision as at 30 June 2007 amounted to approximately RMB63.3 million (as adjusted for the relevant deferred tax difference).

Under HKAS 37, *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 RMB120 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment.

### II. RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to ordinary equity holders of the parent	5.15	5.08	0.168	0.152
Net profit attributable to ordinary equity holders of the parent excluding non-recurring gains or losses	<u>5.53</u>	<u>5.46</u>	<u>0.181</u>	<u>0.163</u>

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Circular on Promulgating the Preparation Criteria of Information Disclosure by Companies Offering Securities to the Public No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share (2007 revised)" (Zheng Jian Kuai Ji Zi No.9 [2007]) issued by CSRC.

## VII. Financial Statements (Continued)

### SUPPLEMENTARY INFORMATION (CONTINUED)

30 June 2007

#### II. RETURN ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

Including: Net profit attributable to ordinary equity holders of the parent excluding non-recurring gains or losses

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>Unaudited</b>	Unaudited
	<b>RMB</b>	RMB
		(Restated)
<u>Non-recurring gains or losses items</u>		
Gain/(loss) on disposal of non-current assets	<b>(94,304,468)</b>	1,676,553
Government subsidies	<b>1,503,684</b>	–
Other non-operating income and expense items	<b>(2,248,413)</b>	(751,139)
	<b>(95,049,197)</b>	925,414
Less: Income tax effect	<b>14,234,298</b>	(177,409)
Non-recurring gains or losses attributable to minority shareholders	<b>80,277</b>	(51,435)
Net effect of non-recurring gains or losses	<b>(80,734,622)</b>	696,570
Net profit attributable to ordinary equity holders of the parent	<b>1,086,082,847</b>	1,065,144,001
Less: net effect of non-recurring gains or losses	<b>80,734,622</b>	(696,570)
Net profit attributable to ordinary equity holders of the parent excluding non-recurring gains or losses	<b>1,166,817,469</b>	1,064,447,431

The calculation of non-recurring gains or losses is in accordance with "Q&A on Criteria of Information Disclosure by Companies Offering Securities to the Public No.1 – Non-recurring Gains or Losses (2007 revised)" (Zheng Jian Kuai Ji Zi No. No.9 [2007]) issued by CSRC.

The Board of Directors of the Company hereby announces the unaudited interim results of the Group for the six months ended 30 June 2007 together with comparative figures for the corresponding period in 2006. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Accounting Standards)

For the six months ended 30 June 2007

		<b>For the six months ended 30 June</b>	
	Notes	<b>2007 Unaudited RMB'000</b>	2006 Unaudited RMB'000
<b>REVENUE</b>	3, 4	<b>20,750,105</b>	16,142,229
Cost of sales		<b>(18,345,992)</b>	(14,144,189)
Gross profit		<b>2,404,113</b>	1,998,040
Other income and gains	4	<b>78,462</b>	73,626
Selling and distribution costs		<b>(291,805)</b>	(240,074)
Administrative expenses		<b>(466,963)</b>	(373,225)
Other operating income/(expenses), net		<b>(94,756)</b>	17,438
Finance costs	5	<b>(305,888)</b>	(147,026)
Share of profits and losses of:			
A jointly-controlled entity		<b>(5,552)</b>	–
Associates		<b>43,417</b>	9,826
<b>PROFIT BEFORE TAX</b>	6	<b>1,361,028</b>	1,338,605
Income tax	7	<b>(215,903)</b>	(231,535)
<b>PROFIT FOR THE PERIOD</b>		<b>1,145,125</b>	1,107,070
Attributable to:			
Equity holders of the parent		<b>1,111,095</b>	1,090,020
Minority interests		<b>34,030</b>	17,050
		<b>1,145,125</b>	1,107,070
<b>DIVIDEND</b>	8	<b>Nil</b>	Nil
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	9		
Basic		<b>17.21 cents</b>	16.89 cents
Diluted		<b>15.55 cents</b>	N/A

## VII. Financial Statements (Continued)

### CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong Accounting Standards)

30 June 2007

	Notes	As at 30 June 2007 Unaudited RMB'000	As at 31 December 2006 Audited RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	26,857,472	18,752,595
Construction in progress	11	16,869,350	21,066,978
Investment properties		1,257	3,559
Prepaid land premiums		1,457,198	1,457,468
Other intangible asset		120,453	113,507
Investment in a jointly-controlled entity		228,448	234,000
Investments in associates		356,605	329,514
Available-for-sale equity investments		19,517	16,817
Held-to-maturity investments		8,259	8,259
Deferred tax assets		1,813	–
Total non-current assets		45,920,372	41,982,697
<b>CURRENT ASSETS</b>			
Inventories		8,654,632	6,489,013
Construction contracts		56,438	51,119
Trade and bills receivables	12	5,676,815	1,263,559
Prepayments, deposits and other receivables		1,197,483	769,353
Pledged deposits		858,481	531,137
Cash and cash equivalents		2,839,797	3,629,568
Total current assets		19,283,646	12,733,749
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	9,020,666	5,997,722
Deposits received		5,454,744	3,924,584
Other payables and accruals		2,866,011	1,696,004
Interest-bearing bank and other borrowings		2,322,412	808,772
Tax payable		59,018	93,110
Provisions		44,074	50,770
Total current liabilities		19,766,925	12,570,962
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(483,279)</b>	162,787
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>45,437,093</b>	42,145,484

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)**

(Prepared under Hong Kong Accounting Standards)

30 June 2007

	Notes	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>45,437,093</b>	42,145,484
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>19,054,602</b>	15,713,140
Bonds with warrants	14	<b>4,740,088</b>	4,672,376
Deferred income		<b>539,589</b>	564,901
Provisions		<b>22,045</b>	22,045
Due to the ultimate holding company		–	400,000
Deferred tax liabilities		–	754
Total non-current liabilities		<b>24,356,324</b>	21,373,216
Net assets		<b>21,080,769</b>	20,772,268
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	15	<b>6,455,300</b>	6,455,300
Equity component of bonds with warrants		<b>585,463</b>	585,463
Reserves		<b>13,692,914</b>	12,581,819
Proposed final dividend		–	839,189
Minority interests		<b>20,733,677</b>	20,461,771
Total equity		<b>347,092</b>	310,497
		<b>21,080,769</b>	20,772,268

**Gu Jianguo**

Director

**Su Jianguang**

Director

## VII. Financial Statements (Continued)

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong Accounting Standards)

For the six months ended 30 June 2007

	Attributable to equity holders of the parent											
	Issued share capital	Equity			Statutory public		Enterprise		Proposed		Minority interests	Total equity
		Capital reserve	component of bonds with warrants	Statutory reserve	welfare fund	Reserve fund	expansion fund	Retained profits	final dividend	Total		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2007	6,455,300	4,864,976	585,463	2,595,774	-	23,047	18,339	5,079,683	839,189	20,461,771	310,497	20,772,268
Profit for the period	-	-	-	-	-	-	-	1,111,095	-	1,111,095	34,030	1,145,125
Final 2006 dividend declared	-	-	-	-	-	-	-	-	(839,189)	(839,189)	-	(839,189)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(25,253)	(25,253)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	27,818	27,818
At 30 June 2007	6,455,300	4,864,976	585,463	2,595,774	-	23,047	18,339	6,190,778	-	20,733,677	347,092	21,080,769
At 1 January 2006	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
Profit for the period	-	-	-	-	-	-	-	1,090,020	-	1,090,020	17,050	1,107,070
Transfer from/(to) reserves	-	-	-	1,178,385	(1,178,385)	-	-	-	-	-	-	-
Final 2005 dividend declared	-	-	-	-	-	-	-	-	(1,032,848)	(1,032,848)	-	(1,032,848)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(25,591)	(25,591)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	107,870	107,870
At 30 June 2006	6,455,300	4,864,976	-	2,358,357	-	11,113	10,678	4,871,252	-	18,571,676	237,518	18,809,194

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong Accounting Standards)

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>(1,329,560)</b>	2,224,234
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(3,718,590)</b>	(6,197,361)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<b>4,268,981</b>	4,180,485
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(779,169)</b>	207,358
Cash and cash equivalents at beginning of period	<b>3,629,568</b>	3,049,270
Effect of foreign exchange rate changes, net	<b>(10,602)</b>	11,388
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,839,797</b>	3,268,016
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>2,839,797</b>	3,268,016

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 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 period, the Company and its subsidiaries (the "Group") were principally engaged in the manufacture and sale of iron and steel products and related by-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. ACCOUNTING POLICIES

The interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period's financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 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 and related by-products.

The analysis of the Group's secondary segment information, geographical segment, is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and capital expenditure is provided.

	For the six months ended 30 June					
	2007			2006		
	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Total Unaudited RMB'000	PRC Unaudited RMB'000	Overseas Unaudited RMB'000	Total Unaudited RMB'000
Segment revenue	<b>18,460,507</b>	<b>2,289,598</b>	<b>20,750,105</b>	14,740,394	1,401,835	16,142,229

### 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:

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
<u>Revenue</u>		
Sale of goods	<b>20,750,105</b>	16,142,229
<u>Other income and gains</u>		
Bank interest income	<b>20,235</b>	13,235
Dividend income from an available-for-sale equity investment	–	5,295
Recognition of deferred income	<b>25,012</b>	24,876
Trading of iron ores	<b>16,331</b>	18,644
Others	<b>16,884</b>	11,576
	<b>78,462</b>	73,626

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 5. FINANCE COSTS

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	668,861	324,970
Less: Interest capitalised in construction in progress	(362,973)	(177,944)
	<b>305,888</b>	147,026

#### 6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Depreciation of property, plant and equipment	1,322,824	1,137,129
Depreciation of investment properties	17	293
Recognition of prepaid land premiums	18,872	12,444
Amortisation of a mine participation right	2,291	2,241
Auditors' remuneration	3,004	2,550
Staff costs:		
Wages and salaries	793,964	684,452
Welfare and benefits	313,768	262,910
Pension scheme contributions	190,986	147,700
	<b>1,298,718</b>	1,095,062
Contingent rents under operating leases in respect of land and buildings	18,125	18,125
Foreign exchange differences:		
Foreign exchange gains, net	(9,457)	(20,756)
Less: Foreign exchange gains capitalised in construction in progress	19,320	7,460
	<b>9,863</b>	(13,296)

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 6. PROFIT BEFORE TAX (continued)

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Loss/(gain) on disposal of items of property, plant and equipment, net	94,304	(1,676)
Reversal of impairment provision for construction in progress (note i)	–	(17,676)
Net rental income	(625)	(1,250)
Bank interest income	(20,235)	(13,235)
Dividend income from an available-for-sale equity investment	–	(5,295)
Recognition of deferred income (note ii)	(25,012)	(24,876)

Notes:

- (i) Reversal of impairment provision for construction in progress is included in "Other operating income/(expenses), net" on the face of the condensed consolidated income statement.
- (ii) 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.

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 7. INCOME TAX

	For the six months ended 30 June	
	2007 Unaudited RMB'000	2006 Unaudited RMB'000
Group:		
Current – Mainland China	208,004	218,970
Current – Elsewhere	10,466	5,937
Deferred	(2,567)	6,628
Total income tax charge for the period	<u>215,903</u>	<u>231,535</u>

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 period based on existing legislation, interpretations and practices in respect thereof. Certain of the Company's subsidiaries are foreign investment enterprises and after obtaining the authorisation from the 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.

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.

#### 8. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the rights issued during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>Unaudited</b>	Unaudited
	<b>RMB'000</b>	RMB'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>1,111,095</b>	1,090,020
	<hr/> <hr/>	<hr/> <hr/>
	<b>Number of shares</b>	
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	<b>6,455,300,000</b>	6,455,300,000
Effect of dilution – weighted average number of ordinary shares: Warrants attached to bonds	<b>692,296,937</b>	–
	<hr/> <hr/>	<hr/> <hr/>
	<b>7,147,596,937</b>	6,455,300,000

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures Unaudited RMB'000	Plant, machinery and equipment Unaudited RMB'000	Transportation vehicles and equipment Unaudited RMB'000	Total Unaudited RMB'000
<b>30 June 2007</b>				
At 1 January 2007:				
Cost	9,396,798	20,556,253	395,131	30,348,182
Accumulated depreciation and impairment	(3,287,667)	(8,059,428)	(248,492)	(11,595,587)
Net carrying amount	<u>6,109,131</u>	<u>12,496,825</u>	<u>146,639</u>	<u>18,752,595</u>
At 1 January 2007, net of accumulated depreciation and impairment	6,109,131	12,496,825	146,639	18,752,595
Additions	5,961	37,563	6,830	50,354
Transfer from construction in progress (note 11)	3,049,266	6,438,313	5,000	9,492,579
Reclassification	(135,136)	135,503	(367)	-
Depreciation provided during the period	(278,422)	(1,021,505)	(22,897)	(1,322,824)
Disposals/write-off	(518)	(114,614)	(100)	(115,232)
At 30 June 2007, net of accumulated depreciation and impairment	<u>8,750,282</u>	<u>17,972,085</u>	<u>135,105</u>	<u>26,857,472</u>
At 30 June 2007:				
Cost	12,300,446	26,998,285	404,614	39,703,345
Accumulated depreciation and impairment	(3,550,164)	(9,026,200)	(269,509)	(12,845,873)
Net carrying amount	<u>8,750,282</u>	<u>17,972,085</u>	<u>135,105</u>	<u>26,857,472</u>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and structures Unaudited RMB'000	Plant, machinery and equipment Unaudited RMB'000	Transportation vehicles and equipment Unaudited RMB'000	Total Unaudited RMB'000
<b>30 June 2006</b>				
At 1 January 2006:				
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>
At 1 January 2006, net of accumulated depreciation and impairment				
	5,932,141	12,271,420	181,131	18,384,692
Additions	23	970	1,300	2,293
Capital contribution by a minority shareholder	212,657	385,748	3,883	602,288
Transfer from construction in progress (note 11)	228,801	1,208,732	7,190	1,444,723
Depreciation provided during the period	(246,253)	(864,730)	(26,146)	(1,137,129)
Disposals/write-off	(19)	(1,568)	(533)	(2,120)
At 30 June 2006, net of accumulated depreciation and impairment	<u>6,127,350</u>	<u>13,000,572</u>	<u>166,825</u>	<u>19,294,747</u>
At 30 June 2006:				
Cost	9,182,582	20,346,742	420,962	29,950,286
Accumulated depreciation and impairment	(3,055,232)	(7,346,170)	(254,137)	(10,655,539)
Net carrying amount	<u>6,127,350</u>	<u>13,000,572</u>	<u>166,825</u>	<u>19,294,747</u>

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 11. CONSTRUCTION IN PROGRESS

	Unaudited RMB'000
<b>30 June 2007</b>	
Cost:	
At 1 January 2007	21,066,978
Additions	5,294,951
Transfers to property, plant and equipment (note 10)	(9,492,579)
	<hr/>
At 30 June 2007	16,869,350
	<hr/>
Accumulated impairment:	
At 1 January 2007 and 30 June 2007	–
	<hr/>
At 30 June 2007, net of accumulated impairment	<u>16,869,350</u>
<b>30 June 2006</b>	
Cost:	
At 1 January 2006	7,550,730
Additions	6,452,484
Minority shareholder contribution	640
Transfers to property, plant and equipment (note 10)	(1,444,723)
Disposals/write-off	(33,324)
	<hr/>
At 30 June 2006	12,525,807
	<hr/>
Accumulated impairment:	
At 1 January 2006	74,000
Reversal/write-off	(51,000)
	<hr/>
At 30 June 2006	23,000
	<hr/>
At 30 June 2006, net of accumulated impairment	<u>12,502,807</u>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 12. 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 invoice date, and net of provision, is as follows:

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Trade receivables:		
Within three months	<b>797,299</b>	553,187
Four to six months	<b>16,350</b>	10,623
Seven to twelve months	<b>9,050</b>	4,953
One to two years	<b>7,173</b>	9,366
Two to three years	<b>3,381</b>	4,292
	<b>833,253</b>	582,421
Bills receivable	<b>4,843,562</b>	681,138
	<b>5,676,815</b>	1,263,559

Bills receivable will mature within one year.

Included in the Group's trade and bills receivables are amounts due from Holding, and its subsidiaries, aggregating approximately RMB8,855,000 (31 December 2006: approximately RMB10,434,000). Such balances principally arose from normal trading activities.

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 13. 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:

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Within one year	<b>8,744,840</b>	5,950,074
One to two years	<b>256,991</b>	28,668
Two to three years	<b>5,691</b>	13,080
Over three years	<b>13,144</b>	5,900
	<b>9,020,666</b>	5,997,722

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

Included in the Group's trade payables are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB181,383,000 (31 December 2006: approximately RMB197,455,000). Such balances principally arose from normal trading activities.

Included in the Group's trade payables are amounts due to associates and a jointly-controlled entity, in aggregate, amounting to approximately RMB41,063,000 (31 December 2006: approximately RMB7,362,000). Such balances principally arose from normal trading activities.

At 30 June 2007, the carrying amounts of the Group's inventories and cash deposits, which were pledged as security for the Group's trading facilities for the issuance of bank bills, amounted to RMB334,051,000 (31 December 2006: RMB121,914,000) and RMB850,865,000 (31 December 2006: RMB531,137,000), respectively.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 14 BONDS WITH WARRANTS

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. Since the announcement of dividend on 13 July 2007, the conversion price has been adjusted to RMB3.33 each. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares. Up to 30 June 2007, no warrant was exercised.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

The carrying amount of the liability component of the bonds with warrants as at 30 June 2007 is arrived at as follows:

	Unaudited RMB'000
Nominal value of bonds with warrants issued	5,500,000
Equity component (net of deferred tax)	(604,229)
Deferred tax liability	(128,790)
Direct transaction costs attributable to the liability component	(125,584)
Liability component at the issue date	<u>4,641,397</u>
For the period from the issue date to 31 December 2006	
Interest expense	30,979
Less: Interest paid	—
The carrying amount at 31 December 2006 and 1 January 2007	<u>4,672,376</u>
For the period from 1 January 2007 to 30 June 2007	
Interest expense	116,693
Less: Interest paid	—
Portion classified as current liability	(48,981)
The carrying amount at 30 June 2007	<u><u>4,740,088</u></u>

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 15. ISSUED CAPITAL

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Registered, issued and fully paid:		
3,830,560,000 State-owned shares	<b>3,830,560</b>	3,830,560
– Legal person A shares	–	87,810
891,810,000 Individual A shares of RMB1.00 each	<b>891,810</b>	804,000
1,732,930,000 H shares of RMB1.00 each	<b>1,732,930</b>	1,732,930
	<b>6,455,300</b>	6,455,300

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.

On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares (including state-owned shares and legal person A shares, collectively as "Non-circulating Shares") into listed and circulating A shares ("Circulating A Shares") (the "State Share Reform") have been obtained. The then Non-circulating Shares have been entitled to be listed and become Circulating A Shares since 31 March 2006 (the "Listing Date").

After the implementation of the State Share Reform, the state-owned shares held by Holding and the entire legal person A shares are not listed for trading or transferred within 12 months from the Listing Date and the state-owned shares held by Holding are also not listed for trading and transferred in the following 24 months (collectively as "Selling Restriction"). However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

In accordance with the execution arrangement of the State Share Reform, on 2 April 2007, the entire legal person A shares amounting to 87,810,000 shares were released from Selling Restriction, and were transferred to Circulating A Shares, i.e., individual A shares.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 16. CONTINGENT LIABILITIES

- (a) As at 30 June 2007, the Company had granted guarantees amounting to approximately RMB5,305 million (31 December 2006: approximately RMB7,728 million) to banks in connection with facilities granted to its subsidiaries.
- (b) As announced by the Company on 5 July 2007, the State Administration of Taxation (the "SAT") issued a notice (the "Notice") in June 2007 about the change in concessionary income tax policy applicable for nine state-owned enterprises (including the Company) which were listed in Hong Kong in 1993. According to the Notice, the SAT ordered the relevant local tax authorities to immediately rectify any of the expired concessionary policy for the abovementioned nine companies and treat any of the income tax differences for previous years arising therefrom in accordance with the relevant rules under the Law on the Administration of Tax Collection.

At this stage, the relevant implementation rules have not yet been announced and the Company is still in the process of communication with the tax authority regarding the matter. Accordingly, the directors of the Company consider that the amount of the potential exposure cannot be estimated reliably, and therefore, no provision has been recognised as at the balance sheet date.

### 17. COMMITMENTS

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

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Authorised, but not contracted for	<b>6,226,232</b>	5,217,641
Contracted, but not provided for	<b>2,850,677</b>	4,093,227
	<b>9,076,909</b>	9,310,868

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

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Contracted, but not provided for	<b>13,500</b>	13,500

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 17. COMMITMENTS (CONTINUED)

- (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:

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Authorised, but not contracted for	–	10,952
Contracted, but not provided for	<b>6,873</b>	39,351
	<b>6,873</b>	50,303

- (d) The Group's share of other commitments of the jointly-controlled entity, which was not included in notes (a) and (c) above at the balance sheet date was as follows:

	<b>As at 30 June 2007 Unaudited RMB'000</b>	As at 31 December 2006 Audited RMB'000
Contracted, but not provided for	<b>4,750</b>	5,000

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### 18. RELATED PARTY TRANSACTIONS

- (a) Transactions carried out between the Group and its related parties during the period

The following is a summary of the significant transactions carried out between the Group and its related parties during the period:

		<b>For the six months ended 30 June</b>	
	Notes	<b>2007 Unaudited RMB'000</b>	2006 Unaudited RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	<b>830,368</b>	813,956
Fees paid for welfare, support services and other services	(ii), (iii)	<b>79,726</b>	86,174
Rental expenses	(iii)	<b>18,125</b>	18,125
Agency fee paid	(iii)	<b>2,392</b>	2,035
Purchases of property, plant and equipment and construction services	(iii)	<b>118,087</b>	116,112
Fees received for the supply of utilities, services and other consumable goods	(iii)	<b>(21,889)</b>	(6,954)
Sale of steel and other by-products	(iii)	<b>(2,373)</b>	(4,549)
<hr/>			
Transactions with associates of the Company:			
Purchases of coke	(iv)	<b>311,133</b>	411,217
Loading expenses	(iv)	<b>59,836</b>	38,775
<hr/>			
Transactions with a jointly-controlled entity of the Company:			
Rental income	(v)	<b>(625)</b>	(625)
Construction fees income	(v)	<b>(200)</b>	(246)
Energy supply	(v)	<b>(29,463)</b>	–
Purchases of gas	(v)	<b>65,699</b>	–
<hr/>			

Notes:

- (i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 1 January 2007 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, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 15 February 2007 entered into between the Company and Holding.

## VII. Financial Statements (Continued)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Prepared under Hong Kong Accounting Standards)

30 June 2007

#### 18. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Transactions carried out between the Group and its related parties during the period (continued)

Notes:

- (iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.
- (iv) These transactions were made between the Group and 濟源市金馬焦化有限公司, 滕州盛隆煤焦化有限公司, 馬鞍山市港口(集團)有限責任公司 and were conducted in accordance with the terms mutually agreed between the parties.
- (v) These transactions were made between the Group and Maanshan BOC-Ma Steel Gases Company Limited and were conducted in accordance with the terms mutually agreed between them.
- (b) Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting to RMB20 billion (31 December 2006: approximately RMB15 billion) as at the balance sheet date at nil consideration.
- (c) Outstanding balances with related parties:
- (i) As disclosed in the condensed consolidated balance sheet, the Group had an amount due to Holding of RMB400 million as at 31 December 2006. The amount is unsecured, interest-free and is repayable after 1 January 2008.
- (ii) Included in the Group's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB10,566,000 (31 December 2006: approximately RMB27,347,000).
- (iii) Included in the Group's deposits received are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB50,679,000 (31 December 2006: approximately RMB119,750,000) and an amount due to an associate amounting to approximately RMB5,775,000 (31 December 2006: nil).
- (iv) Included in the Group's other payables and accruals is an amount due to Holding, amounting to approximately RMB1,297,973,000 (31 December 2006: approximately RMB400,000,000).
- (v) Further details of balances of the Group with Holding and its subsidiaries are set out in notes 12 and 13 to the condensed consolidated financial statements.

In the opinion of the directors, the transactions set out in items (a) (i)-(v) above were carried out in the normal course of business of the Group.

The related party transactions in respect of items (a) (i)-(iii) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Prepared under Hong Kong Accounting Standards)

30 June 2007

### **19. POST BALANCE SHEET EVENT**

The Company proposed to issue 20,000,000 short term commercial papers with a nominal value of RMB100 each, amounting to RMB2 billion in total. The short term commercial papers will be issued at par and have a maturity of one year from the date of issuance. The proceeds from the issue will be used to finance the working capital of the Company.

The proposal of issuance has been approved in the extraordinary general meeting held on 1 February 2007. Up to reporting date, the proposal is pending for approval of the People's Bank of China.

### **20. APPROVAL OF THE INTERIM FINANCIAL STATEMENT**

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 16 August 2007.

## VIII. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;
2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the reporting period;
4. The Company's Articles of Association;
5. Interim report disclosed in other securities market;
6. Other related information.

**Maanshan Iron & Steel Company Limited**  
**Gu Jianguo**  
Chairman

16 August 2007