

Notes to Financial Statements

(Prepared under PRC accounting standards)

31 December 2005

I. CORPORATE AFFILIATION

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited liability company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited (“Holding”)), was incorporated in Maanshan City, Anhui Province, the People’s Republic of China (the “PRC”) on 1 September 1993. The registration number of the Company’s business licence is Qi Gu Wan Zong Zi No. 000970. The Company’s A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange respectively. The Company together with its subsidiaries (the “Group”) are principally engaged in the manufacture and sale of iron and steel products.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED OF FINANCIAL STATEMENTS

The principal accounting policies, accounting 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 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 (“RMB”) is used as the Group’s reporting currency.

4. Basis of accounting and measurement basis

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”.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 are within three months of maturity when acquired.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED 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.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED 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, work in progress, construction contract, finished goods and spare parts. Inventories are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are 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.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Inventories (continued)

Contract costs incurred comprise direct materials, direct labour, utilisation expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised loss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects on financial statement. Provision of impairment for construction contract is assessed at year end. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as current expenses immediately.

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.

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.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long term investments (continued)

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.

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 accrued, 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. Gains or losses arising from the disposal, damage, obsolescence or physical counting of fixed assets are accounted for as non-operating expenses or income in the current period.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Fixed assets (continued)

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	4.9% – 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.

At the end of the accounting period, fixed assets are carried at the lower of book value and recoverable amount. A provision for impairment of fixed assets is made for any difference between the book value and the lower recoverable amount and charged to the current period's income statement. The recoverable amount of the fixed assets is the greater of the net selling price and the value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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 includes all costs incurred during the preparation period before commencement of construction and until the asset is ready for its intended use. These costs include direct materials, direct labour, equipment for installation, construction and installation charges, management fees, gain or loss on trial run production and borrowing costs which are qualified for capitalisation. Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress (continued)

The impairment provisions are made against those projects which have been suspended for a long period of time and the construction of which is not expected to resume within three years, and which have been considered obsolete in terms of its technology and functionality and where there exists significant uncertainty as to whether it will bring future economic benefits to the Company, 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.

15. Borrowing costs

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

- (i) expenditures for the assets are incurred;
- (ii) borrowing costs are incurred;
- (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.

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.

Notes to Financial Statements (continued)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Intangible assets

The Group's intangible assets represent land use rights and iron ore mining rights, which are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write off the cost over the estimated useful life.

At the end of the accounting period, intangible assets are carried at the lower of book value and recoverable amounts. If the recoverable amount is lower than the book value, a provision for impairment on intangible assets is made for the difference, and charged to the income statement in the current period.

17. Short term commercial papers

The short term commercial papers are recorded under the par value. Any premium or discount arising from the difference between issue price and par value is amortised in the same time when such interest is accrued over the duration of bonds according to effective interest rate method.

18. 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.

19. 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.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the percentage of completion method at the balance sheet date. When the outcome of a construction contract cannot be estimated reliably, contract revenue should be recognised only to the extent of recoverable contract costs incurred.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Revenue recognition (continued)

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.

20. Income tax

The Company uses tax payable method to account for income tax.

21. Related parties

Parties are considered to be related if 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. Related parties may be individuals or corporate entities.

22. 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

III. 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. Before 1 May 2005, the refunds rate was 13%, but was adjusted to 11% – 13% since then. 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.

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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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III. TAX (continued)

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 and their corporate income taxes have been provided at the rate of 15% to 30% and are entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holidays. After obtaining authorization from their respective tax bureau, they can enjoy the tax holidays starting from year 2004. Profits tax of overseas and Hong Kong subsidiaries have been provided at the rate of 17.5% – 30% on their estimated assessable profits which were earned in or derived from overseas and Hong Kong during the year.

IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

The consolidated financial statements include the subsidiaries below, which was same with prior year excluding those listed in Note i :

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company	
						RMB	%
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	RMB20,490,000	RMB20,490,000	7,500,000	58.96	7.86
MG Control Technique Company Limited ("MG Control Technique")	Anhui, PRC	Design of automation systems; purchase, installation and repair of automation, computer and communication systems	RMB8,000,000	RMB8,000,000	7,500,000	93.75	4.18

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company	
						RMB	directly
						%	%
Subsidiaries (continued)							
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 consultancy 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
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 and 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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company	
						RMB	%
Subsidiaries (continued)							
Anhui Masteel Holly Packing Co. ("Holly Packing")	Anhui, PRC	Provision of packing materials for steel and other products; production and sale of metallic products, plastic, 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	-
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment") (Note i)	Anhui, PRC	Provision of equipment inspection and technical 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	RMB82,129,760	63,000,000	75	-
MG Trading and Development GmbH ("MG Trading")	Germany	Trading of equipment, iron and steel products and provision of technology services	EUR153,388	EUR153,388	1,573,766	100	-
Maanshan Iron & Steel (Australia) Proprietary Limited	Australia	Production and sale of iron ores through an unincorporated joint venture	AUD21,737,900	AUD21,737,900	126,312,415	100	-

Notes to Financial Statements (continued)

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company	
						RMB	directly
						%	%
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·回收折解有限責任公司 (「五環汽車」) (Note ii)	Anhui, PRC	Recycling and dismantling of scrap motor vehicles and trading of steel products	RMB500,000	RMB500,000	–	–	–
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 and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services	RMB20,000,000	RMB20,000,000	4,000,000	20	–
馬鞍山港口(集團)有限責任公司 (「馬鞍山港口公司」) (Note i)	Anhui, PRC	Provision of loading/unloading and cargos forwarding agency services; storage, transmitting of cargos and division/merge of cargos in containers; provision of general services to ships, repair and manufacture of spare parts of ships	RMB250,000,000	RMB205,623,292	104,831,800	45	–

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IV. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES (continued)

Name of investee company	Place of incorporation and registration	Principal activities	Registered capital	Paid-up capital	Investment cost of the Company	Percentage of equity held by the Company	
						RMB	directly
						%	%
Jointly-controlled enterprise ("JCE")							
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") (Note i, iii)	Anhui, PRC	Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sales services, technical services and other related services	RMB468,000,000	RMB468,000,000	234,000,000	50	-
Total					<u>885,054,800</u>		

Note i: Newly incorporated during the year

Note ii: The investment in 五環汽車 (RMB 200,000, 40% equity interest) held by the Company was sold during the year. As at 31 December 2005, the Company did not have any equity interest in 五環汽車.

Note iii: Ma'anshan BOC is jointly controlled by BOC (China) Investment Company Limited and the Company, and hence proportionate consolidation should be applied. Since Ma'anshan BOC is still at pre-operating stage and has not commenced commercial production, no income statement has been reported. Its net assets did not exceed 2% of the Group's net assets. Having considered materiality, equity method of accounting is adopted by the Company to account for Ma'anshan BOC. This treatment complies with the new Accounting Standards for Business Enterprises which will become effective on 1 January 2007.

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

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V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	31 December 2005			31 December 2004		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash on hand	RMB179,223	1.0000	179,223	RMB105,616	1.0000	105,616
Balances with financial institutions (Note 2)	RMB2,387,389,191 HK\$3,696,567 US\$27,105,931 EUR50,884,207 JPY21,825,153 AUD1,257,644	1.0000 1.0403 8.0702 9.5797 0.0687 5.9219	2,387,389,191 3,859,056 218,803,290 487,455,441 1,499,733 7,447,641	RMB1,919,394,341 HK\$1,364,893 US\$16,749,730 EUR1,430,777 JPY337,797 -	1.0000 1.0637 8.2765 11.2627 0.079701 -	1,919,394,341 1,451,839 138,642,156 16,114,419 26,922 -
Other balances with financial institutions	RMB135,897,049 (Note) US\$1,221,978 (Note) EUR269,246 JPY112	1.0000 8.0702 9.5797 0.0687	135,897,049 9,905,749 2,579,297 7	RMB15,111,783 US\$10,003,781 EUR31,226 JPY93,850,305	1.0000 8.2765 11.2627 0.079701	15,111,783 82,817,450 351,690 7,479,963
Total			<u>3,255,015,677</u>			<u>2,181,496,179</u>

Note: Included in the balances were US\$1,000,000 (equivalent to RMB8,114,340) and RMB134,000,000 which have been pledged as securities for the provision of banking facilities and issue of bank bills to the Company's subsidiaries. The deposits were not readily available for payment.

The increase in the Group's cash and balances with financial institutions by 49% was mainly attributable to the increase of bank loans and the issue of RMB2 billion short term commercial papers at year end.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. 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\$123 million (31 December 2004: approximately HK\$128 million).

	Notes	31 December 2005 HK\$'000	31 December 2004 HK\$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	23,317	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	3,491	8,608
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	48,000	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	48,125	48,125
		122,933	128,050

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 the 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 year, no allocation of assets was made by the liquidator of GITIC.
- (ii) China Venturetech was in liquidation since 1998 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). Up to 31 December 2005, the Company has received an accumulated repayment of approximately RMB2,271,000. On 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated and the Company was entitled to a final repayment of RMB3,632,000. The amount proved to be irrecoverable was written off in current year. On 14 February 2006, the Company received the rest repayment of RMB3,632,000.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

- (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.

Except for the balance with China Venturetech, 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 three remaining overdue fixed deposits.

3. Short term investments

Item	31 December 2005		31 December 2004	
	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>13,568,593</u>	<u>–</u>

Note:

Name of investee company	Class of share	Number of shares held	Investment cost RMB	Closing market unit price RMB	Market price at year end RMB
China Petroleum & Chemical Corporation	Circulating share	1,800,000	7,596,000	4.66	8,388,000
Baoshan Iron & Steel Company Limited	Circulating share	1,743,197	<u>5,972,593</u>	4.12	<u>7,181,972</u>
Total			<u>13,568,593</u>		<u>15,569,972</u>

The year end market prices of the shares were the closing market prices as at 31 December 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 year 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

4. Bills receivable

	31 December 2005 RMB	31 December 2004 RMB
Bank bills	<u>1,931,609,265</u>	<u>2,233,825,798</u>
Including: Discounted bills with recourse yet to mature (Note 14)	<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.

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.

5. Trade receivables

Trade receivables ageing analysis:

	Group				31 December 2004			
	31 December 2005		Provision for		Balance RMB	Ratio %	bad debts RMB	Ratio %
	Balance RMB	Ratio %	bad debts RMB	Ratio %				
Within one year	270,498,124	81	–	–	265,606,835	83	–	–
One to two years	17,486,861	5	(4,908,558)	28	10,963,979	3	(2,208,085)	20
Two to three years	8,259,890	3	(7,853,396)	95	4,379,155	1	(2,189,578)	50
Over three years	36,536,094	11	(36,536,094)	100	40,532,016	13	(40,532,016)	100
Total	<u>332,780,969</u>	<u>100</u>	<u>(49,298,048)</u>		<u>321,481,985</u>	<u>100</u>	<u>(44,929,679)</u>	

	Company				31 December 2004			
	31 December 2005		Provision for		Balance RMB	Ratio %	bad debts RMB	Ratio %
	Balance RMB	Ratio %	bad debts RMB	Ratio %				
Within one year	204,374,088	77	–	–	241,522,676	81	–	–
One to two years	15,723,061	6	(3,300,034)	21	10,507,474	4	(2,152,923)	20
Two to three years	8,259,890	3	(7,853,396)	95	4,379,155	1	(2,189,578)	50
Over three years	36,536,094	14	(36,536,094)	100	40,532,016	14	(40,532,016)	100
Total	<u>264,893,133</u>	<u>100</u>	<u>(47,689,524)</u>		<u>296,941,321</u>	<u>100</u>	<u>(44,874,517)</u>	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

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

Reason	Group and Company	
	2005 RMB	2004 RMB
Bankrupt or liquidated debtors	–	10,789,947
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	357,613	1,545,200
Total	357,613	12,335,147

The five largest trade receivables of the Group and the Company amounted to RMB45,834,351 and RMB41,369,270 respectively, which accounted for 14% and 16% of the gross trade receivables of the Group and the Company respectively.

Except for those as stated in Note VI 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.

The movement of bad debts provision for trade receivables for the year of 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables

Other receivables ageing analysis:

	31 December 2005				31 December 2004			
	Balance	Ratio	Provision for		Balance	Ratio	Provision for	
			bad debts	Ratio			bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	174,855,093	85	-	-	85,932,312	72	(256,051)	-
One to two years	2,925,579	2	(509,854)	17	566,424	-	(221,450)	39
Two to three years	2,361,612	1	(2,250,672)	95	4,772,672	4	(3,694,962)	77
Over three years	25,302,728	12	(23,412,221)	93	28,676,597	24	(28,425,666)	99
Total	<u>205,445,012</u>	<u>100</u>	<u>(26,172,747)</u>		<u>119,948,005</u>	<u>100</u>	<u>(32,598,129)</u>	

	31 December 2005				31 December 2004			
	Balance	Ratio	Provision for		Balance	Ratio	Provision for	
			bad debts	Ratio			bad debts	Ratio
RMB	%	RMB	%	RMB	%	RMB	%	
Within one year	18,061,977	37	-	-	19,468,662	37	(256,051)	1
One to two years	2,905,638	6	(509,854)	18	553,624	1	(221,450)	40
Two to three years	2,361,612	5	(2,250,672)	95	4,772,672	9	(3,694,962)	77
Over three years	25,251,796	52	(23,412,221)	93	28,425,666	53	(28,425,666)	100
Total	<u>48,581,023</u>	<u>100</u>	<u>(26,172,747)</u>		<u>53,220,624</u>	<u>100</u>	<u>(32,598,129)</u>	

The increase in the Group's net other receivables by 105% was mainly attributable to the increase in advance paid to custom for import duty and tax.

The five largest other receivables of the Group and the Company amounted to RMB7,760,348, which accounted for 4% and 16% 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 year of 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

7. Prepayments

Prepayments ageing analysis:

	31 December 2005			31 December 2004		
	Balance RMB	Ratio %	Reason of outstanding	Balance RMB	Ratio %	Reason of outstanding
Within one year	297,726,499	79	N/A	632,873,830	91	N/A
One to two year	20,432,951	5	Note	60,475,790	9	Note
Two to three year	59,741,931	16	Note	–	–	N/A
Total	<u>377,901,381</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.

The Group's prepayment decreased by 45% was mainly attributable to the decrease in prepayment for materials and spare parts.

Except for those as stated in Note VI 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.

8. Inventories

	31 December 2005		31 December 2004	
	Balance RMB	Provision RMB	Balance RMB	Provision RMB
Raw materials	2,973,683,772	–	3,148,886,346	(5,000,000)
Work in progress	641,585,619	(3,000,000)	551,152,217	(3,000,000)
Construction contract	31,002,486	–	–	–
Finished goods	407,365,707	(46,838,109)	390,422,739	(9,656,900)
Spare parts	1,266,795,977	(71,121,783)	751,517,186	(70,137,887)
Total	<u>5,320,433,561</u>	<u>(120,959,892)</u>	<u>4,841,978,488</u>	<u>(87,794,787)</u>

Included in the Group's inventories were finished goods amounting to RMB23,930,323 which have been pledged to bank as securities for issue of bank bills to the Company's subsidiaries.

The movement of provision for impairment of inventories for the year 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments

Item	Group			
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2005 RMB
Long term equity investments				
Interests in a JCE (ii)	–	234,000,000	–	234,000,000
Interests in associates (iii)	150,018,188	118,295,893	(254,400)	268,059,681
Other equity investments (iv)	16,817,035	–	–	16,817,035
	166,835,223	352,295,893	(254,400)	518,876,716
Long term debt investment				
Other debt investment (v)	13,578,870	–	(2,660,000)	10,918,870
Total	180,414,093	352,295,893	(2,914,400)	529,795,586

Item	Company			
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	At 31 December 2005 RMB
Long term equity investments				
Interests in subsidiaries (i)	427,590,788	232,637,203	(5,545,143)	654,682,848
Interests in a JCE (ii)	–	234,000,000	–	234,000,000
Interests in associates (iii)	150,018,188	118,295,893	(254,400)	268,059,681
Other equity investments (iv)	16,817,035	–	–	16,817,035
	594,426,011	584,933,096	(5,799,543)	1,173,559,564
Long term debt investment				
Other debt investment (v)	13,578,870	–	(2,660,000)	10,918,870
Total	608,004,881	584,933,096	(8,459,543)	1,184,478,434

The total of long term investments and short term investments amounted to RMB543,364,179, which represented 3% 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 194% and 95% were mainly attributable to the increase in investments in subsidiaries, associates and a jointly-controlled entity.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. 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		Company						
				Opening balance	Increase during the year	Decrease during the year	Closing balance	Adjustment for gain or loss			Closing balance	
								Opening balance	Current year's share of profit	Dividend received/ receivable		Accumulated increase/ (decrease)
%	RMB	RMB	RMB	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	58,955,175	-	81,143,778	131,143,778
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	13,962,200	20,407,469	-	34,369,669	41,869,669
MG Control Technique	N/A	93.75	6,649,632	7,500,000	-	-	7,500,000	1,913,550	622,103	-	2,535,653	10,035,653
Anhui Masteel K. Wah	30 years	70	24,854,930	24,854,930	-	-	24,854,930	(1,165,378)	4,716,759	-	3,551,381	28,406,311
Ma Steel (Wuhu)	30 years	70	8,225,885	8,225,885	-	-	8,225,885	26,620,179	9,235,107	-	35,855,286	44,081,171
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	80,000,000	-	-	80,000,000	7,852,700	10,142,123	-	17,994,823	97,994,823
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	18,846,563	6,283,452	-	25,130,015	29,231,703
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	(576,360)	300,399	-	(275,961)	1,297,805
Holly Packing	20 years	71	21,478,316	21,478,316	-	-	21,478,316	6,401,731	52,904,400	(5,545,143)	53,760,988	75,239,304
Huayang Equipment	20 years	90	900,000	-	900,000	-	900,000	-	556,188	-	556,188	1,456,188
Ma Steel (Jinhua)	50 years	75	63,000,000	-	63,000,000	-	63,000,000	-	6,203	-	6,203	63,006,203
Maanshan Iron and Steel (Australia) Proprietary Limited	N/A	100	126,312,415	126,312,415	-	-	126,312,415	-	4,607,825	-	4,607,825	130,920,240
Total				331,547,000	63,900,000	-	395,447,000	96,043,788	168,737,203	(5,545,143)	259,235,848	654,682,848

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(ii) Interests in a JCE

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 year	Decrease during the year	Closing balance	Current			Closing balance	
								Opening balance	share of profit	Dividend received/ receivable		Accumulated increase/ (decrease)
%	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB		
BOC-Ma Steel	18 Years	50	234,000,000	-	234,000,000	-	234,000,000	-	-	-	-	234,000,000

(iii) 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 year	Decrease during the year	Closing balance	Current			Closing balance	
								Opening balance	profit/(loss)	Dividend received/ receivable		Accumulated increase/ (decrease)
%	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	9,825,750	-	11,081,594	91,081,594
滕州盛隆煤焦化	50 Years	32	66,776,000	66,776,000	-	-	66,776,000	(1,580,406)	742,771	-	(837,635)	65,938,365
五環汽車	N/A	40	200,000	200,000	-	(200,000)	-	54,400	-	(54,400)	-	-
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	-	-	4,000,000	(687,650)	4,061	-	(683,589)	3,316,411
馬鞍山港口公司	20 Years	45	104,831,800	-	104,831,800	-	104,831,800	-	2,891,511	-	2,891,511	107,723,311
Total			150,976,000	104,831,800	(200,000)	255,607,800	(957,812)	13,464,093	(54,400)	12,451,881	268,059,681	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

(iv) 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 RMB
Shanghai Chlor-Alkali Chemical Company Limited	Legal person shares	164,578	0.01	807,926
Tangshan Iron and Steel Company Limited	Legal person shares	1,003,200	0.04	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>

(v) Other debt investment

Debtor	Principal amount RMB	Annual interest rate %	Maturity date	Interest for the year RMB	Accumulated interest received/receivable RMB	Carrying value RMB
安徽省電力開發總公司	<u>10,918,870</u>	Nil	2006-2009	<u>-</u>	<u>-</u>	<u>10,918,870</u>

The movement of provision for long term investments for the year 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures RMB	Plant, machinery and equipment RMB	Transportation vehicles and equipment RMB	Total RMB
Cost				
At 1 January 2005	8,422,377,602	16,382,166,304	618,572,766	25,423,116,672
Additions	2,549,952	17,489,308	12,455,747	32,495,007
Acquisition of businesses (Note 46)	35,718,135	30,092,542	6,043,700	71,854,377
Transferred from construction in progress (Note 12)	565,730,762	1,900,296,192	77,956,107	2,543,983,061
Reclassifications	(269,172,800)	548,300,813	(279,128,013)	-
Disposal	(59,970,578)	(71,849,772)	(20,110,012)	(151,930,362)
At 31 December 2005	8,697,233,073	18,806,495,387	415,790,295	27,919,518,755
Accumulated depreciation				
At 1 January 2005	2,441,192,103	4,647,806,603	347,724,869	7,436,723,575
Provided during the year	458,779,765	1,553,188,963	52,569,828	2,064,538,556
Acquisition of businesses (Note 46)	7,548,487	8,386,776	1,523,040	17,458,303
Reclassifications	(129,991,797)	278,400,232	(148,408,435)	-
Disposal	(29,519,211)	(59,371,304)	(18,749,638)	(107,640,153)
At 31 December 2005	2,748,009,347	6,428,411,270	234,659,664	9,411,080,281
Net book value				
At 31 December 2005				
Net book value	5,949,223,726	12,378,084,117	181,130,631	18,508,438,474
Less: Impairment provision	(10,391,900)	(106,664,944)	-	(117,056,844)
Net book value, net of impairment provision	<u>5,938,831,826</u>	<u>12,271,419,173</u>	<u>181,130,631</u>	<u>18,391,381,630</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>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. 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 RMB1.4 billion.

At the balance sheet date, certain of the Group's equipments with a net book value of approximately RMB30.8 million were pledged to secure a loan granted to by Profit Access Investments Limited. Further details of the transaction are included in note 26 to the financial statements.

At the balance sheet date, certificate of ownership in respect of the Group's building with a net book value of RMB24,000,000 had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

The movement of provision for impairment of fixed assets for the year 2005 is disclosed in the supplementary information of the financial statements.

11. Construction materials

	31 December 2005 RMB	31 December 2004 RMB
Prepayments for equipment used in construction projects	<u>3,018,828,077</u>	<u>468,967,130</u>

The increase in the Group's construction materials by 544% was mainly attributable to the increase in the amount of equipment prepayment for construction projects of "Eleventh Five Year Plan".

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress

Construction in progress represents the following major projects which remained uncompleted as at 31 December 2005:

Name of project	Budgeted cost	At	Acquisition	Addition	Transferred to	At	Source of fund	Percentage of completion
		1 January 2005	of businesses (Note 46)	during the year	fixed assets (Note 10)	31 December 2005		
	RMB'000	RMB	RMB	RMB	RMB	RMB		%
1. Blast Furnaces Project	6,406,971	102,453,526	-	779,598,395	(120,248,678)	761,803,243	Internally	2-100
Including borrowing costs capitalised:		-	-	11,765,964	-	11,765,964	generated funds and loans from financial institution	
2. Converters Project	4,098,131	67,454,176	-	700,737,749	(293,055,262)	475,136,663	Internally	1-100
Including borrowing costs capitalised:		-	-	3,026,339	-	3,026,339	generated funds and loans from financial institution	
3. Wheel Line Project	797,530	19,395,891	-	194,536,969	(55,459,185)	158,473,675	Internally	19-100
Including borrowing costs capitalised:		-	-	(2,944,000)	2,944,000	-	generated funds and loans from financial institution	
4. Construction Steel Lines Project	16,977,710	656,910,680	49,735,199	1,600,867,689	(928,068,123)	1,379,445,445	Internally	1-100
Including borrowing costs capitalised:		2,956,790	-	55,562,025	(15,400,686)	43,118,129	generated funds and loans from financial institution	
5. Coking Stoves Project	2,867,000	141,584,963	-	279,985,527	(141,660,000)	279,910,490	Internally	1-100
Including borrowing costs capitalised:		-	-	8,784,000	-	8,784,000	generated funds and loans from financial institution	
6. Public Auxiliary Utilities Project	3,059,275	719,319,321	-	745,426,934	(227,706,488)	1,237,039,767	Internally	2-100
Including borrowing costs capitalised:		559,980	-	1,950,485	(1,263,275)	1,247,190	generated funds and loans from financial institution	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

Name of project	Budgeted cost	At 1 January 2005	Acquisition of businesses (Note 46)	Addition during the year	Transferred to fixed assets (Note 10)	At 31 December 2005	Source of fund	Percentage of completion
	RMB'000	RMB	RMB	RMB	RMB	RMB		%
7. Energy-saving and Environment Protection Project	495,970	65,533,097	-	145,959,494	(178,456,295)	33,036,296	Internally generated funds	37-100
8. Other Projects	N/A	144,478,738	-	931,906,462	(599,329,030)	477,056,170	Internally generated funds	N/A
<i>Including borrowing costs capitalised:</i>		-	-	15,108,480	-	15,108,480	and loans from financial institution	
		1,917,130,392	49,735,199	5,379,019,219	(2,543,983,061)	4,801,901,749		
Less: Impairment provision		(74,000,000)	-	-	-	(74,000,000)		
		<u>1,843,130,392</u>	<u>49,735,199</u>	<u>5,379,019,219</u>	<u>(2,543,983,061)</u>	<u>4,727,901,749</u>		

The increase in the Group's construction in progress by 157% was mainly attributable to the construction for the "Eleventh Five Year Plan" in 2005.

The capitalisation rates of interest are 5.18% – 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 has not yet been obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

The movement of provision for impairment of construction in progress for the year 2005 is disclosed in the supplementary information of the financial statements.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

13. Intangible assets

	Method of acquisition	Original amount RMB	Accumulated amortisation RMB	At 1 January 2005 RMB	Additions during the year RMB	Amortisation during the year RMB	At 31 December 2005 RMB	Remaining years of amortisation
Mine Participation right (Note 1)	Purchase	-	-	-	110,150,400	(1,115,704)	109,034,696	25 years
Land use rights (Note 2)	Purchase	1,069,247,380	(210,226,791)	859,020,589	23,182,460	(21,091,696)	861,111,353	37 to 50 years
		<u>1,069,247,380</u>	<u>(210,226,791)</u>	<u>859,020,589</u>	<u>133,332,860</u>	<u>(22,207,400)</u>	<u>970,146,049</u>	

Note 1: The Group has 10% interest in an Australian unincorporated joint venture in which the Group does not have joint control or is not in a position to exercise significant influence. The participants of this joint venture purchased a mine participation right in Australia in the form of sub-lease for 25 years.

Note 2: At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB35.1 million are not yet obtained. The directors represented that the Group is in the process of obtaining the relevant certificates.

At the balance sheet date, the net book value of land use right leased out is approximately RMB1.24 million (2004: Nil).

14. Short term loans

Type	Annual interest rate %	Maturity date	31 December 2005 RMB	31 December 2004 RMB
Unsecured loans	LIBOR to 5.22	1/2006 -3/2006	112,372,660	1,181,638,475
Guaranteed loans	-	-	-	20,000,000
Secured loans (Note 4)	-	-	-	311,000,000
Trust Receipt loans	-	-	-	68,283,175
			<u>112,372,660</u>	<u>1,580,921,650</u>

Note: LIBOR represents London Interbank Offered Rate.

The decrease in the Group's short term loans by 93% was mainly attributable to the change of the Group's sources of financing from bank loans to the issue of RMB2 billion short term commercial papers.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

15. Bills payable

	31 December 2005 RMB	31 December 2004 RMB
Bank bills	655,567,000	<u>80,000,000</u>

The increase in the Group's bills payable by 719% was mainly attributable to the increase in using bank bills for payment of material purchase in year of 2005.

Balances with financial institutions amounting to US\$1 million and RMB134 million and inventories amounting to RMB23,930,323 have been pledged to banks as securities for issue of bank bills by the Company's subsidiaries. The balances with financial institutions and inventories were not readily available for payment or sale.

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

16. Short term commercial papers

Name	Interest payable during the year RMB	Accumulated interest payable RMB	31 December 2005 RMB	31 December 2004 RMB
Short term commercial papers	-	-	2,000,000,000	<u>-</u>

The short term commercial papers represented 20,000,000 3.19% per annum short term commercial papers with a nominal value of RMB100 issued by the Company at par on 29 December 2005. These short term commercial papers are redeemable on 28 December 2006.

17. 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 VI 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

18 Deposits received

The ageing of deposits received is within one year.

Except for those as stated in Note VI 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.

19. Wages payable

The increase in the Group's wages payable by 127% was mainly due to the increase of bonus payable for the year of 2005.

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

20. Welfares payable

The increase in the Group's welfares payable by 47% was mainly attributable to the increase in wages in year of 2005.

21. Tax payable

	31 December 2005 RMB	31 December 2004 RMB
Corporate income tax	118,021,576	188,156,698
VAT	330,870,312	453,045,322
Business tax	1,673,353	2,844,399
City construction and maintenance tax	7,377,600	38,688,982
Other taxes	35,846,914	28,597,615
Total	493,789,755	711,333,016

The decrease in the Group's tax payable by 31% was mainly due to the decrease in VAT payable for the year of 2005.

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

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Other taxes payable

	31 December 2005 RMB	31 December 2004 RMB
Education surcharge	5,079,358	16,580,992
Flood prevention fund	13,484,963	29,608,637
Other taxes	1,743,556	2,635,001
Total	<u>20,307,877</u>	<u>48,824,630</u>

The decrease in the Group's other taxes payable by 58% was mainly attributable to the decrease in education surcharge and flood prevention fund payable.

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

23. Other payables

	31 December 2005 RMB	31 December 2004 RMB
Staff housing subsidies	103,973,323	112,917,521
Sales rebate	116,044,016	–
Construction fee	77,954,188	50,345,347
Maintenance and inspection fee	61,900,561	58,847,651
Labour costs	50,111,147	57,285,421
Others	78,743,300	46,621,727
Total	<u>488,726,535</u>	<u>326,017,667</u>

The increase in the Group's other payables by 50% was mainly because of the accrual of sales rebate for the year of 2005.

Certain of the Group's other payables are aged over three years because of delay in settlement of certain service fees.

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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Accrued charges

	31 December 2005 RMB	31 December 2004 RMB
Loan interests	58,712,708	33,928,492
Retirement benefits payable to early retired employees	10,773,268	11,945,072
Maintenance fee	4,862,311	6,375,237
Others	24,769,361	18,072,410
Total	99,117,648	70,321,211

The increase in the Group's accrued charges by 41% was mainly attributable to the increase in accrued loan interests.

25. Long term loans due within a year

Lender	31 December 2005			31 December 2004			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	RMB	260,000	260,000	RMB	260,000	260,000	12/2006	2.88	Unsecured
China Construction Bank	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	12/2006	2.4	Unsecured
	USD	7,972,657	64,340,936	USD	7,972,657	65,985,694	4/2006 – 10/2006	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China	EUR	123,947	1,187,373	EUR	123,947	1,395,975	3/2006 – 9/2006	0.25	Guaranteed by Sinosteel Trading Company
Total			78,988,309			80,841,669			

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Long term loans

Lender	31 December 2005			31 December 2004			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	RMB	2,057,000,000	2,057,000,000	RMB	707,000,000	707,000,000	11/2007 – 4/2008	5.49, 5.184	Guaranteed by Holding
	-	-	-	EUR	73,000,000	822,177,100	N/A	N/A	N/A
China Construction Bank	RMB	1,117,000,000	1,117,000,000	RMB	808,000,000	808,000,000	1/2010 – 12/2010	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	600,000,000	600,000,000	-	-	-	12/2008	5.184	Unsecured
	USD	20,000,000	161,404,000	-	-	-	2/2009	LIBOR(3 months)+1	Unsecured
	USD	3,986,329	32,170,471	USD	11,958,986	98,978,549	4/2007	LIBOR(6 months)+0.5	Guaranteed by Holding
Bank of China	RMB	212,000,000	212,000,000	RMB	182,000,000	182,000,000	3/2007 – 7/2009	5.76	Guaranteed by Holding
	RMB	110,000,000	110,000,000	-	-	-	12/2008	Central Bank benchmark rate	Unsecured
	EUR	1,611,308	15,435,846	EUR	1,753,254	19,543,653	3/2007 – 9/2019	0.25	Guaranteed by Sinosteel Trading Company
	-	-	-	EUR	115,000,000	1,295,210,500	N/A	N/A	N/A
	USD	66,000,000	532,633,200	-	-	-	5/2009– 7/2009	LIBOR(3 months) +1 LIBOR(3 months) +0.85	Unsecured
	-	-	-	-	-	-	-	-	-

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Long term loans (continued)

Lender	31 December 2005			31 December 2004			Maturity date	Annual interest rate %	Conditions of borrowings
	Currency type	Original currency amount	RMB	Currency type	Original currency amount	RMB			
Agricultural Bank of China	RMB	894,000,000	894,000,000	RMB	174,000,000	174,000,000	2/2007 – 9/2008	5.49, 5.76	Guaranteed by Holding
	RMB	600,000,000	600,000,000	-	-	-	9/2008	5.184	Unsecured
Huishang Bank	RMB	169,000,000	169,000,000	RMB	19,000,000	19,000,000	6/2007 – 5/2009	5.49, 4.7	Unsecured
	RMB	360,000,000	360,000,000	-	-	-	9/2008	5.184	Guaranteed by Holding
China CITIC Bank	RMB	400,000,000	400,000,000	-	-	-	8/2008	4.32	Unsecured
	USD	50,000,000	403,510,000	-	-	-	8/2008	LIBOR(6 months) +0.4	Unsecured
China Merchants Bank	RMB	400,000,000	400,000,000	-	-	-	10/2008–11/2008	Central Bank benchmark rate less 10%	Unsecured
	USD	50,000,000	403,510,000	-	-	-	10/2008–11/2008	LIBOR(6 months) +0.4	Unsecured
The Export-import Bank Of China	RMB	95,000,000	95,000,000	-	-	-	8/2007 – 8/2012	3.78	Guaranteed by Holding
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>8,570,815,511</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 Huishang 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 RMB30.76 million as at 31 December 2005.

The increase in the Group's long term loans by 107% was mainly attributable to the increase in the long term loans for the construction for the "Eleventh Five Year Plan".

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

27. Specific payables

	31 December 2005 RMB	31 December 2004 RMB
Government subsidies for specific construction projects	3,200,000	19,800,000

The decrease in the Group's government subsidies for specific construction projects by 84% was attributable to the completion of certain projects and the transfer of the respective subsidies to the capital reserve.

28. Other long term liabilities

	31 December 2005 RMB	31 December 2004 RMB
Payable to Holding	400,000,000	–
Accrued charges for furnace relining	74,499,299	74,499,299
Retirement benefits payable to early retired employees	29,485,032	40,258,301
Total	503,984,331	114,757,600

The increase in the Group's other long term liabilities by 339% was mainly attributable to the increase in payable to Holding. The payable to Holding is interest-free, unsecured and is repayable after 1 January 2007.

29. Minority interests

The increase in the minority interests in consolidated balance sheet by 81% was mainly attributable to the injection of capitals by minority shareholders and the increase in profits of certain non-wholly owned subsidiaries during the year.

The increase in the minority interest in consolidated income statement by 225% was mainly attributable to the increase in profits of certain non-wholly owned subsidiaries during the year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. 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	
	31 December 2005 RMB	31 December 2004 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	-	-
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	-	-
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 year.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

31. Capital reserve

	Group and Company			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	562,069,700	23,300,000	–	585,369,700
	<u>5,427,045,095</u>	<u>23,300,000</u>	<u>–</u>	<u>5,450,345,095</u>

The increase in the capital reserve of the Group and the Company during the year represented the transfer of government subsidies from specific payables upon the completion of certain subsidised construction projects.

32. Surplus reserves

	Group			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Statutory surplus reserve	893,159,696	286,812,511	–	1,179,972,207
Statutory public welfare fund	892,852,471	285,532,897	–	1,178,385,368
Reserve fund	3,479,930	7,632,717	–	11,112,647
Enterprise expansion fund	5,134,876	5,542,898	–	10,677,774
Total	<u>1,794,626,973</u>	<u>585,521,023</u>	<u>–</u>	<u>2,380,147,996</u>

	Company			At 31 December 2005 RMB
	At 1 January 2005 RMB	Increase during the year RMB	Decrease during the year RMB	
Statutory surplus reserve	888,003,374	278,666,301	–	1,166,669,675
Statutory public welfare fund	888,003,374	278,666,301	–	1,166,669,675
Total	<u>1,776,006,748</u>	<u>557,332,602</u>	<u>–</u>	<u>2,333,339,350</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. 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").

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.

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB278,666,301 (2004: RMB357,350,701) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of RMB2,786,663,009 (2004: RMB3,573,507,015) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the share of subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB8,146,210 (2004: RMB2,699,599), RMB6,866,596 (2004: RMB2,662,479), RMB7,632,717 (2004: RMB2,782,082) and RMB5,542,898 (2004: RMB4,785,952), respectively.

The Group's and the Company's surplus reserves increased by 33% and 31% were mainly attributable to the profit appropriation for the year of 2005.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (CONTINUED)

33. Retained profits

	Note	Group RMB
Retained profits at beginning of year		3,758,605,642
Add: the Group's net profit for the year		2,847,619,960
Less: Transfer to SSR		(286,812,511)
Transfer to PWF		(285,532,897)
Transfer to reserve fund		(7,632,717)
Transfer to enterprise expansion fund		(5,542,898)
Transfer to employee bonus and welfare fund		(4,615,762)
Ordinary share dividend payable		(1,420,166,000)
Retained profits at end of year		<u>4,595,922,817</u>
Including: Cash dividend proposed by directors	43	<u>1,032,848,000</u>

In accordance with the PRC relevant regulations, the retained profits of the Company for the purpose of profit distribution are deemed to be the lower of the amount determined in accordance with PRC accounting standards and regulations, and the amount determined in accordance with generally accepted accounting principles in Hong Kong.

As at 31 December 2005, the Company had retained profits of approximately RMB4.54 billion (31 December 2004: approximately RMB3.79 billion), as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or kind.

As at 31 December 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB5.45 billion (31 December 2004: approximately RMB5.43 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue. At the same date, the Company did not have any capitalisation issue.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	2005			2004		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
	RMB	RMB	RMB	RMB	RMB	RMB
Sale of steel products	30,143,438,308	25,853,648,022	4,289,790,286	25,493,392,474	19,948,799,211	5,544,593,263
Sale of pig iron	793,112	629,353	163,759	16,108,418	8,511,450	7,596,968
Sale of steel billets	479,308,861	406,276,901	73,031,960	249,752,091	216,741,656	33,010,435
Others	1,459,555,729	1,033,952,361	425,603,368	1,010,801,535	625,093,623	385,707,912
Total	32,083,096,010	27,294,506,637	4,788,589,373	26,770,054,518	20,799,145,940	5,970,908,578

Category	2005			2004		
	Operating income	Cost of sales	Profit from operating activities	Operating income	Cost of sales	Profit from operating activities
	RMB	RMB	RMB	RMB	RMB	RMB
Sale of steel products	30,143,438,308	25,853,648,022	4,289,790,286	25,493,392,474	19,948,799,211	5,544,593,263
Sale of pig iron	793,112	629,353	163,759	16,108,418	8,511,450	7,596,968
Sale of steel billets	479,308,861	406,276,901	73,031,960	249,752,091	216,741,656	33,010,435
Others	1,375,048,633	1,251,605,993	123,442,640	927,411,887	666,233,178	261,178,709
Total	31,998,588,914	27,512,160,269	4,486,428,645	26,686,664,870	20,840,285,495	5,846,379,375

Sales to the five largest customers of the Group and the Company for the year amounted to RMB4,207,312,389 and RMB4,161,350,621, which accounted for 13% 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.

The increase in the Group's and the Company's cost of sales by 31% and 32% respectively was mainly attributable to the increase in purchase cost of raw materials.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

35. Taxes and surcharges

	2005 RMB	2004 RMB
City construction and maintenance tax	131,303,393	122,193,047
Education surcharge	56,272,883	52,263,033
Local education surcharge	18,757,628	17,650,290
Other taxes	12,773,111	9,878,119
Total	<u>219,107,015</u>	<u>201,984,489</u>

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

36. Other operating profit

The increase in the Group's other operating profit by 198% was mainly attributable to the increase in the trading of imported iron ore.

37. Administrative expenses

	2005 RMB	2004 RMB
Staff cost	282,614,051	212,622,840
Welfare and support services	95,795,830	95,790,000
Removal compensation and demolition expenses	76,990,800	484,198,000
Provision for inventories	75,464,166	10,401,537
Taxes and duties	55,109,722	42,475,418
Joint office expenses	46,767,059	34,613,469
Depreciation and amortisation charges	42,326,809	38,638,427
Environmental protection fee	34,574,233	26,144,276
One-off staff medical insurance	–	109,606,800
Others	219,996,404	158,416,627
Total	<u>929,639,074</u>	<u>1,212,907,394</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

38. Financial expenses

	2005 RMB	2004 RMB
Interest expenses	362,470,045	225,284,228
Less: Interest income	(22,103,475)	(24,235,561)
Exchange loss	46,862,358	359,880,964
Less: Exchange gain	(201,605,652)	(162,697,482)
Others	23,858,875	8,592,365
Total	209,482,151	406,824,514

The decrease in the Group's financial expenses by 49% was mainly attributable to the increase in foreign exchange gain and decrease in foreign exchange loss.

39. Investment income

	Group		Company	
	2005 RMB	2004 RMB	2005 RMB	2004 RMB
Investment income from investment in subsidiaries	–	–	168,737,203	74,364,365
Share of profit/(losses) of associates	13,464,093	(957,812)	13,464,093	(957,812)
Other equity investment income	5,281,238	1,105,000	5,281,238	1,105,000
	18,745,331	147,188	187,482,534	74,511,553

The increase in the Group's investment income by 126 times was mainly attributable to the increase in the share of profits of associates during the year. The increase in the Company's investment income by 152% 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.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

40. Subsidies income

	2005 RMB	2004 RMB
Subsidies income for steel export	–	672,381
Subsidies from fiscal authority	1,992,600	–
	1,992,600	672,381

41. Non-operating income

The decrease in the Group's non-operating income by 99% was mainly attributable to the decrease in gain on disposal of fixed assets.

42. Non-operating expenses

The increase in the Group's non-operating expenses by 82% was mainly attributable to no reversal of fixed assets impairment during the year.

43. Cash dividend proposed by directors

	Group and Company	
	2005 RMB	2004 RMB
Proposed final cash dividend – RMB16 cents (2004: RMB22 cents) per ordinary share	1,032,848,000	1,420,166,000

Proposed ordinary share dividend is determined based on the profit appropriation plan for the year ended 2005 as approved by the board of directors after the balance sheet date. Dividend proposed for legal person shares, A shares and H shares amounted to RMB659,579,200, RMB96,000,000 and RMB277,268,800 respectively. The proposed dividend is subject to approval by the shareholders at the annual general meeting.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Cash paid relating to other operating activities

	2005 RMB	2004 RMB
Real estate tax	34,407,366	30,286,081
Environmental improvement fee	34,574,233	26,144,276
Welfare and support services	95,795,830	95,790,000
Export related costs	8,392,268	6,731,649
Unloading cost	17,249,060	5,362,318
Packing fee	19,118,316	14,841,406
Flood prevention fund	17,277,444	9,417,619
Stamp duty	18,479,780	10,820,168
Rental fee	6,345,554	5,340,000
Repair and maintenance expenses	13,797,253	23,479,574
Removal compensation and demolition expenses	76,990,800	484,198,000
One-off staff medical insurance	–	109,606,800
Others	119,564,189	64,137,148
Total	<u>461,992,093</u>	<u>886,155,039</u>

45. Cash received relating to other financing activities

	2005 RMB	2004 RMB
Government subsidies for specific construction projects	<u>6,700,000</u>	<u>–</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

46. Cash paid relating to acquisition of businesses/a subsidiary

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Magang Holding Construction Co. Ltd. ("Construction Company"), a wholly-owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and electrical and mechanical equipment installation business (the "Businesses"). 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, the Businesses were entrusted to the Construction Company for management and the profit and loss was assumed by the Company, which was not significant.

Net assets acquired:

	Notes	RMB
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)
Welfares payable		(3,810,465)
Taxes payable		(1,228,776)
Other taxes payable		(41,673)
Other payables		(2,907,567)
		<u>149,773,584</u>
Cash paid		<u>149,773,584</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

46 Cash paid relating to acquisition of businesses/a subsidiary (continued)

On 15 November 2004, the Company acquired a 71% equity interest in Holly Packing from Holding at a consideration of approximately RMB21,478,000. Holly Packing is mainly engaged in production of packing materials and on-site packing services. The consideration was determined on the basis of the carrying amount of the net asset value of Holly Packing as at 30 September 2004 which was audited by Jiangsu Talent Certified Public Accountants.

The net assets of Holly Packing at the date of transfer were set out below:

	RMB
Cash and balances with financial institutions	9,967,021
Trade receivables	361,184
Prepayments	3,838,121
Other receivables	16,297
Inventories	2,293,951
Fixed assets cost	42,689,470
Less: Accumulated depreciation	(1,548,609)
Net book value	41,140,861
Construction in progress	1,753,603
Intangible assets	5,152,647
Short term loans	(26,000,000)
Accounts payable	(1,256,481)
Deposits received	(796,443)
Taxes payable	167,999
Other payables	(6,247,471)
Accrued charges	(140,140)
Minority interests	(8,772,833)
	<u>21,478,316</u>
Cash paid	<u>21,478,316</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

46 Cash paid relating to acquisition of businesses/a subsidiary (continued)

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	RMB
Cash consideration paid	21,478,316
Cash and balances with financial institutions	(9,967,021)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>11,511,295</u>

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

Ernst & Young is responsible for the audit of financial statements prepared under 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:

	Notes	2005 RMB'000	2004 RMB'000
Net profit			
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		2,909,943	3,592,320
Add back:			
Deferred tax (income) /expense	(i)	(18,441)	19,725
Employee bonus and welfare fund	(ii)	4,616	2,141
Deduct:			
Transfer of deferred income	(iii)	(48,498)	(38,379)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u>2,847,620</u>	<u>3,575,807</u>

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000
Shareholders' funds			
Shareholders' funds under Hong Kong accounting standards		18,514,504	17,024,727
Add back:			
Deferred income	(iii)	585,369	562,069
Deduct:			
Deferred tax assets	(i)	(53,175)	(34,734)
Recognition of deferred income	(iii)	(90,483)	(41,985)
Provision for furnace relining costs	(iv)	(74,499)	(74,499)
Shareholders' funds under PRC accounting standards		18,881,716	17,435,578

(i) 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 as at 31 December 2004 and 31 December 2005.

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 31 December 2005 amounted to approximately RMB53.2 million (2004: approximately RMB34.7 million). The movement in the deferred tax assets resulted in a deferred tax income of approximately RMB18.4 million in the current year (2004: deferred tax expense of approximately RMB19.7 million).

(ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounting to approximately RMB4,616,000 (2004: approximately RMB2,141,000).

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(ii) Employee bonus and welfare fund (continued)

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

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

(iii) Deferred income

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

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2005, accumulated specific payables transferred to the capital reserve amounted to approximately RMB585 million (31 December 2004: approximately RMB562 million).

Under Statement of Standard Accounting Practice No. 35, "Accounting for government grants and disclosure of assistance" ("HKSSAP 35"), 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. During the year, certain subsidised construction projects, with government grants of approximately RMB23.3 million received in the current and prior year, were completed. As at 31 December 2005, accumulated deferred income amounting to approximately RMB585 million (31 December 2004: approximately RMB562 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB48.5 million (2004: approximately RMB38.4 million) was released to the current year's income statement. As at 31 December 2005, the accumulated deferred income released amounted to approximately RMB90.5 million (31 December 2004: approximately RMB42.0 million). HKAS 20 replaced HKSSAP 35 and became effective on 1 January 2005. The adoption of HKAS 20 did not result in impact on the above treatment.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(iv) Furnace relining costs

Under PRC accounting standard "Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2004: Nil), and the remaining provision as at 31 December 2005 amounted to approximately RMB74.5 million (2004: approximately RMB74.5 million).

Under HKSSAP 28, "Provisions, Contingent Liabilities and Contingent Assets", furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment. HKAS 37 replaced HKSSAP 28 and became effective on 1 January 2005. The adoption of HKAS 37 did not result in impact on the above treatment.

VI. 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 31 December 2005, Holding owned 63.24% of the Company's total share capital. Thus all subsidiaries of Holding become the Company's related parties.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Name	At 1 January 2005 RMB'000	Increase during the year during the year RMB'000	Decrease during the year during the year RMB'000	At 31 December 2005 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 RMB'000	Ratio %	Increase during the year RMB'000	Ratio %	Decrease during the year RMB'000	Ratio %	At 31 December 2005 RMB'000	Ratio %
Holding	4,082,330	63.24	—	—	—	—	4,082,330	63.24

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 of Holding
馬鋼集團建築路橋有限責任公司	Subsidiary of Holding
馬鋼集團南山礦業有限責任公司	Subsidiary of Holding
馬鋼集團姑山礦業有限責任公司	Subsidiary of Holding
馬鋼(集團)控股有限公司桃冲礦業公司	Subsidiary of Holding
馬鋼集團設計研究院有限責任公司	Subsidiary of Holding
馬鋼集團康泰置地發展有限公司	Subsidiary of Holding
馬鋼集團康泰建安實業有限責任公司	Subsidiary of Holding
馬鋼集團力生有限責任公司	Subsidiary of Holding
馬鋼集團實業發展有限責任公司	Subsidiary of Holding
馬鋼集團實業發展有限責任公司潤滑油分公司	Subsidiary of Holding
馬鋼集團易凡工貿有限公司	Subsidiary of Holding
馬鋼集團鋼渣綜合利用有限責任公司	Subsidiary of Holding
馬鋼實業生興爐料加工有限責任公司	Subsidiary of Holding
安徽馬鋼比亞西焊網有限公司	Subsidiary of Holding
馬鋼運動用品有限責任公司	Subsidiary of Holding
馬鞍山市聯營乙炔廠	Subsidiary of Holding
馬鞍山馬鋼永固螺絲製品有限責任公司	Subsidiary of Holding

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship (continued)

Name	Relationship with the Company
馬鋼集團動力機電安裝有限責任公司	Subsidiary of Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Subsidiary of Holding
馬鋼(集團)控股有限公司有線電視中心	Subsidiary of Holding
馬鋼(集團)控股有限公司通訊技術服務部	Subsidiary of Holding
馬鋼(集團)控股有限公司馬鋼日報社	Subsidiary of Holding
馬鋼(集團)控股有限公司安冶機械廠	Subsidiary of Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Subsidiary of Holding
安徽馬鋼吉順智能停車設備有限公司	Subsidiary of Holding
馬鞍山博力建設監理有限公司	Subsidiary of Holding
馬鋼(集團)控股有限公司高級技工學校	Subsidiary of Holding
馬鋼(集團)控股有限公司醫院	Subsidiary of Holding
馬鋼(集團)控股有限公司安徽冶金科技職業技術學院	Subsidiary of Holding
馬鋼(集團)控股有限公司黨校	Subsidiary of Holding
馬鋼集團建設有限責任公司機電安裝分公司	Subsidiary of Holding
馬鋼集團建設有限責任公司鋼結構製作安裝分公司	Subsidiary of Holding
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
馬鋼比歐西	JCE of the Group
利達投資有限公司	Minority shareholder of the Group
安徽鑫鋼商貿有限公司	Minority shareholder of the Group

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	Notes	2005 RMB	2004 RMB
Transactions with Holding and its subsidiaries:			
Purchases of iron ore, limestone and dolomite	(i)	1,408,067,891	964,679,248
Fees paid for welfare, support services and other services	(ii), (iii)	206,210,276	240,717,842
Rental	(iii)	36,250,000	36,250,000
Agency fee	(iii)	3,784,137	4,794,695
Purchases of fixed assets and provision of construction services	(iii)	266,777,687	279,689,245
Fees received for the supply of utilities, services and other consumable goods	(iii)	(27,496,787)	(32,707,795)
Sale of steel products and other by-products	(iii)	(8,478,679)	(3,563,797)
Acquisition of a subsidiary	(iv)	–	21,478,316
Acquisition of businesses	(v)	149,773,584	–
Transactions with associates of the Group:			
Purchases of coke	(vi)	598,732,282	157,821,033
Transactions with minority shareholders:			
Purchase of net assets	(vii)	–	16,376,230
Transactions with a jointly-controlled entity of the Group:			
Rental income	(viii)	(1,250,000)	–
Construction fee income	(viii)	(7,440,000)	–

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

5. (1) The following is a summary of the significant transactions carried out between the Group and its related parties during the year: (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 its subsidiaries were conducted on terms mutually agreed between the Company and related parties.
 - (iv) The Company acquired a 71% interest in Holly Packing on 15 November 2004 from Holding for RMB21.5 million. Further details of the transaction are included in Note V point 46 to the financial statements.
 - (v) 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 on contractual price of approximately RMB150 million. Further details of the transaction are included in Note V point 46 to the financial statements.
 - (vi) The transactions between the Group and 濟源市金馬焦化 and 滕州盛隆煤焦化 were made according to the terms mutually agreed between the Group and them.
 - (vii) 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu) and is a minority shareholder of Ma Steel (Cihu). In 2004, the Group signed an agreement with 安徽鑫鋼商貿有限公司 for the purchase of net assets at a consideration of approximately RMB16,380,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants.
 - (viii) The transactions between the Group and Ma'anshan BOC were made according to the terms mutually agreed between the Group and the company.
- (i), (ii), (iii), (vi) and (viii) of the above transactions were carried out in the normal course of business of the Group.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

- (2) Holding provided guarantee for certain bank loans of the Group with an approximate amount of RMB4,800 million at the balance sheet date at nil consideration (2004: RMB 4,200 million). Further details of the transaction are included in Note V point 25 and point 26 to the financial statements.
- (3) During the year, Profit Access Investment Limited, a minority shareholder of Anhui Masteel K. Wah, granted loans of US\$206,000 to the Group (2004: US\$986,000).
- (4) Further details on balances with Holding and its subsidiaries are set out in Note VI point 6.

6. Receivable from/payable to related parties

	31 December 2005 RMB	31 December 2004 RMB	Details
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	2,467,871	1,351,360	Trade and construction fee
馬鞍山市聯營乙炔廠	–	2,609,044	Trade
Others	581,147	45,000	
Total	3,049,018	40,489,804	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Accounts payable:

	31 December 2005 RMB	31 December 2004 RMB	Details
Holding	106,906,075	8,345,823	Construction fee, Payment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	29,168,313	55,448,235	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	17,219,156	5,765,630	Construction and maintenance fees
馬鋼集團康泰建安實業有限 責任公司	678,295	1,103,440	Construction fee
馬鋼集團力生有限責任公司	3,557,418	2,600,862	Construction fee
馬鋼集團實業發展有限責任公司 潤滑油分公司	3,049,623	2,943,240	Trade
馬鋼集團鋼渣綜合利用有限 責任公司	9,904	2,852,007	Trade
馬鞍山市聯營乙炔廠	218,729	1,040,883	Processing fee
馬鋼集團南山礦業有限責任公司	3,800,806	-	Trade
馬鋼集團姑山礦業有限責任公司	2,920,165	-	Trade
Others	3,322,360	1,704,467	
Total	170,850,844	81,804,587	

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	31 December 2005 RMB	31 December 2004 RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	27,325,799	956,776	Trade and electricity fee
馬鋼集團康泰置地發展 有限責任公司	1,048,877	–	Trade
馬鞍山馬鋼嘉華商品混凝土 有限公司	3,217,616	–	Trade
Others	772,495	508,740	
Total	<u>32,364,787</u>	<u>1,465,516</u>	
Deposits received:			
馬鋼集團姑山礦業 有限責任公司	55,662,819	93,688,647	Trade
安徽馬鋼比亞西焊網 有限公司	9,106,633	14,062,281	Trade
馬鋼集團康泰置地發展 有限責任公司	–	6,727,260	Construction fee
Others	2,622,943	1,921,480	
Total	<u>67,392,395</u>	<u>116,399,668</u>	
Other long term liability:			
Holding	<u>400,000,000</u>	–	Dividend

Except for other long term liability due to Holding which is interest-free, unsecured and contracted to be repaid after 1 January 2007, the balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VII. CONTINGENT LIABILITIES

As at 31 December 2005, the Company had given guarantees amounted to approximately RMB7.8 billion (31 December 2004: approximately RMB2.6 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.

VIII. COMMITMENTS

1. Capital commitments

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

	Group		Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Authorised, but not contracted for:				
Blast Furnaces Project	2,089,447	119,396	2,089,447	119,396
Converters Project	861,321	121,960	861,321	121,960
Wheel Line Project	371,086	91,035	371,086	91,035
Construction Steel Lines Project	3,355,414	985,211	3,355,414	983,932
Coking Stoves Project	1,120,768	134,169	1,120,768	134,169
Public Auxiliary Utilities Project	964,589	262,758	964,589	262,758
Energy-saving and Environment Protection Project	232,125	23,712	232,125	23,712
Other Projects	2,049,663	63,446	2,047,568	63,446
	11,044,413	1,801,687	11,042,318	1,800,408

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VIII. COMMITMENTS (continued)

1. Capital commitments (continued)

	Group		Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Contracted, but not provided for:				
Blast Furnaces Project	1,146,893	632	1,146,893	632
Converters Project	1,440,998	35,805	1,440,998	35,805
Wheel Line Project	15,698	2,970	15,698	2,970
Construction Steel Lines Project	4,711,870	200,274	4,711,870	182,855
Coking Stoves Project	626,902	26,745	626,902	26,745
Public Auxiliary Utilities Project	682,275	219,072	682,275	219,072
Energy-saving and Environment Protection Project	103,657	46,501	103,657	46,501
Other Projects	1,107,654	80,852	1,100,384	80,852
	9,835,947	612,851	9,828,677	595,432
Total	20,880,360	2,414,538	20,870,995	2,395,840

(2) The commitments for capital contributions at the balance sheet date were as follows:

	Group		Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2004 RMB'000
Contracted, but not provided for	7,668	—	34,668	—

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

VIII. COMMITMENTS (continued)

1. Capital commitments (continued)

- (3) The Group's share of the capital commitments of the jointly-controlled entity, which were not included in note (1) above, in respect of capital expenditure for buildings and structures, plant and equipment at the balance sheet date were as follows:

	Group and Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000
Authorised, but not contracted for	31,202	–
Contracted, but not provided for	148,218	–
	<u>179,420</u>	<u>–</u>

2. Foreign currency option transaction commitments

During the year, the Company entered into a recovery forward contract to manage its risks associated with foreign currency fluctuations. Under the contract about recovery forward contract, the Company has an option to exercise the contract to buy a total of JPY17,931 million by selling US\$166 million over the period from January 2006 to October 2006 when the exchange rate is ranged from US\$/JPY 94 to US\$/JPY 124 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US\$/JPY 124.

IX. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company, upon requested and authorised by Holding, announced the proposal for converting all the Company's unlisted and non-circulating Shares ("Non-circulating Shares") into listed and circulating A Shares ("Circulating A Shares") (the "State Share Reform Proposal").

According to the State Share Reform Proposal, Holding proposes to offer 3.4 of its State-owned shares to each Circulating A Shareholder for every 10 Circulating A Shares they held upon the close of business on the State Share Reform Proposal's Record Date in accordance with the execution arrangement. On the first business date upon the implementation of the State Share Reform Proposal, the then Non-circulating Shares will be entitled to be listed and become circulating shares.

Notes to Financial Statements (continued)

(Prepared under PRC accounting standards)

31 December 2005

IX. POST BALANCE SHEET EVENT (continued)

On 20 February 2006, the State Share Reform Proposal was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han [2006] No. 52). On 27 February 2006, the State Share Reform Proposal was approved by the relevant shareholders in the "Relevant Shareholders' Meeting to the State Share Reform". On 17 March 2006, the State Share Reform Proposal was approved by the Ministry of Commerce (Shang Zi Pi [2006] No. 886). Accordingly, all relevant approvals for the implementation of the State Share Reform Proposal have been obtained. The then non-circulating shares are entitled to be listed and become circulating shares since 31 March 2006.

X. COMPARATIVE AMOUNTS

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

XI. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11 April 2006.