馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 323)

2006 ANNUAL RESULTS ANNOUNCEMENT

1. IMPORTANT

1.1 The board of directors (the "Board of Directors"), the supervisory committee and the directors, the supervisors and senior management of Maanshan Iron & Steel Company Limited (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. This annual results announcement has been extracted from the Company's annual report. Investors should read the full text of the annual report for details.

1.2 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 annual report.

2. COMPANY INFORMATION

2.1 Company profile

Stock abbreviation	Magang Stock	Maanshan Iron
Stock code	600808	323
Places of listing	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Company's registered and office address	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC	
Postal code	243003	
Company's website	http://www.magang.com.cn	
Email address	mggfdms@magang.com.cn	

2.2 Contact people and details

	Secretary to the Board of Directors	Representative for Securities Affairs
Name	Su Jiangang	Hu Shunliang
Correspondence Address	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Telephone	86-555-2888158	86-555-2888158
Fax	86-555-2887284	86-555-2887284
Email address	mggfdms@magang.com.cn	mggfdms@magang.com.cn

3. EXTRACT OF ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major accounting data

(Prepared under PRC Accounting Standards)

Unit: RMB'000

	2006	2005	Increase/ (decrease) compared to the previous year (%)	2004
Income from principal operating activities	**34,319,874**	32,083,096	6.97	26,770,055
Profit before tax	**2,756,726**	3,322,267	-17.02	4,029,637
Net profit	**2,276,586**	2,847,620	-20.05	3,575,807
Net profit excluding non-recurring gains or losses	**2,234,107**	2,877,608	-22.36	3,567,004
Net cash flow from operating activities	**5,282,804**	6,170,942	-14.39	6,102,277

	31 December 2006	31 December 2005	Increase/ (decrease) compared to the previous year (%)	31 December 2004
Total assets	**54,842,867**	38,878,377	41.06	31,461,195
Shareholders' equity (excluding minority interests)	**20,122,107**	18,881,716	6.57	17,435,578

3.2 Major financial indicators

(Prepared under PRC Accounting Standards)

Unit: RMB

	2006	2005	Increase/ (decrease) compared to the previous year (%)	2004
Earnings per share	**0.353**	0.441	-19.95	0.554
Return on net assets (fully diluted) (%)	**11.31**	15.08	decrease by 3.77 in percentage point	20.51
Return on net assets based on net profit excluding non-recurring gains or losses (fully diluted) (%)	**11.10**	15.24	decrease by 4.14 in percentage point	20.46
Net cash flow per share from operating activities	**0.8184**	0.9559	-14.38	0.9453

	31 December 2006	31 December 2005	Increase/ (decrease) compared to the previous year (%)	31 December 2004
Net asset value per share	**3.12**	2.92	6.85	2.70
Adjusted net asset value per share	**3.11**	2.92	6.51	2.70

Unit: RMB'000

Non-recurring gains or losses	**Amount**
Net loss on disposal of fixed assets and constructions in progress	(11,196)
Subsidy income	5,850
Other non-operating income and expenses, net	636
Reversal of the impairment provisions of fixed assets which had been provided in the past years	37,287
Gain from disposal of short-term investments, net	13,994
Income tax effect	(4,092)
Total non-recurring gains or losses, net	42,479

3.3 Differences between financial statements prepared under PRC Accounting Standards and Hong Kong Accounting Standards

Unit: RMB'000

	PRC Accounting Standards	**Hong Kong Accounting Standards**
Net profit	2,276,586	2,394,652
Description of differences	Net profit under Hong Kong Accounting Standards	2,394,652
	Add:	
	Employee bonus and welfare fund	6,547
	Less:	
	Recognition of deferred income	(49,752)
	Deferred tax income	(74,861)
	Net profit under PRC Accounting Standards	2,276,586

4. MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Table on share movement

During the reporting period, the Company has completed the State Share Reform. The State Share Reform did not involve any movements in the total number of shares. Movements in the share capital structure are as follows:

Unit: '000 Shares

	Prior to the current movements		Current movements (+, –)					After current movements	
	Number of shares	(%)	New shares issue	Bonus shares	Transferred from reserves	State Share Reform	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions									
1. State-owned shares	4,034,560	62.5	–	–	–	(204,000)	(204,000)	3,830,560	59.34
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares									
Including:									
Shares owned by domestic legal persons	87,810	1.36	–	–	–	–	–	87,810	1.36
Shares owned by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign-owned shares									
Including:									
Shares owned by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares owned by foreign natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions									
1. RMB-denominated ordinary shares	600,000	9.29	–	–	–	204,000	204,000	804,000	12.45
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Foreign listed foreign shares	1,732,930	26.85	–	–	–	–	–	1,732,930	26.85
4. Others									
III. Total number of shares	6,455,300	100	–	–	–	–	–	6,455,300	100

4.2 Number of shareholders and shareholding structure

Unit: Shares

Number of shareholders at the end of the reporting period:	The Company had a total of 103,916 shareholders including 101,773 A share holders and 2,143 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 *(%)*	Number of shares held (share)	Number of non-circulating shares held (share)	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholders	60.080	3,878,330,000	3,878,330,000	0
HKSCC (Nominees) Limited	Foreign shareholders	25.519	1,647,298,997	0	Unknown
E Fund Selective Value Equity Fund	Others	0.709	45,770,577	0	Unknown
HSBC (Nominees) Limited	Foreign shareholders	0.477	30,784,000	0	Unknown
華夏優勢增長股票型證券投資基金	Others	0.387	24,994,676	0	Unknown
上投摩根雙息平衡混合型證券投資基金	Others	0.376	24,253,525	0	Unknown
上投摩根中國優勢證券投資基金	Others	0.373	24,067,690	0	Unknown
E Fund Strategic Growth II Equity Fund	Others	0.369	23,799,908	0	Unknown
Morgan Stanley China A Share Fund	Foreign shareholders	0.316	20,366,616	0	Unknown
金鑫證券投資基金	Others	0.201	12,995,029	0	Unknown

Shareholding of the 10 largest holders of shares in circulation

Name of shareholder	Number of circulating shares held	Types of shares
HKSCC (Nominees) Limited	1,647,298,997	Overseas listed foreign shares
E Fund Selective Value Equity Fund	45,770,577	RMB-denominated ordinary shares
HSBC (Nominees) Limited	30,784,000	Overseas listed foreign shares
華夏優勢增長股票型證券投資基金	24,994,676	RMB-denominated ordinary shares
上投摩根雙息平衡混合型證券投資基金	24,253,525	RMB-denominated ordinary shares
上投摩根中國優勢證券投資基金	24,067,690	RMB-denominated ordinary shares
E Fund Strategic Growth II Equity Fund	23,799,908	RMB-denominated ordinary shares
Morgan Stanley China A Share Fund	20,366,616	RMB-denominated ordinary shares
金鑫證券投資基金	12,995,029	RMB-denominated ordinary shares
GOLDMAN, SACHS & CO.	10,000,046	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the above-mentioned shareholders:

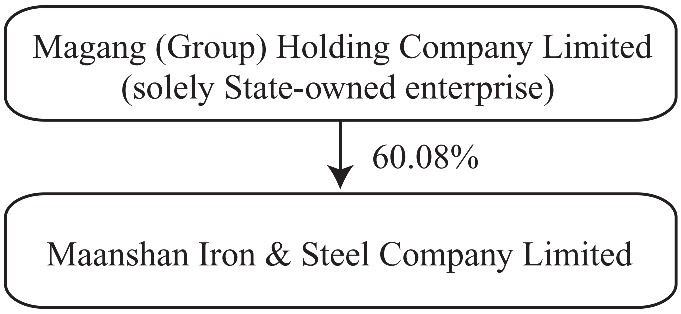
There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures for the Management of Information Disclosure on Changes in Shareholding of Shareholders of Listed Companies, China International Fund Management Co., Ltd. was the manager of both上投摩根雙息平衡混合型證券投資基金and上投摩根中國優勢證券投資基金; E Fund Management Co., Ltd. was the manager of both 易方達價值精選股票型證券投資基金 and易方達策略成長二號混合型證券投資基金. Save as disclosed above, the Company is not aware of whether the other nine shareholders had connected relationship or whether they were concerted parties.

4.3 Profiles of the controlling shareholder and the de facto controller

4.3.1 Details of the controlling shareholder and the de facto controller

Holding, the controlling shareholder of the Company, held 3,878,330,000 circulating A shares of the Company with selling restrictions, of which 3,830,560,000 shares were held on behalf of the State (representing approximately 59.34% of the total share capital of the Company) and 47,770,000 shares were held by domestic legal persons (representing approximately 0.74% of the total share capital of the Company), which were the same as the previous reporting period. Holding was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. The Group had a registered capital of RMB6,298,290,000. Its principal operations and products include: mining and sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food and beverages; production services; mechanical and electrical equipment manufacturing; and metallic products.

4.3.2 Flow chart indicating the proprietorship and controlling relationship between the Company and the de facto controller



5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Movement in shareholding and emoluments of Directors, Supervisors and senior management

Unit: share Currency: RMB'000

Name	Position	Sex	Age	Term of Office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Total amount of emoluments received from the Company during the reporting period	Emoluments/ allowance received from shareholder/ associate
Gu Jianguo	Chairman	M	54	2005.8.31–2008.8.31	2900	3886	777	No
Gu Zhanggen	Vice Chairman	M	60	2005.8.31–2008.8.31	2900	3886	777	No
Zhu Changqiu	Director and General Manager	M	61	2005.8.31–2008.8.31	0	0	777	No
Zhao Jianming	Director	M	53	2005.8.31–2008.8.31	0	0	0	Yes
Su Jiangang	Director, Deputy General Manager, Chief Economist and Secretary to the Board of Directors	M	52	2005.8.31–2008.8.31	2900	3886	622	No
Gao Haijian	Director and Deputy General Manager	M	50	2005.8.31–2008.8.31	0	0	622	No
Wong Chun Wa	Independent Director	M	33	2005.8.31–2008.8.31	0	0	40 (after taxation)	No
Su Yong	Independent Director	M	52	2005.8.31–2008.8.31	0	0	40 (after taxation)	No
Hui Leung Wah	Independent Director	M	45	2005.8.31–2008.8.31	0	0	40 (after taxation)	No
Han Yi	Independent Director	M	43	2005.8.31–2008.8.31	0	0	40 (after taxation)	No
Li Kezhang	Chairman of the Supervisory Committee	M	59	2005.8.31–2008.8.31	0	0	622	No
Dou Qingxun	Supervisor	M	57	2005.8.31–2008.8.31	0	0	211	No
Fang Jinrong	Supervisor	M	43	2005.8.31–2008.8.31	0	0	0	Yes
Cheng Shaoxiu	Independent Supervisor	F	64	2005.8.31–2008.8.31	0	0	30 (after taxation)	No
An Qun	Independent Supervisor	F	44	2005.8.31–2008.8.31	0	0	30 (after taxation)	No
Hui Zhigang	Deputy General Manager	M	53	2005.8.31–2008.8.31	0	0	622	No
Shi Xiongliang	Deputy General Manager and Chief Engineer	M	54	2005.8.31–2008.8.31	0	0	622	No
Ding Yi	Deputy General Manager	M	43	2005.8.31–2008.8.31	0	0	621	No
Wan Hon Kau	Qualified Accountant	M	34	2005.8.31–2008.8.31	0	0	244	No

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Discussion and analysis of the overall operating results during the reporting period

1) Review of Operating environment

A. The Steel Product Market

In 2006, demand was robust in the global steel market. Steel prices rose substantially and continued to hover at a relatively high level. China's national economy maintained a steady and relatively fast growth in 2006, with the demand for steel products increasing. Steel product prices embarked on a 4-month rebound starting from February. During 2006, the State continued to implement macroeconomic control measures to rein in economic development, with bank borrowing rates raised and export tax rebate rates for steel products reduced. In the second half, both fixed asset investments and industrial output of the society at-large saw a significant slowdown in growth, while the growth of domestic steel product demand also waned. Accordingly, domestic steel product prices dropped back substantially. The 2006 consolidated index for global steel products was ahead of the domestic index, being 23.50 points above the domestic index as at the end of 2005 and 45.05 points above the domestic index by the end of 2006.

Comparing major categories of domestic steel products, the price index for steel plates was 111.49 as at the end of 2006, up 20.6% from the end-2005 level of 92.42. The price index for long products was 91.77 as at the end of 2006, representing an increase of just 1.1% from the end-2005 level of 90.81.

The import and export of Chinese steel products underwent a historic change in 2006. Imports decreased significantly and exports increased substantially, turning China from a major steel product importer to a major exporter. In 2006, China imported 18,510,000 tonnes of steel products, representing a 28.3% decrease from 2005. Steel product exports amounted to 43,010,000 tonnes, a 109.6% increase as compared to 2005. The balance shifted from a net import of 5,300,000 tonnes as in 2005 to a net export of 24,500,000 tonnes.

(Note: Source from China Iron and Steel Association)

B. The Raw Material Supply Market

In 2006, the FOB price of the Company's iron ore imported from overseas increased by 19% as compared to the previous year. Tariffs for externally purchased electricity increased by 3% over the previous year, while the prices of coal, coke, externally procured pig iron, scrap steel and alloys reported decreases.

2) *Basic strategies and major work*

In 2006, long products accounted for 64.3% of the Company's steel products while steel plates accounted for 33.4%. With the gross profit of steel plates higher than that of steel bars, the product structure affected the profitability of the Company's principal products. Approximately 75% of the iron ore used by the Company was imported overseas, therefore the substantial surge in imported ore prices exerted a massive pressure on the Company's costs. Facing the changes in the domestic and foreign steel product markets and the pressure on costs, the Company adopted the low-cost strategy and the brand strategy, as well as actively implementing various measures to reduce costs and enhance efficiency. The major work was as follows:

- **Continued with the low-cost strategy, increasing the output of products with higher added-value and better gross margins.** The Company stood by the principle of "sales determining production". By overcoming the restraint of the production bottleneck and optimising the deployment of resources such as iron ore, pig iron and scrap steel, further production capacity was released, thereby alleviating the pressure of rising prices of iron ore and electricity and improving the economic and technological indicators. In 2006, the Company's crude steel output broke the 10,000,000-tonne threshold, with increased output for steel plates, small H-shaped steel, train wheels and wheel rims, which offered higher added-value and better gross margins. Among these, the output for train wheels and wheel rims increased by 21.45% year-on-year. The Company's gross coking ratio per tonne of iron reported a decrease equivalent to 22 kilogrammes of standard coal, while the overall energy consumption per tonne of steel reported a decrease equivalent to 14 kilogrammes of standard coal. Fresh water consumption per tonne of steel decreased to 8.61 tonnes, while the ratio of self-supplied electricity rose to 43.1%.
- **Continued with the brand strategy to closely knit technological innovations with brand building, thereby expanding branding effectiveness.** In light of the tough condition that the number of domestic H-shaped steel producers increased and competition in the product market intensified, the Company capitalised on its advantages in H-shaped steel production and technology, actively pursuing research-production-sales integration. The Company developed the hot-rolled H-shaped steel for automobile chassis accordingly, making itself the first domestic enterprise developing and commencing trial production of hot-rolled H-shaped steel for automobile chassis. Meanwhile, the achievements of "Development and Applied Technology Study on Hot-Rolled H-shaped Steel Products" jointly conducted by the Company and other units was awarded the 2006 National Award for Science and Technology Progress (Second Class). H-shaped steel products were certified under the Japanese Industrial Standards ("JIS"), while hot-rolled corrugated steel wires passed the on-site certification of the UK Certification Authority for Reinforcing Steels (CARES). Cold-rolled thin plates (including galvanised plates) and hot-rolled wire rods were named State Inspection-free Products. In addition, the Company compiled the "Ma Steel Outline for Technological Innovation Planning in the Eleventh Five-year Plan". During the year, the Company developed and produced approximately 870,000 tonnes of new products including electrical steel, plates for automobiles and cold-forged steel.

- **Endeavoured to implement structural adjustments and accelerated the construction of key projects.** The new area construction work successfully completed the yearly stage construction targets of the pre-metallurgy system, the steel rolling system, and so forth. The capacity enhancement project of the train wheel heating, processing and testing system, the enhancement of the medium-sized plate line and the no.6 thermal power gas-fired furnace project were completed on schedule, while the cold-rolled silicon steel line project progressed as scheduled.
- **Meeting market needs by pushing forward external investments and expanding extended processing operations.** In 2006, the Company restructured the principal iron and steel operations of the original Hefei Iron & Steel Group through equity investments with controlling interests. Meanwhile, with reference to the status of steel product consumption, the Company established two steel product processing and distribution centres in Hefei and Yangzhou, both key regional markets for automobiles and home electrical appliances, after setting up the steel product processing and distribution centres in Guangzhou, Wuhu and Jinhua. Accordingly, the Company has successfully completed sales preparation before the commencement of the Company's 5,000,000 tonnes thin plates production project in the new area in 2007.

  In 2006, the Company made the following external investments with its internal funding (in RMB million):

Company name	**Principal activities**	**Equity interest held** *(%)*	**Investment amount**
Ma Steel (Hefei) Iron & Steel Co., Ltd.	Principally engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke, coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products	71	355
Ma Steel (Hefei) Processing and Distribution Co., Ltd.	Principally engaged in production, processing and sale ofcold and hot steel plates for various industries such as automobile and mechanical engineering of home electrical appliances, as well as steel products for construction structures.	Direct interest: 61 Indirect interest: 28	73.2

Ma Steel (Yangzhou) Processing and Distribution Co., Ltd.	Principally engaged in production, processing and sale of various types of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services of products.	71	61.651

3) *Results of the Group's principal operating activities for the reporting period prepared under PRC Accounting Standards*

- Analysis of income from principal operating activities by segment and by product

  The iron and steel segment accounted for 95.75% of the Group's income from principal operating activities. The iron and steel segment also accounted for 87.56% of the Group's profit from principal operating activities.

- During the reporting period, the Group's gross profit margin of principal operating activities was 12.79%, a decrease of 2.14 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the year-on-year fall of the selling prices of the Company's steel products.

4) *Assets and liabilities of the Group for the reporting period prepared under PRC Accounting Standards*

- Assets

  During the reporting period, there were no material differences on the proportions of bills receivable, trade receivables, other receivables, inventories and long-term equity investments out of total assets when compared to the previous year. The amount of net fixed assets accounted for 34.30% of total assets, a decrease of 13 percentage points over the previous year, which was mainly due to an increase in the Company's total assets during the reporting period. Construction in progress accounted for 34.39% of total assets, an increase of 22.23 percentage points over the previous year, mainly owing to the Company's implementation of the "Eleventh Five-year Plan" to fully proceed with the construction of the 5,000,000 tonnes thin plates production project in the new area during the reporting period.

- Liabilities

  During the reporting period, the ratios of short-term loans, bills payable, accounts payable, deposits received and other payables in relation to total assets had no material changes as compared to the previous year. Long-term loans accounted for 28.65% of total assets, an increase of 6.6 percentage points from the previous year, which was mainly due to an increase in long-term bank borrowings resulting from the Company's implementation of the "Eleventh Five-year Plan".

  The Company issued RMB5,500 million of Bonds with Warrants on 13 November 2006 and redeemed the RMB2,000 million short-term commercial papers on 28 December 2006 upon maturity.

5) *Expenses and income tax of the Group for the reporting period prepared under PRC Accounting Standards*

During the reporting period, selling expenses increased by 9.57% over the previous year, which was mainly due to increases in sales volume of steel products, transportation costs and loading and unloading costs. Administrative expenses increased by 3.73% over the previous year, which was mainly due to increases in salaries and other salary-type payments. Financial expenses were increased by 63.63% over the previous year, which was mainly due to a decrease in foreign exchange gains and an increase in foreign exchange loss in the reporting period as compared to the previous year. Income tax decreased by 2.66% over the previous year, which was mainly due to a decrease in the Company's profit.

6) *Operating results*

As at the end of 2006, in accordance with PRC Accounting Standards, the Group's principal operating income rose 7% from the corresponding period of the previous year, which was mainly due to an increase in sales volume of the Company's steel products. Profit from principal operating activities dropped 9% from the corresponding period of the previous year, which was mainly due to the sales price decreases for certain types of the Company's steel products as compared to the previous year. Net profit dropped 20% from the corresponding period of the previous year, which was mainly due to a decrease in profit from principal operating activities.

7) *Analysis of the Group's cash flows for the reporting period prepared under PRC Accounting Standards*

In 2006, the Group realised a net profit of RMB2,277 million, a difference of RMB3,006 million when compared to the net increase of cash flow amounting to RMB5,283 million generated from operating activities, which was mainly due to depreciation charges for fixed assets. The amount of net increase in cash flow generated from operating activities decreased by RMB888 million as compared to the corresponding period of the previous year, which was mainly due to the sales price decreases for certain types of the Company's steel products as compared to the corresponding period of the previous year. The amount of net cash outflow from investing activities increased by RMB5,493 million from the corresponding period of the previous year, which was mainly due to acquisition and construction of fixed assets and external investments. The amount of net cash inflow from financing activities increased by RMB5,950 million from the corresponding period of the previous year, which was mainly due to securing of bank loans and the issuance of the bonds with warrants.

8) *Major suppliers and customers*

In 2006, the Group's purchase from the top five suppliers totaled at RMB7,812 million, accounting for 28% of the Group's total purchase amount for the year. The Group's sale to the top five customers totaled at RMB4,203 million, representing 12% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is a controlling shareholder of the Company. Other than that, in 2006, none of the directors, supervisors, their connected parties and other shareholders (to the knowledge of the Board of Directors holding 5% or more of the Company's shares) held any beneficial interest in the Group's five largest suppliers or customers.

9) *The operations and results of the Group's major controlling subsidiaries and invested entities*

- Ma Steel (Hefei) Iron & Steel Co. Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB20 million. As at the end of the reporting period, it had total assets amounting to RMB1,160 million.
- Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary with a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net profit for the reporting period amounted to RMB13 million. As at the end of the reporting period, it had total assets amounting to RMB1,564 million.
- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB50 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB42 million. As at the end of the reporting period, it had total assets amounting to RMB223 million.
- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$4.29 million, in which the Company holds a direct stakes of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB7 million. As at the end of the reporting period, it had total assets amounting to RMB98 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stake of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB17 million. As at the end of the reporting period, it had total assets amounting to RMB709 million.
- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB35 million. As at the end of the reporting period, it had total assets amounting to RMB889 million.
- Anhui Masteel Holly Industries Co. Ltd. (安徽馬鋼和菱實業有限公司) has a registered capital of RMB30 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB79 million. As at the end of the reporting period, it had total assets amounting to RMB210 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB28 million. As at the end of the reporting period, it had total assets amounting to RMB183 million.
- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB8 million. As at the end of the reporting period, it had total assets amounting to RMB408 million.
- 馬鞍山港口（集團）有限責任公司 has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB14 million. As at the end of the reporting period, it had total assets amounting to RMB687 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. As at the end of the reporting period, it had total assets amounting to RMB743 million and had yet to commence operation.

10) *Financial position and exchange risks*

For the year ended 31 December 2006, the total amount of loans borrowed by the Group was RMB16,522 million, including loans for working capital of RMB5,523 million and construction loans of RMB10,999 million. Except for foreign currency loans amounting to US$105 million and 3 million Euro, all other loans were denominated in RMB. Except for a foreign currency loan amounting to US$104 million which carried interests at LIBOR plus a fixed percentage and a RMB7,027 million loan which carried interests at a 10% discount from the central bank 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. On 28 December 2006, the Company repaid the first tranche of short-term commercial papers of RMB2,000 million.

As at 31 December 2006, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 62.74%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 62.04%.

Other than internal resources and the proceeds from the Bonds with Warrants issue, all capital requirements for the Group's 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 RMB29,209 million.

As at 31 December 2006, the Group's cash and balances with financial institutions amounted to RMB4,161 million. Bills receivable amounted to RMB681 million (of which bank bills receivable due within three months amounted to RMB443 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate continued to depreciate, an exchange gain was resulted 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. During the reporting period, the exchange rates of Euro and Japanese Yen have fallen compared to the time when the Company signed contracts for European and Japanese equipment purchases. Accordingly, the capital costs for actual payments in Euro and Japanese Yen were lower than the original estimates. The Company has been maintaining contacts with various banks to obtain imformation of emerging financial products from banks, so as to select products which are suitable for the Company to help the Company avoid possible exchange rate risks.

11) *Changes in the production and operating environment in 2007 and coping strategies*

This year, the State will execute the guidelines for a good and fast economic development to accomplish the objective of a GDP growth of around 8%. To accomplish the objective, prudent fiscal policies and monetary policies will be maintained, while continuing the direction of expanding domestic demand. Appropriate growth in fixed asset investments will be maintained, with important infrastructure developments such as large-scale water conservancy projects, energy bases, railway trunks and major national highway trunks to be accelerated, while upkeeping a continued healthy development of the property industry is also an aim.

In the "Government Working Report", Premier Wen Jia Bao of the State Council stated the determination to phase out obsolete production capacity. During the "Eleventh Five-year Period", 100,000,000 tonnes of obsolete iron-making capacity and 55,000,000 tonnes of obsolete steel-making capacity will be phased out, with respective annual phase-out targets of 30,000,000 tonnes and 35,000,000 tonnes.

In light of the aforementioned situation, the Company will strive for further progress in its standardisation effort to enhance working efficiency. The implementation of low-cost strategy and brand strategy will be accelerated to further reduce costs and enhance efficiency, while the quality and quantity of products will be substantially improved to meet the State's rising demand on quality steel products for fixed asset investments and important infrastructure developments. The construction of the new area and technological renovation of the existing production lines will be accelerated, thereby rapidly raising the output of high added-value products and increasing economic efficiency. While raising its advanced production capacity and expanding its operating scale, the Company will closely monitor the progress of phasing out obsolete production capacity in the country and the integration and restructuring of domestic and international iron and steel enterprises, so as to capitalise on any favourable opportunity to achieve better and faster development.

12) Long-term strategies of the Company

From 2007 to 2010, the Company will continue to implement the overall planning for technological renovations and structural adjustments of the "Eleventh Five-year Plan". The 5,000,000 tonnes of thin plate production capacity to be added in 2007 will be entirely producing cold-rolled and hot-rolled thin plate products, with part of such products being high-end plates needed by the automobile and home appliance industries, where there are shortages of such materials. The commencement of such production projects will substantially increase the percentage of plates and belts in the Company's output, while the overall product competitiveness and market risk-aversion ability will be significantly enhanced as well, thereby substantially raising the Company's profitability. The Company will also study the implementation of the technological renovations and structural adjustments for the later period of the "Eleventh Five-year Plan" and the corresponding organisational and systematic reforms, so as to further strengthen the principal iron and steel operation.

6.1.1 Impacts of the implementation of the New Accounting Standards on the Company's Financial Position and Operating Results

The Ministry of Finance officially published the Accounting Standards for Enterprises on 15 February 2006 and ordered that such standards be implemented among listed companies with effect from 1 January 2007. Upon implementation of the Accounting Standards for Enterprises, the following changes will take place on the Company's accounting policies:

A. Employee Welfare Fund

As stipulated by the new Accounting Standards for Enterprises, employee welfare fund is an item without any definite contribution base or contribution ratio. The Company shall determine its policy on employee welfare fund contribution with reference to historical experience and data, as well as its actual situation.

According to the above stipulations and considering the Company's actual utilisation of employee welfare fund throughout the years, starting from 2007, the Company shall compile an annual utilisation plan for the welfare fund each year and accrue expenses accordingly on the actual welfare fund contributions, while the full balance of un-utilised welfare fund by the end of the year shall be written back to the profit-and-loss account of the year. In case the year's actual welfare fund expenses exceed the year's contribution amount, the difference shall be accordingly stated as a cost for the year, with tax adjustments to be made for any contribution portion in excess of the contribution percentage stipulated by the taxation laws.

B. Investment Properties

As stipulated by the new Accounting Standards, the ongoing accounting method for investment properties can be the cost model or the fair value model. An enterprise may adopt only one model for the ongoing accounting of all investment properties, and the accounting model may not be changed at will once confirmed. The new Accounting Standards also specifically stipulate that in case the accounting model for investment properties is to be changed, a switch from the cost model to the fair value model shall be treated as a change in accounting policy, while investment properties adopting the fair value model cannot switch from the fair value model to the cost model.

As at present, the Company's investment properties mainly comprise land use rights (respectively leased to subsidiaries and associates). Considering the fact that the leased land use rights as at present are all lands within the Company's plants, it is difficult to determine their fair values. Accordingly, the Company will continue to adopt the cost model to determine the initial book value and conduct ongoing accounting for the investment properties.

C. *Financial Instruments*

According to the new Standards' stipulations on financial instruments, and considering the actual situation of the Company, the Company is currently involved in the following three types of financial instruments:

a. Held-to-maturity investments, i.e. the 皖能電力 bonds held by the Company;

b. Compound financial instruments, i.e. the bonds with warrants issued by the Company;

c. Available for-sale Investments (H share disclosure category), i.e. the Company's investments in Shanghai Chlor-Alkali Chemical Company Limited, 河南龍宇能源股份有限公司, and so forth; A shares are disclosed under the item "Long-term Equity Investments – Other Investments".

D. *Prudent and Appropriate Adoption of the Fair Value Accounting Model*

According to the requirements of the China Securities Regulatory Commission's document Zheng Jian Fa [2006] No.136, when adopting the fair value model, pursuant to the new Accounting Standards, for the accounting of major asset and liability items in the financial statements, the Company management shall take into account various influencing factors such as active market transactions, in order to give scientific and reasonable assessments on whether fair values can be obtained in an ongoing and reliable manner. The Board of Directors shall make decisions on the basis of sufficient discussion. Taking into account the current state of the Company's assets and liabilities, the Company has adopted the fair value model to account for items where the fair value accounting model is applicable, such as the Bonds with Warrants. The fair value accounting model led to a retrospective increase of RMB714 million in shareholders' equity for the Company as at 1 January 2007, as well as increases in financial costs for the next five accounting years.

E. *Capitalisation of Borrowing Costs*

As stipulated by the new Standards, borrowing costs that may be capitalised are no more limited to those generated by specific borrowings, whereas ordinary borrowings such as those used for acquiring, building or producing assets that meet the capitalisation requirements shall be capitalised as well provided certain requirements are met. According to this stipulation, the Company is amending the accounting method for borrowing cost capitalisation to meet the requirements of the new Standards and facilitate the adoption of a uniform principle and method for the recognition and accounting of borrowing cost capitalisation. In accordance with the requirements of the China Securities Regulatory Commission's document Zheng Jian Fa [2006] No.136, the Board of the Company shall consider and pass resolutions for borrowing cost capitalisation involving ordinary borrowings. As at present, the Company is not involved in any cost capitalisation of ordinary borrowings and in case such matters take place in future, such matters will be reviewed and decided by the Board of Directors in accordance with the requirements of the China Securities Regulatory Commission.

F. Others

As stipulated by the new Standards, the Company's accounting policies have also undergone the following changes:

(A) The accounting of income tax has been changed from the tax payable method to the liability method;

(B) As for investments in subsidiaries, the equity method, instead of the cost method, is now adopted for the parent company's individual financial statements;

(C) Asset-related government subsidies are no more transferred to the capital reserves upon completion of construction projects, but instead recognised as deferred income and amortised over the useful lives of the relevant assets and released to the income statement of the current period.

(D) The scope of staff remuneration of the Company is expanded. Not only does it include staff salaries, bonuses, allowances and subsidies, but also staff welfare payments, social insurance premiums including medical insurance premiums, pension insurance premiums, unemployment insurance premiums, industrial injury insurance premiums, and childbirth insurance premiums, housing reserve funds, labour union expenses and staff education expenses, non-monetary welfare, compensation to staff for termination of employment relationships, other expenses related to services provided by the staff, and so forth;

(E) The adoption of the effective interest method, with reference to amortised cost accounting, to account for held-to-maturity investments and borrowings.

Due to the changes in accounting policies, save as the aforementioned Bonds with Warrants, other accounting policy changes will have no material impact on the financial position and operating results of the Company. Meanwhile, the Company is currently conducting further assessments on the impact of the new Standards on the Company's operating results and financial position. After prudently considering and taking reference of the Ministry of Finance's further elaboration, the Company may make changes to the accounting policies or material recognitions, which may affect the amount changes.

6.2 Analysis of principal operating activities by segment and product

Unit: RMB million

Business segment	Income from principal operating activities	Cost of sales from principal operating activities	Gross profit margin *(%)*	Increase/(decrease) of principal operating income as compared to the previous year *(%)*	Increase/(decrease) of cost of sales from principal operating activities as compared to the previous year *(%)*	Increase/(decrease) of gross profit margin as compared to the previous year *(%)*
Iron and steel	32,862	29,018	11.70	7.31	10.50	Down 2.54 pct. pts.
Product segment						
Steel plate	11,400	10,154	10.93	– 3.86	2.17	Down 5.26 pct. pts.
Section steel	8,058	7,301	9.39	6.71	16.76	Down 7.80 pct. pts.
Wire rods	10,595	9,771	7.78	15.16	14.35	Up 0.66 pct. pts.
Train wheels and wheel rims	2,262	1,303	42.40	47.46	16.55	Up 15.28 pct. pts.

6.3 Geographical analysis of principal operating activities

Unit: RMB million

Region	Income from principal operating activities	Increase/(decrease) of principal operating income as compared to the previous year (%)
Anhui	12,272	155
Jiangsu	5,141	-41
Shanghai	4,355	-27
Zhejiang	2,689	-24
Guangdong	2,402	38
Other PRC regions	3,615	-32
Exports	3,845	96

6.4 Use of fundraising proceeds

Unit: RMB million

Total fundraising proceeds	5,355.65	Total fundraising proceeds used in the year			3,846.35
		Total accumulated fund raising proceeds used			3,846.35
Undertaken project	Planned investment amount	Any changes to the project	Actual investment in the project	Revenue generated	Meeting planned progress and planned revenue or not
5,000,000 tonnes cold and hot thin plates production project	5,355.65	No	3,846.35	Not applicable	Yes
Total		–			–
Explanation for not achieving planned progress and planned revenue	Not applicable				
Reason(s) of change(s) and explanation for change procedures	Not applicable				

6.5 Projects financed by other than fundraising proceeds

Unit: RMB million

Project name	Total investment	Project progress	Project income
The Capacity Enhancement of Train Wheel Rolling System	320	Commenced production	Not applicable
The Cold-rolled Silicon Steel Line	1,080	Entering facility installation stage	Not applicable
Total	1,400	Not applicable	Not applicable

6.6 The Board of Directors' proposal on profit distribution or transfer of capital reserve fund

The Board of Directors has recommended to declare a final cash dividend of RMB0.13 (tax inclusive) per share for year 2006. No capital reserve fund will be transferred to share capital.

7. SIGNIFICANT MATTERS

7.1 Material guarantees

Unit:RMB million

<table>
<tr><th colspan="7">External guarantees provided by the Company (excluding guarantees for controlling subsidiaries)</th></tr>
<tr><th>Guarantee entity</th><th>Date of incurrence (Agreement signing date)</th><th>Guarantee amount</th><th>Type of guarantee</th><th>Guarantee period</th><th>Completed or not</th><th>Guarantee for connected parties (Yes or No)</th></tr>
<tr><td>Not applicable</td><td>Not applicable</td><td>Not applicable</td><td>Not applicable</td><td>Not applicable</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td colspan="3">Total guarantee amount during the reporting period</td><td colspan="4">Not applicable</td></tr>
<tr><td colspan="3">Balance of guarantees at the end of the reporting period</td><td colspan="4">Not applicable</td></tr>
<tr><th colspan="7">Guarantees provided by the Company for controlling subsidiaries</th></tr>
<tr><td colspan="3">Total guarantee amount for controlling subsidiaries during the reporting period</td><td colspan="4">7,793</td></tr>
<tr><td colspan="3">Balance of guarantees for controlling subsidiaries at the end of the reporting period</td><td colspan="4">7,728</td></tr>
<tr><th colspan="7">Total guarantee amount provided by the Company (including guarantees for controlling subsidiaries)</th></tr>
<tr><td colspan="3">Total guarantee amount</td><td colspan="4">7,728</td></tr>
<tr><td colspan="3">Total guarantee amount as a percentage of net assets of the Company</td><td colspan="4">38.41%</td></tr>
<tr><th colspan="7">Illegal guarantees provided by the Company</th></tr>
<tr><td colspan="3">Guarantee amount provided for other connected parties less than 50% equity of which was held by the controlling shareholder and the Company</td><td colspan="4">Not applicable</td></tr>
<tr><td colspan="3">Debt guarantee provided directly or indirectly for entities with gearing (assets-liabilities) ratio exceeding 70%</td><td colspan="4">Not applicable</td></tr>
<tr><td colspan="3">Did total guarantee amount exceed 50% of net assets? (Yes/No)</td><td colspan="4">No</td></tr>
<tr><td colspan="3">Total illegal guarantee amount</td><td colspan="4">Not applicable</td></tr>
</table>

7.2 Material connected transactions

7.2.1 Connected transactions from normal course of business

Unit: RMB million

	Sale of products and provision of services to connected parties		Purchase of products and acceptance of services from connected parties	
Related Parties	**Transaction amount**	**As a percentage of similar transactions** *(%)*	**Transaction amount**	**As a percentage of similar transactions** *(%)*
Magang (Group) Holding Company Limited	23	4.19	2,035	14.10
Other related parties	9	0.03	126	100
Total	32	Not applicable	2,161	Not applicable

Including: connected transactions of product sales or rendering of services to the controlling shareholder and its subsidiaries from the listed company amounting to RMB32 million during the reporting period.

7.2.2 Liabilities and loans to/from connected parties

Unit: RMB million

Connected party	Funds provided to connected parties		Funds provided by connected parties to the listed company	
	Total amount	Balance amount	Total amount	Balance amount
Magang (Group) Holding Company Limited	0	0	400	800
Other connected parties	0	0	0	0
Total	0	0	400	800

7.3 Undertakings by the original non-circulating shareholder during the process of State Share Reform and the performance of such undertakings

Name of shareholder	Undertakings	Performance of undertakings
Magang (Group) Holding Company Limited	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 listing, and the State-owned shares held by Holding 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 transfers 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 transfers 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 China Securities Regulatory Commission and the Shanghai Stock Exchange, and will bear any legal liabilities accordingly. 2. Holding will perform its undertakings in a faithful manner and will bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise. During the reporting period, Holding fully complied with such undertakings.	Performed in strict compliance as stated in the undertakings

Note: The above mentioned "undertakings" refer to undertakings made during the State Share Reform other than statutory undertakings.

7.4 Significant litigations and arbitrations

Two litigations of the Company against CITIC Ningbo Inc. and SEG International Trust & Investment Corporation: Their judgments and enforcement were disclosed in the 2002 Annual Report and published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the Shanghai Stock Exchange website (http://www.sse.com.cn) on 3 April 2003. There has been no change during the reporting period.

7.5 Other significant matters

The State Share Reform Proposal of the Company, whereby Holding offered holders of circulating A shares 3.4 shares for every 10 shares they held, was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province on 20 February 2006. It was further approved by the relevant shareholders' meeting to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. Trading in the A shares of the Company resumed on 31 March 2006.

7.6 Auditors' Remuneration

The Company paid a fee aggregating HK$575 million to Ernst & Young and Ernst & Young Hua Ming, the international and the PRC auditors of the Company respectively, for their annual audit and execution of certain commercial purposes for year 2006. The Company is responsible for the accommodation expenses of auditing staff from the accounting firms during the period of work on the Company.

7.7. Purchase, sales or redemption of listed securities of the Company

During 2006, the Company has not redeemed any of its securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

7.8 Pre-emptive rights

According to the articles of association of the Company and the laws of the PRC, there are no provisions to grant the existing shareholders of the Company pre-emptive rights for subscribing new shares in proportion to their shareholdings whenever the Company issues new shares.

7.9 Public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this announcement, the Company has fulfilled the public float requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

7.10 Audit Committee

During the reporting period, the Audit Committee of the fifth session of the Board of Directors comprised Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors. The committee met four times and duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2005 annual accounts, 2006 first quarter accounts, 2006 interim accounts and 2006 third quarter accounts of the Company and gave its independent opinion on the appointment of the auditors.

7.11 Performance of duties by independent directors

In 2006, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, performed their duties in a fiduciary manner and actively participated in the decision-making on significant matters of the Company. They attended all the Company's board meetings in person or by proxy. The independent directors did not raise any objections to any matters of the Company.

The Company's independent directors were diligent and responsible to the Company and the shareholders as a whole. They were not influenced by the Company's substantial shareholders, beneficial owners, or other units or individuals who had interests in the Company. As such, the interests of the Company as a whole as well as the lawful interests of the public shareholders were protected.

During the reporting period, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi have reviewed and given their independent opinions on the Company's connected transactions, external guarantees for the period and accrued, and the enforcement of relevant requirements.

8. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the view that the Company's operations were in compliance with the relevant laws and regulations. The Company's financial situation, application of fundraising and connected transactions did not pose any harm to the interests of both the Company and the shareholders.

9. CODE ON CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

10. FINANCIAL REPORT

10.1 Auditors' Opinion

In 2006, the Company's financial report for its A Shares was audited by Ernst & Young Hua Ming and has been signed by Mr. Ge Ming and Mr. Qin Tongzhou, both registered accountants who have issued a standard auditors' report without qualified opinions.

10.2 Comparison of the consolidated and the Company's balance sheets, income statements, profit appropriation schemes and cash flow statements for the current year. (Please refer to the tables set out below)

10.3 Comparison of consolidation criteria with that of the latest annual report with details provided if there are any changes.

During the year, the Company and Hefei Investment Holding Company Limited entered into a Venturers' Agreement to jointly establish Ma Steel (Hefei) Iron & Steel Co., Ltd. which has a registered capital of RMB500,000,000. The Company holds 71% equity interests in the entity and the entity is included in the consolidation scope of the financial statements for the year.

During the year, the Company directly invested to establish Ma Steel (Hefei) Processing and Distribution Co., Ltd. for 61% equity interests. The entity has a registered capital of RMB120,000,000 and is included in the consolidation scope of the financial statements for the year.

During the year, the Company acquired 71% equity interests in Burwill Coil Centre (Yangzhou) Company Limited from Burwill Times Industrial Limited at a cash consideration of RMB61,651,010. Upon completing the acquisition, Burwill Coil Centre (Yangzhou) Company Limited was renamed to Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. The entity has a registered capital of US$20,000,000 and is included in the consolidation scope of the financial statements for the year.

Save for the above companies, the consolidation scope of the Company's financial statements for the year has no change as compared to the previous issue of financial report.

10.4 Table of the reconciliation statement of differences in shareholder's equity prepared under the new and the existing Accounting Standards.

Items	Item name	Amount *RMB*
1	**Consolidated shareholder's equity as at 31 December 2006 (under existing accounting standards)**	**20,122,106,930**
	Recognition of equity component of bonds with warrants	714,253,399
	Income taxes	10,421,000
2	**Equity attributable to equity holders of the parent as at 1 January 2007 (under new accounting standards)**	**20,846,781,329**
	Change in presentation of minority interests	310,497,169
3	**Consolidated shareholder's equity as at 1 January 2007 (under new accounting standards)**	**21,157,278,498**

BALANCE SHEET

(Prepared under PRC accounting standards)

31 December 2006

	2006 Group *RMB*	**2006** Company *RMB*	2005 Group *RMB*	2005 Company *RMB*
ASSETS				
CURRENT ASSETS:				
Cash and balances with financial institutions	**4,160,704,714**	**2,808,993,288**	3,255,015,677	2,625,793,200
Short term investments	–	–	13,568,593	13,568,593
Bills receivable	**681,137,717**	**613,910,339**	1,931,609,265	1,986,453,537
Trade receivables	**582,420,964**	**539,362,472**	283,482,921	217,203,609
Other receivables	**160,637,099**	**50,088,671**	179,272,265	22,408,276
Prepayments	**608,716,305**	**733,451,150**	377,901,381	379,072,433
Inventories	**6,540,131,949**	**6,075,927,157**	5,199,473,669	4,915,277,790
Total current assets	**12,733,748,748**	**10,821,733,077**	11,240,323,771	10,159,777,438
LONG TERM INVESTMENTS:				
Long term equity investments	**580,331,440**	**1,749,314,443**	518,876,716	1,173,559,564
Long term debt investment	**8,258,870**	**8,258,870**	10,918,870	10,918,870
Total long term investments	**588,590,310**	**1,757,573,313**	529,795,586	1,184,478,434
FIXED ASSETS:				
Cost	**30,407,783,693**	**29,295,636,670**	27,919,518,755	27,654,753,443
Less: Accumulated depreciation	**(11,506,681,401)**	**(11,397,639,594)**	(9,411,080,281)	(9,377,882,621)
Net book value	**18,901,102,292**	**17,897,997,076**	18,508,438,474	18,276,870,822
Less: Impairment provision	**(90,675,644)**	**(90,675,644)**	(117,056,844)	(117,056,844)
Fixed assets, net	**18,810,426,648**	**17,807,321,432**	18,391,381,630	18,159,813,978
Construction materials	**2,334,055,945**	**2,324,778,635**	3,018,828,077	3,013,302,877
Construction in progress	**18,859,342,324**	**18,781,877,150**	4,727,901,749	4,671,938,945
Total fixed assets	**40,003,824,917**	**38,913,977,217**	26,138,111,456	25,845,055,800
INTANGIBLE AND OTHER ASSETS:				
Intangible assets	**1,516,702,696**	**1,235,231,574**	970,146,049	822,280,314
TOTAL ASSETS	**54,842,866,671**	**52,728,515,181**	38,878,376,862	38,011,591,986

BALANCE SHEET *(CONTINUED)*

	2006		2005	
	Group	**Company**	Group	Company
	RMB	***RMB***	*RMB*	*RMB*
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short term loans	**399,018,506**	**200,000,000**	112,372,660	80,702,000
Bills payable	**1,346,880,982**	**365,380,982**	655,567,000	335,567,000
Short term commercial papers	**–**	**–**	2,000,000,000	2,000,000,000
Accounts payable	**4,650,841,361**	**4,628,322,903**	3,207,561,493	3,235,473,002
Deposits received	**3,924,584,355**	**3,667,107,146**	3,430,012,919	3,115,902,605
Salary payable	**145,612,912**	**132,205,414**	102,958,705	97,561,911
Staff welfare payable	**68,124,566**	**55,925,051**	91,069,612	83,999,949
Dividends payable	**408,654,914**	**407,802,582**	8,643,954	8,643,954
Taxes payable	**253,910,277**	**209,428,753**	493,789,755	488,345,802
Other taxes payable	**45,712,892**	**44,030,473**	20,307,877	19,412,734
Other payables	**827,363,152**	**606,814,649**	480,082,581	503,254,653
Accrued charges	**90,504,692**	**85,805,610**	99,117,648	92,760,693
Long term loans due within a year	**409,752,537**	**381,328,044**	78,988,309	77,800,936
Total current liabilities	**12,570,961,146**	**10,784,151,607**	10,780,472,513	10,139,425,239
LONG TERM LIABILITIES:				
Long term loans	**15,713,139,994**	**15,697,870,000**	8,570,815,511	8,528,227,671
Bonds payable	**5,513,050,950**	**5,513,050,950**	–	–
Specific payables	**116,566,523**	**116,566,523**	3,200,000	3,200,000
Other long term liabilities	**496,543,959**	**496,543,959**	503,984,331	503,984,331
Total long term liabilities	**21,839,301,426**	**21,824,031,432**	9,077,999,842	9,035,412,002
Total liabilities	**34,410,262,572**	**32,608,183,039**	19,858,472,355	19,174,837,241
MINORITY INTERESTS	**310,497,169**	**–**	138,188,599	–
SHAREHOLDERS' EQUITY:				
Share capital	**6,455,300,000**	**6,455,300,000**	6,455,300,000	6,455,300,000
Capital reserve	**5,453,545,095**	**5,453,545,095**	5,450,345,095	5,450,345,095
Surplus reserves	**2,637,160,200**	**2,564,661,890**	2,380,147,996	2,333,339,350
including: statutory public welfare fund	**–**	**–**	1,178,385,368	1,166,669,675
Retained profits	**5,576,101,635**	**5,646,825,157**	4,595,922,817	4,597,770,300
including: cash dividend proposed by directors	**839,189,000**	**839,189,000**	1,032,848,000	1,032,848,000
Total shareholders' equity	**20,122,106,930**	**20,120,332,142**	18,881,715,908	18,836,754,745
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**54,842,866,671**	**52,728,515,181**	38,878,376,862	38,011,591,986

CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION
(Prepared under PRC accounting standards)
Year ended 31 December 2006

	2006		2005	
	Group *RMB*	**Company** *RMB*	Group *RMB*	Company *RMB*
Principal operating income	**34,319,874,152**	**34,268,626,938**	32,083,096,010	31,998,588,914
Less: Cost of sales	**(29,930,271,138)**	**(30,285,563,542)**	(27,294,506,637)	(27,512,160,269)
Taxes and surcharges	**(240,393,042)**	**(224,924,835)**	(219,107,015)	(213,737,343)
Profit from principal operating activities	**4,149,209,972**	**3,758,138,561**	4,569,482,358	4,272,691,302
Add: Other operating profit	**51,436,894**	**9,466,611**	116,214,796	11,957,707
Less: Selling expenses	**(228,996,806)**	**(222,155,506)**	(208,996,377)	(202,641,639)
Administrative expenses	**(964,295,568)**	**(844,280,172)**	(929,639,074)	(861,967,126)
Financial expenses	**(342,770,249)**	**(308,870,230)**	(209,482,151)	(175,274,567)
Operating profit	**2,664,584,243**	**2,392,299,264**	3,337,579,552	3,044,765,677
Add: Investment income	**59,564,445**	**257,408,373**	18,745,331	187,482,534
Subsidies income	**5,850,001**	**–**	1,992,600	–
Non-operating income	**3,499,848**	**2,953,463**	342,974	162,362
Less: Non-operating expenses	**23,227,435**	**22,851,436**	(36,393,600)	(36,165,544)
Profit before tax	**2,756,725,972**	**2,675,512,536**	3,322,266,857	3,196,245,029
Less: Income tax	**(422,239,437)**	**(362,287,139)**	(433,775,030)	(409,582,020)
Minority interests	**(57,900,632)**	**–**	(40,871,867)	–
Net profit	**2,276,585,903**	**2,313,225,397**	2,847,619,960	2,786,663,009
Add: Retained profits at beginning of year	**4,595,922,817**	**4,597,770,300**	3,758,605,642	3,788,605,893
Profit available for distribution	**6,872,508,720**	**6,910,995,697**	6,606,225,602	6,575,268,902
Less: Transfers to statutory reserve	**(237,416,338)**	**(231,322,540)**	(286,812,511)	(278,666,301)
Transfers to statutory public welfare fund	**–**	**–**	(285,532,897)	(278,666,301)
Transfers to reserve fund	**(11,934,321)**	**–**	(7,632,717)	–
Transfers to enterprise expansion fund	**(7,661,545)**	**–**	(5,542,898)	–
Transfers to employee bonus and welfare fund	**(6,546,881)**	**–**	(4,615,762)	–
Profit available for distribution to shareholders	**6,608,949,635**	**6,679,673,157**	6,016,088,817	6,017,936,300
Less: Ordinary share dividend payable	**(1,032,848,000)**	**(1,032,848,000)**	(1,420,166,000)	(1,420,166,000)
Retained profits at end of year	**5,576,101,635**	**5,646,825,157**	4,595,922,817	4,597,770,300

CONSOLIDATED CASH FLOW STATEMENT
(Prepared under PRC accounting standards)

		2006	
		Group	**Company**
		RMB	*RMB*
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	**44,077,721,477**	**42,718,615,826**
	Refunds of taxes	**5,632,500**	**–**
	Cash received relating to other operating activities	**73,699,849**	**67,303,463**
	Sub-total of cash inflows	**44,157,053,826**	**42,785,919,289**
	Cash paid for goods and services	**(32,681,829,481)**	**(32,315,507,490)**
	Cash paid to and on behalf of employees	**(2,833,399,061)**	**(2,690,162,667)**
	Cash paid for all taxes	**(2,942,129,860)**	**(2,767,606,519)**
	Cash paid relating to other operating activities	**(416,891,551)**	**(361,795,997)**
	Sub-total of cash outflows	**(38,874,249,953)**	**(38,135,072,673)**
	Net cash flows from operating activities	**5,282,803,873**	**4,650,846,616**
2.	Cash flows from investing activities:		
	Cash received from disposal of investments	**30,222,330**	**30,222,330**
	Cash received from returns on investments	**39,542,992**	**86,077,811**
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	**62,000,181**	**50,113,598**
	Cash received from retrieval of pledged deposits and overdue deposits	**3,632,085**	**3,632,085**
	Cash received relating to other investing activities	**116,566,523**	**116,566,523**
	Sub-total of cash inflows	**251,964,111**	**286,612,347**
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	**(14,230,379,016)**	**(13,903,464,551)**
	Cash paid for acquisitions of investments	**(13,500,000)**	**(337,695,000)**
	Cash paid for acquisition of businesses or a subsidiary	**(44,917,194)**	**(57,404,685)**
	Increase in pledged deposits	**(389,300,000)**	**–**
	Sub-total of cash outflows	**(14,678,096,210)**	**(14,298,564,236)**
	Net cash flows from investing activities	**(14,426,132,099)**	**(14,011,951,889)**
3.	Cash flows from financing activities:		
	Cash received from capital contribution	**317,982,830**	**–**
	Cash received from issue of bonds with warrants	**5,355,650,000**	**5,355,650,000**
	Cash received from borrowings	**14,019,018,506**	**13,820,000,000**
	Sub-total of cash inflows	**19,692,651,336**	**19,175,650,000**
	Cash repayments of borrowings	**(8,538,526,131)**	**(8,197,632,073)**
	Cash paid for distribution of dividend or profits and for interest expenses	**(1,432,295,804)**	**(1,362,278,078)**
	Sub-total of cash outflows	**(9,970,821,935)**	**(9,559,910,151)**
	Net cash flows from financing activities	**9,721,829,401**	**9,615,739,849**
4.	Effect of foreign exchange rate changes on cash	**(58,202,373)**	**(67,802,403)**
5.	Net increase in cash and cash equivalents	**520,298,802**	**186,832,173**

CONSOLIDATED CASH FLOW STATEMENT *(CONTINUED)*

Supplementary information

		2006	
		Group	**Company**
		RMB	*RMB*
1.	Reconciliation of net profit to cash flows from operating activities:		
	Net profit	**2,276,585,903**	**2,313,225,397**
	Add: Minority interests	**57,900,632**	**–**
	Reversal of provision for doubtful debts	**(9,230,087)**	**(8,120,828)**
	Reversal of provision against inventories	**(26,190,003)**	**(26,190,003)**
	Reversal of impairment of fixed assets	**(19,611,200)**	**(19,611,200)**
	Reversal of impairment of construction in progress	**(17,676,148)**	**(17,676,148)**
	Depreciation of fixed assets	**2,325,398,867**	**2,247,979,821**
	Amortisation of intangible assets	**32,367,033**	**23,452,602**
	Decrease in accrued charges	**(17,059,647)**	**(2,615,206)**
	Loss on disposal of fixed assets, intangible assets and other long term assets, net	**11,196,092**	**11,905,919**
	Financial expenses	**317,839,164**	**293,640,270**
	Investment income	**(59,564,445)**	**(257,408,373)**
	Increase in inventories	**(1,198,771,501)**	**(1,134,459,364)**
	Decrease in receivables from operating activities	**781,458,204**	**679,585,025**
	Increase in payables from operating activities	**828,161,009**	**547,138,704**
	Net cash flows from operating activities	**5,282,803,873**	**4,650,846,616**
2.	Investing and financing activities that do not involve cash receipts and payments:		
	Capital contributed in non-cash assets and liabilities by a minority shareholder	**(202,312,595)**	–
3.	Net increase in cash and cash equivalents:		
	Cash and balances with financial institutions at end of year	**3,629,568,054**	**2,808,993,288**
	Less: Cash and balances with financial institutions at beginning of year	**(3,109,269,252)**	**(2,622,161,115)**
	Add: Balance of cash equivalents at end of year	**–**	**–**
	Less: Balance of cash equivalents at beginning of year	**–**	**–**
	Net increase in cash and cash equivalents	**520,298,802**	**186,832,173**

CONSOLIDATED INCOME STATEMENT
(Prepared under Hong Kong accounting standards)
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	3, 4	**34,319,874**	32,083,096
Cost of sales		**(29,904,081)**	(27,369,971)
Gross profit	3	**4,415,793**	4,713,125
Other income and gains	4	**164,076**	194,433
Selling and distribution costs		**(469,390)**	(428,103)
Administrative expenses		**(1,089,460)**	(744,745)
Other operating income/(expenses), net		**34,851**	(19,555)
Finance costs	6	**(296,226)**	(362,470)
Share of profits and losses of associates		**40,287**	13,464
PROFIT BEFORE TAX	5	**2,799,931**	3,366,149
Tax	7	**(347,378)**	(415,334)
PROFIT FOR THE YEAR		**2,452,553**	2,950,815
Attributable to:			
Equity holders of the parent		**2,394,652**	2,909,943
Minority interests		**57,901**	40,872
		2,452,553	2,950,815
DIVIDEND	8	**839,189**	1,032,848
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**37.10 cents**	45.08 cents
Diluted		**36.92 cents**	N/A

CONSOLIDATED BALANCE SHEET
(Prepared under Hong Kong accounting standards)
31 December 2006

	Notes	**2006** **RMB'000**	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**18,752,595**	18,384,692
Construction in progress		**21,066,978**	7,476,730
Investment properties		**3,559**	–
Prepaid land premiums		**1,457,468**	1,137,801
Other intangible asset		**113,507**	109,035
Investment in a jointly-controlled entity		**234,000**	234,000
Investments in associates		**329,514**	268,060
Available-for-sale investments		**16,817**	16,817
Held-to-maturity investments		**8,259**	10,919
Deferred tax assets		**–**	53,175
Total non-current assets		**41,982,697**	27,691,229
CURRENT ASSETS			
Inventories		**6,489,013**	5,168,472
Construction contracts		**51,119**	31,002
Trade and bills receivables	10	**1,263,559**	2,215,092
Prepayments, deposits and other receivables		**769,353**	559,386
Equity investments at fair value through profit or loss		**–**	13,568
Pledged deposits		**531,137**	142,114
Cash and cash equivalents		**3,629,568**	3,112,902
Total current assets		**12,733,749**	11,242,536
CURRENT LIABILITIES			
Trade and bills payables	11	**5,997,722**	3,863,128
Other payables and accruals		**5,620,588**	4,495,428
Interest-bearing bank and other borrowings		**808,772**	2,191,361
Tax payable		**93,110**	118,021
Provisions		**50,770**	114,747
Total current liabilities		**12,570,962**	10,782,685
NET CURRENT ASSETS		**162,787**	459,851
TOTAL ASSETS LESS CURRENT LIABILITIES		**42,145,484**	28,151,080
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**15,713,140**	8,570,816
Bonds with warrants		**4,672,376**	–
Deferred income		**564,901**	498,086
Provisions		**22,045**	29,485
Due to the ultimate holding company		**400,000**	400,000
Deferred tax liabilities		**754**	–
Total non-current liabilities		**21,373,216**	9,498,387
Net assets		**20,772,268**	18,652,693

EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**6,455,300**	6,455,300
Equity component of bonds with warrants	**585,463**	–
Reserves	**12,581,819**	11,026,356
Proposed final dividend	**839,189**	1,032,848
	20,461,771	18,514,504
Minority interests	**310,497**	138,189
Total equity	**20,772,268**	18,652,693

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and the recovery forward contract, which have been measured at fair value. These financial statements are resented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

Geographical segmental analysis 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.

		2006			2005	
	PRC	**Overseas**	**Total**	PRC	Overseas	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**30,800,297**	**3,519,577**	**34,319,874**	30,035,284	2,047,812	32,083,096
Segment results	**3,812,660**	**603,133**	**4,415,793**	4,507,109	206,016	4,713,125

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:

	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**34,319,874**	32,083,096
Other income and gains		
Bank interest income	**34,259**	22,103
Recognition of deferred income	**49,752**	48,498
Trading of iron ores	**24,525**	90,859
Gain on disposal of equity investment at fair value through profit or loss	**13,994**	–
Others	**41,546**	32,973
	164,076	194,433

5. PROFIT BEFORE TAX

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

	2006	2005
	RMB'000	*RMB'000*
Cost of inventories sold	**29,904,081**	27,369,971
Depreciation	**2,323,629**	2,064,539
Depreciation of investment properties	**586**	–
Recognition of prepaid land premiums	**29,070**	21,092
Amortisation of a mine participation right	**4,481**	1,115
Provision/(reversal of provision) for doubtful debts, net	**(9,230)**	554
Reversal of impairment of property, plant and equipment	**(19,611)**	–
Reversal of impairment of construction in progress	**(17,676)**	–
Dividend income from an available-for-sale investment	**(5,284)**	(5,281)
Gain on disposal of equity investment at fair value through profit or loss	**(13,994)**	–

6. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	**781,726**	457,908
Less: Interest capitalised in construction in progress	**(485,500)**	(95,438)
	296,226	362,470

7. TAX

	2006	2005
	RMB'000	*RMB'000*
Group:		
Current – Mainland China		
Charge for the year	**349,529**	377,121
Underprovision in prior years	**58,230**	52,424
Current – Hong Kong	**1,977**	808
Current – Elsewhere	**12,503**	3,422
Deferred	**(74,861)**	(18,441)
Total tax charge for the year	**347,378**	415,334

The income tax for the Company and its subsidiaries in the mainland of the PRC (the "Mainland China") is calculated at rates ranging from 15% to 33% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. Certain of the Company's subsidiaries are foreign investment enterprises and after obtaining authorisation from respective tax authorities, these subsidiaries are subject to a full foreign enterprise income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. DIVIDEND

	2006	2005
	RMB'000	*RMB'000*
Proposed final – RMB13 cents (2005: RMB16 cents) per ordinary share	**839,189**	1,032,848

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

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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year 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 year, 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 are based on:

	2006	2005
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**2,394,652**	2,909,943

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**6,455,300,000**	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**30,016,949**	–
	6,485,316,949	6,455,300,000

10. 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 and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables:		
Within three months	**553,187**	188,665
Four to six months	**10,623**	32,819
Seven to twelve months	**4,953**	49,014
One to two years	**9,366**	12,578
Two to three years	**4,292**	407
	582,421	283,483
Bills receivables	**681,138**	1,931,609
	1,263,559	2,215,092

Bills receivables will mature within one year.

11. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**5,950,074**	3,820,295
One to two years	**28,668**	36,029
Two to three years	**13,080**	1,549
Over three years	**5,900**	5,255
	5,997,722	3,863,128

12. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

The financial statements prepared under PRC accounting standards are audited by Ernst & Young Hua Ming.

The effects on net profit and shareholders' equity arising from the material differences between the consolidated financial statements prepared under PRC and Hong Kong Accounting Standards are summarised as follows:

	Notes	**2006** ***RMB'000***	2005 *RMB'000*
Net profit			
Profit attributable to equity holders of the parent under Hong Kong Accounting Standards		**2,394,652**	2,909,943
Add back:			
Employee bonus and welfare fund	(ii)	**6,547**	4,616
Deduct:			
Deferred tax income	(i)	**(74,861)**	(18,441)
Recognition of deferred income	(iii)	**(49,752)**	(48,498)
Profit attributable to equity holders of the parent under PRC accounting standards		**2,276,586**	2,847,620
Shareholders' equity			
Equity attributable to equity holders of the parent under Hong Kong Accounting Standards		**20,461,771**	18,514,504
Add back:			
Deferred tax liabilities	(i)	**754**	–
Deferred income	(iii)	**588,569**	585,369
Deduct:			
Deferred tax assets	(i)	**–**	(53,175)
Recognition of deferred income	(iii)	**(140,235)**	(90,483)
Provision for furnace relining costs	(iv)	**(74,499)**	(74,499)
Recognition of equity component of bonds with warrants	(v)	**(733,019)**	–
Direct issue cost of bonds with warrants recognised as deduction from equity component	(v)	**18,766**	–
Equity attributable to equity holders of the parent under PRC accounting standards		**20,122,107**	18,881,716

(i) Deferred tax

Under HKAS 12 *Income Tax*, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax liabilities recognised as at 31 December 2006 amounted to approximately RMB0.8 million (2005: deferred tax assets of approximately RMB53.2 million). The movement in the deferred tax resulted in a deferred tax income of approximately RMB74.9 million in the current year (2005: approximately RMB18.4 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing differences on income tax. Thus, no deferred tax was recognised as at 31 December 2005 and 31 December 2006.

(ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB6.5 million (2005: approximately RMB4.6 million).

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

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

(iii) Deferred income

Government grants for specific construction projects are accounted for as specific payables under PRC accounting standards, whereas under Hong Kong accounting standards, such grants are accounted for as deferred income.

Under HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB3.2 million received in the current and prior year, were completed. As at 31 December 2006, accumulated deferred income amounting to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB49.8 million (2005: approximately RMB48.5million) was released to the current year's income statement. As at 31 December 2006, the accumulated deferred income released amounted to approximately RMB140.2 million (31 December 2005: approximately RMB90.5 million).

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2006, accumulated specific payables transferred to the capital reserve amounted to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million).

(iv) Furnace relining costs

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 RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment.

Under the PRC accounting standard *Fixed Assets* issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2005: Nil), and the remaining provision as at 31 December 2006 amounted to approximately RMB74.5 million (2005: approximately RMB74.5 million).

(v) Bonds with warrants

Under HKAS 32 *Financial instruments: Disclosure and Presentation*, the bonds with warrants are determined as compound financial instrument and should be separately classified as liability component and equity component. At the issue date, the carrying amount of the liability component was determined to be approximately RMB4,767 million by measuring the fair value of a similar liability that does not have an associated equity component, and the equity component is then determined to be approximately RMB733 million by deducting the fair value of the liability from the fair value of the compound financial instrument as a whole of RMB5,500 million. Besides, the direct issue cost of the bonds with warrants was allocated between the separate components and the amount recognised as deduction from equity is approximately RMB18.8 million.

Under the PRC accounting standard and regulations, bonds with warrants were recorded as Bonds payable at a nominal value of RMB5,500 million at the issue date. Besides, the direct issue cost of bonds with warrants were capitalised in construction in process.

By order of the Board of Directors
Gu Jianguo
Chairman

17 April 2007

Maanshan City, Anhui Province, the PRC

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

Gu Jianguo, Gu Zhanggen, Zhu Changqiu, Zhao Jianming, Su Jiangang, Gao Haijian, Wong Chun Wa, Su Yong*, Hui Leung Wah*, Han Yi**

* *Independent Non-executive Directors*

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