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**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)**

## **2008 ANNUAL RESULTS ANNOUNCEMENT**

### **1 IMPORTANT NOTICE**

- 1.1 The board of directors (the “Board of Directors”), the supervisory committee, 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 Jianguo, 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**

<b>Stock abbreviation</b>	<b>Magang Stock</b>	<b>Maanshan Iron &amp; Steel</b>
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	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a>	
Email address	<a href="mailto:mggfdms@magang.com.cn">mggfdms@magang.com.cn</a>	

## 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
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## 3 EXTRACTS OF ACCOUNTING AND BUSINESS DATA

### 3.1 Major accounting data

(Prepared under PRC Accounting Standards)

	<i>Unit: RMB'000</i>			
	2008	2007	Increase/ (decrease) compared to the previous year (%)	2006
Operating income	<b>71,259,739</b>	50,670,879	40.63	35,419,347
Profit before tax	<b>805,874</b>	2,796,705	-71.18	2,801,535
Net profit attributable to shareholders of the Company	<b>710,234</b>	2,475,382	-71.31	2,396,256
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	<b>626,027</b>	2,485,197	-74.81	2,351,864
Net cash flows from operating activities	<b>8,387,795</b>	3,624,951	131.39	5,282,804
	As at the end of 2008	As at the end of 2007	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2006
Total assets	<b>66,144,556</b>	71,126,024	-7.00	54,873,612
Shareholders' equity attributable to shareholders of the Company	<b>26,006,983</b>	23,017,264	12.99	20,470,065

### 3.2 Major financial indicators

(Prepared under PRC Accounting Standards)

	2008	2007	Increase/ (decrease) compared to the previous year(%)	2006
Basic earnings per share (RMB)	<b>0.104</b>	0.382	<b>-72.77</b>	0.371
Diluted earnings per share (RMB)	<b>Not Applicable</b>	0.350	<b>Not Applicable</b>	0.369
Basic earnings per share excluding non-recurring gains or losses (RMB)	<b>0.091</b>	0.383	<b>-76.24</b>	0.364
Return on net assets – Fully diluted (%)	<b>2.73</b>	10.75	<b>a decrease of 8.02 percentage- points</b>	11.71
Return on net assets – Weighted average (%)	<b>3.03</b>	11.39	<b>a decrease of 8.36 percentage- points</b>	12.15
Return on net assets excluding non-recurring gains or losses – Fully diluted (%)	<b>2.41</b>	10.80	<b>a decrease of 8.39 percentage- points</b>	11.49
Return on net assets excluding non-recurring gains or losses – Weighted average (%)	<b>2.67</b>	11.44	<b>a decrease of 8.77 percentage- points</b>	11.92
Net cash flow per share from operating activities (RMB)	<b>1.2256</b>	0.5592	<b>an increase of 119.17</b>	0.8184
	<b>As at the end of 2008</b>	As at the end of 2007	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2006
Net assets per share attributable to shareholders of the Company (RMB)	<b>3.80</b>	3.55	<b>7.04</b>	3.17

Unit: RMB'000

***Non-recurring gains or losses items***

<b>Item</b>	<b>Amount</b>
Loss on disposal of non-current assets	(2,788)
Subsidy income	55,705
Other non-operating income and expenses, net	(6,623)
Recognition of deferred income	66,056
Fair value gains and losses of financial assets held for trading	(1,033)
Gains on disposal of financial assets held for trading	220
Net profit from subsidiaries being formed by business combination involving entities under common control from the beginning of the period to the date of combination	9,846
Income tax effect	(27,939)
Effect of net tax expenses on minority shareholders	<u>(9,237)</u>
Total non-recurring gains or losses, net	<u><u>84,207</u></u>

***Items Accounted under the Fair Value Method***

Unit: RMB'000

<b>Item</b>	<b>Balance at the beginning of the reporting period</b>	<b>Balance at the end of the reporting period</b>	<b>Changes during the reporting period</b>	<b>Effects on the profit for the reporting period</b>
Financial assets held for trading	<u>1,463</u>	<u>813</u>	<u>650</u>	<u>1,033</u>
Total	<u><u>1,463</u></u>	<u><u>813</u></u>	<u><u>650</u></u>	<u><u>1,033</u></u>

## 4 MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDERS

### 4.1 Table on share movements

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	Increase/decrease in holdings by substantial shareholders (±)	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions	3,830,571,658	56.68	-	-	-	-	55,857,927	55,857,927	3,886,429,585	50.47
1. State-owned shares	3,830,560,000	56.68	-	-	-	-	-	-	3,830,560,000	49.47
2. State-owned legal person shares	-	-	-	-	-	-	55,857,927	55,857,927	55,857,927	0.73
3. Other domestic shares										
Including:										
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	11,658	0.0002	-	-	-	-	-	-	11,658	0.0002
4. Foreign owned shares										
Including:										
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	2,927,980,058	43.32	942,129,470	-	-	-	-55,857,927	886,271,543	3,814,251,601	49.53
1. RMB-denominated ordinary shares	1,195,050,058	17.68	942,129,470	-	-	-	-55,857,927	886,271,543	2,081,321,601	27.03
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	25.64	-	-	-	-	-	-	1,732,930,000	22.50
4. Others	-	-	-	-	-	-	-	-	-	-
III. Total number of shares	6,758,551,716	100	942,129,470	-	-	-	-	942,129,470	7,700,681,186	100

Note: The second exercise of “馬鋼CWB1” warrants took place.

**Table on Movement of Shares with Selling Restrictions**

*Unit: Shares*

<b>Name of shareholder</b>	<b>Number of shares subject to selling restrictions as at the beginning of the year</b>	<b>Number of shares with selling restrictions relieved during the year</b>	<b>Number of shares with selling restrictions increased during the year</b>	<b>Number of shares subject to selling restrictions as at the end of the year</b>	<b>Reasons for selling restrictions</b>	<b>Date of relief of selling restrictions</b>
Magang (Group) Holding Company Limited	3,830,560,000	–	–	3,830,560,000	State Share Reform	Not applicable
		–	55,857,927	55,857,927	Implementation of the plan of increase in holding	Not applicable
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 Jiangan	3,886	–	–	3,886	Director of the Company	Not applicable
Total	3,830,571,658	–	55,857,927	3,886,429,585	–	–

## 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 446,090 shareholders, including 444,547 A share shareholders and 1,543 H share shareholders.

### Shareholding of the 10 largest shareholders

Name of shareholder	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,417,927	3,886,417,927	0
HKSCC (Nominees) Limited	Foreign shareholder	22.13	1,704,107,997	0	Not applicable
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.68	51,998,801	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	0.53	40,499,848	0	Unknown
中國建設銀行－上投摩根中國優勢證券投資基金	Others	0.40	30,899,851	0	Unknown
中國工商銀行－諾安股票證券投資基金	Others	0.28	21,191,238	0	Unknown
招商銀行股份有限公司－上證紅利交易型開放式指數證券投資基金	Others	0.24	18,780,658	0	Unknown
楊成社	Others	0.21	16,000,000	0	Unknown
中國銀行－嘉實滬深300指數證券投資基金	Others	0.20	15,221,851	0	Unknown
中國建設銀行－工銀瑞信精選平衡混合型證券投資基金	Others	0.19	15,000,000	0	Unknown

***Shareholding of the 10 largest shareholders without selling restrictions***

<b>Name of shareholder</b>	<b>Number of shares held without selling restrictions</b>	<b>Type of shares</b>
HKSCC (Nominees) Limited	1,704,107,997	Overseas-listed foreign shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	51,998,801	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	40,499,848	RMB-denominated ordinary shares
中國建設銀行－上投摩根中國優勢證券投資基金	30,899,851	RMB-denominated ordinary shares
中國工商銀行－諾安股票證券投資基金	21,191,238	RMB-denominated ordinary shares
招商銀行股份有限公司－上證紅利交易型開放式指數證券投資基金	18,780,658	RMB-denominated ordinary shares
楊成社	16,000,000	RMB-denominated ordinary shares
中國銀行－嘉實滬深300指數證券投資基金	15,221,851	RMB-denominated ordinary shares
中國建設銀行－工銀瑞信精選平衡混合型證券投資基金	15,000,000	RMB-denominated ordinary shares
中融國際信託有限公司	12,710,883	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 on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). 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.

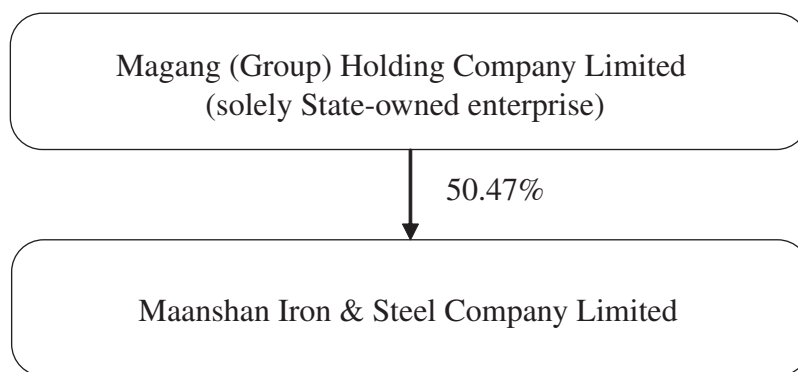


### 4.3 Profiles of the controlling shareholder and the de facto controller

#### 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: shares; 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			Emoluments/ allowance received from shareholder/ other associates	
									Number of exercisable shares	Number of shares exercised	Exercise price		
Gu Jianguo	Chairman	M	56	2008.8.31-2011.8.31	3,886	3,886	-	675	-	-	-	-	No
Gu Zhanggen	Vice Chairman	M	62	Resigned on 2009.1.21	3,886	3,886	-	675	-	-	-	-	No
Su Jianguang	Director and General Manager	M	54	2008.8.31-2011.8.31	3,886	3,886	-	674	-	-	-	-	No
Zhao Jianming	Director	M	55	2008.8.31-2011.8.31	0	0	-	-	-	-	-	-	Yes
Gao Haijian	Director, Deputy General Manager and Secretary to the Board of Directors	M	52	2008.8.31-2011.8.31	0	0	-	540	-	-	-	-	No
Hui Zhigang	Director, Deputy General Manager	M	55	2008.8.31-2011.8.31	0	0	-	540	-	-	-	-	No
Wong Chun Wa	Independent Director	M	35	2008.8.31-2011.8.31	0	0	-	50	-	-	-	-	No
Su Yong	Independent Director	M	54	2008.8.31-2011.8.31	0	0	-	50	-	-	-	-	No
Hui Leung Wah	Independent Director	M	46	2008.8.31-2011.8.31	0	0	-	50	-	-	-	-	No
Han Yi	Independent Director	M	45	2008.8.31-2011.8.31	0	0	-	50	-	-	-	-	No
Li Kezhang	Chairman of the Supervisory Committee	M	61	Resigned on 2008.8.31	0	0	-	360	-	-	-	-	No
Dou Qingxun	Supervisor	M	59	Resigned on 2008.8.31	0	0	-	133	-	-	-	-	No
Zhang Xiaofeng	Chairman of the Supervisory Committee	M	47	2008.8.31-2011.8.31	0	0	-	180	-	-	-	-	No
Fang Jinrong	Supervisor	M	45	2008.8.31-2011.8.31	0	0	-	-	-	-	-	-	Yes
Liu Xianli	Supervisor	M	54	2008.8.31-2011.8.31	0	0	-	85	-	-	-	-	No
Cheng Shaoxiu	Independent Supervisor	F	66	2008.8.31-2011.8.31	0	0	-	37.5	-	-	-	-	No
An Qun	Independent Supervisor	F	46	2008.8.31-2011.8.31	0	0	-	37.5	-	-	-	-	No
Shi Xiongliang	Deputy General Manager and Chief Engineer	M	56	2008.8.31-2011.8.31	0	0	-	540	-	-	-	-	No
Ding Yi	Deputy General Manager	M	45	2008.8.31-2011.8.31	0	0	-	539	-	-	-	-	No
Wan Hon Kau	Qualified Accountant	M	36	Resigned on 2008.8.31	0	0	-	153	-	-	-	-	No
Total	-	-	-	-	11,658	11,658	-	5,369	-	-	-	-	-

## 6 REPORT OF THE BOARD OF DIRECTORS

### 6.1 Management Discussion and Analysis

#### (1) *Review of the Operating Environment*

- *The Steel Product Market*

In 2008, the international steel product market saw severe fluctuations as affected by fluctuating demands for steel products. Steel product prices first rose and then declined. The year's average consolidated price index for global steel products was 234.9, representing an accumulated increase of 67.7 points over 2007 or an increase of 40.5%, of which the price index for long products increased by 44.7% and that for steel plates increased by 38.0%. The consolidated price index for global steel products at the end of 2008 was 155.2, representing a decrease of 11.9% over the end of 2007, of which the price index for long products decreased by 14.4% and that for steel plates decreased by 10.3%, representing a decrease of 46.1% as compared with the year-high of the whole year (of which the price index for long products decreased by 46.7% and that for steel plates decreased by 46.5%). For the whole year, except for the overall price level of global steel products in December being lower than that of the same period of the previous year, the overall price levels of global steel products in the remaining months were higher than those in the same period of the previous year, with the price increase of long products higher than that of steel plates.

China's national economy maintained year-on-year GDP growth rates of over 10% in the first two quarters of 2008. However, as the global financial crisis has deepened since the third quarter which led to a global economic recession, the growth of the national economy also slowed, with GDP growth dropping to 9% in the third quarter and below 7% in the fourth quarter. Major steel-consuming industries such as automobile, household electrical appliances and mechanics recorded negative growth in the third quarter and the fourth quarter. Domestic demand for iron and steel recorded negative growth for two consecutive quarters and prices of domestic steel products dropped significantly since late-June. Iron and steel enterprises reported monthly losses across the industry in October. In this regard, the State rolled out ten measures in November to boost domestic demand and implemented nine financial initiatives to promote economic development in December. These measures and initiatives restored confidence in the domestic market and prices of domestic steel products stabilised. The consolidated price index for steel products in the domestic market at the end of 2008 was 125.1, representing a decrease of approximately 57.1% over the year-high. The price index for long products at the end of 2008 was 108.5, representing a decrease of approximately 53.2% over the year-high while the price index for steel plates at the end of 2008 was 101.7, representing a decrease of approximately 59.3% over the year-high. The year's overall price levels of steel products were higher than those in 2007, with the price decrease of long products being smaller than that of steel plates. (Source: China Iron and Steel Association).

In general, steel product prices in the domestic and global markets moved in line with each other during 2008.

The State has adopted a series of measures to restrict the export of iron and steel products in recent years. The effect of these policies continued to expand in 2008, which was reflected in consecutive negative growth in net export volumes of iron and steel products, further exerting pressure on the domestic steel product market. Balancing imports and exports of steel products and steel billets for the whole year, there was a net crude steel export equivalent to approximately 47,630,000 tonnes, a decrease of approximately 7,250,000 tonnes or 13.21% over the previous year. (Source: China Customs)

- ***The Markets of Raw Materials and Fuels***

In 2008, the international long-term contract prices for iron ores increased significantly, of which prices for fine ore from Australia increased by 79.88%, prices for lump ore increased by 96.5%, prices for fine ore from southern Brazil increased by 65% and prices for fine ore from northern Brazil increased by 71%. Domestic raw materials and fuels prices also kept rising and the procurement costs for iron and steel enterprises hovered at high levels. During the reporting period, domestic large to medium iron and steel enterprises saw their procurement costs of coke increase by 86.51% year-on-year; procurement costs of injection coal increased by 60.17% year-on-year; procurement costs of metallurgical coke increased by 79.40%; procurement costs of domestic iron concentrates increased by 47.44%; and procurement costs of imported iron ore increased by 38.84%. Significant increases in raw materials and fuels prices led to substantial increases in iron and steel production costs. In 2008, manufacturing costs for steel-making and pig iron-making increased by 51.62% year-on-year, manufacturing costs for steel wires increased by 44.38% year-on-year, manufacturing costs for corrugated steel increased by 41.83% year-on-year, and manufacturing costs for medium broad belts increased by 38.64% year-on-year (Source: China Iron and Steel Association).

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

In early 2008, the Company was faced with unprecedented severe snowstorms and production was obstructed. Since late-June, especially after October, as market demand for domestic steel products dropped sharply, resulting in a rapid decline in steel product prices, there were increasing difficulties in the sales of products, and enterprises were faced with unprecedented trials in production and operation. Under such circumstances, the Company adhered to the work principle of “Swiftly changing the development mode; Significantly enhancing operating effectiveness”. The Company adjusted strategies and proactively tackled challenges, endeavouring to ensure the Company’s normal operation. Its major work was as follows:

- **Flexibly adjusted production strategies to tackle the snowstorms.** In early 2008, due to the snowstorms, the supply of certain raw materials and fuels of the Company was disrupted, the operation of blast furnaces became severely abnormal, and distribution of products was hampered. Faced with such circumstances, the Company timely adopted effective measures such as stabilising the supply of coke with reference to the supply of coal and in turn stabilising the supply of iron with reference to the supply of coke, strengthening production allocation, adjusting the furnaces’ fuel materials structure, and well-coordinating the distribution of products as well as the loading and unloading of raw materials and fuels, with a view to minimising the impact of the snowstorms on production capacity. There were production shortages of approximately 170,000 tonnes of pig iron, 210,000 tonnes of crude steel and 190,000 tonnes of steel products.

- **Seized market opportunities and organised production according to product profitability.** After the snowstorms, the Company seized market opportunities and adjusted its production direction. The Company pushed ahead the management of target planned values with four appraisal factors of “business, technology, production and profitability” as its focus and conducted a whole-process evaluation on the monthly production operation plan according to the principle of “enhancing the output-to-input ratio”. The Company enhanced resources allocation and concentrated its resources on developing high value-added products as well as increasing the output of products with higher profitability per tonne of steel. For the whole year, approximately 470,000 tonnes of pipeline steel were produced and approximately 270,000 tonnes of train wheels and wheel rims were produced.
- **Timely reduced the output of products with low profitability and strove to tackle market situations.** In October, due to a sharp fall in steel product prices, the Company’s inventories of raw materials and fuels as well as procurement costs stood at high levels. Therefore, room for profits for certain products was nil. Facing such situations, the Company timely implemented stage-wise suspension of production of four 350-450 m<sup>3</sup> blast furnaces and one 1,000 m<sup>3</sup> blast furnace, and arranged resumption of production according to marginal contributions of products, in order to minimise losses.
- **Solidly commenced technological breakthroughs in order to enhance product quality.** The Company regarded enhancing product quality as the major means for its transformational development. The Company strengthened the work system of research-production-sales and strengthened its efforts in market research and analysis and collecting feedback from customers. It solidly commenced 32 scientific research and development and technological breakthrough projects, thereby significantly enhancing product quality. In 2008, waste per tonne of steel products decreased by 2.97kg while the defect rate of steel products decreased by 3.25 percentage-points. The market access certificate of H-shaped steel products for all European Union markets was obtained and the “Market Expansion Award for Chinese Iron and Steel Industrial Products Development” was also obtained. Mass X80 pipeline steel was used in the State’s Second West-East Pipeline Project. Train wheels products were awarded the “Best Quality Award” by General Electric Co. The Company fully carried out certification work on ISO/TS16949 certification for automobile plates and Certificate of Factory Approval issued by Overseas Classification Society for high-grade vessel plates. Besides, it officially commenced the research and development work on train wheels for train sets. A total of RMB11 million was spent by the Company on scientific research and development for the whole year.

- **Steadily pushing ahead construction of projects with key projects completed successively.** During the reporting period, the silicon steel production line of the Company was completed and commenced production while key projects such as Phase II of the capacity enhancement project of train wheel rolling system, the Lufenhe sewage treatment project, the rotary hearth furnace project at the New Area, the reconstruction of manufacturing system of tar and light benzol refining system and the large-scale forged backup rolling line of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary of the Company, proceeded steadily stage-by-stage as scheduled. In particular, Phase II of the capacity enhancement project of the train wheel rolling system and the Lufenhe sewage treatment project were completed and commenced production in February and March 2009 respectively.
- **Strengthened foundational management of energy conservation and enhanced the environmental management system.** The Company included for the first time the indices of energy consumption of all procedures and of the use of regenerated energy into the assessment on the economic accountability system, and adopted the quota assessment method while charging for over-consumption on certain energies. The Company conducted monthly evaluation on energy consumption. It organised the delegation and implementation of target values for energy conservation of major work procedures as well as the research and analysis of whether energy indices could meet targets. Meanwhile, the Company has also enhanced the environmental management system by regulating environment management procedures and conducting environment management compliance assessments. In 2008, the Company obtained a total amount of approximately RMB64.98 million from the State's financial reward related to technical reform on energy conservation and from the national debt subsidies related to projects for resources conservation and environmental protection for its certain projects. These projects included the coke dry quenching and air blast dehumidification furnaces. The environmental management system of the Company was endorsed in the review process of ISO 14001 Environmental Management System. Fresh water consumption per tonne of steel amounted to 7.26 m<sup>3</sup> for the year, representing a decrease of 0.77m<sup>3</sup> year-on-year. Self-power generation accounted for 64.96% of the total power consumption.
- **Adopted customer-oriented sales approach to achieve mutual benefits and win-win situation.** Faced with the enormous changes in the steel product market, the Company adhered to a marketing principle of “Working hard on service, Building on system, Surpassing peers by difference”. The Company stabilised the existing sales channels while expanding new direct-sales channels to increase the proportion of direct-sales of products, striving to secure orders. Meanwhile, the Company helped dealers from different places to speed up the sales of steel products. With its good corporate reputation, it expanded the scope of pledge of goods title, striving to ensure an efficient recovery of funds. In the reporting period, the market share of the Company's steel products amounted to approximately 3.3%, while the recovery rate of cash for the whole year amounted to approximately 97.8%.



(3) ***Results of the Group's Principal Operating Activities for the Reporting Period Prepared Under PRC Accounting Standards***

During the reporting period, the Group's gross operating margin was 8.57%, a decrease of 2.76 percentage-points as compared to the corresponding period of the previous year. This was mainly attributable to the significant decrease in the sales prices of the Company's steel products and the relatively high procurement costs of major raw materials and fuels.

(4) ***Assets and Liabilities of the Group as at the End of the Reporting Period Prepared Under PRC Accounting Standards***

• ***Assets***

As compared to the end of the previous year, financial assets held for trading decreased by 44.40%, which was mainly attributable to the decreases in stock prices of other listed companies held by the Company; bills receivable decreased by 69.79%, which was mainly attributable to a decrease in bankers' acceptance bills received in sales; trade receivables decreased by 39.58%, which was mainly attributable to a decrease in export sales with deferred payment terms; prepayments decreased by 33.81%, which was mainly attributable to a decrease in payments for raw materials and equipment purchases; other receivables increased by 69.49%, which was mainly attributable to an increase in prepayment of guarantees for import customs and taxes; held-to-maturity investments decreased by 48%, which was mainly attributable to partial withdrawal of investment; projects under construction decreased by 35.12%, which was mainly attributable to the fact that certain projects under construction achieved scheduled availability and were reclassified as fixed assets during the year; and deferred income tax assets increased by 139.19%, which was mainly attributable to an increase in provision made for assets during the year.

As compared to the end of the previous year, there were no material differences on the Group's bills receivable, trade receivables, prepayments, other receivables, inventories, held-to-maturity investments, long-term equity investments, investment properties, fixed assets, construction materials, projects under construction and intangible assets out of total assets as at the end of the reporting period.

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

- ***Liabilities***

As compared to the end of the previous year, bills payable decreased by 41.42%, which was mainly attributable to a decrease in the amount of procurement of materials paid by acceptance bills during the year; payroll and benefits payable decreased by 42.26%, which was mainly attributable to a decrease in unpaid bonuses payables; interests payable decreased by 45.26%, which was mainly attributable to decreases in balance of loans during the year; deferred income tax liabilities decreased by 96.03%, which was mainly attributable to reversal of deferred income tax liabilities arising from bonds with warrants during the year; other non-current liabilities decreased by 40.05%, which was mainly attributable to a transfer of payables to Holding due within one year to current liabilities; capital reserve increased by 37.48%, which was mainly attributable to second exercise of warrants during the year; and exchange fluctuation reserve decreased by 596%, which was mainly attributable to the depreciation of book currencies of the Company's overseas subsidiaries against Renminbi.

As compared to the end of the previous year, there were no material differences on the proportions of short-term loans, bills payable, accounts payable, deposits received, other payables, long-term loans and bonds payable out of total assets as at the end of the reporting period.

As at the end of the reporting period, payable of short-term commercial papers decreased by 100% year-on-year, which was mainly attributable to the fact that on 31 August 2007, the Company issued RMB2,000 million of short-term commercial papers with a term of 365 days. These commercial papers were due and redeemed on 2 September 2008.

(5) ***Expenses and Income Tax of the Group for the Reporting Period Prepared Under PRC Accounting Standards***

During the reporting period, the Group's selling expenses increased by 25.73% over the previous year, which was mainly due to increases in sales volume of the Company's steel products, transportation costs and loading and unloading costs. Administrative expenses increased by 5.41% over the previous year. Financial expenses increased by 45.37% over the previous year, which was mainly attributable to the Company's certain projects under construction achieved scheduled availability and were reclassified as fixed assets during the reporting period and the relevant bank borrowings and payable bond interest expenses were no more available for capitalisation and began to be accounted as financial expenses; assets impairment losses increased by 49.92 times over the previous year, which was mainly attributable to the increase in provision for price decrease of inventories by the Company during the reporting period; non-operating expenses decreased by 92.91% over the previous year, which was mainly attributable to the decrease in loss on the disposal of fixed assets arising from the Company's disposal of part of its fixed assets during the reporting period. Minority interests decreased by 79.16%, which was mainly attributable to decreases in profits from parts of non-wholly owned subsidiaries during the year.

During the reporting period, the enterprise income tax expenses amounted to RMB75 million, representing a decrease of 66.16% over the previous year, which was mainly attributable to a decrease in total profit of the Company during the reporting period.



**(6) *Operating Results During the Reporting Period Under PRC Accounting Standards***

In 2008, the Group's operating income rose 40.63% over the same 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 same period of the previous year, mainly due to an expansion in production scale and a rise in raw material costs. Operating profit decreased by 75.51% over the same period of the previous year. Total profit decreased by 71.18% over the same period of the previous year while net profit attributable to equity holders of the Company decreased by 71.31% over the same period of the previous year, which were mainly because finance costs rose and large provisions were made for assets impairment during the reporting period.

**(7) *Analysis of the Group's Cash Flows for the Reporting Period Prepared Under PRC Accounting Standards***

In 2008, the Group realised a net profit attributable to equity holders of the Company amounting to RMB710 million, a difference of RMB7,678 million when compared to the net increase of cash flow amounting to RMB8,388 million generated from operating activities, which was mainly due to depreciation charges for fixed assets and provision for assets impairment. The amount of net increase in cash flow generated from operating activities increased by RMB4,763 million as compared to the same period of the previous year, which was mainly due to an increase in sales volume of steel products of the Company. The amount of net cash outflow from investing activities decreased by RMB3,833 million from the same period of the previous year, which was mainly due to decreases in acquisition and construction of fixed assets during the reporting period. The amount of net cash inflow from financing activities decreased by RMB10,546 million from the same 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 2008, the Group's purchase from the top five suppliers totalled RMB6,667 million, accounting for 15% of the Group's total purchase amount for the year. The Group's sale to the top five customers totalled RMB7,820 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 2008, 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 loss for the reporting period amounted to RMB3 million. As at the end of the reporting period, it had total assets amounting to RMB2,252 million and net assets of RMB644 million.

- Ma Steel International Trade and Economics Corporation has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net loss for the reporting period amounted to RMB130 million. As at the end of the reporting period, it had total assets amounting to RMB2,477 million and net assets of RMB34 million.
- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB80 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 RMB59 million. As at the end of the reporting period, it had total assets amounting to RMB306 million and net assets of RMB154 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 stake 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 RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB115 million and net assets of RMB69 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes 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 loss for the reporting period amounted to RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB750 million and net assets of RMB68 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 RMB25 million. As at the end of the reporting period, it had total assets amounting to RMB667 million and net assets of RMB170 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 RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB340 million and net assets of RMB133 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. 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 RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB494 million and net assets of RMB171 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 RMB48 million. As at the end of the reporting period, it had total assets amounting to RMB422 million and net assets of RMB149 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 RMB39 million. As at the end of the reporting period, it had total assets amounting to RMB209 million and net assets of RMB188 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 RMB53 million. As at the end of the reporting period, it had total assets amounting to RMB886 million and net assets of RMB353 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 RMB137 million. As at the end of the reporting period, it had total assets amounting to RMB775 million and net assets of RMB609 million.

**(10) Project Constructions**

In 2008, the Group's expenses on construction projects amounted to RMB2,704 million, representing a 74.66% decrease over the previous year.

**(11) Financial Position and Exchange Risks**

As at 31 December 2008, the total amount of loans borrowed by the Group was RMB16,780 million, including loans for working capital of RMB890 million and long-term loans of RMB15,890 million. Except for foreign currency loans amounting to US\$178 million and Euro1 million, all other loans were denominated in Renminbi.

Except for a US dollar loan which carried interests at LIBOR plus a fixed percentage, all other loans of the Group 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 2008, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 59.90%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 59.98%.

Other than fundraising proceeds from exercising of Magang CWB1 Warrants, all capitals required for the Company's structural adjustment projects for the "Eleventh Five-year Plan", were financed through bank loans. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB39,430 million.

As at 31 December 2008, the Group's cash and balances with financial institutions amounted to RMB5,951 million. Bills receivable amounted to RMB1,003 million (of which bankers' acceptance bills due within three months amounted to RMB611 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 depreciated during the reporting period, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total 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 has no direct adverse effect 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 timely information 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.

***Financial assets and financial liabilities held in foreign currencies***

*Unit: RMB million*

Item	Opening balance at the beginning of the period	Fair value gains and losses for the period	Accumulated fair value changes which are accounted as equity	Impairment provisions for the period	Closing balance at the end of the period
Financial assets					
Including:					
1. Financial assets at fair value through profit or loss	-	-	-	-	-
Including derivative financial assets	-	-	-	-	-
2. Loans and receivables	883	-	-	-	1,168
3. Available-for-sale financial assets	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-
Sub-total	883	-	-	-	1,168
Financial liabilities	2,358	-	-	-	1,281

***(12) Important Accounting Estimates and Judgments by the Company and the Impact on the Company's Financial Position and Operating Results***

The management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

Net realisable values of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at each balance sheet date.

The Group's inventories mainly include raw materials, work in progress, finished goods and spare parts. By comparing the procurement costs of these inventories and re-assessing the realisable net values, provision for price decrease of raw materials of approximately RMB1,378 million was made; provision for price decrease of work in progress of approximately RMB176 million was made; provision for price decrease of finished goods of approximately RMB217 million was made; and provision for price decrease of spare parts of approximately RMB25 million was made in 2008. Total provisions for price decreases of inventories of approximately RMB1,796 million were made during the reporting period and these provisions for price decreases affected the Company's results of operations in 2008 accordingly.

(13) *Fair Value*

• ***Internal control system related to measurement under fair value method***

The Company sets out the procedures for measurement and disclosure of fair value based on the relevant accounting standards, and collects evidence for proving assumptions and estimates used in the measurement. The Company eventually selects an appropriate valuation method for valuation purpose. Regarding the methods of obtaining the fair value, the Company proposes a specific method for obtaining the fair value through the levels of measurement under fair value of recognised accounts. Regarding internal audit, the Company has professional personnel to handle the detailed accounting and internal audit work on fair value. Meanwhile, the Company appointed a professional institution to establish the internal control system so as to help the Company to improve certain shortcomings in the Company's internal control.

In 2008, there was only one financial asset held for trading in the Group which was stock, and this was accounted for by using market value as its fair value.

• ***Fair Value Gains and Losses During the Reporting Period***

During the reporting period, the Group's financial assets held for trading were accounted for under the fair value method. The impact of fair value changes on the profit for the reporting period was approximately RMB1.03 million, equivalent to approximately 1.5% of the operating profit for the reporting period. The sustainability, risks and future trend of such assets do not have any material impact on the Company.

***Items related to measurement under fair value method***

*Unit: RMB million*

Item	Opening balance at the beginning of the period	Fair value gains and losses for the period	Accumulated fair value changes which are accounted as equity	Impairment provisions for the period	Closing balance at the end of the period
Financial assets					
Including:					
1. Financial assets at fair value					
through profit or loss	1.46	1.03	-	-	0.81
Including: derivative financial assets	-	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-
Sub-total	1.46	1.03	-	-	0.81
Financial liabilities	-	-	-	-	-
Investment properties	-	-	-	-	-
Biological assets for production	-	-	-	-	-
Others	-	-	-	-	-
Total	1.46	1.46	-	-	0.81



**(14) Changes in the Production and Operating Environment in 2009 and Coping Strategies**

- **Changes in the domestic and foreign operating environment**

Currently, the impact of the global financial crisis is still spreading, leading the global economy to continue its downturn and demand to continue shrinking in 2009. In 2009, the expected objectives of China's national economy and social development are: a domestic GDP growth rate of around 8%; an increase of around 4% in consumption prices, and a further optimisation of the economic structure. In this regard, the State has positioned the expansion of domestic demand as the main focus of maintaining stable development of the national economy. Through various methods including tax reductions, tax rebates and tax credits, the State will relieve the tax burden of enterprises and residents so as to boost consumption power, thereby enhancing economic vitality. Meanwhile, the State will adopt proactive and effective property policies and measures to restore market confidence and to stabilise market investments, in order to promote a stable development of the property industry and to boost the investment demand of enterprises and consumption demand of residents accordingly. The government will increase its investments in the construction of people's livelihood projects, energy saving and environmental protection, and ecological environment developments, and will carry out adjustment and revival plans for key industries including ship building, iron and steel, automobile and equipment manufacturing, with a view to maintaining a rapid growth of investment, enhancing the investment structure as well as expanding the appetite of enterprises.

In 2009, the domestic iron and steel industry will implement an industry revival plan. The State will push ahead a restructuring of enterprises and enhance the industry's deployment by means of tax reduction and exemption and assets transfer. The State will also increase investments in infrastructure and key projects so as to increase the stability factors of the iron and steel market. Meanwhile, the State will also rectify the order of circulation of steel products in the market, and establish a risk-sharing system for production and sales in order to eliminate unstable factors of the iron and steel market. However, the major domestic steel-consuming industries experience a significant decrease in demand at the present stage; the export environment for steel products has continued to worsen; import of iron ore and the international shipping market have faced uncertainties and instabilities; and the imbalance between unleased capacity of new advanced iron and steel productions and eliminated capacity of obsolete ones has escalated. Accordingly, uncertainties in production and operation of iron and steel enterprises have increased, which increased the difficulties in operation for enterprises.

- ***Coping measures of the Company***

In the new year, with reference to the actual condition, the Company will regard the enhancement of product quality as the key task for its continued transformational development. The Company will refine measures, strengthen management as well as striving to eliminate the impact of changes in the operating environment on the Company. The major strategies are as follows:

1. ***Enhancing product quality.*** The Company will carry out a comprehensive review on the status and problems of product quality. With the combination of technology innovation and management innovation, the Company will coordinate the synchronisation between product improvement and quality enhancement as well as the consistency between product research and development and mass production, so as to manage the relationships between product and quality as well as between product and profitability. The Company will clearly define the direction for optimising the Company's product mix in order to ensure the Company's products will suit market demands.
2. ***Strengthening the service-oriented marketing approach.*** The Company will improve technical service in its marketing work by establishing a "product customer relations manager" system. The system could timely trace customers' needs, help customers to solve actual problems arising from application of our products, and set customers' satisfaction as the criteria for evaluating the Company's performance on enhancing product quality. In addition, the Company will integrate marketing channels by flexibly selecting honest, reliable and well-established dealers and developing strategic customers, with a view to establishing a long-term and stable marketing channel as well as eliminating the risk of decreased market demand.
3. ***Achieving stable and smooth production.*** The Company will work hard on each part of the production procedures, allocate resources efficiently, and strengthen the work-according to-regulations production mode. The Company will also ensure safe, stable and economical operations of equipment and the public and auxiliary system, thereby reducing various unstable factors which will affect production. The Company will strive to realise long-cycle safe production characterised by a priority on product quality, and minimise the impact of temporary changes in the operating environment on production.
4. ***Reducing costs in all production processes.*** The Company will establish a dynamic and optimised adjusting model covering technical and economic indices and operating index through broadening the scope of specific cost-saving targets. Such model enables the specific cost-saving targets are done in a regulated, proceduralised and systematised manner. It also enables the formation of a long-standing mechanism covering meeting targets, unearthing potential, improvement and enhancement, with a view to improving the indices and thus enhancing profitability as well as reducing production costs.



5. ***Reducing procurement and logistics costs.*** The Company will step up efforts in the analysis of supply and demand in the raw materials and fuels market. Based on the production situation, the Company will rationally control inventory and reduce procurement costs taking into account the market trends of raw materials and fuels. The Company will keep abreast of the international shipping dynamics, improve the transportation plan for imported iron ore, and strengthen the effective connection of logistics flows, thereby reducing external logistics costs of the Company. It will also enhance inter-factory logistics flows and reduce duplication in order to enhance operation efficiency of logistics flows, thereby reducing internal logistics costs of the Company.
6. ***Assuring reasonable cash flow.*** The Company will step up efforts in recovering funds and avoiding capital risks. It will capitalise on the information system to strengthen the management of inventory and reduce use of funds. With reference to the government's adjusted credit policies and the changes in exchange rates and interest rates, the Company will broaden its financing channels and enhance its debt structure so as to lower capital costs. It will further strengthen external investments and its control on investments, with a view to ensuring a safe level for the Company's cash flows.
7. ***Strengthening efforts in energy conservation and emissions reduction.*** By improving production technology and enhancing furnaces' fuel materials structure, the Company will achieve a balance of materials in the entire process, thereby enhancing the integrated use of resources and reducing consumption of materials, especially high-priced raw materials and fuels. Meanwhile, the Company will strengthen energy management by pushing ahead the contracted energy management system. It will launch key projects including those on the use of residue heat and power and on energy conservation monitoring, as well as commencing the energy management optimisation model and the research on power grid's quality breakthrough.
8. ***Establishing a sound internal control system.*** According to the schedule of establishing a sound internal control system as approved by the Board of Directors of the Company, the Company will evaluate internal control risks and enhance the relevant internal control system. It will also complete the preparation of the "Internal Control Manual" and will implement it in the second half of this year.

**(15) Long-Term Strategies of the Company**

Taking a long-term perspective, we believe that the fundamental trend of China's economy to maintain continued rapid growth will remain unchanged. This provides a basic assurance to the Company's rapid development. The prevailing trend of economic globalisation is irreversible, thereby providing the Company with an enormous global market and providing opportunities for the Company's continued development. After two rounds of structural adjustments of the "Tenth Five-Year Plan" and the "Eleventh Five-Year Plan", the Company has achieved an across-the-board upgrade of its product structure of "steel plates, section steel, wire rods and train wheels", thereby creating a favourable condition for seizing development opportunities by the Company.

In order to establish itself as a modern corporation with international competitiveness, the Company will enhance product quality and strengthen internal management, with a view to enhancing profitability with a production capacity of 18 million tonnes and enhancing its overall competitiveness. The Company will further improve its ancillary technology at the New Area based on the State's policies and changes in the macro-economic environment. The Company will also further strengthen its strategic alliance and cooperation with upstream and downstream enterprises including iron ore, coal, railway, automobile, household electrical appliances and equipment manufacturing, with a view to ensuring stable operation for the Company and further enhancing efficiency and profitability of its operations. With effective control and prevention of risks, the Company will seek opportunities to step into the international market so as to build itself into a strong and outstanding company.

## 6.2 Analysis of principal operating activities by segment and product

Business segment/ Product segment	Operating income	Operating cost	Gross profit margin (%)	<i>Unit: RMB million</i>		
				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	66,479	61,517	7.46	41.32	45.97	a decrease of 2.95 percentage- points
<b>Product Segment</b>						
Steel plates	33,299	31,370	5.79	66.14	71.22	a decrease of 2.80 percentage- points
Section steels	10,863	9,726	10.47	12.83	15.97	a decrease of 2.42 percentage- points
Wire rods	18,930	17,949	5.18	30.80	33.22	a decrease of 1.73 percentage- points
Train wheels and wheel rims	2,882	1,978	31.37	22.38	36.51	a decrease of 7.10 percentage- points

### 6.3 Geographical analysis of principal operating activities

Region	Operating income	Unit: RMB million
		Year-on-year increase/ (decrease) of operating income (%)
Anhui	27,865	27.28
Jiangsu	8,458	23.11
Shanghai	12,131	100.41
Zhejiang	6,839	79.41
Guangdong	4,861	27.52
Other PRC regions	5,456	58.60
Exports	5,650	17.90

### 6.4 Use of fundraising proceeds

		Unit: RMB million				
Total fundraising proceeds	4,060.78	Total fundraising proceeds used in the year		Total accumulated fund raising proceeds used		3,499.36
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 production project	No	Not applicable	4,060.78	Yes	Not applicable	Not applicable
<b>Total</b>	-	-	4,060.78	-	-	-
<b>Explanation of inability to achieve scheduled progress and expected income</b>	Not applicable					
<b>Reason of change and explanation of the change procedures</b>	Not applicable					
<b>Uses and appropriation of un-used fundraising proceeds</b>	Not applicable					

## 6.5 Projects financed by other than fundraising proceeds

Project name	Total Investment	Progress of project	<i>Unit: RMB million</i> Project income
The cold-rolled silicon steel line	1,080	Completed and commenced operation	Not applicable
Phase II of the capacity enhancement project of train wheel rolling system	450	Completed and commenced operation in February 2009	Not applicable
Lufenhe sewage treatment project	90	Completed and commenced operation in March 2009	Not applicable
Large-scale forged backup rolling line	287	Facility in installation stage	Not applicable
Dezincification rotary hearth furnace project at the New Area	265	Foundation work of main facilities completed	Not applicable
Total	2,172	–	Not applicable

## 6.6 The Board of Director's proposal on profit distribution or transfer of capital reserve fund

The Board of Directors of the Company did not recommend declaring a final cash dividend for year 2008 and no capital reserve fund will be transferred to share capital.

## 6.7 The Company recorded profits during the reporting period but did not propose any profit distribution proposal in cash.

### Reason for recording profits during the reporting period but not proposing any profit distribution proposal in cash

Given the current economic circumstance and the severe excess of production capacity in the iron and steel industry, the Company is facing great challenge in its production and operation. As such, in order to assure the Company's normal operation and continuous development, the Board of Directors did not recommend the payment of cash dividend for 2008 and no capital reserve fund will be transferred to share capital.

### The use and plan of the Company's retained profits

To be used for expenses in the Company's production and operation

## 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 as at the end of the reporting period (A)				0		
Guarantees provided by the Company for subsidiaries						
Total guarantee amount for subsidiaries during the reporting period				0		
Balance of guarantees for subsidiaries at the end of the reporting period (B)				3,814		
Total guarantee amount provided by the Company (including guarantees for subsidiaries)						
Total guarantee amount (A+B)				3,814		
Total guarantee amount as a percentage of net assets of the Company				14.67%		
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) (Note)				3,800		
Total guarantee amount exceeding 50% of net assets (E)				0		
Total amount of the three guarantees mentioned above (C+D+E)				3,800		

### 7.2 Material connected transactions

#### 7.2.1 Connected transactions from normal course of business

Unit: RMB'000

Related parties	Sale of products and provision of services to connected parties		Purchase of products and services received from connected parties	
	Transaction amount	Percentage of similar transactions	Transaction amount	Percentage of similar transactions
Magang (Group) Holding Company Limited	39,276	5.56%	2,139,366	23.62%
Other related parties	4,932	0.01%	134,935	4.99%
Total	44,208	–	2,274,301	–

Including: connected transactions of product sales or rendering of services to the controlling shareholder and its subsidiaries from the Company amounting to RMB44,208,000 during the reporting period.

## 7.2.2 Liabilities and loans to/from connected parties

Related parties	<i>Unit RMB'000</i>			
	Funds provided to connected parties		Funds provided by connected parties to the Company	
	Total amount	Balance amount	Total amount	Balance amount
Magang (Group) Holding Company Limited	–	–	700,000	1,095,946
Other related parties	–	–	–	–
Total	–	–	700,000	1,095,946

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 undertakings

In the process of the Company's 2006 State Share Reform, Holding made the following special undertakings:

- (1) After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the date of listing, and the State-owned shares held by Holding 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 hold such transfer 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 and Regulatory Commission and the Shanghai Stock Exchange, and will bear any legal liabilities accordingly.
- (2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

Holding acquired 13,760,000 A shares of the Company for the first time via the trading system of the Shanghai Stock Exchange on 12 September 2008, representing 0.2% of the then issued share capital of the Company. Meanwhile, Holding undertook that: It would continue to acquire A shares of the Company via the trading system of the Shanghai Stock Exchange within 12 months from the date of publishing of the announcement of increase in holding of shares (i.e. 12 September 2008). The accumulated acquisition ratio would not exceed 2% of the total share capital of the Company (i.e. the then issued share capital of the Company) (including the shares acquired that time) and that it would not sell the shares of the Company it held during the implementation of the continuous acquisition plan and during the statutory period.

As at 31 December 2008, Holding acquired a total of 55,857,927 A shares of the Company, representing 0.73% of the issued share capital of the Company during the first acquisition. Such number of shares did not exceed 2% of the issued share capital of the Company during the first acquisition. Nor did Holding sell the shares of the Company it held. It completely carried out these undertakings.

Save for the afore-mentioned undertakings, there were no undertakings which may incur significant impact on the Company's operating results and financial position made during, or already made but extending into, the reporting period, by the Company or shareholders holding 5% or more of the Company's shares, and no extension of shares lock-up undertakings was reported.

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

### 7.4.1 Securities investments

							<i>Unit: RMB'000</i>		
Item No.	Type of Securities	Securities code	Securities Abbreviation	Initial investment amount	Number of shares held	Book value at the end of the reporting period	Proportion in total securities investment at the end of the reporting period	Gain/loss during the reporting period	
1	Stock	601857	PetroChina	585	35,000	356	43.8%	(229)	
2	Stock	601390	China Railway	158	33,000	179	22.0%	21	
3	Stock	601898	China Coal	202	12,000	77	9.5%	(125)	
4	Stock	601186	China Railway Construction	182	20,000	201	24.7%	19	
Other securities investments held at the end of the reporting period				-	-	-	-	-	
Gain/loss from disposal of securities investments during the reporting period				-	-	-	-	-	
<b>Total</b>				1,127	-	813	100%	(314)	

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

In 2008, 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**

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for year 2008. They have audited the enclosed financial reports prepared under PRC Accounting Standards and Hong Kong Accounting Standards respectively. The remuneration for the two accounting firms amounted to RMB5.75 million in aggregate. Among the total remuneration, RMB5.1 million represented the annual audit fee and RMB650,000 represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by 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 eight times and duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2007 annual accounts, 2008 first quarter accounts, 2008 interim accounts and 2008 third quarter accounts of the Company and gave its independent opinion on the appointment of the auditors.

The 2008 annual account of the Company has been reviewed by the Audit Committee.

## **7.10 The Board of Directors has issued a self-assessment report on the Company's internal control. For details, please refer to the full text of 2008 annual report.**

## **7.11 The Company has disclosed a report of fulfilling corporate social responsibility. For details, please refer to the full text of 2008 annual report.**



## **8 REPORT OF THE SUPERVISORY COMMITTEE**

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

## **9. 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 2008.

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 2008, 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 Ms. Zhao Ning, both registered accountants who have issued a standard auditors' report without qualified opinions.

Financial report

Unaudited

Audited

Audit opinion

Standard

Non-standard

Non-qualified opinion

Audit opinion

## **REPORT OF THE AUDITOR**

Ernst & Young Hua Ming (2009) Shen Zi No. 60438514\_A05

To the shareholders of Maanshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited (the “Company”) and its subsidiaries (collectively the “Group”), which comprise the consolidated and company balance sheet as 31 December 2008, the consolidated and company income statement, consolidated and company cash flow statement for the year then ended, and the notes to the financial statements.

### **1. Management’s Responsibility for the financial statements**

The management is responsible for the preparation financial statements in accordance with the China Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

### **2. Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China’s Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity’s preparation of financial statements in order to design audit procedures that are appropriated in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 3. Opinion

In our opinion, the aforesaid financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2008, and the results of their operations and their cash flows for the year then ended.

Ernst & Young Hua Ming

**Li Di**

*Chinese Certified Public Accountant*

**Zhao Ning**

*Chinese Certified Public Accountant*

Beijing, the People's Republic China

15 April 2009

**10.2 Comparison of the consolidated and the Company's balance sheets, statement of income, cash flow statements and statement of changes in equity. (Please refer to the tables set out below)**

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

During the year, there were no changes in the accounting policy and accounting estimates of the Group as compared to the previous financial report.

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

On 4 May 2008, Anhui Masteel Holly Industries Co. Ltd., a controlling subsidiary of the Company, acquired 75% of equity interests in Anhui Masteel Stereoscopic Auto-Parking Equipments Co. Ltd., a controlling subsidiary of Holding, at a consideration of RMB15.6776 million. The entity will be included in the scope of consolidation for the period in accordance with the relevant requirements for business combination involving entities under common control.

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.

## BALANCE SHEET

(Prepared under PRC accounting standards)

31 December 2008

	2008		2007	
	Group RMB	Company RMB	Group RMB (restated)	Company RMB
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and balances with financial institutions	5,951,087,213	4,368,314,406	6,293,537,191	3,665,369,814
Financial assets held for trading	813,250	813,250	1,462,770	1,462,770
Bills receivable	1,267,254,719	1,180,972,207	4,194,297,474	3,667,209,079
Trade receivables	626,727,102	840,021,187	1,037,224,713	1,554,054,832
Prepayments	1,107,261,236	1,573,542,503	1,672,835,435	1,576,389,197
Other receivables	436,494,366	48,206,022	257,539,176	63,496,847
Inventories	9,848,058,341	8,991,015,193	9,629,944,412	8,314,475,335
Non-current assets due within one year	2,938,870	2,938,870	—	—
Total current assets	<u>19,240,635,097</u>	<u>17,005,823,638</u>	<u>23,086,841,171</u>	<u>18,842,457,874</u>
<b>NON-CURRENT ASSETS:</b>				
Held-to-maturity investments	—	—	5,598,870	5,598,870
Long term equity investments	909,160,061	2,018,118,616	781,448,790	1,667,922,886
Investment properties	1,205,850	18,809,133	1,240,303	19,214,182
Fixed assets	40,769,495,822	38,877,703,976	41,328,227,114	39,741,473,656
Construction materials	476,672,223	434,169,176	512,588,681	432,590,795
Constructions in progress	2,277,918,588	2,138,731,681	3,510,765,654	3,360,315,305
Intangible assets	1,850,539,277	1,269,925,611	1,640,550,796	1,214,768,182
Deferred tax assets	618,928,724	603,267,351	258,762,170	258,324,901
Total non-current assets	<u>46,903,920,545</u>	<u>45,360,725,544</u>	<u>48,039,182,378</u>	<u>46,700,208,777</u>
TOTAL ASSETS	<u><u>66,144,555,642</u></u>	<u><u>62,366,549,182</u></u>	<u><u>71,126,023,549</u></u>	<u><u>65,542,666,651</u></u>

**BALANCE SHEET (Continued)**

	2008		2007	
	Group RMB	Company RMB	Group RMB (restated)	Company RMB
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Short term loans	1,154,000,000	630,000,000	1,284,495,217	200,000,000
Bills payable	1,049,125,831	20,000,000	1,790,845,160	63,000,000
Short term commercial papers	–	–	2,000,000,000	2,000,000,000
Accounts payable	7,525,140,482	6,917,042,896	7,688,764,859	7,633,708,228
Deposits received	5,615,976,320	5,212,997,409	6,633,408,854	5,456,620,794
Payroll and benefits payable	197,384,329	136,423,372	341,871,394	297,925,673
Taxes payable	666,749,301	650,199,891	609,863,471	529,786,745
Interests payable	44,099,563	43,853,466	80,563,315	80,432,389
Dividends payable	1,101,575,013	1,101,575,013	1,303,757,138	1,303,757,138
Other payables	802,838,050	734,772,103	933,429,649	730,183,167
Non-current liabilities due within one year	223,579,337	216,000,000	2,817,346,333	2,809,660,000
Total current liabilities	<u>18,380,468,226</u>	<u>15,662,864,150</u>	<u>25,484,345,390</u>	<u>21,105,074,134</u>
<b>NON-CURRENT LIABILITIES:</b>				
Long term loans	15,666,296,218	15,654,324,200	16,577,951,605	16,563,408,200
Bonds payable	4,992,975,444	4,992,975,444	4,828,761,588	4,828,761,588
Deferred income	563,549,396	562,504,397	590,425,767	590,425,767
Deferred tax liabilities	6,678,903	–	168,275,911	167,989,571
Other non-current liabilities	7,485,033	7,485,033	12,485,032	12,485,033
Total non-current liabilities	<u>21,236,984,994</u>	<u>21,217,289,074</u>	<u>22,177,899,903</u>	<u>22,163,070,159</u>
Total liabilities	<u>39,617,453,220</u>	<u>36,880,153,224</u>	<u>47,662,245,293</u>	<u>43,268,144,293</u>
<b>SHAREHOLDERS' EQUITY:</b>				
Share capital	7,700,681,186	7,700,681,186	6,758,551,716	6,758,551,716
Capital reserve	8,338,358,399	8,338,358,399	6,064,985,987	6,056,692,904
Surplus reserves	3,008,523,500	2,864,520,805	2,901,562,765	2,777,851,769
Retained profits	7,007,195,285	6,582,835,568	7,282,533,393	6,681,425,969
including: cash dividend proposed by directors	–	–	878,611,723	878,611,723
Exchange fluctuation reserve	(47,775,207)	–	9,629,706	–
Equity attributable to equity holders of the parent	<u>26,006,983,163</u>	<u>25,486,395,958</u>	<u>23,017,263,567</u>	<u>22,274,522,358</u>
Minority interests	<u>520,119,259</u>	<u>–</u>	<u>446,514,689</u>	<u>–</u>
Total shareholder's equity	<u>26,527,102,422</u>	<u>25,486,395,958</u>	<u>23,463,778,256</u>	<u>22,274,522,358</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><b>66,144,555,642</b></u>	<u><b>62,366,549,182</b></u>	<u><b>71,126,023,549</b></u>	<u><b>65,542,666,651</b></u>

## CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Year ended 31 December 2008

	2008		2007	
	Group RMB	Company RMB	Group RMB (restated)	Company RMB
Revenue	71,259,739,377	75,148,069,659	50,670,878,762	51,362,704,242
Less: Cost of sales	65,154,401,331	69,713,506,492	44,928,041,837	46,523,363,747
Business taxes and surcharges	778,052,466	748,551,737	628,268,236	594,614,981
Selling expenses	367,289,708	350,915,918	292,119,451	274,171,003
Administrative expenses	1,092,817,467	847,471,805	1,036,715,486	850,802,245
Financial expenses	1,575,913,707	1,296,859,062	1,084,033,646	1,008,929,593
Assets impairment losses	1,796,584,712	1,664,503,803	35,281,201	34,742,535
Add: Gain/(loss) on fair value changes	(1,033,080)	(1,033,080)	719,870	719,870
Investment income	199,877,256	313,324,057	164,638,062	220,252,203
Including: share of profits of associates and a jointly controlled entity	<u>199,367,579</u>	<u>203,058,158</u>	<u>131,343,987</u>	<u>131,867,977</u>
Operating profit	693,524,162	838,551,819	2,831,776,837	2,297,052,211
Add: Non-operating income	122,326,177	75,898,971	105,663,519	75,331,885
Less: Non-operating expenses	9,976,147	7,150,580	140,735,637	137,836,013
including: loss on disposal of non-current assets	<u>2,788,556</u>	<u>1,497,324</u>	<u>136,649,892</u>	<u>135,194,611</u>
Profit before tax	805,874,192	907,300,210	2,796,704,719	2,234,548,083
Less: Income tax	<u>74,644,736</u>	<u>40,609,852</u>	<u>220,591,429</u>	<u>102,649,290</u>
Net profit	<u><u>731,229,456</u></u>	<u><u>866,690,358</u></u>	<u><u>2,576,113,290</u></u>	<u><u>2,131,898,793</u></u>
Including: Net profit attributable to the entity prior to the business combination under common control	<u>9,846,023</u>	-	-	-
Attributable to:				
Equity holders of the parent	710,234,350	866,690,358	2,475,382,229	2,131,898,793
Minority interests	<u>20,995,106</u>	<u>-</u>	<u>100,731,061</u>	<u>-</u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>10.38 cents</u>	<u>12.66 cents</u>	<u>38.18 cents</u>	<u>32.89 cents</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>35.02 cents</u>	<u>30.16 cents</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC Accounting Standards)

	Attributable to equity holders of the parent						Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total		
	RMB	RMB	RMB	RMB	RMB	RMB		
1. 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
Add: Adjustment attributable to business combination under common control	-	8,293,083	-	-	-	8,293,083	-	8,293,083
2. At 1 January 2008	6,758,551,716	6,064,985,987	2,901,562,765	7,282,533,393	9,629,706	23,017,263,567	446,514,689	23,463,778,256
3. Increase/(decrease) during the year								
1) Net profit	-	-	-	710,234,350	-	710,234,350	20,995,106	731,229,456
2) Gains or losses recognised directly in equity								
1. Adjustment of deferred tax liability arising from bonds with warrants	-	167,809,603	-	-	-	167,809,603	-	167,809,603
2. Exchange fluctuation reserve	-	-	-	-	(57,404,913)	(57,404,913)	-	(57,404,913)
3. Adjustment attributable to business combination under common control	-	(8,293,083)	-	-	-	(8,293,083)	-	(8,293,083)
Sub-total	-	159,516,520	-	710,234,350	(57,404,913)	812,345,957	20,995,106	833,341,063
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	942,129,470	2,113,855,892	-	-	-	3,055,985,362	101,194,034	3,157,179,396
2. Others	-	-	-	-	-	-	-	-
4) Profits appropriation								
1. Transfer to surplus reserves	-	-	106,960,735	(106,960,735)	-	-	-	-
2. Dividend declared	-	-	-	(878,611,723)	-	(878,611,723)	(48,584,570)	(927,196,293)
5) Transfers within shareholders' equity	-	-	-	-	-	-	-	-
4. At 31 December 2008	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>3,008,523,500</u>	<u>7,007,195,285</u>	<u>(47,775,207)</u>	<u>26,006,983,163</u>	<u>520,119,259</u>	<u>26,527,102,422</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Attributable to equity holders of the parent					Sub-total RMB	Minority interests RMB	Total shareholders' equity RMB
	Share capital RMB	Capital reserve RMB	Surplus reserves RMB	Retained profits RMB	Exchange fluctuation reserve RMB			
1. At 31 December 2006	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
Add: Adjustment attributable to business combination under common control	-	8,293,083	-	-	-	8,293,083	-	8,293,083
2. At 1 January 2007	6,455,300,000	5,458,731,877	2,637,160,200	5,918,872,526	-	20,470,064,603	310,497,169	20,780,561,772
3. Increase/(decrease) during the year								
(i) Net profit	-	-	-	2,475,382,229	-	2,475,382,229	100,731,061	2,576,113,290
(ii) Gains or losses recognised directly in equity								
(a) Adjustment of deferred tax liability arising from bonds with warrants	-	(95,273,247)	-	-	-	(95,273,247)	-	(95,273,247)
(b) Exchange fluctuation reserve	-	-	-	-	9,629,706	9,629,706	-	9,629,706
Sub-total of (i) and (ii)	-	(95,273,247)	-	2,475,382,229	9,629,706	2,389,738,688	100,731,061	2,490,469,749
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	303,251,716	701,527,357	-	-	-	1,004,779,073	60,553,126	1,065,332,199
(b) Others	-	-	-	-	-	-	-	-
(iv) Profits appropriation								
(a) Transfer to surplus reserves	-	-	264,402,565	(264,402,565)	-	-	-	-
(b) Dividend declared	-	-	-	(839,189,000)	-	(839,189,000)	(25,266,667)	(864,455,667)
(c) Transfer to employee bonus and welfare fund	-	-	-	(8,129,797)	-	(8,129,797)	-	(8,129,797)
(v) Transfers within shareholders' equity	-	-	-	-	-	-	-	-
4. At 31 December 2007	<u>6,758,551,716</u>	<u>6,064,985,987</u>	<u>2,901,562,765</u>	<u>7,282,533,393</u>	<u>9,629,706</u>	<u>23,017,263,567</u>	<u>446,514,689</u>	<u>23,463,778,256</u>



## COMPANY STATEMENT OF CHANGES IN EQUITY

(Prepared under PRC Accounting Standards)

	Share capital RMB	Capital reserve RMB	Surplus reserves RMB	Retained profits RMB	Total shareholders' equity RMB
1. At 1 January 2008	6,758,551,716	6,056,692,904	2,777,851,769	6,681,425,969	22,274,522,358
2. Increase/(decrease) during the year					
(i) Net profit	-	-	-	866,690,358	866,690,358
(ii) Gains or losses recognised directly in equity					
(a) Adjustment of deferred tax liability arising from to bonds with warrants	-	167,809,603	-	-	167,809,603
Sub-total of (i) and (ii)	-	167,809,603	-	866,690,358	1,034,499,961
(iii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	942,129,470	2,113,855,892	-	-	3,055,985,362
(b) Others	-	-	-	-	-
(iv) Profits appropriation					
(a) Transfer to surplus reserves	-	-	86,669,036	(86,669,036)	-
(b) Dividend declared	-	-	-	(878,611,723)	(878,611,723)
(c) Others	-	-	-	-	-
(v) Transfers within shareholders' equity	-	-	-	-	-
3. At 31 December 2008	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>2,864,520,805</u>	<u>6,582,835,568</u>	<u>25,486,395,958</u>

## 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 2007	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					
(i) Net profit	-	-	-	2,131,898,793	2,131,898,793
(ii) Gains or losses recognised directly equity					
(a) Adjustment of deferred tax liability arising from bonds with warrants	-	(95,273,247)	-	-	(95,273,247)
Sub-total of (i) and (ii)	-	(95,273,247)	-	2,131,898,793	2,036,625,546
(iii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	303,251,716	701,527,357	-	-	1,004,779,073
(b) Others	-	-	-	-	-
(iv) Profits appropriation					
(a) Transfer to surplus reserves	-	-	213,189,879	(213,189,879)	-
(b) Dividend declared	-	-	-	(839,189,000)	(839,189,000)
(c) Others	-	-	-	-	-
(v) Transfers within shareholders' equity	-	-	-	-	-
3. At 31 December 2007	<u>6,758,551,716</u>	<u>6,056,692,904</u>	<u>2,777,851,769</u>	<u>6,681,425,969</u>	<u>22,274,522,358</u>

## CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

	2008	
	Group RMB	Company RMB
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	89,188,260,792	90,024,045,119
Refunds of taxes	43,508,000	–
Cash received relating to other operating activities	12,761,806	9,897,601
	<u>89,244,530,598</u>	<u>90,033,942,720</u>
Sub-total of cash inflows		
Cash paid for goods and services	(72,196,971,884)	(74,182,216,748)
Cash paid to and on behalf of employees	(3,368,536,415)	(3,201,011,059)
Cash paid for all taxes	(4,867,711,244)	(4,340,091,733)
Cash paid relating to other operating activities	(423,516,227)	(233,958,135)
	<u>(80,856,735,770)</u>	<u>(81,957,277,675)</u>
Sub-total of cash outflows		
Net cash flows from operating activities	<u>8,387,794,828</u>	<u>8,076,665,045</u>
2. Cash flows from investing activities:		
Cash received from retrieval of investments	3,387,455	3,387,455
Cash received from investments income	187,609,526	267,742,649
Net cash received from disposal of fixed assets, intangible assets and other long term assets	18,693,909	16,709,479
Cash received due to decrease in pledged deposits, net	253,936,158	–
Cash received relating to other investing activities	39,180,000	38,080,000
	<u>502,807,048</u>	<u>325,919,583</u>
Sub-total of cash inflows		
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(3,809,043,196)	(3,042,663,242)
Cash paid for acquisitions of investments	(16,579,330)	(219,695,610)
Cash paid due to increase in pledged deposits, net	–	(6,000,000)
	<u>(3,825,622,526)</u>	<u>(3,268,358,852)</u>
Sub-total of cash outflows		
Net cash flows from investing activities	<u>(3,322,815,478)</u>	<u>(2,942,439,269)</u>

## CONSOLIDATED CASH FLOW STATEMENT (Continued)

	2008	
	Group RMB	Company RMB
3. Cash flows from financing activities:		
Cash received from borrowings	19,326,546,259	16,892,143,515
Cash received from capital contribution	3,157,179,396	3,055,985,362
Including: capital contribution received by subsidiaries from minority shareholders	<u>101,194,034</u>	<u>—</u>
Sub-total of cash inflows	<u>22,483,725,655</u>	<u>19,948,128,877</u>
Cash repayments of borrowings	(24,754,928,770)	(21,791,703,883)
Cash paid for distribution of dividend or profits and for interest expenses	(2,841,931,992)	(2,584,949,377)
Including: dividend paid by subsidiaries to minority shareholders	<u>(48,584,570)</u>	<u>—</u>
Sub-total of cash outflows	<u>(27,596,860,762)</u>	<u>(24,376,653,260)</u>
Net cash flows from financing activities	<u>(5,113,135,107)</u>	<u>(4,428,524,383)</u>
4. Effect of foreign exchange rate changes on cash	<u>(39,932,963)</u>	<u>(8,756,801)</u>
5. Net increase in cash and cash equivalents	<u>(88,088,720)</u>	<u>696,944,592</u>
Add: balance of cash equivalents at beginning of year	5,525,455,966	3,665,369,814
6. Balance of cash equivalents at end of year	<u><u>5,437,367,246</u></u>	<u><u>4,362,314,406</u></u>

## CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
REVENUE	4	<b>70,009,580</b>	49,052,851
Cost of sales		<u><b>(65,777,650)</b></u>	<u>(43,478,583)</u>
Gross profit		<b>4,231,930</b>	5,574,268
Other income and gains	4	<b>314,969</b>	316,229
Selling and distribution costs		<b>(1,145,342)</b>	(919,079)
Administrative expenses		<b>(951,063)</b>	(1,025,157)
Other expenses		<b>(3,684)</b>	(132,831)
Finance costs	6	<b>(1,840,304)</b>	(1,156,199)
Share of profits and losses of:			
A jointly-controlled entity		<b>68,564</b>	34,306
Associates		<u><b>130,804</b></u>	<u>97,038</u>
PROFIT BEFORE TAX	5	<b>805,874</b>	2,788,575
Tax	7	<u><b>(74,645)</b></u>	<u>(220,591)</u>
PROFIT FOR THE YEAR		<u><b>731,229</b></u>	<u>2,567,984</u>
Attributable to:			
Equity holders of the parent		<b>710,234</b>	2,467,253
Minority interests		<u><b>20,995</b></u>	<u>100,731</u>
		<u><b>731,229</b></u>	<u>2,567,984</u>
DIVIDEND	8	<u><b>–</b></u>	<u>878,612</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<u><b>10.38 cents</b></u>	<u>38.06 cents</u>
Diluted		<u><b>N/A</b></u>	<u>34.90 cents</u>

## CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong Financial Reporting Standards)  
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>40,769,496</b>	41,315,357
Construction in progress		<b>2,754,591</b>	4,021,499
Investment properties		<b>1,206</b>	1,240
Prepaid land premiums		<b>1,765,348</b>	1,516,155
Other intangible asset		<b>85,191</b>	120,822
Investment in a jointly-controlled entity		<b>304,279</b>	268,306
Investments in associates		<b>501,964</b>	414,725
Available-for-sale financial assets		<b>102,917</b>	102,917
Held-to-maturity investments		–	5,599
Deferred tax assets		<b>612,250</b>	90,486
Total non-current assets		<b>46,897,242</b>	47,857,106
<b>CURRENT ASSETS</b>			
Inventories		<b>9,702,503</b>	9,550,481
Construction contracts		<b>145,555</b>	75,688
Trade and bills receivables	10	<b>1,893,983</b>	5,209,674
Prepayments, deposits and other receivables		<b>1,543,755</b>	1,928,496
Tax recoverable		<b>145,702</b>	–
Held-to-maturity investments		<b>2,939</b>	–
Equity investments at fair value through profit or loss		<b>813</b>	1,463
Pledged time deposits		<b>513,720</b>	768,081
Cash and cash equivalents		<b>5,437,367</b>	5,523,876
Total current assets		<b>19,386,337</b>	23,057,759
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	<b>8,574,266</b>	9,472,551
Other payables and accruals		<b>8,549,471</b>	9,742,997
Interest-bearing bank and other borrowings		<b>1,377,579</b>	6,081,841
Tax payable		–	111,819
Provisions		<b>24,856</b>	40,546
Total current liabilities		<b>18,526,172</b>	25,449,754
NET CURRENT ASSETS/(LIABILITIES)		<b>860,165</b>	(2,391,995)
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>47,757,407</b>	45,465,111

## CONSOLIDATED BALANCE SHEET (Continued)

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>47,757,407</u>	<u>45,465,111</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	15,666,296	16,577,952
Bonds with warrants	4,992,975	4,828,762
Deferred income	563,549	590,426
Provisions	<u>7,485</u>	<u>12,485</u>
Total non-current liabilities	<u>21,230,305</u>	<u>22,009,625</u>
Net assets	<u><u>26,527,102</u></u>	<u><u>23,455,486</u></u>
EQUITY		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	7,700,681	6,758,552
Equity component of bonds with warrants	–	372,679
Reserves	18,306,302	14,999,128
Proposed final dividend	<u>–</u>	<u>878,612</u>
	<b>26,006,983</b>	23,008,971
<b>Minority interests</b>	<u>520,119</u>	<u>446,515</u>
Total equity	<u><u>26,527,102</u></u>	<u><u>23,455,486</u></u>

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also 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, 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.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

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

The Group has adopted the following new interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendment to HKAS 39 Financial Instruments: <i>Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	HKFRS 2 – <i>Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	HKAS 19 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

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

**(a) Amendments to HKAS 39 Financial Instruments: *Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets***

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.



The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

**(b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions**

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

**(c) HK(IFRIC)-Int 12 Service Concession Arrangements**

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

**(d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

### **3. SEGMENT INFORMATION**

No business segment information is presented as over 90% of the Group's revenue is derived from one business segment, which is the manufacture and sale of iron and steel products and related by-products.

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

#### 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:

	<b>2008</b> <i>RMB'000</i>	2007 <i>RMB'000</i>
<b>Revenue</b>		
Sale of goods	<b><u>70,009,580</u></b>	<b><u>49,052,851</u></b>
<b>Other income and gains</b>		
Bank interest income	<b>115,653</b>	52,798
Trading of iron ores	<b>57,992</b>	56,377
Dividend income from available-for-sale financial assets	<b>290</b>	8,463
Gain on disposal of equity investments at fair value through profit or loss	<b>220</b>	282
Gain on disposal of available-for-sale financial assets	–	24,549
Subsidies income	<b>55,705</b>	49,075
Fair value gains on equity investments at fair value through profit or loss	–	720
Recognition of deferred income	<b>66,056</b>	52,795
Others	<b><u>19,053</u></b>	<u>71,170</u>
	<b><u>314,969</u></b>	<b><u>316,229</u></b>

## 5. PROFIT BEFORE TAX

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

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Cost of inventories sold *	65,777,650	43,478,583
Depreciation	4,565,548	3,256,266
Depreciation of investment properties	34	55
Recognition of prepaid land premiums	40,040	38,496
Amortisation of a mine participation right **	4,179	5,096
Provision/(reversal of provision) for doubtful debts, net #	690	(5,052)
Auditors' remuneration	5,750	5,750
Staff costs (excluding directors' and supervisors' remuneration):		
Wages and salaries	2,089,108	1,925,041
Welfare and benefits	649,694	866,170
Pension scheme contributions	471,558	443,479
	<u>3,210,360</u>	<u>3,234,690</u>
Contingent rents under operating leases in respect of land and buildings	36,250	36,250
Foreign exchange differences:		
Foreign exchange gains, net	(172,813)	(83,257)
Less: Foreign exchange gains capitalised in construction in progress	-	24,800
	<u>(172,813)</u>	<u>(58,457)</u>
Loss on disposal of items of property, plant and equipment, net	2,789	136,650
Net rental income	(1,250)	(1,250)
Bank interest income	(115,653)	(52,798)
Dividend income from available-for-sale financial assets	(290)	(8,463)
Gain on disposal of equity investments at fair value through profit or loss	(220)	(282)
Gain on disposal of available-for-sale financial assets	-	(24,549)
Fair value (gains)/losses on equity investments at fair value through profit or loss	1,033	(720)
Recognition of deferred income ##	<u>(66,056)</u>	<u>(52,795)</u>

Notes:

- \* Included in the cost of inventories sold for the year is a provision against inventories of RMB1,707,562,000 (2007: RMB40,334,000).

- \*\* The amortisation of a mine participation right is included in “Cost of sales” on the face of the consolidated income statement.
- # The provision and reversal of provision for doubtful debts, is included in “Other expenses” on the face of the consolidated income statement.
- ## Various government grants have been received for the construction of specific projects and is included in deferred income in the consolidated balance sheet. Upon completion of the construction of specific projects and the related transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2008</b>	2007
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	<b>1,840,304</b>	1,591,418
Less: Interest capitalised in construction in progress	<u>–</u>	<u>(435,219)</u>
	<b><u>1,840,304</u></b>	<b><u>1,156,199</u></b>

## 7. TAX

	<b>2008</b>	2007
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Group:		
Current – Mainland China		
Charge for the year	<b>414,752</b>	385,367
Overprovision in prior years	<b>(10,285)</b>	–
Current – Hong Kong	<b>5,157</b>	6,752
Current – Elsewhere	<b>18,975</b>	14,985
Deferred	<u><b>(353,954)</b></u>	<u>(186,513)</u>
Total tax charge for the year	<b><u>74,645</u></b>	<b><u>220,591</u></b>

The corporate income tax (“CIT”) for the Company for the current year has been provided at the rate of 25% (2007: 33%) on the assessable profits according to the relevant tax rules and regulations.

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 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% prior to 2007. 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 Company's subsidiaries, a jointly-controlled entity and associates in the mainland of the PRC is calculated at rates ranging from 15% to 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. Certain of them 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 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

**Group**

	<b>2008</b>		<b>2007</b>	
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>
Profit before tax	<b><u>805,874</u></b>		<b><u>2,788,575</u></b>	
Tax at the applicable tax rate	<b>201,469</b>	<b>25</b>	920,230	33
Effect of different tax rates for specific provinces or enacted by local authority of subsidiaries	<b>(1,655)</b>	–	(25,457)	(1)
Expenses not deductible for tax	<b>45,041</b>	<b>6</b>	12,048	–
Adjustments in respect of current tax of previous periods	<b>(10,285)</b>	<b>(1)</b>	–	–
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in the PRC*	<b>(84,888)</b>	<b>(11)</b>	(334,379)	(12)
Other tax concessions	<b>(49,394)</b>	<b>(6)</b>	(139,192)	(5)
Tax relief granted	<b>(12,890)</b>	<b>(2)</b>	(20,665)	(1)
Income not subject to tax	<b>(127)</b>	–	(83,041)	(3)
Effect on deferred tax arising from changes in tax rates	–	–	(65,462)	(2)
Profits and losses attributable to a jointly-controlled entity and associates	<b>(50,303)</b>	<b>(6)</b>	(43,491)	(1)
Tax losses not recognised	<b><u>37,677</u></b>	<b><u>4</u></b>	<u>–</u>	<u>–</u>
Tax charge at the Group's effective rate	<b><u>74,645</u></b>	<b><u>9</u></b>	<b><u>220,591</u></b>	<b><u>8</u></b>

\* *The amount represents a tax concession, approved by the Maanshan City local tax bureau, in respect of the purchases of PRC manufacturing plant, machinery and equipment. The tax concession is calculated as 40% of purchases of PRC manufactured plant, machinery and equipment in the year of purchases. The amount is deductible in not more than five years and limited to the amount of increase in income tax for the year of assessment as compared with the tax amount in previous year of purchases.*

*The share of tax attributable to associates amounting to RMB42,977,000 (2007: RMB49,566,000), are included in "Share of profits and losses of associates" on the face of the consolidated income statement.*

## 8. DIVIDEND

	<b>2008</b> <i>RMB'000</i>	2007 <i>RMB'000</i>
Proposed final – Nil (2007: RMB13 cents) per ordinary share	<u>–</u>	<u>878,612</u>

The board of directors do not recommend the payment of any dividends for the year ended 31 December 2008.

## 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 of RMB710,234,000 (2007: RMB2,467,253,000), and the weighted average of 6,843,730,545 (2007: 6,482,717,278) ordinary shares in issue during the year.

The diluted earning per shares amount for the year ended 31 December 2008 has not been disclosed as there was no potential ordinary shares existed as at 31 December 2008.

The calculation of diluted earnings per share amounts for the year ended 31 December 2007 was based on the profit for that year attributable to ordinary equity holders of the parent of RMB2,467,253,000 and 7,069,011,660 ordinary shares representing the aggregate of 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.

## 10. TRADE AND BILLS RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2008</b> <i>RMB'000</i>	2007 <i>RMB'000</i>	<b>2008</b> <i>RMB'000</i>	2007 <i>RMB'000</i>
Trade receivables	<b>646,543</b>	1,032,731	<b>857,104</b>	1,570,463
Bills receivable	<b>1,267,255</b>	4,194,298	<b>1,180,972</b>	3,667,209
	<b>1,913,798</b>	5,227,029	<b>2,038,076</b>	5,237,672
Impairment	<b>(19,815)</b>	(17,355)	<b>(17,082)</b>	(16,408)
	<b><u>1,893,983</u></b>	<u>5,209,674</u>	<b><u>2,020,994</u></b>	<u>5,221,264</u>

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:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables:				
Within three months	<b>187,614</b>	946,862	<b>680,803</b>	1,523,572
Four to six months	<b>354,234</b>	12,770	<b>68,390</b>	7,092
Seven to twelve months	<b>57,782</b>	41,895	<b>76,863</b>	11,428
One to two years	<b>25,753</b>	12,852	<b>12,967</b>	10,925
Two to three years	<b>483</b>	539	<b>494</b>	351
Over 3 years	<b>862</b>	458	<b>505</b>	687
	<b>626,728</b>	1,015,376	<b>840,022</b>	1,554,055
Bills receivable	<b>1,267,255</b>	4,194,298	<b>1,180,972</b>	3,667,209
	<b><u>1,893,983</u></b>	<u>5,209,674</u>	<b><u>2,020,994</u></b>	<u>5,221,264</u>

Bills receivables will mature within one year.

The movements in provision for impairment of trade and bills receivables are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	<b>17,355</b>	40,939	<b>16,408</b>	40,440
Acquisition of a subsidiary	<b>1,005</b>	–	–	–
Impairment losses recognised	<b>781</b>	448	–	–
Amount written off as uncollectible	<b>674</b>	(18,441)	<b>674</b>	(18,441)
Impairment losses reversed	–	(5,591)	–	(5,591)
At 31 December	<b><u>19,815</u></b>	<u>17,355</u>	<b><u>17,082</u></b>	<u>16,408</u>

The above provision for impairment of the Group's trade and bills receivables is a provision for individually impaired trade receivables, with a carrying amount of RMB26,312,000 (2007: RMB70,390,000). The individually impaired trade receivables relate to customers that were in financial difficulties or the customers were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.



The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither overdue nor impaired	<b>1,844,402</b>	5,156,639	<b>1,991,179</b>	5,176,983
Overdue less than six months	<b>25,313</b>	52,100	<b>27,174</b>	43,567
Overdue over six months	<b>24,268</b>	935	<b>2,641</b>	714
	<b><u>1,893,983</u></b>	<u>5,209,674</u>	<b><u>2,020,994</u></b>	<u>5,221,264</u>

Receivables that were neither overdue nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were overdue but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered recoverable.

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries, and the Group's jointly-controlled entity of RMB4,066,000 (2007: RMB9,773,000) and nil (2007: RMB19,405,000), respectively. These balances principally arose from normal trading activities.

## 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:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	<b>8,464,041</b>	9,111,984	<b>6,896,229</b>	7,681,098
One to two years	<b>63,044</b>	353,317	<b>38,499</b>	8,924
Two to three years	<b>44,530</b>	5,911	<b>914</b>	5,361
Over three years	<b>2,651</b>	1,339	<b>1,401</b>	1,325
	<b><u>8,574,266</u></b>	<u>9,472,551</u>	<b><u>6,937,043</u></b>	<u>7,696,708</u>

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

Included in the Group's trade and bills payables are amounts due to Holding and its subsidiaries, and the Group's jointly-controlled entity and associates of RMB65,682,000 (2007: RMB84,258,000), RMB58,947,000 (2007: RMB54,513,000) and RMB47,250,000 (2007: RMB146,457,000), respectively. These balances principally arose from normal trading activities.

At 31 December 2008, the carrying amounts of the Group's inventories and time deposits, which were pledged to secure the Group's trading facilities for the issuance of bank bills, amounted to RMB329,306,000 (2007: RMB786,930,000) and RMB496,655,000 (2007: RMB763,881,000), respectively.

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

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

No difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under the China Accounting Standards and Hong Kong Financial Reporting Standards during the reporting period.

By order of the Board of Directors  
**Gu Jianguo**  
*Chairman*

April 15, 2009  
Maanshan City, Anhui Province, the PRC

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

*Executive Directors: Gu Jianguo, Su Jianguo, Gao Haijian, Hui Zhigang*

*Non-executive Director: Zhao Jianming*

*Independent Non-executive Directors: Wong Chun Wa, Su Yong, Hui Leung Wah, Han Yi*