



MAANSHAN IRON & STEEL COMPANY LIMITED

2005

INTERIM REPORT



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IMPORTANT

The Board of Directors and the Directors of the Company jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false records, misleading statements or material omissions in this report.

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

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

I. COMPANY INFORMATION

1. COMPANY PROFILE

Company Name	:	馬鞍山鋼鐵股份有限公司 (abbreviated “馬鋼”)
Company Name in English	:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C. L.)
Legal Representative	:	Gu Jianguo
Secretary to the Board of Directors	:	Su Jiangan
Representative for Securities Affairs	:	Hu Shunliang
Registered Office and Correspondence Address	:	No.8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Postal Code	:	243003
Company Website	:	http://www.magang.com.cn
E-mail Address	:	mggfdms@magang.com.cn
Telephone	:	86-555-2888158
Fax	:	86-555-2887284
Place of Listing, Stock Name and Stock Code of A Shares	:	Shanghai Stock Exchange/Magang Stock/600808
Place of Listing, Stock Name and Stock Code of H Shares	:	The Stock Exchange of Hong Kong Limited/Magang Stock/323
Newspapers for Information Disclosure	:	Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong)
Website Designated by China Securities Regulatory Commission for Information Disclosure	:	http://www.sse.com.cn
This Interim Report is Available at	:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited

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

I. COMPANY INFORMATION (continued)

2. MAJOR FINANCIAL FIGURES AND INDICATORS

- (1) Major financial figures and indicators of the Company and its subsidiaries (the "Group") prepared under PRC accounting standards (UNIT: RMB'000)

Index Item	30 June 2005	31 December 2004
Current assets	13,042,338	10,240,326
Current liabilities	16,756,294	9,680,601
Total assets	37,167,578	31,461,195
Shareholders' funds (excluding minority interests)	18,118,721	17,435,578
Net assets per share (RMB)	2.81	2.70
Adjusted net assets per share (RMB)	2.81	2.70
	January to June 2005	January to June 2004
Net profit	2,103,310	2,300,027
Net profit excluding non-recurring gains or losses	2,103,123	2,295,116
Earnings per share (RMB)	0.3258	0.3563
Return on net assets (%)	11.608	14.274
Net cash flows from operating activities	3,745,590	2,656,797

Items and amounts of non-recurring gains or losses during the reporting period (prepared under PRC accounting standards) (UNIT: RMB'000)

Item	Amount
Other non-operating income and expenses, net	189
Income tax effect	(2)
Non-recurring gains or losses, net	<u>187</u>

- (2) Effects on net profit of differences in the consolidated accounting statements prepared under PRC accounting standards and Hong Kong accounting standards (UNIT: RMB'000)

Item	January to June 2005
Net profit under Hong Kong accounting standards	2,127,196
Less: Amortisation of deferred income	<u>(23,886)</u>
Net profit under PRC accounting standards	<u>2,103,310</u>

II. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE

1. There was no movement in the share capital of the Company during the reporting period.
2. Shareholders
 - (1) As at the end of the reporting period, the Company had a total of 142,902 shareholders, including 136,144 A-Share holders and 6,758 H-Share holders.
 - (2) Shareholding of the 10 largest shareholders as at the end of the reporting period:

Magang (Group) Holding Company Limited ("Holding"), the state-owned controlling shareholder of the Company, held 4,082,330,000 A shares of the Company, all being non-circulating shares representing 63.24% of the total share capital of the Company, which were the same as the previous reporting period. Other shareholders who were among the 10 largest shareholders of the Company were as follows:

Name of shareholder	Class of shares	Number of shares held (shares)	As a	Increase	Type of shareholder
			percentage of total share capital (%)	(decrease) from beginning of the period (±)	
HKSCC (Nominees) Limited	Circulating H shares	1,638,256,997	25.378	2,588,000	Foreign shareholder
HSBC (Nominees) Limited	Circulating H shares	30,338,000	0.470	74,000	Foreign shareholder
上證50交易型開放式指數證券投資基金	Circulating A shares	25,096,502	0.389	20,907,302	Not applicable
上海全隆實業有限公司	Non-circulating	9,800,000	0.152	0	Not applicable
Guoyuan Securities Co., Ltd.	Circulating A shares	4,770,450	0.074	-2,910,000	Not applicable
博時裕富證券投資基金	Circulating A shares	3,142,481	0.049	20,306	Not applicable
中國人民保險公司安徽分公司	Non-circulating	3,000,000	0.046	0	Not applicable
鹽城市航空綜合經營有限公司	Non-circulating	3,000,000	0.046	0	Not applicable
華安上證180指數增強型證券投資基金	Circulating A shares	2,583,612	0.040	427,715	Not applicable

- (3) Shareholding of the 10 largest holders of shares in circulation as at the end of the reporting period:

Name of shareholder	Number of shares held (shares)	Class of shares
HKSCC (Nominees) Limited	1,638,256,997	H shares
HSBC (Nominees) Limited	30,338,000	H shares
上證50交易型開放式指數證券投資基金	25,096,502	A shares
Guoyuan Securities Co., Ltd.	4,770,450	A shares
博時裕富證券投資基金	3,142,481	A shares
華安上證180指數增強型證券投資基金	2,583,612	A shares
興和證券投資基金	1,737,106	A shares
長城久泰中信標普300指數證券投資基金	1,605,312	A shares
陳秀華	1,581,717	A shares
袁淑琴	1,413,800	A shares

II. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE (continued)

- (4) Holding was not related to the other shareholders mentioned above, nor were they parties acting in concert. However, the Company is not aware of whether the other shareholders mentioned above were related to each other or whether they were parties acting in concert.

No shares held by Holding during the reporting period were pledged, held in lien or placed in custody, but the Company is not aware of whether shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody.

HKSCC (Nominees) Limited and HSBC (Nominees) Limited held 1,638,256,997 and 30,338,000 H Shares of the Company respectively on behalf of multiple clients.

Save as disclosed above, as at 30 June 2005, the Board of Directors is not aware of any parties or their associated companies who had any interests or short positions in the shares or underlying shares of the Company which were required to be recorded pursuant to Section 336 of the Securities and Futures Ordinance.

III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, Directors Mr Gu Jianguo, Mr Gu Zhanggen, Mr Shi Zhaogui and Mr Su Jianguo held 2,900 shares each in the Company and their respective shareholdings remained unchanged. None of the remaining directors, supervisors or senior management held any shares of the Company.

Save as disclosed above, as at 30 June 2005, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which were required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2005, growth of the world economy slowed down. Demand in the global iron and steel market was more subdued, leading to a decrease in prices of steel products. The overall national economy of the PRC operated in a favourable condition and maintained a rapid yet stable growth with its GDP rising by 9.5%. The increase in fixed asset investments was relatively steady. The domestic iron and steel production capacity was further expanded with the output of crude steel increasing by 28.25% over the corresponding period of the previous year. Affected by a number of factors such as the State's macro-economic control measures, market demand and supply and the trend of the international steel market, steel prices began to lose steam significantly since April.

1. PRODUCTION OPERATION

During the first half of 2005, the Company faced various problems such as a sharp increase in costs of raw materials and fuel, significant changes in steel prices, and increasing difficulties in production organisation and in pursuit of balance in production and sale. Through strengthening the link between production processes and optimising resources allocation, the Company continued to upgrade its production level, achieved a balance between production and sale, and recovered funds on schedule. Technical and economic indicators of the Company improved and the benefit of technological support was further explored through our efforts in system optimisation and energy and consumption saving. The adjustments in the Company's structure was taking place at an accelerated pace. The new No. 2 Coke Furnace and the Second H-Beam Production Line commenced production smoothly. Construction of other projects such as the No. 2 Galvanising Line was sped up. Construction of the 5 million tonnes New Area Production Line has fully commenced. 馬鞍山港口(集團)有限公司 was jointly established by the Company, 馬鞍山市國有資產管理辦公室 and 中國長江航運(集團)總公司.

From January to June this year, the Company produced a total of 3,910,000 tonnes of pig iron, 4,550,000 tonnes of crude steel and 4,190,000 tonnes of steel products, representing year-on-year increases of 15.34%, 19.74% and 18.03% respectively. Consolidated energy consumption rate of the Company was 747 kilogrammes of standard coal for each tonne of steel produced, representing a year-on-year decrease of 10 kilogrammes of standard coal for each tonne of steel produced. The Group's major products have achieved a production-to-sales ratio of approximately 100% and accounted for approximately 2.4% market share in Mainland China. The Group realised a principal operating income of RMB16,664 million, representing an increase of 30% as compared to the corresponding period of the previous year. The Group's gross profit margin for principal operating activities was 18.72%.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. THE GROUP'S PRINCIPAL OPERATION DURING THE REPORTING PERIOD UNDER PRC ACCOUNTING STANDARDS

Steel products accounted for 97% of principal operating income and 96% of principal operating profit (UNIT: RMB million):

Industry segment	Principal operating income	Cost of sales from principal operating activities	Gross profit margin (%)	Increase/ (decrease) of principal operating income as compared to the corresponding period of the previous year (%)	Increase/ (decrease) of cost of sales from principal operating activities as compared to the corresponding period of the previous year (%)	Increase/ (decrease) of gross profit margin as compared to the corresponding period of the previous year (%)
Iron and steel	16,164	13,155	18.62	31.19	43.93	-7.20
Including: connected transactions	0	0	0	0	0	0
Product segment						
Plate belt	6,856	5,097	25.66	58.49	62.74	-1.94
Section steel	3,699	3,011	18.59	10.68	22.55	-7.88
Wire rods	4,698	4,311	8.23	15.62	42.64	-17.38
Train wheels and wheel rim	709	566	20.18	53.44	32.75	12.43
Including: connected transactions	0	0	0	0	0	0

Geographical analysis of the principal operation (UNIT: RMB million):

Region	Percentage share (%)	Principal operating income	Increase/(decrease) of principal operating income as compared to the corresponding period of the previous year (%)
Anhui	23	3,909	18
Jiangsu	21	3,517	16
Shanghai	13	2,094	7
Zhejiang	13	2,238	107
Guangdong	6	988	-10
Other PRC regions	17	2,869	47
Exports	6	1,049	185

Profit from principal operating activities was RMB3,003 million, down 5.7% year-on-year, while net profit was RMB2,103 million, down 8.6% year-on-year, which was primarily due to the higher increment of costs of raw materials and fuel than that of selling prices of steel.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

3. PROFIT BREAKDOWN

Changes in the Group's profit breakdown during the reporting period prepared under PRC accounting standards (UNIT: RMB million):

Item	January to June 2005	January to December 2004
Profit from principal operating activities	3,003	5,769
Expenses for the period	521	1,786
Profit before tax	2,531	4,030

Profit from principal operating activities accounted for 118.65% of profit before tax, a decrease of 24.50 percentage points as compared to the previous year, mainly attributable to the comparative decrease of the Company's principal operating profit during the reporting period. Expenses for the period accounted for 20.58% of profit before tax, a decrease of 23.75 percentage points as compared to the previous year, mainly attributable to the comparative decrease of the Company's expenses during the reporting period.

4. FINANCIAL CONDITIONS AND EXCHANGE RATE RISKS

As at 30 June 2005, the total amount of loans of the Group was RMB7,744 million, including loans for working capital of RMB5,424 million and project loans of RMB2,320 million. Except for two foreign currency loans in the amounts of US\$448 million and 1.8 million Euros respectively, all other loans were denominated in RMB. Except for two foreign currency loans in the amount of US\$447 million which carried interests at the London Interbank Offered Rate ("LIBOR") plus a fixed percentage, all other loans carried interests calculated at fixed rates as prescribed by the State. The total amount of the Group's loans changes in accordance with the changes in the scope of production and development. No overdue payments have been recorded so far.

As at 30 June 2005, in accordance with PRC accounting standards, the Group's gearing ratio (total liabilities/total assets) was 51%. Under Hong Kong accounting standards, the Group's gearing ratio (total liabilities/total assets) was 52%. The Group did not have any significant contingent liabilities.

At the present stage, other than internal resources, all capital requirements for the Company's projects for the Tenth Five-Year Plan (the "10-5 Plan") and the Eleventh Five-Year Plan (the "11-5 Plan") were financed by bank loans. As at the end of the reporting period, loan commitments from banks provided to the Group's major projects amounted to approximately RMB18,300 million.

As at 30 June 2005, the Group's cash and balances with financial institutions amounted to RMB3,657 million. Bills receivable amounted to RMB1,964 million (of which bank acceptance bills due within three months amounted to RMB1,294 million). Pre-collection of sales payments 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, equipment and spare parts was settled in Euro, Japanese Yen or US dollar, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate remained relatively stable during the reporting period, movements in the US dollar exchange rates did not have any significant impact on the Company's profits for the period. To cope with the possible volatility in the exchange rates of Euro and Japanese Yen, the Company has formulated relevant risk management measures.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

5. MAJOR INVESTMENTS

As at 31 December 1999, the proceeds of the Company raised in 1993 had been fully utilised in accordance with the plans as stated in the prospectus in relation to the Company's A share and H share issues.

During the reporting period, the Company made use of internal resources and bank loans to invest a total of RMB2,286 million in construction in progress. Major investment projects and their progresses were as follows:

- Projects which have already commenced operation (UNIT: RMB million):

Name of Project	Total Investment
The New No. 2 Coke Furnace	215
The Second H-Beam Production Line	930

- Projects under construction (UNIT: RMB million):

Name of Project	Total Investment	Progress
The No.2 Galvanising Line	670	Installation of facilities in progress
The Enhancement of Capacity and Modification of Train Wheel Rolling System	320	Commenced infrastructure works of main plant and facilities
Integrated Raw Material Site	850	Commenced infrastructure works
New Area Iron-making System	3,500	Infrastructure works in progress
New Area Steel-making System	3,200	Commenced civil construction work
New Area Hot-rolled Belt System	3,600	Infrastructure works in progress
New Area Pickled Cold Wire and Hot Galvanising Line	4,700	Commenced foundation works
New Area Power Generating Plant Using Integrated Resources	1,850	Foundation works in progress

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

6. PRODUCTION AND OPERATION ENVIRONMENT

In the second half of the year, the PRC will continue to implement various macro-economic control measures with emphasis on furthering the reforms of the economic system, adjusting the economic structure and bringing changes to the mode of economic growth. The national economy will maintain a rapid yet stable growth. The domestic supply shortages of coal, electricity and transportation will be alleviated. Since the production capacity of iron and steel will continue to expand and the increase in supply of steel products will outpace that of demand, iron and steel enterprises may face strong pressure in their production and operation.

The National Development and Reform Commission promulgated "The Iron and Steel Industry Development Policies" (the "Policies") on 20 July 2005, in an effort to enhance the overall technological standards of the domestic iron and steel industry, to carry forward structural adjustments and to develop the iron and steel industry into an industry which is competitive in the international arena. The Policies lay down the policy guidelines in relation to the development and plan, distribution, technology, organisational structure, investment and raw materials for iron and steel enterprises, and will help to carry forward the structural adjustments of the domestic iron and steel industry and enhance the concentration of the industry. The promulgation of the Policies will create a more favourable market environment for the Company's development.

On 29 March 2005, the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") jointly issued an announcement in relation to the cancellation of Export VAT Refund Policy for primary steel products such as pig iron, steel billet and steel ingot with effect from 1 April 2005. On 27 April 2005, the MOF and the SAT jointly issued the "Notice on Lowering Tax Rebates on Exported Steel Products", pursuant to which the tax rebates rate for export of steel products was adjusted downward to 11%. On 15 June 2005, the "Notice on Termination of Tax Policies Relating to Special Steel Products for Export Processing" (the "Notice") was issued. According to the Notice, it was determined that value-added tax as stipulated shall be imposed, with specific invoices issued, on all domestic steel products sold by iron and steel enterprises to domestic processing and export enterprises for manufacturing export products. No more tax reduction or exemption will be granted to such products. These measures will affect the Company's income from exports. However, in view of the proportion of the Company's current exports being lower than 10%, it is therefore expected that these measures will have insignificant impact on the Company.

Meanwhile, the People's Bank of China promulgated the "Notice on Optimising Reforms on the Renminbi Exchange Rate Mechanism" (the "Notice on RMB") on 21 July 2005, in an effort to establish and to improve the State's market economy system and to fully utilise the primary functions of the market on resources allocation. According to the Notice on RMB, a regulated and managed floating exchange rate system based on market demand and supply will be implemented with reference to a basket of currencies. Renminbi appreciated by 2% against the US dollar with immediate effect on the said date. The appreciation of Renminbi affects the Company in various aspects. In view of the proportion of the Group's exports being low, that approximately 75% of iron and ore needs to be imported, and that the Group has foreign currency denominated borrowings of US\$448 million and 1.8 million Euro, the appreciation of Renminbi will therefore help the Group reduce overall costs and make exchange gain.

V. SIGNIFICANT MATTERS

1. CORPORATE GOVERNANCE

In accordance with the relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clearly defined.

The Company has, to the best knowledge of the Directors, complied with the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 and the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the reporting period, save and except that the Company has not established the Remuneration Committee of the Board of Directors and the Company has not amended the terms of reference of the Audit Committee of the Board of Directors.

To further improve its corporate governance structure, within a short period of time the Company will amend its Articles of Association, the independent directors' work system, the terms of reference of the Audit Committee of the Board of Directors and the measures on the management of information disclosure. The Company will establish a Remuneration Committee of the Board of Directors and formulate its terms of reference, as well as setting up the investor relations management system and the internal system for reporting on material information. The Company will also add the respective orders of meeting for shareholders' general meeting, the Board of Directors and the supervisory committee as annexes to the Articles of Association of the Company after amendments have been made to those orders.

2. PROFIT DISTRIBUTION PLAN AND IMPLEMENTATION

- (1) The Company's profit distribution plan and implementation for the previous year: a cash dividend of RMB0.22 per share was declared to all shareholders on the basis of a total share capital of 6,455,300,000 shares as at the end of 2004, whereas H-Share dividends were distributed in Hong Kong dollar. The proposal was approved at the annual general meeting held on 14 June 2005, and relevant announcements were made on 15 June 2005 both within and outside the PRC. The entitlement registration date for A shares was 4 July 2005, ex-dividend date was 5 July 2005, and dividend payment date was 11 July 2005; the register of members of H shares was closed from 13 May to 14 June 2005 (both dates inclusive) during which period no transfer of H shares was effected. Dividend cheques for H shares were posted to the respective holders of H shares on 11 July 2005. The distributions of dividends for A shares and H shares were both implemented.
- (2) The Company will not implement profit distribution for the first half of 2005 and no transfer to share capital from capital reserve fund will be conducted.

V. SIGNIFICANT MATTERS (continued)

3. MATERIAL LITIGATIONS AND ARBITRATIONS

- (1) There was no material litigation and arbitration of the Company during the reporting period.
 - (2) Two material litigations of the Company had been settled in the past but were lasting until the reporting period, that is, the litigations against CITIC Ningbo Inc. and SEG International Trust & Investment Corporation. Their judgments and enforcements were disclosed in the 2002 Annual Report and published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 3 April 2003. There has been no change during the reporting period.
4. China Venturetech Investment Corporation (“China Venturetech”) owed the Company a deposit principal of HK\$7,138,000 and an interest of HK\$2,296,000. In December 2004, the liquidation team of the People’s Bank of China (the “liquidation team”) responsible for winding up China Venturetech carried out the first fund distribution for the repayment of debts and the Company received RMB757,000; in February 2005, the liquidation team carries out the second fund distribution and the Company received RMB757,000. Details were published in the Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 26 April 2005 and on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>).
 5. The Shenzhen branch of Guangdong International Trust and Investment Corporation owed the Company a deposit principal plus interest totaling RMB36,460,000. Since August 2000, the liquidation team has carried out altogether three property distributions and the Company collected a total of RMB7,103,000. Details were published in the Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 26 April 2005 and on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>). There has been no change during the reporting period.
 6. During the reporting period, apart from the Company’s acquisition of the steel structure production and installation business and the electrical and mechanical facilities installation business from Construction Co. Ltd of Magang (Group) Holdings Co. Ltd. (details of which are set out in item 7(2) of this section), there were no other significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

V. SIGNIFICANT MATTERS (continued)

7. CONNECTED TRANSACTIONS

- (1) For the period between 1 January and 30 June 2005, all the ongoing connected transactions between the Company and Holding and its subsidiaries conducted in the normal course of business were settled in cash and had no adverse impact on the profit of the Company.

Details of the amounts paid by the Company to Holding in respect of the "Service Agreement" between 2004 and 2006 are as follows (UNIT: RMB'000):

	Pricing basis	Total value	Proportion of transactions of the same category (%)
On-the-job training	State Prices	10,510	100
Catering and sanitation services	Market Prices	24,270	100
Environmental sanitation and maintenance of roads	State Prices	6,990	100
Afforestation and management of factory districts	Market Prices	12,365	100
Total		54,135	

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

The payment made by the Company to Holding in respect of the "Sale and Purchase of Iron Ore Agreement" between 2004 and 2006 are as follows (UNIT: RMB'000):

	Amount paid	Proportion of transactions of the same category (%)
Purchases of iron ore, limestone and marble	671,773	13.41

V. SIGNIFICANT MATTERS (continued)

7. CONNECTED TRANSACTIONS (continued)

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

Save for the connected transactions made pursuant to the "Service Agreement" and the "Sale and Purchase of Iron Ore Agreement" mentioned above, details of the amounts in relation to other connected transactions made with Holding are as follows (UNIT: RMB'000):

	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	2,084	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	14,968	40.19
Payment by the Company for fixed assets and construction services	212,165	23.75
Payment by the Company to Holding for other services	86,064	100

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

- (2) Other connected transactions between the Company and Holding for the period between 1 January and 30 June 2005

On 28 April 2005, the Board of Directors of the Company, for the purpose of expanding sale of products, lowering construction costs and reducing project duration, determined to acquire the steel structure production and installation business and the electrical and mechanical facilities installation business from Construction Co. Ltd of Magang (Group) Holdings Co. Ltd. (the "Construction Company") in cash consideration financed by its internal resources, and entered into the Acquisition Agreement. The acquisition was made based on the net asset value of RMB149,773,600 as at 31 January 2005 of the Construction Company steel structure production and installation business and electrical and mechanical facilities installation business as valued by Jiangsu Talent Certified Public Accountants engaged by the Company. The total consideration was RMB149,773,600. The title of assets involved in this acquisition had been transferred in full, and the claims and debts involved had been assigned in full.

V. SIGNIFICANT MATTERS (continued)

7. CONNECTED TRANSACTIONS (continued)

The independent directors of the Company were of the view that this connected transaction was in line with the overall development strategies and benefits of the Company, allowing it to strengthen and expand the Company's iron and steel business, and that the terms of the transaction were made on arm's length basis, and were fair and reasonable and in the interests of the Company and its shareholders as a whole.

(3) Material contracts with the controlling shareholder

Save for the "Sale and Purchase of Iron Ore Agreement" for 2004-2006 and the "Service Agreement" for 2004-2006 mentioned above, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder as at 30 June 2005.

(4) As at 30 June 2005, save for ordinary business transactions, there is no amount due to or from the Company and connected parties.

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

9. GUARANTEES

- Guarantees

The Company was in strict compliance with the provisions under the "Notice of Certain Issues Relating to the Standards of Fund Transactions with Connected Parties and Provisions of External Guarantees by Listed Companies" (the Circular Zheng Jian Fa [2003] No.56) and did not have any guarantees that are in breach of the provisions. The Company provided guarantees to: Ma Steel International Trade and Economic Cooperation, a wholly-owned subsidiary, amounting to RMB7,782 million which amount had been fully recognised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB68.7 million which amount had not been recognised; and guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million which amount had been fully recognised.

V. SIGNIFICANT MATTERS (continued)

9. GUARANTEES (continued)

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB7,191 million and the remaining balance was RMB7,865 million. The total guarantee amount represented 43.41% of the Company's net assets as at the end of the reporting period. The guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of Directors beforehand and the guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company, loans needed for the general businesses of ores, steel billets, equipment and spare parts, and guarantees of credit facilities for businesses regarding the issuing of letters of credit for import, letters of indemnity, financing for import/export bills, and guarantees for bill of lading. The guarantees for Anhui Masteel K. Wah New Building Materials Co., Ltd. were only provided for land construction and purchase of equipment. All the guarantees were not applicable for external investments, provisions of guarantees for external parties, provisions of loans to external parties, or gifts to external parties.

- Independent Directors' opinions

Pursuant to the provisions under the Circular Zheng Jian Fa [2003] No. 56, Madam Cheng Shaoxiu, Mr Wu Junnian and Mr Chan Yuk Sing, independent directors of the Company, have furnished their independent opinions in respect of the Company's cumulative and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:

- (1) As at 30 June 2005, all the Company's external guarantees have been approved by the Board of Directors beforehand.
- (2) As at 30 June 2005, no guarantee was provided by the Company either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company's external guarantees, no guarantees were provided to the controlling shareholder or any other related parties, non-legal person entities or individuals in which the Company held less than 50% interests.
- (3) As at 30 June 2005, total amount of the Company's cumulative and current period's external guarantees represented less than 50% of the net assets as stated in the consolidated financial statements of the latest accounting year.

10. There had been no commitment made by the Company or any shareholders interested in 5% or more of the Company's shares that took place or subsisted during the reporting period and may significantly affect the operating results and financial conditions of the Company.

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

V. SIGNIFICANT MATTERS (continued)

12. ENTERPRISE ANNUITIES

In order to establish a multi-level pension system and to optimise the social security structure, pursuant to Order No. 20 "Trial Measures on Enterprise Annuities" of the Ministry of Labour and Social Security and the relevant documents of the Anhui Provincial Government, the Company decided to set up a supplementary retirement insurance system, effective from 1 January 2005. The premium of enterprise annuities will be paid both by the Company and the employee. The contribution of the Company will be on the same basis and in the same proportion as the contribution of the employee. The contribution basis will be adjusted on 1 July every year. The annual payment of enterprise annuities should not exceed 1/12 of the total payroll of the Company in the preceding year. In 2005, the payment is approximately RMB65 million.

13. Listed below are the Company's ad hoc announcements made during the reporting period:

- (1) 26 April 2005 – notice of annual general meeting, and announcements of resolutions of the Board of Directors and the Supervisory Committee, published on p. C79 of Shanghai Securities News, p. B15 and 16 of South China Morning Post (Hong Kong), p. A47 and 48 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (2) 29 April 2005 – announcements of connected transaction and resolutions of the Supervisory Committee, published on p. C42 of Shanghai Securities News, p. B16 and 18 of South China Morning Post (Hong Kong), p. A54 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (3) 15 June 2005 – announcement of resolutions passed at the annual general meeting, published on p. C6 of Shanghai Securities News, p. B4 of South China Morning Post (Hong Kong), p. A28 of Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (4) 29 June 2005 – announcement of bonus and dividends payments for 2004, published on p. C14 of Shanghai Securities News, and at the same time made available at the Shanghai Stock Exchange Website.

VI. FINANCIAL REPORT

CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2005

RMB

ASSETS	Note 5	As at 30 June 2005 Unaudited	As at 31 December 2004 Audited
CURRENT ASSETS:			
Cash and balances with financial institutions	1	3,656,582,901	2,181,496,179
Short term investments	3	13,568,593	13,568,593
Bills receivable	4	1,963,856,959	2,233,825,798
Trade receivables	5	231,517,253	276,552,306
Other receivables	6	225,232,471	87,349,876
Prepayments	7	714,775,789	693,349,620
Inventories	8	6,236,803,635	4,754,183,701
Total current assets		13,042,337,601	10,240,326,073
LONG TERM INVESTMENTS:			
Long term equity investments	9	375,304,115	166,835,223
Long term debt investment	9	13,578,870	13,578,870
Total long term investments		388,882,985	180,414,093
FIXED ASSETS:			
Cost	10	27,177,930,824	25,423,116,672
Less: Accumulated depreciation	10	(8,434,039,692)	(7,436,723,575)
Net book value	10	18,743,891,132	17,986,393,097
Less: Impairment provision	10	(117,056,844)	(117,056,844)
Fixed assets, net	10	18,626,834,288	17,869,336,253
Construction materials	11	1,776,756,421	468,967,130
Construction in progress	12	2,484,283,627	1,843,130,392
Total fixed assets		22,887,874,336	20,181,433,775
INTANGIBLE AND OTHER ASSETS:			
Intangible assets	13	848,482,848	859,020,589
TOTAL ASSETS		37,167,577,770	31,461,194,530

The accompanying notes form an integral part of the financial statements.

VI. FINANCIAL REPORT (continued)

CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2005

RMB

LIABILITIES AND SHAREHOLDERS' FUNDS	Note 5	As at 30 June 2005 Unaudited	As at 31 December 2004 Audited
CURRENT LIABILITIES:			
Short term loans	14	5,423,654,450	1,580,921,650
Bills payable	15	456,000,000	80,000,000
Accounts payable	16	4,011,355,588	3,192,160,560
Deposits received	17	3,833,942,473	3,482,897,857
Wages payable	18	102,616,637	45,276,065
Staff welfare payable		64,337,521	62,006,866
Dividend payable	19	1,420,166,000	–
Taxes payable	20	568,125,926	711,333,016
Other taxes payable	21	45,262,232	48,824,630
Other payables	22	388,177,547	326,017,667
Accrued charges	23	181,974,823	70,321,211
Long term loans due within a year	24	260,680,331	80,841,669
Total current liabilities		16,756,293,528	9,680,601,191
LONG TERM LIABILITIES:			
Long term loans	25	2,059,805,246	4,134,143,501
Specific payables	26	19,800,000	19,800,000
Other long term liabilities	27	114,757,600	114,757,600
Total long term liabilities		2,194,362,846	4,268,701,101
Total liabilities		18,950,656,374	13,949,302,292
MINORITY INTERESTS			
		98,200,135	76,314,528
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	5,427,045,095	5,427,045,095
Surplus reserves	30	1,794,626,973	1,794,626,973
including: statutory public welfare fund	30	892,852,471	892,852,471
Retained profits	31	4,441,749,193	3,758,605,642
including: cash dividend proposed by directors		–	1,420,166,000
Total shareholders' funds		18,118,721,261	17,435,577,710
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		37,167,577,770	31,461,194,530

The accompanying notes form an integral part of the financial statements.

Company Representative:
Gu Jianguo
15 August 2005

Chief Accountant:
Su Jiangan
15 August 2005

Head of Accounting Department:
Guan Yagan
15 August 2005

VI. FINANCIAL REPORT (continued)

CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	Note 5	For the six months ended 30 June	
		2005 Unaudited	2004 Unaudited
Principal operating income	32	16,663,877,205	12,808,080,075
Less: Cost of sales	32	(13,544,451,055)	(9,531,762,014)
Taxes and surcharges	33	(116,453,564)	(90,576,934)
Profit from principal operating activities		3,002,972,586	3,185,741,127
Add: Other operating profit	34	43,917,559	13,834,610
Less: Selling expenses	35	(97,612,515)	(70,390,165)
Administrative expenses		(357,203,348)	(359,407,093)
Financial expenses	36	(66,326,989)	(70,694,899)
Operating profit		2,525,747,293	2,699,083,580
Add: Investment income	37	4,995,983	1,105,000
Subsidies income	38	–	672,381
Non-operating income	39	3,243,208	6,445,613
Less: Non-operating expenses	40	(3,054,072)	(1,406,141)
Profit before tax		2,530,932,412	2,705,900,433
Less: Income tax		(410,268,198)	(403,928,166)
Minority interests	41	(17,354,663)	(1,945,538)
Net profit		2,103,309,551	2,300,026,729
Add: Retained profits at beginning of period		3,758,605,642	2,268,184,065
Profit available for distribution		5,861,915,193	4,568,210,794
Less: Transfers to statutory surplus reserve		–	–
Transfers to statutory public welfare fund		–	–
Transfers to reserve fund		–	–
Transfers to enterprise expansion fund		–	–
Transfers to employee bonus and welfare fund		–	–
Profit available for distribution to shareholders		5,861,915,193	4,568,210,794
Less: Ordinary share dividend payable		(1,420,166,000)	(1,355,613,000)
Retained profits at end of period		4,441,749,193	3,212,597,794

The accompanying notes form an integral part of the financial statements.

Company Representative:
Gu Jianguo
15 August 2005

Chief Accountant:
Su Jiangan
15 August 2005

Head of Accounting Department:
Guan Yagang
15 August 2005

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

		For the six months ended 30 June	
		2005	2004
		Unaudited	Unaudited
	Note 5		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	20,796,124,957	16,138,594,034
	Refunds of taxes	4,459,470	–
	Cash received relating to other operating activities	329,100	688,680
	Sub-total of cash inflows	20,800,913,527	16,139,282,714
	Cash paid for goods and services	(14,075,450,292)	(10,963,680,931)
	Cash paid to and on behalf of employees	(1,046,097,619)	(965,018,854)
	Cash paid for all taxes	(1,781,936,899)	(1,379,419,192)
	Cash paid relating to other operating activities	(151,838,866)	(174,366,593)
	Sub-total of cash outflows	(17,055,323,676)	(13,482,485,570)
	Net cash flows from operating activities	3,745,589,851	2,656,797,144
2.	Cash flows from investing activities:		
	Cash received from returns on investments	14,102,906	15,821,024
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	6,092,841	9,699,232
	Cash received from retrieval of overdue deposits	757,158	42,530,000
	Sub-total of cash inflows	20,952,905	68,050,256
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(3,783,145,176)	(2,003,285,046)
	Increase in pledged deposits	(103,214,700)	–
	Cash paid for acquisitions of investments	(208,523,292)	(4,000,000)
	Cash paid for acquisition of businesses	(149,773,584)	–
	Sub-total of cash outflows	(4,244,656,752)	(2,007,285,046)
	Net cash flows from investing activities	(4,223,703,847)	(1,939,234,790)

The accompanying notes form an integral part of the financial statements.

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	For the six months ended 30 June	
	2005 Unaudited	2004 Unaudited
3. Cash flows from financing activities:		
Cash received from investments by others	6,795,860	5,741,067
Cash received from borrowings	5,520,081,175	1,017,158,890
Cash received from net increase in trust receipt loans	50,070,775	371,284,381
Sub-total of cash inflows	5,576,947,810	1,394,184,338
Cash repayments of borrowings	(3,468,737,466)	(1,214,274,575)
Cash paid for distribution of dividend or profits and for interest expenses	(186,181,885)	(703,093,084)
Cash paid relating to other financing activities	(32,228,731)	(22,576,513)
Sub-total of cash outflows	(3,687,148,082)	(1,939,944,172)
Net cash flows from financing activities	1,889,799,728	(545,759,834)
4. Effect of foreign exchange rate changes on cash	(39,823,434)	3,077,210
5. Net increase in cash and cash equivalents	1,371,862,298	174,879,730

VI. FINANCIAL REPORT (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	For the six months ended 30 June	
	2005 Unaudited	2004 Unaudited
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,103,309,551	2,300,026,729
Add: Minority interests	17,354,663	1,945,538
Depreciation of fixed assets	999,580,549	841,703,209
Amortisation of intangible assets	10,537,741	10,528,605
Increase in accrued charges	111,653,612	34,034,942
Gain on disposal of fixed assets, intangible assets and other long term assets, net	(2,914,108)	(6,429,314)
Financial expenses	61,496,880	66,352,316
Investment income	(4,995,983)	(1,105,000)
Increase in inventories	(1,330,379,424)	(1,593,536,678)
Decrease/ (increase) in receivables from operating activities	251,870,532	(56,321,043)
Increase in payables from operating activities	1,528,075,838	1,059,597,840
Net cash flows from operating activities	<u>3,745,589,851</u>	<u>2,656,797,144</u>
2. Investing and financing activities that do not involve cash receipts and payments:	-	-
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	3,544,738,039	2,546,508,699
Less: Cash and balances with financial institutions at beginning of period	(2,172,875,741)	(2,371,628,969)
Add: Balance of cash equivalents at end of period	-	-
Less: Balance of cash equivalents at beginning of period	-	-
Net increase in cash and cash equivalents	<u>1,371,862,298</u>	<u>174,879,730</u>

Company Representative:

Gu Jianguo

15 August 2005

Chief Accountant:

Su Jianguang

15 August 2005

Head of Accounting Department:

Guan Yagang

15 August 2005

VI. FINANCIAL REPORT (continued)

COMPANY BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2005

RMB

ASSETS	Note 5	30 June 2005 Unaudited	31 December 2004 Audited
CURRENT ASSETS:			
Cash and balances with financial institutions		2,937,743,399	1,756,213,758
Short term investments		13,568,593	13,568,593
Bills receivable		1,982,755,045	2,187,496,998
Trade receivables	5	159,869,537	252,066,804
Other receivables	6	81,079,923	20,622,495
Prepayments		749,641,961	633,524,165
Inventories		5,955,156,661	4,624,527,816
Total current assets		11,879,815,119	9,488,020,629
LONG TERM INVESTMENTS:			
Long term equity investments	9	886,710,184	594,426,011
Long term debt investment	9	13,578,870	13,578,870
Total long term investments		900,289,054	608,004,881
FIXED ASSETS:			
Cost		26,924,351,575	25,255,552,089
Less: Accumulated depreciation		(8,408,330,695)	(7,418,650,692)
Net book value		18,516,020,880	17,836,901,397
Less: Impairment provision		(117,056,844)	(117,056,844)
Fixed assets, net		18,398,964,036	17,719,844,553
Construction materials		1,776,756,421	468,967,130
Construction in progress		2,474,203,436	1,783,450,071
Total fixed assets		22,649,923,893	19,972,261,754
INTANGIBLE AND OTHER ASSETS:			
Intangible assets		826,405,001	836,687,520
TOTAL ASSETS		36,256,433,067	30,904,974,784

The accompanying notes form an integral part of the financial statements.

VI. FINANCIAL REPORT (continued)

COMPANY BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2005

RMB

		30 June 2005 Unaudited	31 December 2004 Audited
LIABILITIES AND SHAREHOLDERS' FUNDS	Note 5		
CURRENT LIABILITIES:			
Short term loans		5,271,300,500	1,492,638,475
Accounts payable		3,905,048,900	3,094,495,284
Deposits received		3,603,957,927	3,210,215,328
Wages payable		88,720,161	35,951,974
Staff welfare payable		61,620,461	59,383,567
Dividend payable	19	1,420,166,000	-
Taxes payable		596,823,339	710,358,263
Other taxes payable		42,216,383	45,927,724
Other payables		503,987,296	437,428,922
Accrued charges		180,379,346	70,248,068
Long term loans due within a year		259,445,697	79,445,694
Total current liabilities		15,933,666,010	9,236,093,299
LONG TERM LIABILITIES:			
Long term loans		2,015,985,697	4,087,366,149
Specific payables		19,800,000	19,800,000
Other long term liabilities		114,757,600	114,757,600
Total long term liabilities		2,150,543,297	4,221,923,749
Total liabilities		18,084,209,307	13,458,017,048
SHAREHOLDERS' FUNDS:			
Share capital	28	6,455,300,000	6,455,300,000
Capital reserve	29	5,427,045,095	5,427,045,095
Surplus reserves	30	1,776,006,748	1,776,006,748
including: statutory public welfare fund	30	888,003,374	888,003,374
Retained profits		4,513,871,917	3,788,605,893
including: cash dividend proposed by directors		-	1,420,166,000
Total shareholders' funds		18,172,223,760	17,446,957,736
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		36,256,433,067	30,904,974,784

The accompanying notes form an integral part of the financial statements.

Company Representative:
Gu Jianguo
15 August 2005

Chief Accountant:
Su Jianguang
15 August 2005

Head of Accounting Department:
Guan Yagang
15 August 2005

VI. FINANCIAL REPORT (continued)

COMPANY STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	Note 5	For the six months ended 30 June	
		2005 Unaudited	2004 Unaudited
Principal operating income	32	16,729,732,507	12,713,830,190
Less: Cost of sales	32	(13,667,529,322)	(9,486,579,646)
Taxes and surcharges		(113,873,599)	(88,347,193)
Profit from principal operating activities		2,948,329,586	3,138,903,351
Add: Other operating profit		10,736,113	8,130,687
Less: Selling expenses		(96,461,765)	(75,389,571)
Administrative expenses		(331,434,354)	(347,597,637)
Financial expenses		(38,860,462)	(65,919,490)
Operating profit		2,492,309,118	2,658,127,340
Add: Investment income	37	57,456,406	27,701,507
Non-operating income		3,048,237	6,445,613
Less: Non-operating expenses		(2,939,602)	(1,358,506)
Profit before tax		2,549,874,159	2,690,915,954
Less: Income tax		(404,442,135)	(402,576,120)
Net profit		2,145,432,024	2,288,339,834
Add: Retained profits at beginning of period		3,788,605,893	2,285,413,280
Profit available for distribution		5,934,037,917	4,573,753,114
Less: Transfers to statutory surplus reserve		-	-
Transfers to statutory public welfare fund		-	-
Profit available for distribution to shareholders		5,934,037,917	4,573,753,114
Less: Ordinary share dividend payable		(1,420,166,000)	(1,355,613,000)
Retained profits at end of period		4,513,871,917	3,218,140,114

The accompanying notes form an integral part of the financial statements.

Company Representative:

Gu Jianguo

15 August 2005

Chief Accountant:

Su Jiangan

15 August 2005

Head of Accounting Department:

Guan Yagang

15 August 2005

VI. FINANCIAL REPORT (continued)

COMPANY CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

		For the six months ended 30 June	
		2005	2004
		Unaudited	Unaudited
	Note 5		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	20,330,374,333	15,845,937,517
	Cash received relating to other operating activities	479,148	16,299
	Sub-total of cash inflows	20,330,853,481	15,845,953,816
	Cash paid for goods and services	(13,821,827,417)	(9,877,392,965)
	Cash paid to and on behalf of employees	(1,050,763,765)	(953,455,449)
	Cash paid for all taxes	(1,748,045,210)	(1,372,870,139)
	Cash paid relating to other operating activities	(134,334,474)	(169,769,627)
	Sub-total of cash outflows	(16,754,970,866)	(12,373,488,180)
	Net cash flows from operating activities	3,575,882,615	3,472,465,636
2.	Cash flows from investing activities:		
	Cash received from returns on investments	18,678,590	15,583,749
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	5,737,310	9,699,232
	Cash received from retrieval of overdue deposits	757,158	42,530,000
	Sub-total of cash inflows	25,173,058	67,812,981
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(3,835,278,289)	(1,973,343,753)
	Cash paid for acquisitions of investments	(245,094,144)	(4,000,000)
	Cash paid for acquisition of businesses	(149,773,584)	-
	Sub-total of cash outflows	(4,230,146,017)	(1,977,343,753)
	Net cash flows from investing activities	(4,204,972,959)	(1,909,530,772)

The accompanying note form an integral part of the financial statements.

VI. FINANCIAL REPORT (continued)

COMPANY CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	For the six months ended 30 June	
	2005 Unaudited	2004 Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	5,417,798,000	1,012,158,890
Sub-total of cash inflows	5,417,798,000	1,012,158,890
Cash repayments of borrowings	(3,379,775,924)	(1,213,634,290)
Cash paid for distribution of dividend or profits and for interest expenses	(172,712,558)	(701,618,266)
Cash paid relating to other financing activities	(32,052,975)	(22,576,513)
Sub-total of cash outflows	(3,584,541,457)	(1,937,829,069)
Net cash flows from financing activities	1,833,256,543	(925,670,179)
4. Effect of foreign exchange rate changes on cash	(22,636,558)	4,656,702
5. Net increase in cash and cash equivalents	1,181,529,641	641,921,387

VI. FINANCIAL REPORT (continued)

COMPANY CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2005

RMB

	For the six months ended 30 June	
	2005 Unaudited	2004 Unaudited
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	2,145,432,024	2,288,339,834
Add: Depreciation of fixed assets	991,604,579	839,921,532
Amortisation of intangible assets	10,282,519	10,282,519
Increase in accrued charges	110,131,278	34,030,050
Gain on disposal of fixed assets, intangible assets and other long term assets, net	(2,898,237)	(6,429,314)
Financial expenses	36,525,552	65,071,997
Investment income	(57,456,406)	(27,701,507)
Increase in inventories	(1,178,388,335)	(1,581,760,029)
Decrease in receivables from operating activities	216,539,400	519,275,076
Increase in payables from operating activities	1,304,110,241	1,331,435,478
Net cash flows from operating activities	<u>3,575,882,615</u>	<u>3,472,465,636</u>
2. Investing and financing activities that do not involve cash receipts and payments:	<u>-</u>	<u>-</u>
3. Net increase in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	2,937,743,399	2,316,822,231
Less: Cash and balances with financial institutions at beginning of period	(1,756,213,758)	(1,674,900,844)
Add: Balance of cash equivalents at end of period	-	-
Less: Balance of cash equivalents at beginning of period	-	-
Net increase in cash and cash equivalents	<u>1,181,529,641</u>	<u>641,921,387</u>

Company Representative:

Gu Jianguo

15 August 2005

Chief Accountant:

Su Jianguo

15 August 2005

Head of Accounting Department:

Guan Yagang

15 August 2005

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2005

1. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the "Company") was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993 as a joint stock company as part of the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang"). On the same date, the Company took over as from the effective date of the reorganisation on 1 June 1993, the principal iron and steel business undertakings (with the exception of the mine sites and other operations unrelated to iron and steel production) and two subsidiaries of Original Magang, together with the related operating assets and liabilities. The consideration for the net assets acquired of RMB4,826,547,000 was satisfied by the issue of 4,034,560,000 State A shares of RMB1.00 each, credited as fully paid, to Original Magang. At the same time, Original Magang changed its name to Maanshan Magang Holding Company. In 1998, it further changed its name to Magang (Group) Holding Company Limited ("Holding").

The Company is principally engaged in the manufacture and sale of iron and steel products.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS

The principal accounting policies, estimates and the preparation of consolidated financial statements, based upon which the financial statements are prepared, were selected in accordance with Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises" and other related standards, regulations and rules as issued by the Ministry of Finance of the PRC.

1. Accounting system

The Company and its subsidiaries (the "Group") has implemented Accounting Standards for Business Enterprises and "Accounting System for Business Enterprises".

2. Financial year

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

3. Reporting currency

Except for overseas subsidiaries which use their respective local currencies for recording purposes, Renminbi is used as the Group's reporting currency.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

4. Basis of accounting

The Group's accounts have been prepared on an accrual basis. Assets are valued at actual cost when they are acquired. Subsequently, following regular inspection, the Group provides impairment provisions in accordance with "Accounting System for Business Enterprises".

5. Foreign currency transaction

Foreign currency transactions are translated into the reporting currency at the exchange rates quoted by the People's Bank of China prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable rates of exchange ruling at the balance sheet date as quoted by the People's Bank of China. The consequential exchange gains or losses are dealt with in the current period's income statement. Foreign currency translation differences relating to funds borrowed to finance the acquisition or construction of fixed assets are accounted for according to the requirements relating to the capitalisation of borrowing costs.

6. Foreign currency translation

All assets and liabilities are translated to Renminbi at the exchange rates prevailing at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the exchanged rates prevailing at the transaction date; retained profits are recorded based on the amount stated on the statement of income and profit appropriation after translation adjustments; exchange differences arising from the difference between total translated assets and the sum of total translated liabilities and translated shareholders' equity are dealt with in the exchange fluctuation reserve as a separate allocation of retained profits. All statement of income and profit appropriation items are translated at the average exchange rates during the year. All cash flow statement items are translated at the average exchange rates during the year. All opening balances and last year actual amounts are stated at last year translated amounts.

7. Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and which were within three months of maturity when acquired.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

8. Short term investments

The Group's short term investments refer to those investments that can be realised at any time and that are intended to be held for less than one year. They include stocks, bonds and funds. Short term investments are recorded at the initial price paid on acquisition less cash dividends that are declared but not received, and interest on bonds due but not received.

Cash dividends and interest on short term investments declared by investee company during the holding period are net off against the book value of the investment when received, except for those recorded as receivables when acquired. Upon disposal of short term investments, the difference between the book value of the short term investments and the proceeds on disposal are recorded as a gain or loss on disposal of investments for the current period. The cost of the investments is determined using the weighted average method.

Short term investments, using the individual comparison method, are stated at the lower of cost and market value at the end of the period. Provision for decline in value of short term investments is made for any reduction of cost to market value, and charged to the income statement in the period in which they arise.

9. Bad debts provision

Recognition criteria for bad debts:

- (i) the irrecoverable amount of a bankrupt or deceased debtor who has insufficient assets or estate to repay the debt;
- (ii) the irrecoverable amount, supported by evident characteristics, of a debtor who is unable to comply with the repayment obligation after the debt fell due.

Bad debts provision is made using the provision method and is offset against the corresponding trade and other receivables when those bad debts are approved by directors.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

9. Bad debts provision (continued)

The Group adopted the provision method under which specific and general provisions were made to account for bad debt losses on trade and other receivables. A specific provision refers to an amount that is provided based on management's assessment of the recoverability of an individual receivable. A general provision is set up on the remaining balances of trade and other receivables based on the ageing analysis. Full provision is made for those trade and other receivables that have been specifically identified as irrecoverable, while general provision is made for the remaining balance after taking into account the ageing analysis. The general provision was determined in accordance with the financial and cash flow status of the debtor, using the percentages below:

Ageing	Bad debts general provision percentage (Net of post balance sheet date settlement)	
	Trade receivables	Other receivables
1 to 6 months	–	–
7 to 12 months	10%	–
13 to 24 months	25%	40%
25 to 36 months	50%	60%
over 36 months	100%	100%

10. Inventories

Inventories include raw materials, auxiliary materials, work in progress, finished goods and spare parts. Inventories are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at actual cost of acquisition. Raw materials are stated at cost of purchase. Cost of work in progress and finished goods comprise direct materials, direct labour and an appropriate proportion of production overheads. Cost of spare parts are charged to the income statement when issued for production as production cost for the period and hence included in the cost of finished goods sold. Inventories, other than spare parts, are determined on weighted average basis. Inventories are accounted for using perpetual inventory system.

Provision is made for those inventories which cannot be recovered due to them being damaged, wholly or partly obsolete, or having their selling prices lower than cost. Provision is determined as the excess of carrying value of the inventories over its net realisable value on an individual basis. Net realisable value is the estimated selling prices in the ordinary course of business less any estimated costs of completion and estimated selling expenses.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

11. Long term investments

Long term investments include long term equity investments and long term debt investments.

Long term equity investments are recorded at initial cost on acquisition. The equity method is then applied when the Company holds 20% or more of the voting capital, or less than 20% but with significant influence, while cost method is then applied for all other equity investments when the Company holds less than 20% of the voting capital, or has 20% or above but without significant influence.

When the equity method is adopted, the amount of initial cost of the investment in excess of the investor's share of the owner's equity in the investee company is regarded as an equity investment difference and amortised according to the investment period specified in the contract. If the investment period is not specified in the contract, the difference is amortised over a period of not more than 10 years (including 10 years). The amount of initial cost of the investment fall short of the investor's share of the owner's equity in the investee company is credited to the capital reserve.

When the equity method is adopted, the Group should, after the acquisition of the equity investment, adjust the carrying amount of the investment according to its attributable share of the investee enterprise's net profit or loss and recognised as investment income or loss for the current period accordingly. It recognises net losses incurred by the investee enterprise to the extent that the carrying amount of the investment is reduced to zero.

When the cost method is adopted, profits or cash dividends declared to be distributed by the investee enterprise should be recognised as investment income in the current period after the investment acquired by the Group. The excess should be treated as a recovery of investment cost.

Long term debt investments are recorded at the initial cost on acquisition. Interest income is computed based on the par value and par interest rate over the period. The premium and discount on long term debt investments is amortised over the period in which the investment is held and the relevant bond interest is recognised.

If the recoverable amount of any investment is lower than the carrying amount of that investment as a result of a continuing decline in market value or changes in operating conditions of the investee company, the difference between the recoverable amount and the carrying amount of the investment should be recognised as an impairment of a long term investment and an investment loss in the current period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

12. Fixed assets

Fixed assets represent tangible assets held for the purposes of production of products, provision of services, leasing or operational use. They are of relatively high value and have useful lives exceeding 1 year.

Fixed assets are recorded at cost of acquisition. The cost of fixed assets which is purchased separately comprise its purchase price, value added tax, import duties and other related taxes, and any directly attributable expenditures for bringing the asset to its working condition for its intended use, such as transportation and installation costs. Interest and exchange differences arising from specific borrowings that are incurred in bringing the fixed asset to its working condition are capitalised. If the future economic benefits brought about by the incurrence of subsequent overhaul and technical improvement costs are greater than those originally estimated, then such costs will be capitalised as fixed assets. In the prior years, furnace relining costs were amortised, using the straight line method, over the period between relinings. Under the PRC accounting standards issued in 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs on a straight-line basis. As prescribed by the standard, a prior year adjustment has not been made for the balance of provision for furnace relining costs as at 31 December 2001 as the balance will be net off against future furnace relining costs to be actually incurred. Expenditure on repair and maintenance of fixed assets are charged to the income statement as and when incurred. A gain or loss on obsolescence, inventory losses, disposal or damage to fixed assets is accounted for as non-operating income or expenses in the current period.

Depreciation is provided on fixed assets using the straight-line method. The depreciation rates are determined based on the cost, the estimated useful lives and estimated residual value (3% of original cost) of each category of fixed assets as follows:

Category	Estimated useful life	Annual depreciation rate
Buildings and structures	10 to 20 years	4.85% – 9.7%
Plant, machinery and equipment	10 years	9.7%
Transportation vehicles and equipment	5 years	19.4%

The useful life of land use rights included in buildings and structures exceeded the estimated useful life of buildings. The corresponding amount is treated as residual value.

Fixed assets are depreciated on a monthly basis from the month following that in which the assets are used in operation. For fixed assets that are no longer used in operation, depreciation ceases from the month following that in which the assets cease to be used.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

The Group reviews its fixed assets periodically. If the recoverable amount of the fixed asset is lower than the carrying amount of the fixed asset as a result of a continuing decline in market value, technical obsolescence, damages in fixed asset or when it is persistently idle, the difference between the recoverable amount and the carrying amount of the fixed asset is recognised as an impairment provision and charged to the current period's income statement. Recoverable amount refers to the higher of the net selling price and the value in use of the fixed asset. Value in use refers to the present value of estimated future cash flows expected to arise from the continuing use of the fixed asset and from its disposal at the end of its useful life. Impairment provision is made on an individual basis.

If there are indications that the factors based on which an impairment loss for a fixed asset was recognised in prior periods have been changed, resulting in the recoverable amount of the fixed asset becoming higher than its carrying amount, the impairment loss recognised in prior periods should be reversed. The amount to be reversed should not exceed the amount of impairment loss originally provided.

No depreciation is charged to fixed asset that has already been fully provided for impairment in value.

13. Construction materials

Construction materials include preparation materials for construction projects, equipment that needs to be installed and prepayment for large-scale equipment. Construction materials are recorded at actual cost.

14. Construction in progress

Construction in progress represents the costs incurred in the construction and installation of fixed assets in bringing construction from its preparation stage to its working condition. Cost comprises direct materials, direct labour, equipment cost, installation and management fee, as well as interest charges and exchange differences on the related borrowed funds during the periods of construction and installation. Interest charges and exchange differences arising from funds borrowed for construction in progress are capitalised when the construction in progress are not substantially ready for their intended use and charged as financial expenses when they are subsequently ready. Construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

14. Construction in progress (continued)

The Group reviews its construction in progress periodically. Provision for impairment should be made for construction in progress if one of the following conditions exists:

- (i) the projects are suspended for a long time and will not resume construction within three years;
- (ii) the projects are of functional and technological obsolescence and the economic benefits arising from such projects are extremely uncertain, and hence causing their recoverable amounts to be lower than their carrying values.

The difference between the recoverable amount and the carrying value of the construction in progress is recognised as an impairment provision and charged to the current period's income statement. Provision for impairment of construction in progress is calculated on an individual basis.

15. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings. The costs of borrowings especially for the acquisition or construction of a fixed asset are capitalised when:

- (i) expenditures for the assets are incurred; and
- (ii) borrowing costs are incurred; and
- (iii) the acquisition and construction activities that are necessary to bring the assets to their expected usable conditions have commenced.

The capitalisation of borrowing costs is suspended during the period in which the acquisition or construction of a fixed asset is abnormally interrupted, and the interruption period is more than 3 months. Borrowing costs during the period are then treated as an expense of the current period until the acquisition or construction is resumed.

The capitalisation of borrowing costs ceases when the fixed asset being acquired or constructed is substantially ready for its intended use and borrowing costs incurred thereafter are recorded as financial expenses in the period in which they are incurred.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

15. Borrowing costs (continued)

The capitalised borrowing costs for each accounting period are computed based on the accumulated weighted average expenditure incurred for the acquisition or construction of fixed assets up to the end of the period, using the related weighted average interest rate, subject to the actual borrowing costs and amortisation of discounts and premiums thereof. Exchange difference and significant specific ancillary borrowing expenses of foreign specific borrowing will be capitalised at its actual cost.

Expenses incurred in other borrowings should be recognised as financial expenses in the period in which they are incurred.

16. Intangible assets

The Group's intangible assets represent land use rights and are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off the cost over the lease term of 50 years.

The Group reviews the carrying amount of its intangible assets periodically. Any excess of the carrying amount of the asset over the recoverable amount is recognised as an impairment provision and is charged to the income statement in the current period.

17. Specific payables

Government subsidies for specific construction projects are recognised as specific payables on actual receipt of the subsidies. Upon completion of the subsidised construction projects, the costs incurred are recognised as fixed assets and the utilised portion of specific payables thereof are transferred to the capital reserve.

18. Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and when it is probable that the economic benefits associated with the transaction will flow to the Group; and the relevant amounts of revenue and costs can be measured reliably.

Revenue from the sale of goods is determined according to the invoiced value of goods sold, and excludes value added tax ("VAT"). Sales returns and allowances are recorded as a reduction of revenue in the period in which the returns and allowances occur. Cash discounts are recognised as expenses in the period in which they are incurred.

Interest income is recognised using the matching principle and after taking into account the principal outstanding and the effective interest rate applicable.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CONSOLIDATION OF FINANCIAL STATEMENTS (continued)

19. Income tax

The Company uses tax payable method to account for income tax. Current period's profit before tax is adjusted according to relevant tax laws to arrive at the taxable profit, which is used to calculate income tax expenses.

20. Related parties

Parties are considered to be related if, in making financial and operating decisions one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

21. Preparation of consolidated financial statements

The Group's consolidated financial statements are prepared according to the rules of directive No. 1995(11) issued by the Ministry of Finance. The consolidated financial statements include companies in which the Group has over 50% of the equity voting rights, or companies in which the Group has less than 50% of the equity voting rights, but is able to control its financial and operating policies. All significant inter-company transactions and balances within the Group are eliminated in consolidation.

3. TAX

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

1. VAT

According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales and the refunds rate is 13%. The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.

2. Business tax

Payable based on 3% – 5% of the service income.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

3. TAX (continued)

3. City construction and maintenance tax

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

4. Education surcharge

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

5. Local education surcharge

Payable based on 1% of the net VAT and business tax to be paid.

6. Flood prevention fund

Payable based on 0.06% of last year's sales or operating income.

7. Real estate tax

Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.

8. Corporate income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practice in respect thereof. Certain subsidiaries of the Company are foreign investment enterprises. Their corporate income taxes have been provided at the rate of 15% to 30% and are entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holidays. After obtaining authorisation from their respective tax bureaux, they can enjoy the tax holidays starting from year 2004. Profits tax of the Hong Kong subsidiary has been provided at the rate of 17.5% on the estimated assessable profits which were earned in or derived from Hong Kong during the year. No provision for income tax for other overseas subsidiaries have been made as there were no assessable profits during the year.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

4. SUBSIDIARIES AND ASSOCIATES

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries							
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Anhui, PRC	Import of machinery and raw materials and export of steel products	RMB50,000,000	RMB50,000,000	50,000,000	100	–
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	Anhui, PRC	Planning and design of metallurgical, construction and environmental protection projects	RMB12,720,000	RMB12,720,000	7,500,000	58.96	7.86
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	RMB8,000,000	RMB8,000,000	7,500,000	93.75	4.18
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Anhui, PRC	Production, sale and transportation of slag products and provision of related consultation services	US\$4,290,000	US\$4,290,000	24,854,930	70	–
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	RMB35,000,000	RMB35,000,000	8,225,885	70	30

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

4. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Production, processing and sale of steel plates, steel wires and steel sections; provision of storage and after-sales services	RMB12,000,000	RMB12,000,000	-	-	80
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services	RMB120,000,000	RMB120,000,000	80,000,000	66.67	-
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	HK\$4,800,000	HK\$4,800,000	4,101,688	80	20
Anhui Masteel Holly Packing Co. ("Holly Packing")	Anhui, PRC	Provision of packing materials for steel and other products; production and sale of metallic products, plastics, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on site packing services	RMB30,000,000	RMB30,000,000	21,478,316	71	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

4. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
MG Trading and Development GmbH ("MG Trading")	Germany	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	EUR153,388	1,573,766	100	-
馬鞍山馬鋼華陽設備診斷工程有限公司 (「華陽設備」) (Note i)	Anhui, PRC	Equipment inspection technique consultancy services, equipment services and equipment inspection work	RMB1,000,000	RMB1,000,000	900,000	90	-
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)") (Note i)	Zhejiang, PRC	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services	RMB120,000,000	RMB38,658,500	36,000,000	75	-
Maanshan Iron & Steel (Australia) proprietary Limited	Australia	Investment holding	AUD21,737,900	AUD21,737,900	126,312,415	100	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

4. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Associates							
濟源市金馬焦化有限公司 ("濟源市金馬焦化")	Henan, PRC	Production and sale of coke, tar, benzene and coal gas	RMB200,000,000	RMB200,000,000	80,000,000	40	-
滕州盛隆煤焦化有限公司 ("滕州盛隆煤焦化")	Shandong, PRC	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services	RMB208,800,000	RMB208,800,000	66,776,000	32	-
馬鞍山市五環報廢汽車回收拆解有限責任公司 ("五環汽車回收")	Anhui, PRC	Recycling and dismantling of scrap motor vehicle and trading of steel products	RMB500,000	RMB500,000	200,000	40	-
上海大宗鋼鐵電子交易中心有限公司 ("上海鋼鐵電子")	Shanghai, PRC	Set-up of iron & steel e-commerce and related services; provision of iron & steel e-commerce technology and information services	RMB20,000,000	RMB20,000,000	4,000,000	20	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

4. SUBSIDIARIES AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Associates (continued)							
馬鞍山港口(集團) 有限責任公司 (“馬鞍山港口公司”) (Note i)	Anhui, PRC	Loading/unloading, cargo forwarding agency service, storage, transmitting of cargo and division or merge of cargo in containers; provision of general services to ships, repairing and manufacturing of spare parts	RMB250,000,000	RMB205,623,292	68,123,292	45	-
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") (Note i)	Anhui, PRC	Manufacture and sale of air products (hydrogen, oxygen, argon and other gases) in gas and liquid states and other industrial gases, provision of products related sales and supply work and technical services and other related services	RMB468,000,000	RMB280,800,000	140,400,000	50	-
Total					<u>727,946,292</u>		

Note i: Newly incorporated during the period

The names of certain PRC subsidiaries in English are direct translations of their registered names in Chinese.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	30 June 2005			31 December 2004		
	Original currency	Unaudited Exchange rate	RMB	Original currency	Audited Exchange rate	RMB
Cash on hand	RMB233,796	1.0000	233,796	RMB105,616	1.0000	105,616
Balances with financial institutions (Note 2)	RMB2,228,412,644	1.0000	2,228,412,644	RMB1,919,394,341	1.0000	1,919,394,341
	HK\$151,715,351	1.0649	161,712,003	HK\$1,364,893	1.0637	1,451,839
	US\$38,278,116	8.2765	316,839,611	US\$16,749,730	8.2765	138,642,156
	EUR77,565,756	9.961	773,781,867	EUR1,430,777	11.2627	16,114,419
	JPY337,797	0.0751	25,369	JPY337,797	0.079701	26,922
Other balances with financial institutions	RMB103,322,815 (Note)	1.0000	103,322,815	RMB15,111,783	1.0000	15,111,783
	US\$1,244,369 (Note)	8.2765	10,329,897	US\$10,003,781	8.2765	82,817,450
	EUR4,901,399	9.961	48,822,830	EUR31,226	11.2627	351,690
	JPY174,347,887	0.0751	13,102,069	JPY93,850,305	0.079701	7,479,963
Total			3,656,582,901			2,181,496,179

Note: Included in the cash and balances with financial institutions as at 30 June 2005 were deposits amounting to US\$1,039,000 (equivalent to RMB8,630,162) which have been pledged to the Hong Kong and Shanghai Banking Corporation Limited as securities for the provision of banking facilities to Ma Steel (HK); deposits amounting to RMB82,200,000 and RMB21,014,700 which have been pledged to Shenzhen Development Bank Co., Ltd and Shanghai Pudong Development Bank Co., Ltd respectively by the Company's subsidiaries as securities for the application of bank accepted bills. These deposits were not readily available for payment.

The increase in the Group's cash and balances with financial institutions by 68% was mainly attributable to the increase in cash receipt from sales of steel products.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four non-bank financial institutions, aggregating approximately HK\$127 million (31 December 2004: HK\$128 million).

	Notes	30 June 2005 Unaudited HK\$'000	31 December 2004 Audited HK\$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	23,317	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	7,894	8,608
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	48,000	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	48,125	48,125
		<u>127,336</u>	<u>128,050</u>

Based on legal advice, the directors are satisfied that the Company's deposits with the above non-bank financial institutions are valid fixed deposits.

- (i) GITIC was declared bankrupt by Shenzhen Intermediate People's Court of Guangdong Province on 16 January 1999. On 28 February 2003, the People's High Court of Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the period, no allocation of assets was made by the liquidator of GITIC.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

- (ii) China Venturetech is now in liquidation and the Company has registered its debts with中國人民銀行關閉中國新技術創業投資公司清算組 (the liquidator of China Venturetech). On 22 July 2004, the Company signed a repayment agreement with the liquidator of China Venturetech and the liquidator agreed to repay approximately RMB757,000 each in year 2003(delayed), 2004 and 2005. The remaining debts will be repaid by the proceeds from liquidating China Venturetech's assets with the amount determined based on the result of the liquidation in year 2006 and 2007. On 3 December 2004 and 2 February 2005, the Company received two repayments from the liquidator each amounting to approximately RMB757,000.
- (iii) Ningbo CITIC is now in liquidation and the Company has registered its debts with the liquidator. SEG is currently in the process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed. Up to the approval date of the financial statements, no repayments have been received from Ningbo CITIC and SEG.

The directors are unable to estimate, as at the date on which these financial statements were approved, the principal amount of the outstanding deposits the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the remaining overdue fixed deposits.

3. Short term investments

Item		30 June 2005 Unaudited		31 December 2004 Audited	
		Investment cost RMB	Provision for decline in value RMB	Investment cost RMB	Provision for decline in value RMB
Equity investment	Note	<u>13,568,593</u>	<u>—</u>	<u>13,568,593</u>	<u>—</u>

Note:

Name of investee company	Class of share	Number of shares held	Investment cost Unaudited RMB	Closing market unit price RMB	Market price at period end Unaudited RMB
China Petroleum & Chemical Corporation	Circulating share	1,800,000	7,596,000	3.53	6,354,000
Baoshan Iron & Steel Company Limited	Circulating share	1,428,850	<u>5,972,593</u>	4.98	<u>7,115,673</u>
Total			<u>13,568,593</u>		<u>13,469,673</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

3. Short term investments (continued)

The period end market prices of the shares were the closing market prices as at 30 June 2005 as disclosed in Shanghai Stock Exchange.

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

The movement of provision for decline in value of short term investments for the six months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

4. Bills receivable

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Bank bills	<u>1,963,856,959</u>	<u>2,233,825,798</u>
Including: Discounted bills yet to mature	<u>—</u>	<u>311,000,000</u>

The balance of bills receivable does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

As at 30 June 2005, the Group's discounted bank bills yet to mature amounted to RMB2,922 million without recourse.

In accordance with the "Questions and answers No.4 on the implementation of 'Accounting System for Business Enterprises' and related accounting standards" issued by the Ministry of Finance, when the Group discounted bills with recourse, the Group recorded the balance as short term loans based on the bank loans principal balance.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables

Trade receivables ageing analysis:

	30 June 2005				31 December 2004			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
	RMB	%	bad debts	%	RMB	%	bad debts	%
			RMB				RMB	
Within one year	215,435,084	77	(1,792,730)	1	265,606,835	83	-	-
One to two years	16,565,449	6	(4,061,620)	25	10,963,979	3	(2,208,085)	20
Two to three years	10,742,140	4	(5,371,070)	50	4,379,155	1	(2,189,578)	50
Over three years	35,891,192	13	(35,891,192)	100	40,532,016	13	(40,532,016)	100
Total	<u>278,633,865</u>	<u>100</u>	<u>(47,116,612)</u>		<u>321,481,985</u>	<u>100</u>	<u>(44,929,679)</u>	

	30 June 2005				31 December 2004			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
	RMB	%	bad debts	%	RMB	%	bad debts	%
			RMB				RMB	
Within one year	144,269,702	70	(1,792,730)	1	241,522,676	81	-	-
One to two years	16,028,660	8	(4,007,165)	25	10,507,474	4	(2,152,923)	20
Two to three years	10,742,140	5	(5,371,070)	50	4,379,155	1	(2,189,578)	50
Over three years	35,891,192	17	(35,891,192)	100	40,532,016	14	(40,532,016)	100
Total	<u>206,931,694</u>	<u>100</u>	<u>(47,062,157)</u>		<u>296,941,321</u>	<u>100</u>	<u>(44,874,517)</u>	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

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

Reason	Group	
	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Bankrupt or liquidated debtors	-	10,789,947
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	-	1,545,200
Total	-	12,335,147

Reason	Company	
	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Bankrupt or liquidated debtors	-	10,789,947
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	-	1,545,200
Total	-	12,335,147

The decrease in the Company's net trade receivables by 37% were mainly attributable to the increase in the fast pace of cash receipt.

As at 30 June 2005, the five largest trade receivables of the Group and the Company both amounted to RMB90,971,288, which accounted for 33% and 44% of the gross trade receivables of the Group and the Company respectively.

Except for those as stated in Note 6 point 6, the balance of trade receivables does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

The Company's trade receivables did not include any balances due from subsidiaries (31 December 2004: Nil).

The movement of bad debts provision for trade receivables for the six months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

6. Other receivables

Other receivables ageing analysis:

	30 June 2005				31 December 2004			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
	RMB	%	bad debts	%	RMB	%	bad debts	%
			RMB		RMB		RMB	
Within one year	219,744,600	85	-	-	85,932,312	72	(256,051)	-
One to two years	5,451,552	2	(1,388,047)	25	566,424	-	(221,450)	39
Two to three years	2,933,585	1	(1,760,151)	60	4,772,672	4	(3,694,962)	77
Over three years	29,700,863	12	(29,449,931)	99	28,676,597	24	(28,425,666)	99
Total	<u>257,830,600</u>	<u>100</u>	<u>(32,598,129)</u>		<u>119,948,005</u>	<u>100</u>	<u>(32,598,129)</u>	

	30 June 2005				31 December 2004			
	Unaudited				Audited			
	Balance	Ratio	Provision for	Ratio	Balance	Ratio	Provision for	Ratio
	RMB	%	bad debts	%	RMB	%	bad debts	%
			RMB		RMB		RMB	
Within one year	76,009,891	67	-	-	19,468,662	37	(256,051)	1
One to two years	5,284,645	5	(1,388,047)	26	553,624	1	(221,450)	40
Two to three years	2,933,585	2	(1,760,151)	60	4,772,672	9	(3,694,962)	77
Over three years	29,449,931	26	(29,449,931)	100	28,425,666	53	(28,425,666)	100
Total	<u>113,678,052</u>	<u>100</u>	<u>(32,598,129)</u>		<u>53,220,624</u>	<u>100</u>	<u>(32,598,129)</u>	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

The increase in the Group's and the Company's net other receivables by 158% and 293% respectively were mainly attributable to the increase in unsettled amounts of other transactions.

As at 30 June 2005, the five largest other receivables of the Group and the Company amounted to RMB98,629,251 and RMB49,321,369 respectively, which accounted for 38% and 43% of the gross other receivables of the Group and the Company respectively.

The balance of other receivables does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

The movement of bad debts provision for other receivables for the six months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

7. Prepayments

	30 June 2005			31 December 2004		
	Balance RMB	Ratio %	Reason of outstanding	Balance RMB	Ratio %	Reason of outstanding
Within one year	650,451,228	91	-	632,873,830	91	-
One to two year	48,205,010	7	Note	60,475,790	9	Note
Two to three year	16,119,551	2	Note	-	-	-
Total	<u>714,775,789</u>	<u>100</u>		<u>693,349,620</u>	<u>100</u>	

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

Except for those as stated in Note 6 point 6, the balance of prepayments does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

8. Inventories

	30 June 2005 Unaudited		31 December 2004 Audited	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	3,708,545,015	(5,000,000)	3,148,886,346	(5,000,000)
Work in progress	969,611,234	(3,000,000)	551,152,217	(3,000,000)
Finished goods	596,570,894	(9,656,900)	390,422,739	(9,656,900)
Spare parts	1,049,871,279	(70,137,887)	751,517,186	(70,137,887)
Total	6,324,598,422	(87,794,787)	4,841,978,488	(87,794,787)

The Group's inventories, net of provision, increased by 31% was mainly due to the increase in closing stock of raw materials quantities and the increase in unit purchase cost.

The movement of provision for inventories for the six months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

9. Long term investments

Item	At	Group		At
	1 January 2005 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	30 June 2005 Unaudited RMB
Long term equity investments				
Interests in associates (ii)	150,018,188	208,523,292	(54,400)	358,487,080
Other equity investments (iii)	16,817,035	–	–	16,817,035
	166,835,223	208,523,292	(54,400)	375,304,115
Long term debt investment				
Other debt investment (iv)	13,578,870	–	–	13,578,870
Total	180,414,093	208,523,292	(54,400)	388,882,985

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

Item	Company			At 30 June 2005
	At 1 January 2005	Increase during the period	Decrease during the period	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Long term equity investments				
Interests in subsidiaries (i)	427,590,788	89,360,423	(5,545,142)	511,406,069
Interests in associates (ii)	150,018,188	208,523,292	(54,400)	358,487,080
Other equity investments (iii)	16,817,035	–	–	16,817,035
	<u>594,426,011</u>	<u>297,883,715</u>	<u>(5,599,542)</u>	<u>886,710,184</u>
Long term debt investment				
Other debt investment (iv)	13,578,870	–	–	13,578,870
Total	<u>608,004,881</u>	<u>297,883,715</u>	<u>(5,599,542)</u>	<u>900,289,054</u>

Long term investments and short term investments amounted to RMB402,451,578 in aggregate, which represented 2% of the Group's net assets.

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

The increase in the Group's and Company's long term investments by 116% and 48% respectively were mainly attributable to the increase in investments in subsidiaries and associates.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(i) Interests in subsidiaries

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Investment cost			Adjustment for gain or loss					Closing balance
				Opening balance	Increase during the period	Decrease during the period	Opening balance	Current period share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)	Closing balance	
				Audited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	
				RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Ma Steel International Trade Corp.	N/A	100	50,000,000	50,000,000	-	-	50,000,000	22,188,603	5,407,876	-	27,596,479	77,596,479
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	13,962,200	7,964,299	-	21,926,499	29,426,499
MG Control Technique	4 Years	93.75	6,649,632	7,500,000	-	-	7,500,000	1,913,550	395,142	-	2,308,692	9,808,692
Anhui Masteel K Wah	30 Years	70	24,854,930	24,854,930	-	-	24,854,930	(1,165,378)	1,056,739	-	(108,639)	24,746,291
Ma Steel (Wuhu)	30 Years	70	8,225,885	8,225,885	-	-	8,225,885	26,620,179	5,217,950	-	31,838,129	40,064,014
Ma Steel (Guangzhou)	50 Years	66.67	80,000,000	80,000,000	-	-	80,000,000	7,852,700	6,426,272	-	14,278,972	94,278,972
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	18,846,563	4,374,606	-	23,221,169	27,322,857
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	(576,360)	-	-	(576,360)	997,406
Holly Packing	20 Years	71	21,478,316	21,478,316	-	-	21,478,316	6,401,731	22,015,526	(5,545,142)	22,872,115	44,350,431
華陽設備	20 Years	90	900,000	-	900,000	-	900,000	-	(33,615)	-	(33,615)	866,385
Ma Steel (Jinhua)	50 Years	75	36,000,000	-	36,000,000	-	36,000,000	-	(364,372)	-	(364,372)	35,635,628
Maanshan Iron and Steel (Australia) Proprietary Limited	N/A	100	126,312,415	126,312,415	-	-	126,312,415	-	-	-	-	126,312,415
Total				<u>331,547,000</u>	<u>36,900,000</u>	<u>-</u>	<u>368,447,000</u>	<u>96,043,788</u>	<u>52,460,423</u>	<u>(5,545,142)</u>	<u>142,959,069</u>	<u>511,406,069</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(ii) *Interests in associates*

Name of investee company	Investment period	Percentage of equity held by the Company	Initial investment cost	Group and Company									
				Investment cost				Adjustment for gain or loss					
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)	Closing balance	
				Audited	Unaudited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	
		%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
濟源市金馬焦化	50 Years	40	80,000,000	80,000,000	-	-	80,000,000	1,255,844	-	-	1,255,844	81,255,844	
滕州盛隆煤焦化	50 Years	32	66,776,000	66,776,000	-	-	66,776,000	(1,580,406)	-	-	(1,580,406)	65,195,594	
五環汽車回收	N/A	40	200,000	200,000	-	-	200,000	54,400	-	(54,400)	-	200,000	
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	-	-	4,000,000	(687,650)	-	-	(687,650)	3,312,350	
馬鞍山港口公司	20 Years	45	68,123,292	-	68,123,292	-	68,123,292	-	-	-	-	68,123,292	
BOC-Ma Steel	18 Years	50	140,400,000	-	140,400,000	-	140,400,000	-	-	-	-	140,400,000	
Total				150,976,000	208,523,292	-	359,499,292	(957,812)	-	(54,400)	(1,012,212)	358,487,080	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(iii) Other equity investments

Equity investments accounted for using the cost method:

Name of investee company	Nature of investments	Number of shares held	Percentage of equity held by the Company %	Investment cost Unaudited RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.014	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.074	4,559,109
河南龍宇能源股份有限公司	Legal person shares	6,500,138	0.66	10,000,000
Others				1,450,000
Total				<u>16,817,035</u>

(iv) Other debt investment

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the period RMB	Accumulated interest received/receivable RMB	Carrying value Unaudited RMB
安徽省電力開發總公司	<u>13,578,870</u>	Nil	2005-2009	<u>-</u>	<u>-</u>	<u>13,578,870</u>

The movement of provision for long term investments for the six months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	Unaudited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Cost				
At 1 January 2005	8,422,377,602	16,382,166,304	618,572,766	25,423,116,672
Additions	1,021,800	7,338,558	3,373,617	11,733,975
Acquisition of businesses (Note 43)	35,718,135	30,092,542	6,043,700	71,854,377
Transferred from construction in progress (Note 12)	429,191,157	1,258,396,015	6,540,096	1,694,127,268
Reclassifications	27,228,900	(26,436,540)	(792,360)	–
Disposal	–	(14,667,601)	(8,233,867)	(22,901,468)
At 30 June 2005	<u>8,915,537,594</u>	<u>17,636,889,278</u>	<u>625,503,952</u>	<u>27,177,930,824</u>
Accumulated depreciation				
At 1 January 2005	2,441,192,103	4,647,806,603	347,724,869	7,436,723,575
Provided during the period	198,979,579	770,490,540	30,110,430	999,580,549
Acquisition of businesses (Note 43)	7,548,487	8,386,776	1,523,040	17,458,303
Reclassifications	16,505,089	(16,421,949)	(83,140)	–
Disposal	–	(11,590,241)	(8,132,494)	(19,722,735)
At 30 June 2005	<u>2,664,225,258</u>	<u>5,398,671,729</u>	<u>371,142,705</u>	<u>8,434,039,692</u>
Net book value				
At 30 June 2005				
Net book value	6,251,312,336	12,238,217,549	254,361,247	18,743,891,132
Less: Impairment provision	(10,391,900)	(106,664,944)	–	(117,056,844)
Net book value, net of impairment provision	<u>6,240,920,436</u>	<u>12,131,552,605</u>	<u>254,361,247</u>	<u>18,626,834,288</u>
At 31 December 2004				
Net book value	5,981,185,499	11,734,359,701	270,847,897	17,986,393,097
Less: Impairment provision	(10,391,900)	(106,664,944)	–	(117,056,844)
Net book value, net of impairment provision	<u>5,970,793,599</u>	<u>11,627,694,757</u>	<u>270,847,897</u>	<u>17,869,336,253</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

The cost of fully depreciated fixed assets which are still in use amounted to approximately RMB1,230 million.

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB2.57 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

The movement of provision for impairment of fixed assets for the six month ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

11. Construction materials

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Prepayments for equipment used in construction projects	<u>1,776,756,421</u>	<u>468,967,130</u>

The increase in the Group's construction materials by 2.8 times was mainly attributable to the increase in prepayment for equipment used in new construction projects.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 30 June 2005:

Name of project	Budgeted cost	Acquisition		Addition during the period	Transferred to fixed assets	At		Percentage of completion
		At 1 January 2005	of businesses (Note 43)			30 June 2005	Source of fund	
	RMB'000	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB		%
1. Blast Furnaces Renovation Project	6,033,390	102,453,526	-	335,804,185	(124,963,637)	313,294,074	Internally generated funds	2-100
2. Converters Renovation Project	4,036,630	67,454,176	-	251,988,960	(224,500,000)	94,943,136	Internally generated funds	1-100
3. Wheel Line Renovation Project <i>Including borrowing costs capitalised:</i>	789,920	19,395,891 -	- -	87,807,270 5,946,700	(49,064,659) (4,935,700)	58,138,502 1,011,000	Internally generated funds and loans from financial institution	5-100
4. Construction Steel Lines Renovation Project <i>Including borrowing costs capitalised:</i>	15,900,170	656,910,680 2,956,790	49,735,199 -	922,559,843 21,260,106	(923,404,688) (15,105,021)	705,801,034 9,111,875	Internally generated funds and loans from financial institution	1-100
5. Coking Stoves Renovation Project	917,000	141,584,963	-	69,154,427	(141,660,000)	69,079,390	Internally generated funds	2-100
6. Public Auxiliary Utilities Project <i>Including borrowing costs capitalised:</i>	3,568,994	719,319,321 559,980	- -	369,012,601 1,597,205	(72,144,981) -	1,016,186,941 2,157,185	Internally generated funds and loans from financial institution	1-100

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Name of project	Budgeted cost	Acquisition		Addition during the period	Transferred to fixed assets (Note 10)	At 30 June 2005		Source of fund	Percentage of completion
		At 1 January 2005	of businesses (Note 43)			Unaudited	Unaudited		
	RMB'000	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB		%
7. Energy-saving and Environment Protection Project	495,970	65,533,097	-	105,529,635	(128,000,000)	43,062,732		Internally generated funds and loans from financial institution	22-100
Including borrowing costs capitalised:		-	-	3,424,720	-	3,424,720			
8. Other Projects	N/A	144,478,738	-	143,688,383	(30,389,303)	257,777,818		Internally generated funds	N/A
		1,917,130,392	49,735,199	2,285,545,304	(1,694,127,268)	2,558,283,627			
Less: Impairment provision		(74,000,000)	-	-	-	(74,000,000)			
		<u>1,843,130,392</u>	<u>49,735,199</u>	<u>2,285,545,304</u>	<u>(1,694,127,268)</u>	<u>2,484,283,627</u>			

The increase in Group's construction in progress by 35% was mainly attribute to the increase in new construction projects.

The capitalisation rates of interest are 5.49%-5.76% per annum.

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB270 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

As at the balance sheet date, equipment with a net book value of approximately RMB33.56 million (31 December 2004: RMB33.56 million) were pledged to secure a loan granted to the Group by Profit Access Investments Limited. Further details of the transaction are included in note 25 to the financial statements.

The movement of provision for impairment of construction in progress for the sixth months ended 30 June 2005 is disclosed in the supplementary information of the financial statements.

13. Intangible assets

	Method of acquisition	Original amount	Accumulated amortisation	At 1 January 2005	Additions during the period	Amortisation during the period	At 30 June 2005	Remaining years of amortisation
		Audited RMB	Audited RMB	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	
Land use rights	Purchase	<u>1,069,247,380</u>	<u>(210,226,791)</u>	<u>859,020,589</u>	-	<u>(10,537,741)</u>	<u>848,482,848</u>	<u>37-49 years</u>

At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB35 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

14. Short term loans

Type	Annual interest rate	Maturity date	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
	%			
	4.698-5.220, LIBOR/HIBOR(3 months)+0.85 to LIBOR/HIBOR(3 months)+1.2, LIBOR/HIBOR (6 months)+1	7/2005– 5/2006	5,305,300,500	1,181,638,475
Unsecured loans				
Guaranteed loans	N/A	N/A	–	20,000,000
Secured loans (Note 4)	N/A	N/A	–	311,000,000
Trust Receipt loans	LIBOR (3 months)+1	9/2005	118,353,950	68,283,175
			<u>5,423,654,450</u>	<u>1,580,921,650</u>

The increase in the Group's short term loans by 2.4 times was mainly attribute to the increase in working capital required.

15. Bills payables

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Bank accepted bills	<u>456,000,000</u>	<u>80,000,000</u>

The Group's bills payables was used for the purchases of raw materials.

The increase in the Group's bills payables by 4.7 times was mainly attributable to the increase in cash required for purchase.

The balance of bills payables does not contain any amount due from a shareholder who holds 5% or above of the Company's equity interest.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

16. Accounts payable

Certain of the Group's accounts payable are aged over three years as a result of delay in settlement of construction fee.

Except for those as stated in Note 6 point 6, the balance of accounts payable does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

17. Deposits received

The ageing of deposits received is within one year.

Except for those as stated in Note 6 point 6, the balance of deposits received does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

18. Wages payable

The Group's wages payable increased by 127% was mainly due to the increase of bonus payable.

The closing balance included RMB500,175 which was performance related wages brought forward from prior years.

19. Dividend payable

2004 final dividend payable
(RMB22 cents per ordinary share)

Group and Company	
30 June	31 December
2005	2004
Unaudited	Audited
RMB	RMB
<u>1,420,166,000</u>	<u>—</u>

The Company's profit appropriation plan for the year ended 2004 has been approved by "2004 Annual General Meeting" held on 14 June 2005. The distribution of dividend is still in progress.

The Group's and the Company's dividend payable at the period end represented unpaid 2004 final dividends.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

20. Tax payable

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Corporate income tax	233,889,977	188,156,698
VAT	320,574,784	453,045,322
Business tax	787,284	2,844,399
City construction and maintenance tax	8,332,349	38,688,982
Other taxes	4,541,532	28,597,615
Total	<u>568,125,926</u>	<u>711,333,016</u>

The basis of calculations and the applicable tax rates of tax payable are disclosed in Note 3 to the financial statements.

21. Other taxes payable

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Education surcharge	3,569,244	16,580,992
Flood prevention fund	38,179,220	29,608,637
Other taxes	3,513,768	2,635,001
Total	<u>45,262,232</u>	<u>48,824,630</u>

The basis of calculations and the applicable tax rates of other taxes payable are disclosed in Note 3 to the financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Other payables

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Labour costs	68,340,714	57,285,421
Construction fee	46,510,556	50,345,347
Maintenance and inspection fee	21,567,317	58,847,651
Staff housing subsidies	107,878,192	112,917,521
Supplementary pension scheme	63,565,334	–
Others	80,315,434	46,621,727
Total	<u>388,177,547</u>	<u>326,017,667</u>

Certain of the Group's other payables are aged over three years as a result of delay in settlement of labour costs.

The balance of other payables does not contain any amount due to a shareholder who holds 5% or above of the Company's equity interest.

23. Accrued charges

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Loan interests	42,682,754	33,928,492
Retirement benefits payable to early retired employees	11,945,072	11,945,072
Maintenance fee	3,729,999	6,375,237
Accrued salary and year-end bonus	100,000,000	–
Others	23,616,998	18,072,410
Total	<u>181,974,823</u>	<u>70,321,211</u>

The Group's accrued charges increased by 159% were mainly attributable to the increase in accrued salary for management and year-end bonus for staff.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Long term loans due within a year

Lender	30 June 2005			31 December 2004			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Unaudited Original currency amount	RMB	Currency type	Audited Original currency amount	RMB			
The Industrial and Commercial Bank of China – Huashan Branch	RMB	260,000	260,000	RMB	260,000	260,000	6/2006	2.88	Unsecured
China Construction Bank – Metallurgical Branch	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	6/2006	2.4	Unsecured
China Construction Bank – Anhui Branch	USD	7,972,657	65,985,697	USD	7,972,657	65,985,694	10/2005 – 4/2006	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Hefei Branch	EUR	123,947	1,234,634	EUR	123,947	1,395,975	9/2005 – 3/2006	0.25	Guaranteed by 中國冶金進出口公司
Bank of China – Maanshan Branch	RMB	50,000,000	50,000,000	-	-	-	5/2006	5.76	Guaranteed By Holding
The Industrial and Commercial Bank of China – Maanshan Branch	RMB	100,000,000	100,000,000	-	-	-	5/2006 – 6/2006	5.49	Guaranteed By Holding
Agricultural Bank of China – Maanshan Branch	RMB	30,000,000	30,000,000	-	-	-	2/2006 – 5/2006	5.49	Guaranteed By Holding
Total			<u>260,680,331</u>			<u>80,841,669</u>			

The Group's long term loans due within a year increased by 2.2 times were mainly attributable to the increase in long term loans due to be repaid within a year.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Long term loans

Lender	30 June 2005 Unaudited			31 December 2004 Audited			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
The Industrial and Commercial Bank of China – Maanshan Branch	RMB	607,000,000	607,000,000	RMB	707,000,000	707,000,000	8/2006 – 12/2006	5.49	Guaranteed by Holding
	-	-	-	EUR	73,000,000	822,177,100	N/A	N/A	N/A
China Construction Bank – Metallurgical Branch	RMB	317,000,000	317,000,000	RMB	808,000,000	808,000,000	11/2006 – 1/2010	5.49, 6.12	Guaranteed by Holding
China Construction Bank – Anhui Branch	USD	7,972,657	65,985,697	USD	11,958,986	98,978,549	10/2006 – 4/2007	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China – Maanshan Branch	RMB	162,000,000	162,000,000	RMB	182,000,000	182,000,000	8/2006 – 2/2008	5.49, 5.76	Guaranteed by Holding
	-	-	-	EUR	115,000,000	1,295,210,500	N/A	N/A	N/A
Bank of China – Hefei Branch	EUR	1,673,281	16,667,555	EUR	1,753,254	19,543,653	9/2006 – 9/2019	0.25	Guaranteed by 中國冶金 進出口公司
Agricultural Bank of China – Maanshan Branch	RMB	864,000,000	864,000,000	RMB	174,000,000	174,000,000	8/2006 – 4/2008	5.49, 5.76	Guaranteed by Holding
Maanshan Commercial Bank – Yushan Branch	RMB	19,000,000	19,000,000	RMB	19,000,000	19,000,000	6/2007 – 8/2007	5.49	Guaranteed by the Company
Profit Access Investment Company Limited (Note)	USD	986,000	8,151,994	USD	986,000	8,233,699	6/2007 – 8/2007	5.49	Secured
Total			<u>2,059,805,246</u>			<u>4,134,143,501</u>			

Note: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. Profit Access Investments Limited granted foreign exchange loans to Anhui Masteel K. Wah. The loans bear interest at a rate of 5.49% per annum (with reference to RMB loan interest rate of Maanshan Commercial Bank). Certain of the loans are secured by the pledge of certain of the Anhui Masteel K. Wah's equipment with an aggregate net book value of approximately RMB33.56 million as at 30 June 2005.

The Group's long term loans decreased by 50% were mainly attributable to the repayment of long term loans.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Specific payables

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Government subsidies for specific construction projects	<u>19,800,000</u>	<u>19,800,000</u>

27. Other long term liabilities

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
Accrued charges for furnace relining	<u>74,499,299</u>	74,499,299
Retirement benefits payable to early retired employees	<u>40,258,301</u>	<u>40,258,301</u>
Total	<u>114,757,600</u>	<u>114,757,600</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

28. Share capital

The Company had registered, issued and fully paid share capital amounting to RMB6,455,300,000, with each share having a face value of RMB1. The types and structure of share capital are as follows:

	Group and Company	
	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB
A. Unlisted shares		
1. Shares held by promoter:		
(1) State-owned shares	4,034,560,000	4,034,560,000
(2) Shares owned by domestic legal persons	-	-
(3) Shares owned by foreign legal persons	-	-
(4) Others	-	-
2. Legal person A shares	87,810,000	87,810,000
3. Shares held by employees	-	-
4. Preferred shares and others	-	-
	<hr/>	<hr/>
Total unlisted shares	4,122,370,000	4,122,370,000
B. Listed shares		
1. A shares	600,000,000	600,000,000
2. B shares	-	-
3. H shares	1,732,930,000	1,732,930,000
4. Others	-	-
	<hr/>	<hr/>
Total listed shares	2,332,930,000	2,332,930,000
C. Total share capital	6,455,300,000	6,455,300,000

There was no change in share capital during the period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

29. Capital reserve

	Group and Company			At 30 June 2005
	At 1 January 2005	Increase during the period	Decrease during the period	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	562,069,700	–	–	562,069,700
	<u>5,427,045,095</u>	<u>–</u>	<u>–</u>	<u>5,427,045,095</u>

30. Surplus reserves

	Group			At 30 June 2005
	At 1 January 2005	Increase during the period	Decrease during the period	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Statutory surplus reserve	893,159,696	–	–	893,159,696
Statutory public welfare fund	892,852,471	–	–	892,852,471
Reserve fund	3,479,930	–	–	3,479,930
Enterprise expansion fund	5,134,876	–	–	5,134,876
Total	<u>1,794,626,973</u>	<u>–</u>	<u>–</u>	<u>1,794,626,973</u>

	Company			At 30 June 2005
	At 1 January 2005	Increase during the period	Decrease during the period	
	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Statutory surplus reserve	888,003,374	–	–	888,003,374
Statutory public welfare fund	888,003,374	–	–	888,003,374
Total	<u>1,776,006,748</u>	<u>–</u>	<u>–</u>	<u>1,776,006,748</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. Surplus reserves (continued)

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capitals of these companies. Part of the SSR may be capitalised as these companies' share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals of these companies.

In accordance with the Company Law of the PRC, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax to statutory public welfare fund (the "PWF"). PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the companies.

When the PWF is used, the lower of the cost of assets and the balance of the PWF should be transferred to the SSR. These reserves are not distributable unless these companies are dissolved. When the related assets are sold, the amount which was originally transferred from the PWF to the SSR should be transferred back.

Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the "Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures" and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with PRC accounting standards and related regulations to enterprise expansion fund, reserve fund and employee bonus and welfare fund. The allocation rates are determined by their respective board of directors.

The Company and its subsidiaries did not allocate surplus reserves for the current period.

31. Retained profits

	Group
	Unaudited
	RMB
Retained profits at beginning of period	3,758,605,642
Add: Group's net profit for the period	2,103,309,551
Less: Ordinary share dividend payable	<u>(1,420,166,000)</u>
Retained profits at end of period	<u><u>4,441,749,193</u></u>

The Company did not distribute any profits for the current period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Principal operating income, cost of sales and profit from principal operating activities

Category	Group					
	For the six months ended 30 June 2005			For the six months ended 30 June 2004		
	Unaudited			Unaudited		
	Principal Operating income	Cost of sales	Profit from operating activities	Principal Operating income	Cost of sales	Profit from operating activities
RMB	RMB	RMB	RMB	RMB	RMB	
Sale of steel products	15,962,065,845	12,985,142,769	2,976,923,076	12,192,921,296	9,037,906,297	3,155,014,999
Sale of pig iron	539,372	390,287	149,085	14,780,342	7,502,724	7,277,618
Sale of steel billets	201,735,359	169,095,617	32,639,742	112,884,017	94,351,280	18,532,737
Others	499,536,629	389,822,382	109,714,247	487,494,420	392,001,713	95,492,707
Total	<u>16,663,877,205</u>	<u>13,544,451,055</u>	<u>3,119,426,150</u>	<u>12,808,080,075</u>	<u>9,531,762,014</u>	<u>3,276,318,061</u>

Category	Company					
	For the six months ended 30 June 2005			For the six months ended 30 June 2004		
	Unaudited			Unaudited		
	Principal Operating income	Cost of sales	Profit from operating activities	Principal Operating income	Cost of sales	Profit from operating activities
RMB	RMB	RMB	RMB	RMB	RMB	
Sale of steel products	15,962,065,845	12,985,142,769	2,976,923,076	12,192,921,296	9,037,906,297	3,155,014,999
Sale of pig iron	539,372	390,287	149,085	14,780,342	7,502,724	7,277,618
Sale of steel billets	201,735,359	169,095,617	32,639,742	112,884,017	94,351,280	18,532,737
Others	565,391,931	512,900,649	52,491,282	393,244,535	346,819,345	46,425,190
Total	<u>16,729,732,507</u>	<u>13,667,529,322</u>	<u>3,062,203,185</u>	<u>12,713,830,190</u>	<u>9,486,579,646</u>	<u>3,227,250,544</u>

Sales to the five largest customers of the Group and the Company for the period both amounted to RMB2,594,900,476, which accounted for 16% of the Group's and the Company's total sales amounts respectively.

The Group has only one business segment, which is the manufacture and sale of iron and steel products, and therefore, no business segment information is presented. No geographical segment information is presented as the Group's operations were substantially carried out in the PRC.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Principal operating income, cost of sales and profit from principal operating activities (continued)

The Group's and Company's principal operating income increased by 30% and 32% respectively mainly because of the increase in the sales volume of steel products. The Group's and Company's gross profit margin decreased mainly because the decrease in selling price of steel products as well as the increase in cost of raw materials.

33. Taxes and surcharges

	For the six months ended 30 June	
	2005 Unaudited RMB	2004 Unaudited RMB
City construction and maintenance tax	70,784,384	62,270,850
Education surcharge	30,336,165	26,687,507
Local education surcharge	10,112,055	–
Other taxes	5,220,960	1,618,577
Total	<u>116,453,564</u>	<u>90,576,934</u>

The calculation bases of the Group's taxes and surcharges and the related tax rates are disclosed in Note 3 to the financial statements.

34. Other operating profit

The Group's other operating profit increased by 2.2 times was mainly attributable to the increase of profit in the trading of merchandise goods.

35. Selling expenses

The Group's selling expenses increased by 39% was mainly attributable to the increase in transportation expense.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

36. Financial expenses

	For the six months ended 30 June	
	2005 Unaudited RMB	2004 Unaudited RMB
Interest expenses	183,916,969	109,353,285
Less: Interest income	(9,052,523)	(14,716,024)
Exchange loss	29,671,837	72,769,413
Less: Exchange gain	(143,039,403)	(101,054,359)
Others	4,830,109	4,342,584
Total	<u>66,326,989</u>	<u>70,694,899</u>

37. Investment income

	Group For the six months ended 30 June		Company For the six months ended 30 June	
	2005 Unaudited RMB	2004 Unaudited RMB	2005 Unaudited RMB	2004 Unaudited RMB
Investment income from investment in subsidiaries	–	–	52,460,423	26,596,507
Other equity investment income	4,995,983	1,105,000	4,995,983	1,105,000
	<u>4,995,983</u>	<u>1,105,000</u>	<u>57,456,406</u>	<u>27,701,507</u>

The Group's investment income increased by 3.5 times was attributable to the increase in dividend income received from investments accounted under cost method. The Company's investment income increased by 107% was mainly attributable to the increase in investment income calculated under equity method.

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

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

38. Subsidies income

	For the six months ended 30 June	
	2005 Unaudited RMB	2004 Unaudited RMB
Subsidies income for steel export	—	672,381

39. Non-operating income

The decrease in the Group's non-operating income by 50% was mainly attributable to the decrease in gain on disposal of fixed assets.

40. Non-operating expenses

The increase in the Group's non-operating expenses by 117% was mainly attributable to the increase in the public donations.

41. Minority interests

Minority interest of the Group increased by 7.9 times was mainly attributable to the increase in profits of some non-wholly owned subsidiaries during the period.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

42. Cash paid relating to other operating activities

	For the six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	RMB	RMB
Environmental protection fee	13,000,038	13,156,874
Welfare and support services	28,843,792	47,895,000
Transportation cost	49,707,219	40,746,960
Packing fee	9,460,465	7,281,537
Warehouse fee	3,635,477	4,391,930
Stamp duty	7,770,013	3,655,508
Property insurance fee	7,559,272	6,531,007
Repair and maintenance fee	3,871,448	5,045,159
Board meeting expenses	1,958,181	2,975,584
Others	26,032,961	42,687,034
	<hr/>	<hr/>
Total	151,838,866	174,366,593
	<hr/> <hr/>	<hr/> <hr/>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

43. Acquisition of businesses

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Construction Co. Ltd., a wholly owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and the electrical and mechanical equipment installation business (the "Acquisition of Businesses"). The acquisition price, which amounted to approximately RMB149.77 million, was determined on the basis of the net asset value of the Acquisition of Businesses as at 31 January 2005 which has been appraised by Jiangsu Talent Certified Public Accountants. According to the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, the Acquisition of Businesses were entrusted to the Construction Co. Ltd. for management and the profits or losses incurred were assumed by the Company.

Net assets acquired:

	Notes	RMB Unaudited
Bills receivable		100,000
Trade receivables		76,007,671
Other receivables		7,693,900
Prepayments		13,130,991
Inventories		152,240,510
Fixed assets cost	10	71,854,377
Less: Accumulated depreciation	10	(17,458,303)
Net book value		54,396,074
Construction materials		120,000
Construction in progress	12	49,735,199
Accounts payable		(113,420,805)
Deposits received		(82,241,475)
Staff welfare payable		(3,810,465)
Taxes payable		(1,228,776)
Other taxes payable		(41,673)
Other payables		(2,907,567)
		149,773,584
Satisfied by cash		149,773,584

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Differences in financial statements prepared under PRC and Hong Kong accounting standards

Effects on net profit and the shareholders' funds arising from the material differences between the consolidated financial statements prepared under PRC and Hong Kong accounting standards are summarised as follows:

	Note	For the six months ended 30 June 2005 Unaudited RMB'000
Net profit	Note	
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		2,127,196
Deduct:		
Transfer of deferred income	(iii)	(23,886)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u>2,103,310</u>
Shareholders' equity	Notes	30 June 2005 Unaudited RMB'000
Shareholders' equity under Hong Kong accounting standards		17,731,757
Add back:		
Deferred income	(iii)	562,069
Deduct:		
Provision for furnace relining costs	(i)	(74,499)
Deferred tax assets	(ii)	(34,734)
Transfer of deferred income	(iii)	(65,871)
Shareholders' equity under PRC accounting standards		<u>18,118,722</u>

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

(i) *Furnace relining costs*

Under PRC accounting standard "Accounting Standard for Business Enterprises – Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on fixed assets should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.34 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the period, there is no provision for furnace relining costs utilised (For the six months period ended 30 June 2004: Nil), and the remaining provision as at 30 June 2005 amounted to approximately RMB74.5 million (31 December 2004: approximately RMB74.5 million).

Under Hong Kong Accounting Standards ("HKAS") 37, furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment.

(ii) *Deferred tax*

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

Under HKAS 12, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 30 June 2005 amounted to approximately RMB34.7 million (31 December 2004: approximately RMB34.7 million). Nil movement in the deferred tax assets was noted in the current period (For the six months ended 30 June 2004: Nil).

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

5. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Differences in financial statements prepared under PRC and Hong Kong accounting standards (continued)

(iii) *Deferred income*

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

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as fixed assets and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 30 June 2005, accumulated specific payables transferred to the capital reserve amounted to approximately RMB562 million (31 December 2004: approximately RMB562 million).

Under HKAS 40, upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful life of the relevant assets by equal annual instalments. As at 30 June 2005, accumulated deferred income amounting to approximately RMB562 million (31 December 2004: approximately RMB562 million) should be released to income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB23.88 million (For the six month ended 30 June 2004: approximately RMB15.51 million) was released to the current period's income statement. As at 30 June 2005, the accumulated deferred income released amounted to approximately RMB65.87 million (31 December 2004: approximately RMB41.99 million).

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party involving control relationship

Name	Registered address	Principal activities	Relationship with the Company	Nature	Legal representative
Holding	Maanshan City, Anhui Province	Mining & sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food & beverages; production services; mechanical & electrical equipment manufacturing and metal products manufacturing	Ultimate holding company	Limited company	Gu Jianguo

As at 30 June 2005, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries and associates of Holding become the Company's related parties.

2. Registered capital of related party involving control relationship and related changes

Name	At 1 January 2005	Increase during the period	Decrease during the period	At 30 June 2005
	Audited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Holding	6,298,290	-	-	6,298,290

3. Stock or equity interest held by related party who could control the Company and the changes

Name	At 1 January 2005	Ratio	Increase during the period	Ratio	Decrease during the period	Ratio	At 30 June 2005	Ratio
	Audited RMB'000	%	Unaudited RMB'000	%	Unaudited RMB'000	%	Unaudited RMB'000	%
Holding	4,082,330	63.24	-	-	-	-	4,082,330	63.24

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship

Information on related parties who carried out related party transactions with the Company but do not involve any control relationship:

Name	Relationship with the Company
馬鋼集團建設有限責任公司	Subsidiary/associate of Holding
馬鋼集團建築路橋有限責任公司	Subsidiary/associate of Holding
馬鋼集團南山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼集團姑山礦業有限責任公司	Subsidiary/associate of Holding
馬鋼集團設計研究院有限責任公司	Subsidiary/associate of Holding
馬鋼集團動力機電安裝有限責任公司	Subsidiary/associate of Holding
馬鋼集團康泰置地發展有限公司	Subsidiary/associate of Holding
馬鋼集團康泰建安實業有限責任公司	Subsidiary/associate of Holding
馬鋼集團力生有限責任公司	Subsidiary/associate of Holding
馬鋼集團實業發展有限責任公司	Subsidiary/associate of Holding
馬鋼集團鋼渣綜合利用有限責任公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司桃沖礦業公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司測繪大隊	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司通訊技術服務部	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司有線電視中心	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司高級技工學校	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司醫院	Subsidiary/associate of Holding
馬鞍山博力建設監理有限公司	Subsidiary/associate of Holding
馬鞍山馬鋼(集團)控股有限公司塑鋼廠	Subsidiary/associate of Holding
安徽冶金科技職業學院	Subsidiary/associate of Holding
馬鋼(集團)控股有限公司馬鋼日報社	Subsidiary/associate of Holding

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship (continued)

Information on related parties who carried out related party transactions with the Company but do not involve any control relationship (continued):

Name	Relationship with the Company
馬鞍山馬鋼易凡工貿有限責任公司	Subsidiary/associate of Holding
馬鞍山馬鋼實業生興爐料加工有限責任公司	Subsidiary/associate of Holding
馬鞍山馬鋼運動用品有限責任公司	Subsidiary/associate of Holding
馬鞍山市聯營乙炔廠	Subsidiary/associate of Holding
馬鞍山馬鋼永固螺絲制品有限責任公司	Subsidiary/associate of Holding
安徽馬鋼比亞西鋼筋焊網有限公司	Subsidiary/associate of Holding
安徽馬鋼吉順智能停車設備有限公司	Subsidiary/associate of Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Subsidiary/associate of Holding
濟源市金馬焦化有限公司	Associate of the Company
滕州盛隆煤焦化有限公司	Associate of the Company

5. The following is a summary of the significant transactions carried out in the normal course of business between the Group and its related parties during the period:

	Notes	For the six months ended 30 June	
		2005 Unaudited RMB	2004 Unaudited RMB
Transactions with Holding, subsidiaries and associates of Holding:			
Purchases of iron ore, limestone and dolomite	(i)	671,772,843	442,268,791
Fees paid for welfare, support services and other services	(ii), (iii)	138,163,420	119,798,452
Agency fee	(iii)	2,035,470	2,315,000
Purchases of fixed assets and provision of construction services	(iii)	212,165,431	204,792,757
Fees received for the supply of utilities, services and other consumable goods	(iii)	(14,968,422)	(22,296,882)
Sale of steel products and other by-products	(iii)	(2,084,083)	(1,508,041)
Acquisition of businesses	(iv)	149,773,584	-
Transactions with associates of the Company:			
Purchases of coke			
濟源市金馬焦化	(v)	135,798,845	41,182,818
滕州盛隆煤焦化	(v)	186,008,841	-

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. The following is a summary of the significant transactions carried out in the normal course of business between the Group and its related parties during the period (continued):

- (i) The terms for the purchases of iron ore, limestone and dolomite from Holding were in accordance with an agreement dated 9 October 2003 between the Company and Holding.
- (ii) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
- (iii) The other transactions with Holding, and subsidiaries and associates of Holding were conducted on terms mutually agreed between the Company and related parties.
- (iv) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly owned subsidiary of Holding. Further details of the transaction are included in Note 5 point 43 to the financial statements.
- (v) The above transactions were made according to the prices of the same products offered by 濟源市金馬焦化 and 滕州盛隆煤焦化 to their unrelated major customers.

(i), (ii), (iii) and (v) of the above transactions were carried out in the normal course of business of the Group.

Further details on balances with Holding, the subsidiaries and associates of Holding, and the associates of the Company are set out in Note 6 point 6.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	269,342	956,776	Trade and electricity fee
馬鞍山馬鋼嘉華商品混凝土有限公司	2,496,306	145,943	Trade
Others	1,410,253	362,797	
Total	4,175,901	1,465,516	
Prepayments:			
Holding	-	36,484,400	Prepayment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	814,364	1,351,360	Trade and construction fee
馬鋼集團實業發展有限責任公司	1,582,514	-	Construction fee
馬鞍山市聯營乙炔廠	2,223,675	2,609,044	Trade
Others	685,187	45,000	
Total	5,305,740	40,489,804	

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties (continued)

	30 June 2005 Unaudited RMB	31 December 2004 Audited RMB	Details
Accounts payable:			
Holding	27,402,862	8,345,823	Payment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	49,812,613	55,448,235	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	24,528,089	5,765,630	Construction and maintenance fees
馬鋼集團康泰建安實業有限責任公司	929,045	1,103,440	Construction fee
馬鋼集團康泰置地發展有限公司	1,997,437	-	Construction fee
馬鋼集團力生有限責任公司	2,416,121	2,600,862	Construction fee
馬鋼集團實業發展有限責任公司	1,689,931	3,088,435	Trade
馬鋼集團鋼渣綜合利用有限責任公司	1,409,903	2,852,007	Trade
馬鋼(集團)控股有限公司桃沖礦業公司	1,266,464	50,400	Trade
馬鋼集團姑山礦業有限責任公司	4,346,804	6,740	Trade
馬鞍山市聯營乙炔廠	1,734,022	1,040,883	Processing fee
Others	1,940,789	1,502,132	
Total	119,474,080	81,804,587	
Deposits received:			
馬鋼集團姑山礦業有限責任公司	73,534,369	93,688,647	Trade
馬鋼集團南山礦業有限責任公司	24,684,640	424	Trade
安徽馬鋼比亞西鋼筋焊網有限公司	9,733,948	14,062,281	Trade
馬鋼集團康泰置地發展有限公司	11,547,697	6,727,260	Construction fee
馬鞍山馬鋼易凡工貿有限責任公司	10,658,051	942,482	Trade
Others	1,944,970	978,574	
Total	132,103,675	116,399,668	

The balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

7. CONTINGENT LIABILITIES

As at 30 June 2005, the Company had given guarantees amounted to approximately RMB7.87 billion (31 December 2004: approximately RMB2.56 billion), in order for certain of its subsidiaries to obtain banking facilities.

Save as aforesaid, the Group and the Company had no significant contingent liabilities as at the balance sheet date.

8. CAPITAL COMMITMENTS

The commitments for capital expenditure for buildings and structures, plant and equipment as at the balance sheet date were as follows:

	Group		Company	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Authorised, but not contracted for:				
Blast Furnaces Renovation Project	1,887,266	119,396	1,887,266	119,396
Converters Renovation Project	2,068,379	121,960	2,068,379	121,960
Wheel Line Renovation Project	225,158	91,035	225,158	91,035
Construction Steel Lines Renovation Project	4,780,508	985,211	4,780,508	983,932
Coking Stoves Renovation Project	1,558,021	134,169	1,558,021	134,169
Public Auxiliary Utilities Project	1,940,085	262,758	1,940,085	262,758
Energy-saving and Environment Protection Project	1,676,919	23,712	1,676,919	23,712
Other Projects	593,938	63,446	593,938	63,446
	14,730,274	1,801,687	14,730,274	1,800,408

VI. FINANCIAL REPORT (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2005

8. CAPITAL COMMITMENTS (continued)

	Group		Company	
	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000	30 June 2005 Unaudited RMB'000	31 December 2004 Audited RMB'000
Contracted, but not provided for:				
Blast Furnaces Renovation Project	1,770,550	632	1,770,550	632
Converters Renovation Project	875,466	35,805	875,466	35,805
Wheel Line Renovation Project	303,040	2,970	303,040	2,970
Construction Steel Lines Renovation Project	3,194,337	200,274	3,194,337	182,855
Coking Stoves Renovation Project	336,611	26,745	336,611	26,745
Public Auxiliary Utilities Project	1,047,690	219,072	1,047,690	219,072
Energy-saving and Environment Protection Project	154,676	46,501	154,676	46,501
Other Projects	3,035	80,852	3,035	80,852
	7,685,405	612,851	7,685,405	595,432
Total capital commitments	22,415,679	2,414,538	22,415,679	2,395,840

Note: The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR265 million (equivalent to approximately RMB2,641 million), approximately GBP0.8 million (equivalent to approximately RMB12 million), approximately USD9.6 million (equivalent to approximately RMB79 million) and approximately JPY21,489 million (equivalent to approximately RMB1,615 million).

9. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

10. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 15 August 2005.

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2005

Profit during the reporting period	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	16.57	16.24	0.465	0.465
Operating profit	13.94	13.66	0.391	0.391
Net profit	11.61	11.38	0.326	0.326
Net profit excluding non-recurring gains or losses	<u>11.61</u>	<u>11.38</u>	<u>0.326</u>	<u>0.326</u>

Return on net assets and earnings per share are computed based on the formula stipulated in the "Regulation for the preparation of information disclosure by listed securities companies (No. 9)" issued by China Securities Regulatory Commission on 19 January 2001.

Including: Net profit excluding non-recurring gains or losses

	For the six months ended 30 June	
	2005 RMB	2004 RMB
Net profit	2,103,309,551	2,300,026,729
Add/(deduct):		
Subsidies income	-	(672,381)
Other non-operating income and expense items	(189,136)	(5,039,472)
Income tax effect	1,970	800,921
Total	<u>2,103,122,385</u>	<u>2,295,115,797</u>

The calculation of non-recurring gains or losses is in accordance with Zheng Jian Kuaiji Zi No.4 (2004) "Notice on issuance of 'Questions and answers on information disclosure standards of listed securities companies' No. 1 (revised 2004)" issued by China Securities Regulatory Commission.

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE

30 June 2005

Item	At 1 January 2005 RMB	Increase during the period RMB	Group Decrease during the period			At 30 June 2005 RMB
			Reversal on upward revaluation of assets RMB	Other transfer-outs RMB	Total RMB	
1. Provision for bad debts:	77,527,808	2,186,933	x	x	-	79,714,741
including: Trade receivables	44,929,679	2,186,933	x	x	-	47,116,612
Other receivables	32,598,129	-	x	x	-	32,598,129
2. Provision for decline in value of short term investments	-	-	-	-	-	-
3. Provision for inventories:	87,794,787	-	-	-	-	87,794,787
including: Raw materials	5,000,000	-	-	-	-	5,000,000
Work in progress	3,000,000	-	-	-	-	3,000,000
Finished goods	9,656,900	-	-	-	-	9,656,900
Spare parts	70,137,887	-	-	-	-	70,137,887
4. Provision for impairment of long term investments	-	-	-	-	-	-
5. Provision for impairment of fixed assets:	117,056,844	-	-	-	-	117,056,844
including: Buildings and structures	10,391,900	-	-	-	-	10,391,900
Plant, machinery and equipment	106,664,944	-	-	-	-	106,664,944
6. Provision for impairment of intangible assets	-	-	-	-	-	-
7. Provision for impairment of construction in progress	74,000,000	-	-	-	-	74,000,000
8. Provision for impairment of designated loan	-	-	-	-	-	-

VI. FINANCIAL REPORT (continued)

SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE (continued)

30 June 2005

Item	At 1 January 2005 RMB	Increase during the period RMB	Company Decrease during the period			At 30 June 2005 RMB
			Reversal on upward revaluation of assets RMB	Other transfer-outs RMB	Total RMB	
1. Provision for bad debts:	77,472,646	2,187,640	x	x	-	79,660,286
including: Trade receivables	44,874,517	2,187,640	x	x	-	47,062,157
Other receivables	32,598,129	-	x	x	-	32,598,129
2. Provision for decline in value of short term investments	-	-	-	-	-	-
3. Provision for inventories:	87,794,787	-	-	-	-	87,794,787
including: Raw materials	5,000,000	-	-	-	-	5,000,000
Work in progress	3,000,000	-	-	-	-	3,000,000
Finished goods	9,656,900	-	-	-	-	9,656,900
Spare parts	70,137,887	-	-	-	-	70,137,887
4. Provision for impairment of long term investments	-	-	-	-	-	-
5. Provision for impairment of fixed assets:	117,056,844	-	-	-	-	117,056,844
including: Buildings and structures	10,391,900	-	-	-	-	10,391,900
Plant, machinery and equipment	106,664,944	-	-	-	-	106,664,944
6. Provision for impairment of intangible assets	-	-	-	-	-	-
7. Provision for impairment of construction in progress	74,000,000	-	-	-	-	74,000,000
8. Provision for impairment of designated loan	-	-	-	-	-	-

VI. FINANCIAL REPORT (continued)

The Board of Directors of the Company hereby announces the unaudited interim results of the Group for the six months ended 30 June 2005 together with comparative figures for the corresponding period in 2004. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 Unaudited RMB'000	2004 Unaudited RMB'000
REVENUE			
Sale of goods	2	16,663,877	12,808,080
Cost of sales		(13,544,451)	(9,531,762)
Gross profit		3,119,426	3,276,318
Other income and gains	3	85,095	80,572
Selling and distribution costs		(214,066)	(160,967)
Administrative expenses		(251,295)	(365,108)
Other expenses		(424)	(48)
Finance costs	4	(183,917)	(109,353)
PROFIT BEFORE TAX	5	2,554,819	2,721,414
Income tax expenses	6	(410,268)	(403,928)
PROFIT FOR THE PERIOD		2,144,551	2,317,486
Attributable to:			
Equity holders of the parent		2,127,196	2,315,540
Minority interests		17,355	1,946
		2,144,551	2,317,486
EARNINGS PER SHARE	8		
Basic		RMB32.95 cents	RMB35.87 cents
Diluted		N/A	N/A
DIVIDEND PER SHARE	9	Nil	Nil

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2005

	Notes	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited (Restated) RMB'000
NON-CURRENT ASSETS			
Fixed assets	10	18,626,834	17,869,337
Construction in progress	10	4,261,040	2,312,098
Prepaid land premiums		848,483	859,020
Interests in associates		358,487	150,018
Available-for-sale investments		16,817	16,817
Held-to-maturity investments		13,579	13,579
Deferred tax assets		34,734	34,734
Total non-current assets		24,159,974	21,255,603
CURRENT ASSETS			
Inventories		6,236,804	4,754,184
Trade and bill receivables	11	2,195,374	2,199,378
Prepayments, deposits and other receivables		975,014	791,556
Held for trading financial assets		13,568	13,568
Pledged deposits		111,845	8,620
Cash and cash equivalents		3,544,738	2,172,876
Total current assets		13,077,343	9,940,182
CURRENT LIABILITIES			
Accounts and bill payables	12	4,467,356	3,272,161
Tax payable		233,890	188,157
Other payables and accruals		4,865,730	4,444,514
Short term bank borrowings		5,423,654	1,269,922
Long term bank borrowings – current portion		260,680	80,841
Provisions		119,823	124,863
Dividend payable		1,420,166	–
Total current liabilities		16,791,299	9,380,458
NET CURRENT ASSETS/(LIABILITIES)		(3,713,956)	559,724
TOTAL ASSETS LESS CURRENT LIABILITIES		20,446,018	21,815,327
NON-CURRENT LIABILITIES			
Long term bank borrowings and other borrowings		2,059,805	4,134,143
Deferred income		515,998	539,884
Provisions		40,258	40,258
Total non-current liabilities		2,616,061	4,714,285
		17,829,957	17,101,042

VI. FINANCIAL REPORT (continued)**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

(Prepared under Hong Kong accounting standards)

30 June 2005

	Notes	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited (Restated) RMB'000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		6,455,300	6,455,300
Other reserves	13	6,659,602	6,659,602
Retained earnings	13	4,616,855	2,489,659
Proposed final dividend		—	1,420,166
		17,731,757	17,024,727
Minority interests	13	98,200	76,315
TOTAL EQUITY		17,829,957	17,101,042

Gu Jianguo
Director

Su Jiangan
Director

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2005

		For the six months ended 30 June	
	Notes	2005 Unaudited RMB'000	2004 Unaudited (Restated) RMB'000
Total equity at 1 January:			
As previously reported as equity		17,024,727	14,788,020
As previously reported separately as minority interests		76,315	35,420
		<hr/>	<hr/>
As restated		17,101,042	14,823,440
Changes in equity during the period:			
Profit for the period	13	2,144,551	2,317,486
Capital contributions from minority shareholders	13	6,795	5,740
Final dividend declared		(1,420,166)	(1,355,613)
Dividend paid to minority shareholders	13	(2,265)	(929)
		<hr/>	<hr/>
Total equity at 30 June		17,829,957	15,790,124
		<hr/> <hr/>	<hr/> <hr/>

VI. FINANCIAL REPORT (continued)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005 Unaudited RMB'000	2004 Unaudited RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,434,590	2,656,798
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(4,223,704)	(1,939,235)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	2,200,799	(545,760)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,411,685	171,803
Cash and cash equivalents at beginning of period	2,112,876	2,261,629
Effect of foreign exchange rate changes, net	(39,823)	3,077
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>3,484,738</u>	<u>2,436,509</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>3,484,738</u>	<u>2,436,509</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

30 June 2005

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004 except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

The adoption of HKAS 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39 and HKFRS 3 have no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting HKAS 17 is detailed as follows:

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

1. ACCOUNTING POLICIES (continued)

HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

2. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture and sale of iron and steel products, and therefore, no business segment information is presented.

No geographical segment information is presented as over 90% of the Group's turnover is derived from customers based in the People's Republic of China (the "PRC"), and over 90% of the Group's assets are located in the PRC.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005 Unaudited RMB'000	2004 Unaudited RMB'000
Interest income	9,053	14,716
Investment income	4,996	1,105
Amortisation of deferred income	23,886	15,513
Others	47,160	49,238
	<u>85,095</u>	<u>80,572</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2005 Unaudited RMB'000	2004 Unaudited RMB'000
Interest on bank borrowings and other borrowings wholly repayable within five years	216,146	131,930
Less: Interest capitalised in construction in progress	(32,229)	(22,577)
	<u>183,917</u>	<u>109,353</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

5. PROFIT BEFORE TAX

Profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
Depreciation	999,581	841,703
Amortisation of prepaid land premises	10,538	10,529
Gain on disposal of fixed assets	(2,914)	(6,429)
	<u> </u>	<u> </u>

6. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
Group:		
Current – PRC corporate income tax ("CIT")		
Charge for the period	388,288	403,928
Underprovision in prior years	21,980	–
Total tax charge for the period	<u>410,268</u>	<u>403,928</u>

The CIT for the Company and its subsidiaries is calculated at rates ranging from 15% to 33%, on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. However, certain of the Company's subsidiaries are foreign investment enterprises. After obtaining authorisation from respective tax authorities, these subsidiaries are subject to a full State CIT 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.

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2005 and 30 June 2004.

No provision for overseas profits tax has been made for the Group as there were no assessable profits for the six months ended 30 June 2005 and 30 June 2004.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

7. STATUTORY SURPLUS RESERVE, STATUTORY PUBLIC WELFARE FUND, RESERVE FUND AND ENTERPRISE EXPANSION FUND

No appropriation was made to the statutory surplus reserve, statutory public welfare fund, reserve fund and enterprise expansion fund by the Company and its subsidiaries for the period ended 30 June 2005. Such appropriation will be made at the year end in accordance with the Company Law of the PRC and the Company's and subsidiaries' Articles of Associations.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of approximately RMB2,127,196,000 (For the six months ended 30 June 2004: approximately RMB2,315,540,000) and 6,455,300,000 (2004: 6,455,300,000) ordinary shares in issue during the period.

No diluted earnings per share is presented as the Company does not have any dilutive potential ordinary shares.

9. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

10. FIXED ASSETS AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2005, the Group acquired construction in progress and fixed assets in an aggregate amount of approximately RMB104 million through an acquisition of the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a subsidiary of the ultimate holding company, Magang (Group) Holding Company Limited ("Holding"). Further details of the acquisition are set out in note 16(d) to the condensed consolidated interim financial statements.

During the six months ended 30 June 2005, the Group incurred construction cost of approximately RMB3,566 million in the construction of production plants and acquired various fixed assets with a cost of approximately RMB12 million. The Group disposed fixed assets with an aggregate net book value of approximately RMB3.2 million and resulted in a net gain on disposal of approximately RMB2.9 million.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

11. TRADE AND BILL RECEIVABLES

The Group's credit periods to customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of provision, is as follows:

	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited RMB'000
Trade receivables:		
Within three months	173,917	252,788
Four to six months	25,674	8,130
Seven to twelve months	14,051	4,688
One to two years	12,504	8,757
Two to three years	5,371	2,189
	231,517	276,552
Bill receivables	1,963,857	1,922,826
	2,195,374	2,199,378

Bill receivables have maturity dates within one year.

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of receivables.

Included in the Group's trade and bill receivables are amounts due from Holding, and the subsidiaries and associates of Holding aggregating approximately RMB4,176,000 (2004: approximately RMB1,466,000). Such balances principally arose from normal trading activities.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

12. ACCOUNTS AND BILL PAYABLES

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

	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited RMB'000
Within one year	4,449,044	3,176,820
One to two years	7,572	83,700
Two to three years	3,475	4,784
Over three years	7,265	6,857
	<u>4,467,356</u>	<u>3,272,161</u>

Included in the Group's accounts and bill payables are amounts due to Holding, and the subsidiaries and associates of Holding aggregating approximately RMB119,474,000 (2004: approximately RMB81,805,000). Such balances principally arose from normal trading activities.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

13. RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	Total	Retained earnings	Minority interests
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
At 1 January 2004	4,864,976	533,110	532,839	698	348	5,931,971	1,045,136	35,420
Profit for the period	-	-	-	-	-	-	2,315,540	1,946
Capital contributions from minority shareholders	-	-	-	-	-	-	-	5,740
Dividend payables to minority shareholders	-	-	-	-	-	-	-	(929)
At 30 June 2004 and 1 July 2004	4,864,976	533,110	532,839	698	348	5,931,971	3,360,676	42,177
Profit for the period	-	-	-	-	-	-	1,276,780	10,626
Capital contributions from minority shareholders	-	-	-	-	-	-	-	23,512
Transfer from/(to) reserves	-	360,050	360,013	2,782	4,786	727,631	(727,631)	-
Proposed final 2004 Dividend	-	-	-	-	-	-	(1,420,166)	-
At 31 December 2004 and 1 January 2005	4,864,976	893,160	892,852	3,480	5,134	6,659,602	2,489,659	76,315
Profit for the period	-	-	-	-	-	-	2,127,196	17,355
Capital contributions from minority shareholders	-	-	-	-	-	-	-	6,795
Dividend payables to minority shareholders	-	-	-	-	-	-	-	(2,265)
At 30 June 2005	<u>4,864,976</u>	<u>893,160</u>	<u>892,852</u>	<u>3,480</u>	<u>5,134</u>	<u>6,659,602</u>	<u>4,616,855</u>	<u>98,200</u>

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

14. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the interim financial statements were as follows:

	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited RMB'000
Bills discounted with recourse	—	311,000

15. CAPITAL COMMITMENTS

The commitments for capital expenditure for buildings and structure, plant and equipment at the balance sheet date were as follows:

	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Audited RMB'000
Contracted, but not provided for	7,685,405	612,851
Authorised, but not contracted for	14,730,274	1,801,687
	22,415,679	2,414,538

The capital commitments contracted, but not provided for, included capital commitments denominated in foreign currencies of approximately EUR265 million (equivalent to approximately RMB2,641 million), approximately GBP0.8 million (equivalent to approximately RMB12 million), approximately USD9.6 million (equivalent to approximately RMB79 million) and approximately JPY21,489 million (equivalent to approximately RMB1,615 million).

Capital commitments increased significantly as the Company authorised the development of a series of new construction plants under the Eleventh Five-Year Plan in current period.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

16. RELATED PARTY TRANSACTIONS

- (i) Transactions carried out between the Group and the related parties during the period:

	Notes	For the six months ended 30 June	
		2005 Unaudited RMB'000	2004 Unaudited RMB'000
Transactions with Holding, and subsidiaries and associates of Holding:			
Purchase of iron ore, limestone and dolomite	(a)	671,773	442,269
Fees paid for welfare, support services and other services	(b), (c)	138,163	119,798
Agency fee	(c)	2,035	2,315
Purchase of fixed assets and provision of construction services	(c)	212,165	204,793
Fees received for the supply of utilities, services and other consumable goods	(c)	(14,968)	(22,297)
Sale of steel products	(c)	(2,084)	(1,508)
Acquisition of businesses	(d)	149,774	–
Transactions with associates of the Company:			
Purchases of coke			
濟源市金馬焦化有限公司(「濟源市金馬焦化」)	(e)	135,799	41,183
滕州盛隆煤焦化有限公司(「滕州盛隆煤焦化」)	(e)	186,009	–

- (a) The terms for the purchases of iron ore, limestone and dolomite from Holding were in accordance with an agreement dated 9 October 2003 between the Company and Holding.
- (b) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services, were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
- (c) The other transactions with Holding, and subsidiaries and associates of Holding were conducted on terms determined between the Company and the respective related parties.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

16. RELATED PARTY TRANSACTIONS (continued)

- (d) Acquisition of the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business

	RMB'000
	Unaudited
Net assets acquired:	
Fixed assets, net	54,396
Construction in progress	49,855
Trade and bill receivables	76,108
Prepayments, deposits and other receivables	20,825
Inventories	152,240
Accounts payables	(113,421)
Other payables and accruals	(90,229)
	<u>149,774</u>
Satisfied by cash	<u>149,774</u>

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Construction Co. Ltd., a wholly owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and its electrical and mechanical equipment installation business. The acquisition price, which amounted to approximately RMB149,774,000, was determined by reference to an asset appraisal report issued by an independent assets valuer, Jiangsu Talent Certified Public Accountants. In accordance with the terms of the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, these businesses were entrusted to the Construction Co. Ltd. for management and the profits or losses incurred were assumed by the Company.

The primary reasons for the acquisition were to lower construction costs and shorten the construction period and the acquisition had no material impact on the Group's consolidated turnover or profit before tax for the period.

- (e) The above transactions were made by reference to the price of the same products offered by 濟源市金馬焦化 and 滕州盛隆煤焦化 to their unrelated major customers.

In the opinion of the directors the above transactions were carried out in the normal course of business of the Group.

Further details on balances with Holding, and the subsidiaries and associates of Holding are set out in notes 11 to 12 to the condensed consolidated interim financial statements.

VI. FINANCIAL REPORT (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2005

16. RELATED PARTY TRANSACTIONS (continued)

- (ii) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
Short-term employment benefits	2,100	2,094
Post-employment benefits	441	440
	<hr/>	<hr/>
Total compensation paid/payable to key management personnel	2,541	2,534
	<hr/> <hr/>	<hr/> <hr/>

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed interim financial statements were approved and authorised for issue by the board of directors on 15 August 2005.

VII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Interim report signed by the Chairman of the Company;
2. Financial statements signed and stamped by the Company's legal representative, chief accountant and head of the Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;
4. The Company's Articles of Association;
5. Interim report published in Shanghai Securities News, South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong).

Maanshan Iron & Steel Company Limited
Gu Jianguo
Chairman

15 August 2005