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)

(Stock Code: 323)

2007 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 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 & Steel
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	Gao Haijian	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	86-555-288 8158/288 7997	86-555-288 8158/288 7997
Fax	86-555-2887284	86-555-2887284
Email address	mggfdms@magang.com.cn	mggfdms@magang.com.cn

3 EXTRACTS OF ACCOUNTING AND BUSINESS DATA

3.1 Major accounting data

(Prepared under PRC Accounting Standards)

Unit: RMB'000

	2007	2006 (Restated)	Increase/ (decrease) compared to the previous year(%)	2005 (Restated)
Operating income	**50,645,395**	35,410,061	43.03	32,528,616
Profit before tax	**2,796,705**	2,806,478	–0.35	3,370,765
Net profit attributable to shareholders of the Company	**2,475,383**	2,401,199	3.09	2,914,559
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**2,486,120**	2,356,807	5.49	2,896,049
Net cash flows from operating activities	**3,624,951**	5,282,804	–31.38	6,170,942

	As at the end of 2007	As at the end of 2006 (Restated)	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2005 (Restated)
Total assets	**71,083,141**	54,851,010	29.59	38,942,727
Shareholders' equity	**23,008,971**	20,461,772	12.45	18,514,504

3.2 Major financial indicators

(Prepared under PRC Accounting Standards)

	2007	2006 (Restated)	Increase/ (decrease) compared to the previous year(%)	2005 (Restated)
Basic earnings per share (RMB)	**0.382**	0.372	**2.69**	0.451
Diluted earnings per share (RMB)	**0.350**	0.370	**-5.41**	0.451
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.383**	0.365	**4.93**	0.449
Return on net assets – Fully diluted (%)	**10.76**	11.74	**a decrease of 0.98 percentage point**	15.74
Return on net assets –Weighted average (%)	**11.39**	11.96	**a decrease of 0.57 percentage point**	15.76
Return on net assets excluding non-recurring gains or losses – Fully diluted (%)	**10.81**	11.52	**a decrease of 0.71 percentage point**	15.64
Return on net assets excluding non-recurring gains or losses – Weighted average (%)	**11.44**	11.74	**a decrease of 0.3 percentage point**	15.66
Net cash flow per share from operating activities (RMB)	**0.5592**	0.8184	**–31.67**	0.9559

	As at the end of 2007	As at the end of 2006 (Restated)	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2005 (Restated)
Net assets per share attributable to shareholders of the Company (RMB)	**3.55**	3.17	**11.99**	2.87

Unit: RMB'000

Non-recurring gains or losses	**Amount**
Net loss on disposal of non-current assets	(136,650)
Subsidy income	49,075
Other non-operating income and expenses, net	(306)
Amortisation for deferred income	52,795
Income tax effect	29,103
Effect of net tax expenses on minority shareholders	(4,754)
Total non-recurring gains or losses, net	(10,737)

Items accounted under the fair value method

Unit: RMB'000

Item	**Balance at the beginning of the reporting period**	**Balance at the end of the reporting period**	**Changes during the reporting period**	**Effect on the profit for the reporting period**
Financial assets held for trading	–	1,463	1,463	720
Total	–	1,463	1,463	720

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

Unit: RMB million

	PRC Accounting Standards	**Hong Kong Accounting Standards**
Net profit attributable to shareholders of the Company	2,475	2,467
Explanation on the differences	Net profit under PRC Accounting Standards for Business Enterprises 2,475 Less: Employee bonus and welfare fund (8) Net profit under Hong Kong Financial Reporting Standards ("HKFRS") 2,467	

4 MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDING STRUCTURE

4.1 Table on share movement

Unit: Shares

	Prior to the current movements		Current movements (+, -)					After current movements	
	Number of shares	(%)	Issue of new shares (Note)	Bonus share	Transferred from reserves	State Share Reform	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions									
1. State-owned shares	3,830,560,000	59.34	–	–	–	–	–	3,830,560,000	56.68
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares									
Including:									
Shares owned by domestic legal persons	87,810,000	1.36	–	–	–	-87,810,000	-87,810,000	–	–
Shares owned by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign-owned shares									
Including:									
Shares owned by domestic legal persons	–	–	–	–	–	–	–	–	–
Shares owned by domestic natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions									
1. RMB-denominated ordinary shares	804,000,000	12.45	303,251,716	–	–	87,810,000	391,061,716	1,195,061,716	17.68
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Foreign listed foreign shares	1,732,930,000	26.85	–	–	–	–	–	1,732,930,000	25.64
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	6,455,300,000	100	303,251,716	–	–	–	303,251,716	6,758,551,716	100

Note: The first exercise of 马钢CWB1 warrants took place.

Table on movement of shares with selling restrictions

Unit: Shares

Name of shareholder	Number of shares subject to selling restrictions as at the beginning of the year	Number of shares with selling restrictions relieved during the year	Number of shares with selling restrictions increased during the year	Number of shares subject to selling restrictions as at the end of the year	Reason for selling restrictions	Date of relief of selling restrictions
Magang (Group) Holding Company Limited	3,878,330,000	47,770,000	–	3,830,560,000	State Share reform	2 April 2007
Other shareholders of legal person shares	40,040,000	40,040,000	–	–	Same as above	Same as above
Gu Jianguo	3,886	–	–	3,886	Director of the Company	Not applicable
Gu Zhanggen	3,886	–	–	3,886	Director of the Company	Not applicable
Su Jiangang	3,886	–	–	3,886	Director of the Company	Not applicable
Total	3,918,381,658	87,810,000	–	3,830,571,658	–	–

4.2 Respective shareholdings of the 10 largest shareholders and the 10 largest holders of circulating shares or shares without selling restrictions

Total number of shareholders As at the end of the reporting period, the Company had a total of 321,340 shareholders, including 319,932 A share holders and 1,408 H share holders.

Shareholding of the 10 largest shareholders

Name of shareholders	Type of shareholders	As a percentage to number of shares held (%)	Number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	56.68	3,830,560,000	3,830,560,000	0
HKSCC (Nominees) Limited	Foreign shareholder	25.26	1,707,128,997	0	Unknown
上海浦東發展銀行－長信金利趨勢股票型證券投資基金	Others	0.47	32,006,243	0	Unknown
中國工商銀行－易方達價值成長混合型證券投資基金	Others	0.46	31,242,403	0	Unknown
中國光大銀行股份有限公司－光大保德信量化核心證券投資	Others	0.30	20,552,050	0	Unknown
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	Foreign shareholder	0.30	20,366,616	0	Unknown
中國工商銀行－景順長城新興成長股票型證券投資基金	Others	0.30	20,000,000	0	Unknown
交通銀行－博時新興成長股票型證券投資基金	Others	0.29	19,499,862	0	Unknown
中國建設銀行－華寶興業行業精選股票型證券投資基金	Others	0.28	18,972,280	0	Unknown
中國工商銀行－易方達價值精選股票型證券投資基金	Others	0.27	18,004,719	0	Unknown

Shareholding of the 10 largest holders of shares without selling restrictions

Name of shareholders	Number of shares without selling restrictions held	Type of shares
HKSCC (Nominees) Limited	1,707,128,997	Overseas-listed foreign shares
上海浦東發展銀行－長信金利趨勢股票型證券投資基金	32,006,243	RMB-denominated ordinary shares
中國工商銀行－易方達價值成長混合型證券投資基金	31,242,403	RMB-denominated ordinary shares
中國光大銀行股份有限公司－光大保德信量化核心證券投資	20,552,050	RMB-denominated ordinary shares
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	20,366,616	RMB-denominated ordinary shares
中國工商銀行－景順長城新興成長股票型證券投資基金	20,000,000	RMB-denominated ordinary shares
交通銀行－博時新興成長股票型證券投資基金	19,499,862	RMB-denominated ordinary shares
中國建設銀行－華寶興業行業精選股票型證券投資基金	18,972,280	RMB-denominated ordinary shares
中國工商銀行－易方達價值精選股票型證券投資基金	18,004,719	RMB-denominated ordinary shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	17,999,943	RMB-denominated ordinary shares

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

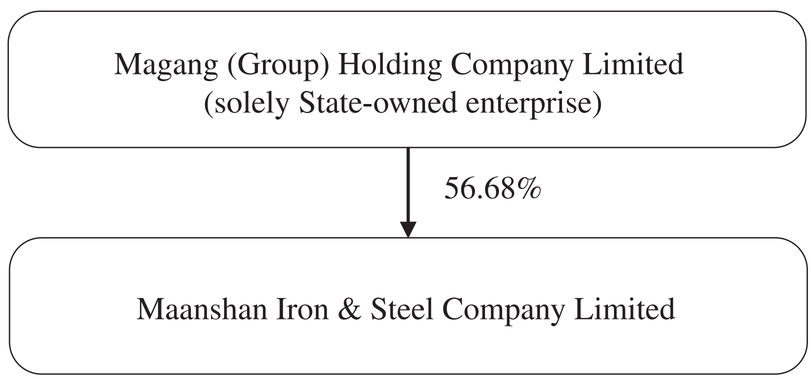
There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures for the Management of Information Disclosure on Changes in Shareholding of Shareholders of Listed Companies. E Fund Management Co., Ltd. was the manager of both中國工商銀行－易方達價值成長混合型證券投資基金and中國工商銀行－易方達價值精選股票型證券投資基金. Save for disclosed above, the Company is not aware of whether the other nine shareholders mentioned above 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

Magang (Group) Holding Company Limited, the controlling shareholder of the Company, 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	Reasons for the change	Total amount of emoluments received from the Company during the reporting period	Share option incentives granted during the reporting period: No. of exercisable shares	No. of shares exercised	Exercise price	Market price of shares as at the end of the reporting period	Emoluments/ allowance received from shareholder/ associate
Gu Jianguo	Chairman	M	55	2005.8.31-2008.8.31	3,886	3,886	–	842	–	–	–	–	No
Gu Zhanggen	Vice Chairman	M	61	2005.8.31-2008.8.31	3,886	3,886	–	842	–	–	–	–	No
Zhu Changqiu	Director and General Manager	M	62	2005.8.31-2008.1.3	0	0	–	842	–	–	–	–	No
Su Jiangang	Director and General Manager	M	53	See remark	3,886	3,886	–	674	–	–	–	–	No
Zhao Jianming	Director	M	54	2005.8.31-2008.8.31	0	0	–	–	–	–	–	–	Yes
Gao Haijian	Director, Deputy General Manager and Secretary to the Board of Directors	M	51	See remark	0	0	–	674	–	–	–	–	No
Hui Zhigang	Director, Deputy General Manager	M	54	See remark	0	0	–	674	–	–	–	–	No
Wong Chun Wa	Independent Director	M	34	2005.8.31-2008.8.31	0	0	–	50	–	–	–	–	No
Su Yong	Independent Director	M	53	2005.8.31-2008.8.31	0	0	–	50	–	–	–	–	No
Hui Leung Wah	Independent Director	M	45	2005.8.31-2008.8.31	0	0	–	50	–	–	–	–	No
Han Yi	Independent Director	M	44	2005.8.31-2008.8.31	0	0	–	50	–	–	–	–	No
Li Kezhang	Chairman of the Supervisory Committee	M	60	2005.8.31-2008.8.31	0	0	–	674	–	–	–	–	No
Dou Qingxun	Supervisor	M	58	2005.8.31-2008.8.31	0	0	–	226	–	–	–	–	No
Fang Jinrong	Supervisor	M	44	2005.8.31-2008.8.31	0	0	–	–	–	–	–	–	Yes
Cheng Shaoxiu	Independent Supervisor	F	65	2005.8.31-2008.8.31	0	0	–	37.5	–	–	–	–	No
An Qun	Independent Supervisor	F	45	2005.8.31-2008.8.31	0	0	–	37.5	–	–	–	–	No
Shi Xiongliang	Deputy General Manager and Chief Engineer	M	55	2005.8.31-2008.8.31	0	0	–	674	–	–	–	–	No
Ding Yi	Deputy General Manager	M	44	2005.8.31-2008.8.31	0	0	–	673	–	–	–	–	No
Wan Hon Kau	Qualified Accountant	M	35	2005.8.31-2008.8.31	0	0	–	223	–	–	–	–	No
Total	–	–	–	–	11,658	11,658	–	7,293	–	–	–	–	–

Remark: On 3 January 2008, the Company's former Director and General Manager Mr. Zhu Changqiu requested to resign as a Director and General Manager of the Company as he had reached retirement age. After deliberation, the Board of Directors of the Company agreed to the resignation of Mr. Zhu and resolved to appoint Mr. Su Jiangang as General Manager of the Company and Mr. Gao Haijian to replace Mr. Su as Secretary to the Board of Directors of the Company. On 19 February 2008, the 2008 first extraordinary general meeting of the Company approved the supplementation of Mr. Hui Zhigang, Deputy General Manager, as a Director of the fifth session of the Board of Directors of the Company. The term of office for Mr. Zhu was from 31 August 2005 to 3 January 2008. The term of office for Mr. Su Jiangang as a Director is from 31 August 2005 to 31 August 2008, while his term of office as Deputy General Manager and Secretary to the Board of Directors was from 31 August 2005 to 3 January 2008, and his term of office as General Manager is from 3 January 2008 to 31 August 2008. The term of office for Mr. Gao as a Director and Deputy General Manager is from 31 August 2005 to 31 August 2008 and his term of office as Secretary to the Board of Directors is from 3 January 2008 to 31 August 2008. The term of office for Mr. Hui as a Director is from 19 February 2008 to 31 August 2008 and his term of office as Deputy General Manager is from 31 August 2005 to 31 August 2008.

6 REPORT OF THE BOARD OF DIRECTORS

6.1 Management Discussion and Analysis

1) Review of the Operating Environment

A. The Steel Product Market

In 2007, global demand for steel products was robust. Steel product prices in the international market hovered at relatively high levels. The year's average consolidated index for global steel product prices was 167.2, up approximately 10.5% over 2006, of which the index for long products rose 24.7% and that of steel plates rose 3.7%. The consolidated index for global steel product prices at the end of 2007 was 176.2, up 17.3% over the end of 2006, of which the index for long products increased by 35.1% and that of steel plates increased by 8.3%. The index for global long product prices set a historic high at the end of December 2007. For the whole year, the overall price level of global steel products, including long products and steel plates, was higher than that of the corresponding period of the previous year.

In 2007, China's national economy continued to maintain a steady and relatively fast growth. Major downstream steel-consuming industries such as construction, machinery, automobile, electricity, container and shipbuilding reported relatively fast growth and there was a robust demand for steel products. The relevant provinces and municipalities have been endeavouring to enforce the first batch of the "Undertaking Statement on Closing and Eliminating Obsolete Production Capacity of Iron and Steel". The iron and steel enterprises made substantial progress in eliminating obsolete steel-making and iron-making capacities. Total production volume of steel products increased, but the rate of increase for long products was lower than that of steel plates, highlighting a further change in the product mix regarding supply in the steel product market. Aggregate supply and demand of steel products in the domestic market were generally balanced. The average consolidated index for domestic steel product prices was 113.49 for the year, up 8.16% over 2006, of which the index for long products climbed 15.92% and that of steel plates climbed 7.7%. Comparing the end of 2007 to the end of 2006, the consolidated index for domestic steel product prices rose from 105.15 to 125.12, representing an 18.99% increase, of which the index for long products rose 43.72% while that of steel plates rose 12.55%. For the whole year, the price level of steel products was higher than that of 2006 and reached the year's peak by the year's end. (Source from China Iron and Steel Association)

In general, steel product prices in the domestic and global markets moved in line with each other during 2007.

During 2007, with the increase in the export volume of Chinese steel products, trade frictions increased between China, a major iron and steel producer, and Europe and the US, which are the major consumers of steel products. Since April, the State has successively launched measures such as export tax rebate reduction and imposition of export tariffs which aimed at limiting iron and steel product exports. The relevant policies made significant impact in the second half of 2007 and changed the trend of rapid growth for Chinese iron and steel product exports, and there were even negative growth in some occasions. In the first half of 2007, China's exports of steel products and steel billets were equivalent to approximately 40,320,000 tonnes of crude steel, while steel product and steel billet imports were equivalent to approximately 9,390,000 tonnes of crude steel. Balancing imports and exports, there was a net crude steel export of approximately 30,930,000 tonnes, up 179.6% year-on-year. During the second half, exports of steel products and steel billets were equivalent to approximately 32,750,000 tonnes of crude steel, while steel product and steel billet imports were equivalent to approximately 8,800,000 tonnes of crude steel. Balancing imports and exports, there was a net crude steel export of approximately 23,950,000 tonnes, up by a mere 1.22% year-on-year and down by 22.55% as compared to the first half of 2007. Of these, net exports of crude steel decreased by 24.46% year-on-year during the fourth quarter. (Source from China Customs)

B. The Markets of Raw Materials, Fuels and Transportation

In 2007, the global prices of iron ore, coke and petroleum and shipping fees underwent a continued increase, with the global benchmark price of iron ore having increased by 9.5% year-on-year. Domestic prices of raw materials, fuels, energy and transportation also witnessed a trend of continued increase. Affected by such factors, costs and expenses for large/medium domestic iron and steel enterprises increased significantly in 2007, of which costs of sales increased by 32.75% and sales expenses increased by 32.46%. (Source from China Iron and Steel Association)

C. The Monetary Market

In 2007, China's monetary policy changed from a prudent one to one of appropriately contractionary. The People's Bank of China adjusted the statutory deposit reserve rate 10 times successively from 9% as at the beginning of the year to 14.5% by the year's end; the RMB lending interest rates were raised six times successively, with the one-year lending benchmark interest rate raised from 6.12% as at the year's beginning to 7.47% by the year's end. In 2007, the finance costs for large/medium domestic iron and steel enterprises increased by 47.68% as compared to 2006. (Sources from The People's Bank of China and China Iron and Steel Association)

2) ***Basic Strategies and Major Work***

In 2007, approximately 80% of the iron ore procured by the Company was imported from overseas, while the FOB price and shipping fees of imported iron ore increased substantially as compared to 2006. Meanwhile, the New Area's 5,000,000-tonne thin-plate production project has commenced production. The logistics flow increased substantially and there was an immense difficulty in maintaining balanced production. As the New Area takes time to reach and surpass the break-even point, there was immense pressure on production operation. Facing such conditions, the Company adopted various measures to deepen the standardisation effort and accelerate the implementation of the low-cost strategy and the brand strategy. Requirements on technical standards and management standards were delegated to various positions to be implemented by individual persons-in-charge for effective enforcement. The major work was as follows:

- **Deepened the standardisation effort and reinforced basic management.** In 2007, the Company deepened the standardisation effort, embodying crucial elements such as management requirements, technical indices and market demand into the standards, while the issues of establishing a standardised position-based operation system and the effectiveness of the standardised position-based operation system were deemed the focus of inspection. Through determining the stability and balance of pre-blast furnace iron production and through measuring various concrete indices such as the realisation rate of the steel rolling system's planned steel production (unit: furnaces), the one-off realisation rate of standardised product production plan and the realisation rate of product sales contracts, the actual progress results of various units' standardisation effort were appraised. The Company has basically established a continuously improving and effectiveness-sustaining system of corporate standardisation, with the technical standard system as the main trunk and the management standard system and work standard system as the ancillary items. Accordingly, the support provided by the standardisation effort on enhancing the variety and quality of the Company's products is gradually emerging.

- **Continued with the low-cost strategy, increased the output of products with higher profitability.** Based on the conditions of the raw material and fuel markets and the actual production needs, the Company scientifically balanced its resources. The allocation of resources such as imported iron ore, domestic iron ore, pig iron and scrap steel were continuously optimised, while full-process cost control was practised from procurement, storage, production to sales, and the Company strove to alleviate the cost pressure brought by rising prices of raw materials, fuels and transportation. Through dedicated efforts on the production coordination of the new and old systems, the Company balanced the supply logistics of the new and old systems and strove to unleash the production capacity of the New Area. Based on the condition of the steel product market, the Company timely adjusted its production plan and increased the output of more profitable products such as medium plates, cold-forged steel, small H-shaped steel, train wheels and wheel rims. During the year, the Company produced approximately 560,000 tonnes of cold-forged steel, approximately 940,000 tonnes of medium/thick plates, approximately 690,000 tonnes of small H-shaped steel and approximately 240,000 tonnes of train wheels and wheel rims.

- **Continued with the brand strategy and enhanced the technological innovation system to provide support for rapid changes in the development mode.** To further enhance the technological innovation system, the Company integrated its existing technological innovation systems to form a technological innovation management and operation system, with the core items being setting scientific research projects, process management, completion inspection and acceptance and intellectual property management. A "research-production-sales" working system was built to strengthen the cooperation between technology, production and sales, thereby shortening the product development cycle and assuring the enhancement of actual product quality. As for the development of new products, the Company was guided by market demand and emphasised the priority of efficiency, with a focus on resolving skills and technical issues such as improving the product realisation rate and building the Magang brand. Meanwhile, with reference to the characteristics of the New Area's facilities, the Company developed a series of products such as the high-class DC04 deep-drawing plate and the X65 to 80 pipeline steel from a high starting point. The Company's train wheel products were bestowed the honour of "Famous Brand of China", while hot-rolled wire rods were certified by the UK Certification Authority for Reinforcing Steels (CARES). The class B plates for vessels were endorsed by certificates issued by China. During the year, the Company's expenses on scientific research and development amounted to approximately RMB243 million.

- **Accelerated the construction of key projects and ensured the commencement of the New Area as scheduled.** Closely following the overall project construction objective of "High Starting Level, Low Investment, Fast in Speed and Good Quality", the construction of the New Area was carefully organised, with obstacles and difficulties overcome. The iron-making blast furnaces A and B commenced operation in February and May 2007, respectively. The steel-making converters No. 1 and 2 commenced operation in March and May 2007, respectively. The hot-rolled broad belt system, the pickled cold-wire production line and the hot galvanising production line commenced production simultaneously in September 2007. Accordingly, the major items of the Company's 5,000,000-tonne cold and hot thin-plate project were fully completed and commenced operation. Meanwhile, the Company's information system development achieved substantial progress, establishing a comprehensive ERP system which covers all production lines of the Company's new and old areas. The system covers all core procedures ranging from the Company's planning, procurement, production, technology, quality, sales and finances, with integrated functions of decision-making, management and execution.

- **Various units cooperated closely, with the New Area's facilities gradually achieving a stable operation and passing the break-even point.** With the gradual commencement of the New Area project, the relevant parties of the Company made every effort to achieve the coordination of the new and old systems in order to rapidly unleash the production capacity. Accordingly, the New Area's facilities gradually entered stable operation and steel product output increased month-by-month. Product quality was substantially enhanced and the New Area surpassed the break-even point, thereby achieving the Company's target set in mid-2007. During 2007, the New Area produced 4,590,000 tonnes of pig iron, 2,640,000 tonnes of crude steel and 2,410,000 tonnes of steel products. Among the steel product output, hot-rolled products amounted to approximately 2,090,000 tonnes, cold-rolled products amounted to approximately 240,000 tonnes and hot galvanised products amounted to approximately 80,000 tonnes. The New Area realised a sales revenue of approximately RMB8,232 million and the gross margin of products was approximately 6%.

- **Accelerated the elimination of obsolete production capacity and worked diligently on energy conservation and emissions reduction.** To strengthen the control on environmental pollution sources, the Company took the initiative to close down five 300-cubic metre blast furnaces which were permitted by the State industrial policy to operate until 2010. The Company actively built a network of energy and environmental protection organisations and established the energy and environmental protection committee and the energy and environmental protection department to specifically handle the work on energy, environmental protection and comprehensive utilisation of resources, thereby forming an organisational structure of three tiers for energy conservation and two tiers for environmental protection. Capitalising on the opportunity of pushing ahead the standardisation effort, the Company timely amended its documents on energy and environmental protection management systems, with reference to the environmental protection laws, rules and regulatory documents gradually promulgated by the State. Appraisal was strengthened, and a three-tier appraisal system which focuses on consolidated energy consumption per tonne of steel, energy conservation in work process and key energy-consuming facilities was established while a reward-punishment system for energy conservation was implemented. The Company raised funds for energy conservation and emissions reduction work through various channels, with six projects – namely the gas-steam combined cycle power plant (CCPP), the No.6 furnace, the saturated steam power generation project, the air blast dehumidification project, the New Area's burning residue heat power generation project and the Lufenhe sewage treatment project – have obtained approximately RMB146 million of State financial incentive funding for energy conservation projects. The Company also actively strove for the Clean Development Mechanism project (CDM) and initiated cooperation with climate change fund groups in the UK regarding carbon dioxide emissions reduction. In 2007, the Company also officially started the work on building a "State-graded Environment-Friendly Enterprise".

- **Emphasised competition and cooperation in sales and marketing to balance the interests of various parties.** By focusing on the promotion of the New Area's products and the reinforcement of technological services, the Company forged an intensive supply chain of iron and steel. The Company also strengthened strategic cooperation with end-customers and flexibly adjusted its export strategies, thereby achieving balanced production and sales and timely recovery of capital. By establishing strategic alliances with famous domestic automobile and home appliance enterprises, the Company satisfactorily resolved the issue of balancing various parties' interests. By strengthening the construction of information-based management, the Company thoroughly implemented regulated and information-based management. Accordingly, an efficient and regulated operation with fast response to market was formed, while a customer relations management system, a distant and foreign sales system, and a real-time online information enquiry and telephone voice enquiry system, as well as a special GPS transportation management system, were established. In 2007, the market share of the Company's steel products was approximately 2.8%.

- **Actively initiated external investments in coordination with the Company's principal iron and steel business.** During the reporting period, external investments continued to serve the Company's overall strategic planning. To secure resource supplies, to strengthen cooperation with end-customers and to introduce sophisticated technology and management ideas, the Company invested RMB2.7 million in The 17th China Metallurgical Construction Co., Ltd. for a 2.7% interest, as well as making the following external investments with internal funds (in RMB million):

Company name	**Principal activities**	**Equity interest held** *(%)*	**Investment amount**
Maanshan Used Automobile Trading Centre Co., Ltd.	Use automobile trading services, sales of automobile parts, sales of automobile (excluding sedans); automobile cleaning and refurbishment; property leasing.	100	0.5
Magang (Wuhu) Material Technology Co., Ltd.	Deep processing of steel products such as cutting and dispatch, pressing and laser welding, and related technical services; warehousing and sale, purchase and trading of metal products.	71	106.5
Magang-Union Electric Steel Roll Co., Ltd.	Development, processing, production and sales of large rolls and rolls; provision of after-sales services and related technical consultation services.	51	22.7
Shanghai Luojing Ore Terminal Co., Ltd.	Loading and unloading (including transition), storage, transition, warehousing, processing, dispatch and logistics information management for domestic and international cargoes; port facilities leasing; port information and technical consultation services.	12	US$11.88

Note: Magang (Wuhu) Material Technology Co., Ltd. completed the relevant industrial and commercial registration matters on 2 January 2008.

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

- Analysis of operating income by segment and by product
  The iron and steel segment accounted for 94.58% of the Group's operating income. The iron and steel segment also accounted for 82.22% of the Group's gross operating profit.

- During the reporting period, the Group's gross operating margin was 11.33%, a decrease of 1.46 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the smaller increase in the sales prices of the Company's steel products as compared to the increase in steel product production costs.

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

- Assets
  As at the end of the reporting period, there were no material differences on the proportions of bills receivable, net amount of trade receivables, advanced payments, net amount of other receivables, inventories, investments held until maturity, long-term equity investments, investment properties, construction materials and intangible assets out of total assets when compared to the previous year. The amount of net fixed assets accounted for 58.11% of total assets, an increase of 23.93 percentage points over the end of the previous year, which was mainly due to an increase in the Company's fixed assets during the reporting period as certain projects under construction achieved scheduled availability and were reclassified as fixed assets. Construction in progress accounted for 4.94% of total assets, a decrease of 29.21 percentage points over the end of the previous year, mainly owing to a decrease in the Company's projects under construction during the reporting period as certain projects under construction achieved scheduled availability and were reclassified as fixed assets.

  During the reporting period, the Company's financial assets were accounted under the fair value method and other major assets were accounted under the cost method. There were no substantial changes in the accounting characteristics of any asset.

- Liabilities
  As at the end of the reporting period, the ratios of short-term loans, bills payable, accounts payable, deposits received, other payables and bonds payable in relation to total assets had no material changes as compared to the end of the previous year. Long-term loans accounted for 23.32% of total assets, a decrease of 5.33 percentage points from the end of the previous year, which was mainly due to a smaller increase in long-term borrowings and a larger increase in short-term borrowings and long-term borrowings due within one year.

  On 31 August 2007, the Company issued RMB2,000 million of short-term commercial papers with a term of 365 days.

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 27.00% 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 3.44% over the previous year. Financial expenses increased by 216.10% over the previous year, which was mainly because certain projects under construction in the New Area achieved scheduled availability and were reclassified as fixed assets and the relevant bank borrowings and payable bond interest expenses were no more available for capitalisation and began to be accounted as financial expenses.

During the reporting period, the enterprise income tax rate for the Company was adjusted from 15% to 33%. However, as the Local Taxation Bureau of Maanshan, Anhui Province permitted the Company to offset the additional 2007 enterprise income tax with investments in technological transformations for domestic facilities and that the change in income tax rate for the future resulted in adjustments to the deferred tax for the reporting period, the Group's income tax calculated under PRC Accounting Standards was actually 36.50% less than that of 2006.

6) ***Operating results during the reporting period under PRC Accounting Standards***

In 2007, the Group's operating income rose 43.03% over the corresponding period of the previous year, which was mainly due to an expansion in production scale and an increase in sales volume of the Company's steel products. Cost of sales increased by 45.02% over the corresponding period of the previous year, mainly due to an expansion in production scale and a rise in raw material costs. Operating profit increased by 2.55% over the corresponding period of the previous year, while net profit attributable to equity holders of the Company increased by 3.03% over the corresponding period of the previous year.

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

In 2007, the Group realised a net profit attributable to equity holders of the Company amounted to RMB2,475 million, a difference of RMB1,147 million when compared to the net increase of cash flow amounting to RMB3,622 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 RMB1,661 million as compared to the corresponding period of the previous year, which was mainly due to an increase in the Company's raw material costs. The amount of net cash outflow from investing activities decreased by RMB7,273 million from the corresponding period of the previous year, which was mainly due to a decrease in acquisition and construction of fixed assets and external investments during the reporting period. The amount of net cash inflow from financing activities decreased by RMB4,289 million from the corresponding period of the previous year, which was mainly due to an increase in cash paid for repayment of borrowings.

8) ***Major Suppliers and Customers***

In 2007, the Group's purchase from the top five suppliers totalled RMB8,465 million, accounting for 21% of the Group's total purchase amount for the year. The Group's sale to the top five customers totalled RMB5,337 million, representing 11% 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 2007, 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 RMB127 million. As at the end of the reporting period, it had total assets amounting to RMB2,206 million and net assets of RMB482 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 RMB31 million. As at the end of the reporting period, it had total assets amounting to RMB4,140 million and net assets of RMB164 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 RMB46 million. As at the end of the reporting period, it had total assets amounting to RMB316 million and net assets of RMB125 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 RMB9 million. As at the end of the reporting period, it had total assets amounting to RMB91 million and net assets of RMB53 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 RMB24 million. As at the end of the reporting period, it had total assets amounting to RMB999 million and net assets of RMB83 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 RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB1,177 million and net assets of RMB168 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 RMB88 million. As at the end of the reporting period, it had total assets amounting to RMB290 million and net assets of RMB189 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 RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB231 million and net assets of RMB209 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 RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB541 million and net assets of RMB136 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 RMB35 million. As at the end of the reporting period, it had total assets amounting to RMB837 million and net assets of RMB304 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. Net profit during the reporting period was RMB69 million. As at the end of the reporting period, it had total assets amounting to RMB877 million and net assets of RMB536 million.

10) Financial Position and Exchange Risks

As at 31 December 2007, the total amount of loans borrowed by the Group was RMB22,733 million, including loans for working capital of RMB3,289 million and construction loans of RMB19,443 million. Except for foreign currency loans amounting to US$167 million, all other loans were denominated in RMB. Except for a US dollar loan which carried interests at LIBOR plus a fixed percentage, all other loans carried interests calculated at fixed interest rates. Movements of the Group's entire loans followed the developments in production and construction projects. No overdue payments have been recorded so far.

As at 31 December 2007, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 67.16%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 66.90%.

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 RMB34,520 million.

As at 31 December 2007, the Group's cash and balances with financial institutions amounted to RMB6,292 million. Bills receivable amounted to RMB4,194 million (of which bank bills receivable due within three months amounted to RMB2,564 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 during the reporting period, 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 2008 and coping strategies

In 2008, the expected objective for China's national economic and social development is: on the premise of structural optimisation, efficiency enhancement, consumption reduction and environmental protection, to achieve a GDP growth of around 8% and to control the overall increase in CPI at around 4.8%, while to improve the international balance of payments. Accordingly, the State will continue to adopt a prudent fiscal policy, fully leveraging the important impact of fiscal policy in facilitating structural adjustments and coordinating development, as well as substantially increasing expenses on aspects such as energy conservation and emissions reduction. The State will adopt a contractionary monetary policy and strengthen financial control, in order to rein in the excessive growth in money supply and credit volume. As for increasing effective supply and suppressing irrational demand, the State will adopt measures such as enhancing the monitoring and early warning system for supply-demand and price changes of primary products and preventing excessive increases in production material prices, in order to stop the overall price level from rising excessively. The State will continue to maintain the policy of expanding domestic demand and adjusting the investment-consumption relation, thereby switching the main drivers of economic growth from investment and exports to a coordinated trio of consumption, investment and exports. Stringent controls will be exercised on land and credit supply and market entry barriers, and the requirements for new project commencements will be strictly enforced. The State will strive to restrain the blind investment and redundant construction in industries of high energy-consumption, high emissions and excess production capacity, as well as raising the entry barriers and percentage of project capital for industries of restricted development, thereby reasonably controlling and stabilising the scale of asset investment.

This year, the State will continue to implement the plan on eliminating obsolete production capacities of industries such as electricity, iron and steel, cement, coal and paper production. A withdrawal system to eliminate obsolete production capacity will be established, while ancillary policies and measures for enterprise closures will be enhanced and implemented. The State will continue to enforce the State Council's "Comprehensive Work Proposal on Energy Conservation and Emissions Reduction" to develop and promote applicable advanced technology on conservation, replacement and recycling of resources and pollution treatment, as well as implementing substantial technological and pilot projects on energy conservation and emissions reduction. Meanwhile, the State will encourage and support the development of the recycling economy, as well as facilitating the recovery and use of renewable resources and fully implementing clean production. A statistics and monitoring system of energy conservation and emissions reduction will be adopted and the examination and monitoring system will be enhanced, while reinforcing the law enforcement effort. The accountability system for energy conservation and emissions reduction work will be enhanced, while the reward-punishment system for energy conservation, emissions reduction and environmental protection will be improved. Meanwhile, the new Enterprise Income Tax Law will be fully adopted and the State will continue to push forward trials on value-added tax transformation reform. The resource tax and charges system will be reformed, while the paid-usage system of resources and the compensation system for ecological environment will be enhanced.

In 2008, while the iron and steel industry will be affected by the State's macroeconomic control measures and steel product exports will continue its trend of decrease, the major steel-consuming industries will maintain a relatively fast growth as driven by the national economy's steady and relatively rapid growth and domestic demand for steel products will maintain a relatively fast growth. While the relevant parties will enforce the second batch of the "Undertaking Statement on Closing and Eliminating Obsolete Production Capacity of Iron and Steel" with 6,000,000 tonnes of obsolete iron production capacity and 14,000,000 tonnes of obsolete steel production capacity are planned to be eliminated this year, iron and steel production will continue to grow. As the international benchmark price of Brazilian iron concentrate imports has increased by 65% over the previous year and the international benchmark price for Australian iron concentrate imports is expected to increase as well, and domestic market prices of coal, coke, petroleum, electricity and transportation and bank borrowing interest rates are hovering at high levels, the iron and steel industry is heading towards a high-cost period and its production operation will face immense pressure. (Source from National Development and Reform Commission)

Facing the aforementioned changes in the production operation environment, in 2008, the Company will take into account its actual conditions and devote its attention to the core issue of raising the per tonne profitability of steel products, and will rapidly change its development mode to strive for a significant improvement in operating results. Major measures to be adopted by the Company include:

- **Strengthening the awareness of carrying out sophisticated production and raising the contract realisation rate.** The Company will carry out an in-depth examination on the product quality issue and achieve the overall requirement of "Producing Quality Products, Establishing a Brand Name and Raising Efficiency", striving to substantially increase the contract realisation rate. The Company will strengthen the research and development effort on more profitable products such as pipeline steel, up-market steel plates for automobiles, up-market steel plates for home appliances, silicon steel, high-speed train wheels, specialised H-shaped steel and cold-forged steel, in order to effectively form mass production capacity. The Company will adhere to the system-first and efficiency-first principles and enforce the "Three Enhancement Principle", applying the requirement of stable and balanced production to every production line and every production process, as well as gradually commencing the management of planned target values, in order to minimise production volatility. Resource allocation will be inclined towards more efficient production lines and inspection on product realisation rates will be strengthened, thereby maximising the output increase of more profitable products. Meanwhile, in light of the significant change that the Company's plate-strip ratio is rapidly increasing, the Company will segmentate and develop its markets while maintaining its efforts on the sales of existing leading products. The Company will actively enhance the service-oriented iron and steel supply chain, consolidating and developing cooperative and "win-win" relationships with wholesalers, as well as making dedicated efforts to develop direct-supply users, in order to strive for a production-sales balance of maximum efficiency.

- **Improving technical and economic indices and enhancing the whole-process economic operation, in order to expand the per tonne profitability of steel products.** The Company will make reference to the advanced standards of its peers and its own historic best to discover the differences, in order to strive for breakthroughs in key indices such as the coal injection rate of blast furnaces, metallic material consumption per tonne of steel, the consolidated energy consumption per tonne of steel and the molten steel (inlay casting included) recovery rate. Accordingly, this will facilitate an across-the-board improvement and upgrade of indices and will reduce production costs. Meanwhile, the Company will also devote itself to the analysis and research of raw materials and fuels and adopt scientific decision-making in procurement policies. The Company will insist on concentrated bulk procurement of raw materials and fuels and planned procurement, while reducing emergency procurement. Supported by technological progress, the Company will rationally optimise the furnace material structure and push forward domestication of parts and components, in order to reduce procurement costs. Communication and coordination with transportation authorities such as railways and ports will be strengthened and process tracking will be reinforced to reduce halts in the process of transportation, thereby ensuring the balanced and orderly delivery of raw materials and fuels and a smooth distribution channel for products, and reducing logistics costs accordingly.

- **Adopting various measures to ensure stable and smooth production in the New Area and raising the sales revenue per tonne of steel products.** Through strengthening the site management of the New Area, the Company will enhance the control standard of the New Area's facilities to ensure their smooth operation and achieve stable and smooth production in the New Area. The Company will also reinforce the research and development effort on up-market products of the New Area and shorten the time gap between research and development completion and mass production of up-market products, in order to enhance the Company's profits. In 2008, the New Area is planned to produce 6,400,000 tonnes of pig iron, 4,800,000 tonnes of crude steel and 4,440,000 tonnes of steel products, of which hot-rolled products will amount to 3,000,000 tonnes, cold-rolled products will amount to 860,000 tonnes and galvanised products will amount to 580,000 tonnes.

- **Pushing forward energy conservation and emissions reduction efforts in an in-depth manner to protect the environment and to increase profits at the same time.** The Company will further strengthen the construction of the energy conservation and emissions reduction system and mechanism, in order to form a multi-layer support for energy conservation and environmental protection from the Company to the professional divisions, offices, teams and units. Accordingly, work objectives and measures will be implemented on every position and every staff. The Company will ensure the stable operation of the energy conservation and emissions reduction facilities and carry out planned target value management on energy conservation and emissions reduction. Management of energy conservation projects will be strengthened and energy conservation in work process will be refined, while the operation standard of the TRT, CDQ and CCPP power generation projects will be enhanced and the Company will endeavour to complete the development of the CDM project, in order to increase the Company's profits from environmental protection.

- **Strengthening financial management, controlling financial risks and reducing financial costs.** The Company will further study and develop financing channels, as well as optimising funding allocation. The Company will strengthen the management of inventory, in particular parts and components and define a rational inventory scale, as well as increasing the turnover rate to reduce funding appropriation. The management of liability items such as bank borrowings will be strengthened to strive for a reduction in the asset-liability ratio, and the Company will scientifically arrange capital expenditure and working capital, as well as actively coordinating various borrowing and liability items, so as to avoid interest rate risks, control financing costs, reduce interest expenses and lower financial costs.

- **Adequately utilising and striving for concessionary tax policies to reduce the tax burden.** The Company will carry out in-depth studies on the State's concessionary tax policies in pushing forward energy conservation and emissions reduction and comprehensive resource utilisation. The Company will focus on the tax reduction/exemption application for the New Area's comprehensive resource utilisation project and conduct research and analysis on the New Area's status of comprehensive resource utilisation. The Company will conscientiously select the projects and coordinate the application in accordance with the relevant requirements of the National Development and Reform Commission and the State Administration of Taxation. The Company will adequately capitalise on the State's tax concessions of expanding the value-added tax reduction scope which aim at facilitating mid-China's development or encouraging technological innovations, so as to minimise the Company's overall tax expenses and partially mitigate the Company's additional tax burden resulted from the implementation of the new Enterprise Income Law.

- **Reinforcing efforts on technological breakthroughs and scientific research and development to resolve technological problems in the production process.** The Company will deepen the "research-production-sales" and "production-academic studies-research" efforts and actively utilises external intellectual resources to reinforce the effort on open mode joint technological innovations. Accordingly, product variety and quality will be enhanced while technological and economic indices will be improved, thereby substantially raising the contribution of technological innovations to efficiency growth. Meanwhile, the Company will work hard on innovations of the old and New Areas' steel plate production lines and the renovations of the production lines of train wheels, high wires and H-shaped steel, with the objective of forming core technology and products with self-owned intellectual properties, as well as strengthening the technology reserve and attaining technological advantages.

- **Enhancing information-based construction and strengthening the sense of refined management, in order to raise management standards.** The Company will enhance its systems and mechanisms to stimulate the motivation for a rapid change in the development mode and a significant growth in operating results. The Company will embody the concept of refined management and stringent management throughout the entire process of corporate development, thereby forming a work habit and value on continued improvement and a pursuit for excellence. Targeting the problems occurred in the ERP system's operation process, the Company will effectively raise the reliability and effectiveness of the system's operation.

12) Long-term Strategies of the Company

As the main trunk of the Company's early-stage technological renovation and structural adjustment project of the "Eleventh Five-year Plan" was completed and entered operation in 2007, the Company's newly-added 5,000,000-tonne thin-plate production capacity during the reporting period has substantially increased the Company's plate-strip ratio and enhanced the comprehensive competitiveness and the market risk-resistant ability of the Company's products, as well as significantly raising the Company's profitability. Currently, the. Company is studying the late-stage technological renovation and structural adjustment project of the "Eleventh Five-year Plan", in order to strengthen and expand the principal iron and steel business.

6.2 Analysis of principal operating activities by segment and product

Unit: RMB million

Business segment/ Product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/ (decrease) of gross profit margin (%)
Iron and steel	47,899	43,181	9.85	46	49	a decrease of 1.85 percentage points
Product segment						
Steel plates	20,822	19,213	7.73	83	89	a decrease of 3.20 percentage points
Section steels	11,367	10,174	10.50	41	39	an increase of 1.10 percentage points
Wire rods	12,812	11,830	7.66	21	21	a decrease of 0.11 percentage point
Train wheels and wheel rims	2,355	1,444	38.68	4	11	a decrease of 3.71 percentage points

6.3 Geographical analysis of principal operating activities

Unit: RMB million

Region	Operating income	Year-on-year increase/ (decrease) of operating income (%)
Anhui	21,866	78
Jiangsu	6,870	34
Shanghai	6,053	39
Zhejiang	3,812	42
Guangdong	3,812	59
Other PRC regions	3,440	-5
Exports	4,792	25

6.4 Use of fundraising proceeds

Unit: RMB million

Total fundraising proceeds	5,355.65	**Total fundraising proceeds used in the year**	1,509.30
		Total accumulated fund raising proceeds used	5,355.65

Undertaken project	**Any changes to the project**	**Planned investment amount**	**Actual investment amount**	**Meeting planned progress or not**	**Expected income**	**Condition on income generated**
5,000,000 tonnes cold and hot thin-plate project project	No	5,355.65	5,355.65	Yes	Not applicable	Not applicable
Total	–	5,355.65	5,355.65	–	–	–
Explanation of inability to achieve scheduled progress and expected income	Not applicable					
Reason of change and explanation of the change procedures	Not applicable					
Uses and appropriation of un-used fundraising proceeds	Not applicable					

6.5 Projects financed by other than fund raising proceeds

Unit: RMB million

Project name	**Total investment**	**Project progress**	**Project income**
The Cold-rolled Silicon Steel Line	1,080	Currently in facility installation stage	Not applicable
Phase II of the Capacity Enhancement Project of Train Wheel Rolling System	380	In civil construction stage	Not applicable
Total	1,460	–	Not applicable

6.6 The Board of Director's 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 2007. No capital reserve fund will be transferred to share capital.

7 SIGNIFICANT MATTERS

7.1 Material guarantees

Unit: RMB million

External guarantees provided by the Company (excluding guarantees for subsidiaries)						
Guaranteed entity	**Date of incurrence**	**Guarantee amount**	**Type of guarantee**	**Guarantee period**	**Completed or not**	**Guarantee for connected parties (Yes or No)**
Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Total guarantee amount during the reporting period				0		
Balance of guarantees during the reporting period (A)				0		
Guarantees provided by the Company for subsidiaries						
Total guarantee amount for subsidiaries during the reporting period				3,964		
Balance of guarantees for subsidiaries at the end of the reporting period (B)				5,305		
Total guarantee amount provided by the Company (including guarantees for subsidiaries)						
Total guarantee amount (A+B)				5,305		
Total guarantee amount as a percentage of net assets of the Company				22.60%		
Including:						
Guarantee amount provided for shareholders, the de facto controller and connected parties (C)				0		
Guarantee amount provided directly or indirectly for entities with gearing (assets–liabilities) ratio exceeding 70% (D)				0		
Total guarantee amount exceeding 50% of net assets (E)				0		
Total amount of the three guarantees mentioned above(C+D+E)				0		

7.2 Material connected transactions

7.2.1 Connected transactions from normal course of business

Unit: RMB'000

	Sale of products and provision of services to connected parties		**Purchase of products and services received from connected parties**	
Related parties	**Transaction amount**	**Percentage of similar transactions** *(%)*	**Transaction amount**	**Percentage of similar transactions** *(%)*
Magang (Group) Holding Company Limited	64,675	12.33%	2,073,461	34.21%
Other related parties	5,760	0.01%	215,921	2.02%
Total	70,435	–	2,289,382	–

Including: connected transactions of product sales or rendering of services to the controlling shareholder and its subsidiaries from the Company amounting to RMB70,435,173 during the reporting period.

7.2.2 Liabilities and loans to/from connected parties

Unit RMB'000

Related parties	Funds provided to connected parties Total amount	Funds provided to connected parties Balance amount	Funds provided by connected parties to the Company Total amount	Funds provided by connected parties to the Company Balance amount
Magang (Group) Holding Company Limited	–	–	475,652	1,297,973
Other related parties	–	–	–	–
Total	–	–	475,652	1,297,973

Including: The total amount and balance amount of funds provided from the Company to the controlling shareholder and its subsidiaries during the reporting period were zero.

7.3 Performance of undetakings

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

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

(2) Holding pays all the costs and expenses arising from the State Share Reform. Moreover, Holding makes representations as follows:

   (1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the China Securities Regulatory Commission and the Shanghai Stock Exchange, and will bear any relevant legal liabilities.

   (2) Holding will perform its undertakings in a faithful manner and bear any relevant legal liabilities. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

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

7.4 Other significant matters and their impact and analysis and explanation on relevant solutions

7.4.1 Securities investments

Unit: RMB'000

No.	Type of securities	Stock code	Abbreviation	Initial investment cost	Shareholding	Book value as at the end of the year	Percentage in total securities investment as at the end of the reporting period	Profit/loss during the reporting period
1	Securities	601857	China Petroleum	584.50	35,000	1,083.60	74.08%	499.10
2	Securities	601390	China Railway Group	158.40	33,000	379.17	25.92%	220.77
Other securities investments held at the end of the reporting period				–	–	–	–	–
Profit/loss arising from sales of securities investments during the reporting period				–	–	–	–	–
Total				742.90	–	1,462.77	100%	719.87

7.4.2 Trading in the shares of other listed companies

Unit: RMB'000

	Stock name	Shareholding as at the beginning of the reporting period	Sales of shareholding during the reporting period	Shareholding as at the end of the reporting period	Amount of capital used	Investment income generated
Sold	Tang Steel Corp	1,304,160	1,304,160	0	–	23,970
Sold	Shanghai Chlor-Alkali	164,578	164,578	0	–	579

During the reporting period, the Company's investment gain from disposal of shares obtained through subscription of new shares amounted to RMB281,850.

7.5 Purchase, sales or redemption of listed securities of the Company

In 2007, 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.

7.6 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.

7.7 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 (the "Listing Rules").

7.8 Auditors' remuneration

The Company paid a fee aggregating RMB5.75 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 2007. The Company is responsible for the accommodation expenses of auditing staff from the accounting firms during the period of work on the Company.

7.9 Audit Committee

During the reporting period, the Audit Committee 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 2006 annual accounts, 2007 first quarter accounts, 2007 interim accounts and 2007 third quarter accounts of the Company and gave its independent opinion on the appointment of the auditors.

The 2007 annual account of the Company has been reviewed by the Audit Committee.

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 fund raising 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 ("the Hong Kong Stock Exchange") in 2007.

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 Hong Kong Stock Exchange.

10 FINANCIAL REPORT

10.1 Auditors' opinion

In 2007, the Company's financial report for its A Shares was audited by Ernst & Young Hua Ming and has been signed by Mr. Li Di and Mr. Qin Tong Zhou, 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, statement of income, statement of changes in equity and cash flow statements for the current year. (Please refer to the tables set out below)

10.3 Detailed explanation on changes in PRC accounting policy, accounting estimates and auditing method during the reporting period as compared to the previous annual report (if any)

The Group adopted the Accounting Standards for Business Enterprises with effect from 1 January 2007. As the Company was listed on the Hong Kong Stock Exchange in December 1993 and has been providing financial reports to the public under HKFRS, pursuant to the "Notice of the Ministry of Finance on Printing and Distributing Interpretation No.1 to the Accounting Standards for Business Enterprises" (Cai Hui [2007] No. 14) promulgated by the PRC Ministry of Finance on 16 November 2007, the Company made retrospective adjustments to the results of the relevant transactions and matters in relation to the accounting policy changes and restated the financial reports of the corresponding years, with reference to the relevant information obtained.

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

On 20 July 2007, the Company invested in and established Maanshan Used Automobile Trading Centre Co., Ltd. (馬鞍山市舊機動車交易中心有限責任公司) which has a registered capital of RMB500,000. The entity will be included in the scope of consolidation in 2007.

On 12 October 2007, the Company joined Union Electric Steel (Hong Kong) Co., Ltd. (聯合電鋼(香港)有限公司) to establish Magang-Union Electric Steel Roll Co., Ltd. (馬鋼聯合電鋼軋輥有限公司) which has a registered capital of US$30,000,000 and the Company holds a 51% interest in the entity. The entity will be included in the scope of consolidation in 2007.

On 13 December 2007, the Company joined Chery Automobile Co., Ltd. and Foshan Shunde Shunfeng Material Supply Co., Ltd. (佛山市順德區順豐物資供應有限公司) to establish Magang (Wuhu) Material Technology Co., Ltd. (馬鋼（蕪湖）材料技術有限公司) which has a registered capital of RMB150,000,000 and the Company holds a 71% interest in the entity. The entity will be included in the scope of consolidation in 2007.

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

CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

31 December 2007

	2007		2006	
	Group	**Company**	Group	Company
	RMB	***RMB***	*RMB*	*RMB*
			(Restated)	(Restated)
ASSETS				
CURRENT ASSETS:				
Cash and balances with financial institutions	**6,291,957,508**	**3,665,369,814**	4,160,704,714	2,808,993,288
Financial assets held for trading	**1,462,770**	**1,462,770**	–	–
Bills receivable	**4,194,297,474**	**3,667,209,079**	681,137,717	613,910,339
Trade receivables	**1,015,376,154**	**1,554,054,832**	582,420,964	539,362,472
Prepayments	**1,672,056,969**	**1,576,389,197**	608,716,305	733,451,150
Other receivables	**256,438,362**	**63,496,847**	160,637,099	50,088,671
Inventories	**9,626,168,900**	**8,314,475,335**	6,540,131,949	6,075,927,157
Total current assets	**23,057,758,137**	**18,842,457,874**	12,733,748,748	10,821,733,077
NON-CURRENT ASSETS:				
Held-to-maturity investments	**5,598,870**	**5,598,870**	8,258,870	8,258,870
Long term equity investments	**785,948,790**	**1,667,922,886**	580,331,440	1,361,624,450
Investment properties	**1,240,303**	**19,214,182**	3,559,300	19,619,230
Fixed assets	**41,315,357,426**	**39,741,473,656**	18,752,595,064	17,794,289,162
Construction materials	**510,853,043**	**432,590,795**	2,334,055,945	2,324,778,635
Construction in progress	**3,510,645,084**	**3,360,315,305**	18,732,921,149	18,655,455,975
Intangible assets	**1,636,977,393**	**1,214,768,182**	1,570,974,980	1,228,644,614
Deferred tax assets	**258,762,170**	**258,324,901**	134,565,000	134,565,000
Total non-current assets	**48,025,383,079**	**46,700,208,777**	42,117,261,748	41,527,235,936
TOTAL ASSETS	**71,083,141,216**	**65,542,666,651**	54,851,010,496	52,348,969,013

CONSOLIDATED BALANCE SHEET (Continued)

	2007		2006	
	Group	**Company**	Group	Company
	RMB	***RMB***	*RMB*	*RMB*
			(Restated)	(Restated)
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short term loans	**1,264,495,217**	**200,000,000**	399,018,506	200,000,000
Bills payable	**1,790,845,160**	**63,000,000**	1,346,880,982	365,380,982
Short term commercial papers	**2,000,000,000**	**2,000,000,000**	–	–
Accounts payable	**7,681,705,904**	**7,633,708,228**	4,650,841,361	4,628,322,903
Deposits received	**6,629,640,409**	**5,456,620,794**	3,924,584,355	3,667,107,146
Payroll and benefits payable	**341,844,965**	**297,925,673**	297,882,337	272,275,325
Taxes payable	**609,688,494**	**529,786,745**	299,623,169	253,459,226
Interests payable	**80,523,220**	**80,432,389**	66,785,238	66,785,238
Dividends payable	**1,303,757,138**	**1,303,757,138**	408,654,914	407,802,582
Other payables	**929,909,300**	**730,183,167**	766,937,747	541,690,161
Non-current liabilities due within one year	**2,817,346,333**	**2,809,660,000**	409,752,537	381,328,044
Total current liabilities	**25,449,756,140**	**21,105,074,134**	12,570,961,146	10,784,151,607
NON-CURRENT LIABILITIES:				
Long term loans	**16,577,951,605**	**16,563,408,200**	15,713,139,994	15,697,870,000
Bonds payable	**4,828,761,588**	**4,828,761,588**	4,672,376,376	4,672,376,376
Deferred income	**590,425,767**	**590,425,767**	564,900,631	564,900,631
Deferred tax liabilities	**168,275,911**	**167,989,571**	135,319,000	135,319,000
Other non-current liabilities	**12,485,032**	**12,485,033**	422,044,660	422,044,660
Total non-current liabilities	**22,177,899,903**	**22,163,070,159**	21,507,780,661	21,492,510,667
Total liabilities	**47,627,656,043**	**43,268,144,293**	34,078,741,807	32,276,662,274
SHAREHOLDERS' EQUITY:				
Share capital	**6,758,551,716**	**6,758,551,716**	6,455,300,000	6,455,300,000
Capital reserve	**6,056,692,904**	**6,056,692,904**	5,450,438,794	5,450,438,794
Surplus reserves	**2,901,562,765**	**2,777,851,769**	2,637,160,200	2,564,661,890
Retained profits	**7,282,533,393**	**6,681,425,969**	5,918,872,526	5,601,906,055
Including: cash dividend proposed by directors	**878,611,723**	**878,611,723**	839,189,000	839,189,000
Exchange fluctuation reserve	**9,629,706**	**–**	–	–
Equity attributable to equity holders of the parent	**23,008,970,484**	**22,274,522,358**	20,461,771,520	20,072,306,739
Minority interests	**446,514,689**	**–**	310,497,169	–
Total shareholder's equity	**23,455,485,173**	**22,274,522,358**	20,772,268,689	20,072,306,739
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**71,083,141,216**	**65,542,666,651**	54,851,010,496	52,348,969,013

CONSOLIDATED STATEMENT OF INCOME

(Prepared under PRC accounting standards)

Year ended 31 December 2007

	2007		2006	
	Group	**Company**	Group	Company
	RMB	***RMB***	*RMB*	*RMB*
			(Restated)	(Restated)
Revenue	**50,645,394,601**	**51,362,704,242**	35,410,060,678	34,903,941,640
Less: Cost of sales	**44,907,020,169**	**46,523,363,747**	30,965,300,474	30,908,209,062
Taxes and surcharges	**628,246,219**	**594,614,981**	244,113,338	228,127,406
Selling expenses	**290,832,792**	**274,171,003**	228,996,806	222,155,506
Administrative expenses	**1,034,093,862**	**850,802,245**	999,715,658	878,591,003
Financial expenses	**1,083,487,311**	**1,008,929,593**	342,770,249	308,870,230
Assets impairment losses/(reversal)	**35,281,201**	**34,742,535**	(72,707,438)	(71,598,179)
Add: Gain on fair value changes	**719,870**	**719,870**	–	–
Investment income	**164,638,062**	**220,252,203**	59,564,445	128,954,228
Operating profit	**2,831,790,979**	**2,297,052,211**	2,761,436,036	2,558,540,840
Add: Non-operating income	**105,643,519**	**75,331,885**	59,102,049	52,705,663
Less: Non-operating expenses	**140,729,779**	**137,836,013**	14,059,913	14,435,912
Profit before tax	**2,796,704,719**	**2,234,548,083**	2,806,478,172	2,596,810,591
Less: Income tax	**220,591,429**	**102,649,290**	347,378,437	287,426,139
Net profit	**2,576,113,290**	**2,131,898,793**	2,459,099,735	2,309,384,452
Attributable to:				
Equity holders of the parent	**2,475,382,229**	**2,131,898,793**	2,401,199,103	2,309,384,452
Minority interests	**100,731,061**	**–**	57,900,632	–
EARNINGS PER SHARE				
Basic	**38.18分**	**32.89分**	37.20分	35.78分
Diluted	**35.02分**	**30.16分**	37.03分	35.61分

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Prepared under PRC Accounting Standards)
31 December 2007

	Attributable to equity holders of the parent							
	Share capital *RMB*	Capital reserve *RMB*	Surplus reserves *RMB*	Retained profits *RMB*	Exchange fluctuation reserve *RMB*	Sub-total *RMB*	Minority interests *RMB*	Total shareholders' equity *RMB*
1. At 1 January 2007 (restated)	6,455,300,000	5,450,438,794	2,637,160,200	5,918,872,526	–	20,461,771,520	310,497,169	20,772,268,689
2. Increase/(decrease) during the year								
1) Net profit	–	–	–	2,475,382,229	–	2,475,382,229	100,731,061	2,576,113,290
2) Gains or losses recognised in equity								
1. Adjustment of deferred tax liability due to bonds with warrants	–	(95,273,247)	–	–	–	(95,273,247)	–	(95,273,247)
2. Exchange fluctuation reserve	–	–	–	–	9,629,706	9,629,706	–	9,629,706
Sub-total	6,455,300,000	5,355,165,547	2,637,160,200	8,394,254,755	9,629,706	22,851,510,208	411,228,230	23,262,738,438
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	303,251,716	701,527,357	–	–	–	1,004,779,073	60,553,126	1,065,332,199
2. Others	–	–	–	–	–	–	–	–
4) Profits appropriation								
1. Transfer to surplus reserves	–	–	264,402,565	(264,402,565)	–	–	–	–
2. Dividend declared	–	–	–	(839,189,000)	–	(839,189,000)	(25,266,667)	(864,455,667)
3. Transfer to employee bonus and welfare fund	–	–	–	(8,129,797)	–	(8,129,797)	–	(8,129,797)
5) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
3. At 31 December 2007	6,758,551,716	6,056,692,904	2,901,562,765	7,282,533,393	9,629,706	23,008,970,484	446,514,689	23,455,485,173

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the parent							
	Share capital *RMB*	Capital reserve *RMB*	Surplus reserves *RMB*	Retained profits *RMB*	Exchange fluctuation reserve *RMB*	Sub-total *RMB*	Minority interests *RMB*	Total shareholders' equity *RMB*
1. At 1 January 2006 (restated)	6,455,300,000	4,864,975,395	2,380,147,996	4,814,080,508	–	18,514,503,899	138,188,599	18,652,692,498
2. Increase/(decrease) during the year								
1) Net profit	–	–	–	2,401,199,103	–	2,401,199,103	57,900,632	2,459,099,735
2) Gains or losses recognised in equity								
1. Issue of bonds with warrants (deduct of direct issue costs)	–	585,463,399	–	–	–	585,463,399	–	585,463,399
Sub-total	6,455,300,000	5,450,438,794	2,380,147,996	7,215,279,611	–	21,501,166,401	196,089,231	21,697,255,632
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	–	–	–	–	–	–	140,851,634	140,851,634
2. Others	–	–	–	–	–	–	–	–
4) Profits appropriation								
1. Transfer to surplus reserves	–	–	257,012,204	(257,012,204)	–	–	–	–
2. Dividend declared	–	–	–	(1,032,848,000)	–	(1,032,848,000)	(26,443,696)	(1,059,291,696)
3. Transfer to employee bonus and welfare fund	–	–	–	(6,546,881)	–	(6,546,881)	–	(6,546,881)
5) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
3. At 31 December 2006 (restated)	6,455,300,000	5,450,438,794	2,637,160,200	5,918,872,526	–	20,461,771,520	310,497,169	20,772,268,689

COMPANY STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC Accounting Standards)

31 December 2007

	Share capital *RMB*	Capital reserve *RMB*	Surplus reserves *RMB*	Retained profits *RMB*	Total shareholders' equity *RMB*
1. At 1 January 2007 (restated)	6,455,300,000	5,450,438,794	2,564,661,890	5,601,906,055	20,072,306,739
2. Increase/(decrease) during the year					
1) Net profit	–	–	–	2,131,898,793	2,131,898,793
2) Gains or losses recognised in equity					
1. Adjustment of deferred tax liability due to bonds with warrants	–	(95,273,247)	–	–	(95,273,247)
2. Others	–	–	–	–	–
Sub-total	6,455,300,000	5,355,165,547	2,564,661,890	7,733,804,848	22,108,932,285
3) Capital contribution and withdrawal by shareholders					
1. Capital contribution by shareholders	303,251,716	701,527,357	–	–	1,004,779,073
2. Others	–	–	–	–	–
4) Profits appropriation					
1. Transfer to surplus reserves	–	–	213,189,879	(213,189,879)	–
2. Dividend declared	–	–	–	(839,189,000)	(839,189,000)
3. Others	–	–	–	–	–
5) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2007	6,758,551,716	6,056,692,904	2,777,851,769	6,681,425,969	22,274,522,358

COMPANY STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital *RMB*	Capital reserve *RMB*	Surplus reserves *RMB*	Retained profits *RMB*	Total shareholders' equity *RMB*
1. At 1 January 2006 (restated)	6,455,300,000	4,864,975,395	2,333,339,350	4,556,692,143	18,210,306,888
2. Increase/(decrease) during the year					
1) Net profit	–	–	–	2,309,384,452	2,309,384,452
2) Gains or losses recognised in equity					
1. Issue of bonds with warrants (deduct of direct issue cost)	–	585,463,399	–	–	585,463,399
2. Others	–	–	–	–	–
Sub-total	6,455,300,000	5,450,438,794	2,333,339,350	6,866,076,595	21,105,154,739
3) Capital contribution and withdrawal by shareholders	–	–	–	–	–
4) Profits appropriation					
1. Transfer to surplus reserves	–	–	231,322,540	(231,322,540)	–
2. Dividend declared	–	–	–	(1,032,848,000)	(1,032,848,000)
3. Others	–	–	–	–	–
5) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2006 (restated)	6,455,300,000	5,450,438,794	2,564,661,890	5,601,906,055	20,072,306,739

CONSOLIDATED CASH FLOW STATEMENT
(Prepared under PRC accounting standards)
Year ended 31 December 2007

		2007	
		Group	**Company**
		RMB	*RMB*
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	**60,479,952,530**	**57,562,850,206**
	Refunds of taxes	**26,192,100**	**–**
	Cash received relating to other operating activities	**26,656,555**	**22,537,021**
	Sub-total of cash inflows	**60,532,801,185**	**57,585,387,227**
	Cash paid for goods and services	**(49,480,937,398)**	**(48,039,618,162)**
	Cash paid to and on behalf of employees	**(3,208,641,160)**	**(2,903,686,973)**
	Cash paid for all taxes	**(3,904,413,363)**	**(3,561,957,939)**
	Cash paid relating to other operating activities	**(313,858,212)**	**(238,292,773)**
	Sub-total of cash outflows	**(56,907,850,133)**	**(54,743,555,847)**
	Net cash flows from operating activities	**3,624,951,052**	**2,841,831,380**
2.	Cash flows from investing activities:		
	Cash received from disposal of investments	**33,250,191**	**33,250,191**
	Cash received from returns on investments	**77,588,288**	**125,164,368**
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	**50,747,608**	**31,435,725**
	Cash received relating to other investing activities	**78,320,000**	**78,320,000**
	Sub-total of cash inflows	**239,906,087**	**268,170,284**
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	**(7,061,527,038)**	**(6,789,012,658)**
	Cash paid for acquisitions of investments	**(97,102,520)**	**(197,240,183)**
	Net cash paid due to increase in pledged deposits	**(237,477,305)**	**–**
	Sub-total of cash outflows	**(7,396,106,863)**	**(6,986,252,841)**
	Net cash flows from investing activities	**(7,156,200,776)**	**(6,718,082,557)**

CONSOLIDATED CASH FLOW STATEMENT (Continued)

		2007	
		Group	**Company**
		RMB	*RMB*
3.	Cash flows from financing activities:		
	Cash received from capital contribution	**1,065,332,199**	**1,004,779,073**
	Cash received from borrowings	**16,516,241,222**	**15,377,094,100**
	Sub-total of cash inflows	**17,581,573,421**	**16,381,873,173**
	Cash repayments of borrowings	**(10,358,331,162)**	**(10,018,446,771)**
	Cash paid for distribution of dividend or profits and for interest expenses	**(1,790,648,046)**	**(1,621,828,860)**
	Sub-total of cash outflows	**(12,148,979,208)**	**(11,640,275,631)**
	Net cash flows from financing activities	**5,432,594,213**	**4,741,597,542**
4.	Effect of foreign exchange rate changes on cash	**(7,036,260)**	**(8,969,839)**
5.	Net increase in cash and cash equivalents	**1,894,308,229**	**856,376,526**
	Add: balance of cash equivalents at beginning of year	**3,629,568,054**	**2,808,993,288**
6.	Balance of cash equivalents at end of year	**5,523,876,283**	**3,665,369,814**

CONSOLIDATED CASH FLOW STATEMENT (Continued)

Supplementary information

		2007	
		Group	**Company**
		RMB	***RMB***
Net profit		**2,475,382,229**	2,131,898,793
Add:	Minority interests	**100,731,061**	(5,590,968)
	Reversal of provision for bad debts	**(5,052,302)**	40,333,503
	Impairment for inventories	**40,333,503**	–
	Depreciation of fixed assets	**3,256,266,589**	3,133,551,746
	Amortisation of investment properties	**54,641**	405,048
	Amortisation of intangible assets	**43,591,382**	29,876,432
	Amortisation of deferred income	**(52,794,864)**	(52,794,864)
	Loss on disposals of non-current assets	**136,649,892**	135,194,611
	Financial expenses	**1,044,943,516**	984,288,392
	Investment income	**(164,638,062)**	(220,252,203)
	Fair value gains	**(719,870)**	(719,870)
	Deferred tax income	**(186,513,506)**	(186,362,577)
	Increase in inventories	**(3,103,932,558)**	(2,278,881,681)
	Increase in receivables from operating activities	**(4,385,270,367)**	(4,190,436,106)
	Increase in payables from operating activities	**4,425,919,768**	3,321,321,124
Net cash flows from operating activities		**3,624,951,052**	2,841,831,380

CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	3, 4	**49,052,851**	34,319,874
Cost of sales		**(43,478,583)**	(29,904,081)
Gross profit		**5,574,268**	4,415,793
Other income and gains	4	**316,229**	164,076
Selling and distribution costs		**(919,079)**	(469,390)
Administrative expenses		**(1,025,157)**	(1,089,460)
Other operating income/(expenses), net		**(132,831)**	34,851
Finance costs	6	**(1,156,199)**	(296,226)
Share of profits and losses of:			
A jointly-controlled entity		**34,306**	–
Associates		**97,038**	40,287
PROFIT BEFORE TAX	5	**2,788,575**	2,799,931
Tax	7	**(220,591)**	(347,378)
PROFIT FOR THE YEAR		**2,567,984**	2,452,553
Attributable to:			
Equity holders of the parent	9	**2,467,253**	2,394,652
Minority interests		**100,731**	57,901
		2,567,984	2,452,553
DIVIDEND	8	**878,612**	839,189
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**38.06 cents**	37.10 cents
Diluted		**34.90 cents**	36.92 cents

CONSOLIDATED BALANCE SHEET
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	**2007**	2006
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**41,315,357**	18,752,595
Construction in progress		**4,021,499**	21,066,978
Investment properties		**1,240**	3,559
Prepaid land premiums		**1,516,155**	1,457,468
Other intangible asset		**120,822**	113,507
Investment in a jointly-controlled entity		**268,306**	234,000
Investments in associates		**414,725**	329,514
Available-for-sale investments		**102,917**	16,817
Held-to-maturity investments		**5,599**	8,259
Deferred tax assets		**90,486**	–
Total non-current assets		**47,857,106**	41,982,697
CURRENT ASSETS			
Inventories		**9,550,481**	6,489,013
Construction contracts		**75,688**	51,119
Trade and bills receivables	*10*	**5,209,674**	1,263,559
Prepayments, deposits and other receivables		**1,928,496**	769,353
Equity investments at fair value through profit or loss		**1,463**	–
Pledged time deposits		**768,081**	531,137
Cash and cash equivalents		**5,523,876**	3,629,568
Total current assets		**23,057,759**	12,733,749
CURRENT LIABILITIES			
Trade and bills payables	*11*	**9,472,551**	5,997,722
Other payables and accruals		**9,742,997**	5,620,588
Interest-bearing bank and other borrowings		**6,081,841**	808,772
Tax payable		**111,819**	93,110
Provisions		**40,546**	50,770
Total current liabilities		**25,449,754**	12,570,962
NET CURRENT ASSETS/(LIABILITIES)		**(2,391,995)**	162,787
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,465,111**	42,145,484

CONSOLIDATED BALANCE SHEET (Continued)

	Notes	2007 *RMB'000*	2006 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,465,111**	42,145,484
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**16,577,952**	15,713,140
Bonds with warrants		**4,828,762**	4,672,376
Deferred income		**590,426**	564,901
Provisions		**12,485**	22,045
Due to the ultimate holding company		**–**	400,000
Deferred tax liabilities		**–**	754
Total non-current liabilities		**22,009,625**	21,373,216
Net assets		**23,455,486**	20,772,268
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**6,758,552**	6,455,300
Equity component of bonds with warrants		**372,679**	585,463
Reserves		**14,999,128**	12,581,819
Proposed final dividend	*8*	**878,612**	839,189
		23,008,971	20,461,771
Minority interests		**446,515**	310,497
Total equity		**23,455,486**	20,772,268

NOTES:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 bonds with warrants, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand 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.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enables users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 47 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued equity instruments, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost should not be subsequently reversed. As the Group has no impairment losses previously reversed in respect of such assets, the interpretation has no impact on the financial position or results of operations of the Group.

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, liabilities and capital expenditure is provided. The Group's revenue by geographical locations is as follows:

		2007			2006	
	PRC	**Overseas**	**Total**	PRC	Overseas	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**44,490,391**	**4,562,460**	**49,052,851**	30,800,297	3,519,577	34,319,874

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:

	2007	2006
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**49,052,851**	34,319,874
Other income and gains		
Bank interest income	**52,798**	34,259
Trading of iron ores	**56,377**	24,525
Dividend income from available-for-sale investments	**8,463**	5,284
Gain on disposal of equity investments at fair value through profit or loss	**282**	13,994
Gain on disposal of available-for-sale investments	**24,549**	–
Subsidies income	**49,075**	5,850
Fair value gains on equity investments at fair value through profit or loss	**720**	–
Recognition of deferred income	**52,795**	49,752
Others	**71,170**	30,412
	316,229	164,076

5. PROFIT BEFORE TAX

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

	2007	2006
	RMB'000	*RMB'000*
Cost of inventories sold	**43,478,583**	29,904,081
Depreciation	**3,256,266**	2,323,629
Depreciation of investment properties	**55**	586
Recognition of prepaid land premiums	**38,496**	29,070
Amortisation of a mine participation right	**5,096**	4,481
Reversal of provision for doubtful debts,	**(5,052)**	(9,230)
Loss on disposal of items of property, plant and equipment, net	**136,650**	3,011
Loss on disposal of items of construction in progress, net	**–**	8,185
Reversal of impairment of property, plant and equipment	**–**	(19,611)
Reversal of impairment of construction in progress	**–**	(17,676)
Net rental income	**(1,250)**	(1,400)
Bank interest income	**(52,798)**	(34,259)
Dividend income from available-for-sale investments	**(8,463)**	(5,284)
Gain on disposal of equity investments at fair value through profit or loss	**(282)**	(13,994)
Gain on disposal of available-for-sale investments	**(24,549)**	–
Fair value gains on equity investments at fair value through profit or loss	**(720)**	–
Recognition of deferred income	**(52,795)**	(49,752)

6. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	**1,591,418**	781,726
Less: Interest capitalised in construction in progress	**(435,219)**	(485,500)
	1,156,199	296,226

7. TAX

	2007	2006
	RMB'000	*RMB'000*
Group:		
Current – Mainland China		
Charge for the year	**385,367**	349,529
Underprovision in prior years	**–**	58,230
Current – Hong Kong	**6,752**	1,977
Current – Elsewhere	**14,985**	12,503
Deferred	**(186,513)**	(74,861)
Total tax charge for the year	**220,591**	347,378

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 the authorisation from the respective tax authorities, these subsidiaries are subject to a full foreign enterprise income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

The State Administration of Taxation (the "SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The Circular stated that the difference in corporate income tax ("CIT") arising from the expired preferential CIT rate and the applicable CIT rate (the "CIT Differences") should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

Based on a notice from the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that, at this stage, it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences in respect of any prior years. The CIT for the current year has been provided at the rate of 33% (2006: 15%) on the assessable profits according to the relevant tax rules and regulations.

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.

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective since 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this regard, the Company and its subsidiaries in the PRC will be subject to corporate income tax at a rate of 25% on their taxable income commencing from 1 January 2008. The effective of this change has been reflected in the calculation of deferred income tax assets as at 31 December 2007.

8. DIVIDEND

	2007	2006
	RMB'000	*RMB'000*
Proposed final – RMB13 cents (2006: RMB13 cents) per ordinary share	**878,612**	839,189

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.

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 amounts are based on:

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share and diluted earnings per share calculation	**2,467,253**	2,394,652

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**6,482,717,278**	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**586,294,382**	30,016,949
	7,069,011,660	6,485,316,949

10. TRADE AND BILLS RECEIVABLES

The Group's credit periods offered to selected customers are generally 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 amounts 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	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables:		
Within three months	**946,862**	553,187
Four to six months	**12,770**	10,623
Seven to twelve months	**41,895**	4,953
One to two years	**12,852**	9,366
Two to three years	**539**	4,292
Over 3 years	**458**	–
	1,015,376	582,421
Bills receivable	**4,194,298**	681,138
	5,209,674	1,263,559

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	
	2007	2006
	RMB'000	*RMB'000*
Within one year	**9,111,984**	5,950,074
One to two years	**353,317**	28,668
Two to three years	**5,911**	13,080
Over three years	**1,339**	5,900
	9,472,551	5,997,722

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

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

The financial statements prepared under the New PRC Standards are audited by Ernst & Young Hua Ming.

The effects on net profit arising from the difference between the consolidated financial statements prepared under the New PRC Standards and Hong Kong Accounting Standards are summarised as follows:

	Notes	**2007** **RMB'000**	2006 *RMB'000*
Net profit			
Profit attributable to equity holders of the parent under Hong Kong Accounting Standards		**2,467,253**	2,394,652
Add back:			
Employee bonus and welfare fund	*(i)*	**8,130**	6,547
Profit attributable to equity holders of the parent Under the New PRC standards		**2,475,383**	2,401,199

(i) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the boards of directors of certain subsidiaries of the Company, certain subsidiaries have to make appropriations to the employee bonus and welfare fund.

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

By order of the Board of Directors
Gu Jianguo
Chairman

17 April 2008
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:

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

* *Independent Non-executive Directors*