



MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Stock Code : 323

A Share Stock Code : 600808

2006 INTERIM REPORT

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IMPORTANT

The board of directors (the "Board of Directors") and the directors of the Company warrant that there are no false presentations or misleading statements contained in or material omissions from this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

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

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

I. COMPANY PROFILE

1. BASIC INFORMATION

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

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

I. COMPANY PROFILE (continued)

2. MAJOR FINANCIAL DATA AND INDICATORS

1. Major financial data and indicators of the Company and its subsidiaries (the "Group") prepared under PRC Accounting Standards (RMB'000)

Index Item	30 June 2006	31 December 2005
Current assets	14,026,840	11,240,324
Current liabilities	15,366,798	10,780,473
Total assets	47,760,248	38,878,377
Shareholders' funds (excluding minority interests)	18,920,640	18,881,716
Net assets per share (RMB)	2.93	2.92
Adjusted net assets per share (RMB)	2.93	2.92
	January to June 2006	January to June 2005
Net profit	1,071,772	2,103,310
Net profit excluding non-recurring gains or losses	1,054,958	2,103,123
Earnings per share (RMB)	0.1660	0.3258
Return on net assets (%)	5.665	11.608
Net cash flows from operating activities	2,224,234	3,745,590

Items and amounts of non-recurring gains or losses during the reporting period (Unit: RMB'000):

Item	Amount
Net gain on disposal of fixed assets	1,677
Other non-operating income and expenses	(751)
Reversal of the impairment provisions which had been provided in the past years	17,676
Income tax effect	(1,788)
Non-recurring gains or losses, net	<u>16,814</u>

2. Effects on net profit of differences in the consolidated accounting statements prepared under PRC Accounting Standards and Hong Kong Accounting Standards (Unit: RMB'000)

Item	January to June 2006
Net profit under Hong Kong Accounting Standards	1,090,020
Add: Deferred tax expense	6,628
Less: Recognition of deferred income	(24,876)
Net profit under PRC Accounting Standards	<u>1,071,772</u>

II. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE

1. TABLE ON SHARE MOVEMENT

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

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

2. NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE

Unit: Shares

Total number of shareholders The Company had a total of 158,319 shareholders, including 151,441 A-share holders and 6,878 H-share holders at the end of the reporting period.

Shareholding of the 10 largest shareholders

Name of shareholder	Type of shareholder	As a percentage to number of shares held (%)	Number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	60.08	3,878,330,000	3,878,330,000	0
HKSCC (Nominees) Limited	Foreign shareholder	25.44	1,642,330,997	0	unknown
HSBC (Nominees) Limited	Foreign shareholder	0.47	30,596,000	0	unknown
China Life Insurance Company Limited - 分紅 - 個人分紅 - 005L - FH002滬	Others	0.23	14,999,999	0	unknown
Hong Yang Securities Investment Fund	Others	0.20	12,889,907	0	unknown
Shanghai Quan Long Shiye Company Limited	Others	0.15	9,800,000	9,800,000	unknown
Chen Lian Zhou	Others	0.13	8,511,994	0	unknown
CICC-Standard Chartered-Citigroup Global Markets Limited	Foreign shareholder	0.11	7,318,578	0	unknown
Shanghai Baosteel Group Corporation	Others	0.09	5,600,000	0	unknown
State Social Welfare Fund No. 002	Others	0.08	5,324,638	0	unknown

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

2. NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE (continued)

Shareholding of the 10 largest shareholders not subject to selling restrictions

Name of shareholder	Number of shares held not subject to selling restrictions	Type of shares
HKSCC (Nominees) Limited	1,642,330,997	Overseas listed foreign shares
HSBC (Nominees) Limited	30,596,000	Overseas listed foreign shares
China Life Insurance Company Limited — 分紅 — 個人分紅 — 005L — FH002滬	14,999,999	RMB-denominated ordinary shares
Hong Yang Securities Investment Fund	12,889,907	RMB-denominated ordinary shares
Chen Lian Zhou	8,511,994	RMB-denominated ordinary shares
CICC-Standard Chartered-Citigroup Global Markets Limited	7,318,578	RMB-denominated ordinary shares
Shanghai Baosteel Group Corporation	5,600,000	RMB-denominated ordinary shares
State Social Welfare Fund No. 002	5,324,638	RMB-denominated ordinary shares
Chen Rui Hong	5,274,231	RMB-denominated ordinary shares
中銀國際 — 中行 — 第一生命保險相互會社	2,899,910	RMB-denominated ordinary shares

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

There was no connected relationship between Magang (Group) Holding Company Limited (“Holding”) and the other shareholders mentioned above, nor were they concerted parties. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.

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

HKSCC (Nominees) Limited held 1,642,330,997 H shares of the Company; whereas HSBC (Nominees) Limited held 30,596,000 H shares of the Company on behalf of multiple clients.

Save as disclosed above, as at 30 June 2006, the Board of Directors is not aware of any parties or its associated companies who had any interests in or short positions of shares or underlying shares of the Company which was required to be recorded pursuant to Section 336 of the Securities and Futures Ordinance.

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

3. SHAREHOLDING OF THE 10 LARGEST SHAREHOLDERS SUBJECT TO SELLING RESTRICTIONS AND THEIR RESPECTIVE SELLING RESTRICTIONS

Unit: Shares

No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Time of listing and trading	Additional listed and tradeable shares	Selling restrictions
1.	Magang (Group) Holding Company Limited	3,878,330,000	31 March 2007 31 March 2009	47,770,000 3,830,560,000	Note 1 Note 2
2.	Shanghai Quan Long Shiye Company Limited	9,800,000	31 March 2007	9,800,000	Note 1
3.	People's Insurance Company of China – Anhui Branch	3,000,000	31 March 2007	3,000,000	Note 1
4.	鹽城市航空綜合經營有限公司	3,000,000	31 March 2007	3,000,000	Note 1
5.	廣州金屬材料公司	1,000,000	31 March 2007	1,000,000	Note 1
6.	江蘇金屬材料總公司	1,000,000	31 March 2007	1,000,000	Note 1
7.	南京大廠物資部公司	1,000,000	31 March 2007	1,000,000	Note 1
8.	鄭州金氏實業有限公司	1,000,000	31 March 2007	1,000,000	Note 1
9.	江蘇儀征市物資公司	1,000,000	31 March 2007	1,000,000	Note 1
10.	合肥市金屬材料總公司	600,000	31 March 2007	600,000	Note 1

Note 1: The legal person shares held will not be listed for trading or transferred within 12 months from the tradeable date of the shares.

Note 2: After the implementation of the State Share Reform, the Company's shares held by Holding will not be listed for trading or transferred within 12 months from the tradeable date of the shares, and the state-owned shares held by Holding will also not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

III. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the end of the reporting period, Directors Mr Gu Jianguo, Mr Gu Zhanggen and Mr Su Jiangan held 3,886 shares each in the Company, representing an increase of 986 shares when compared to the end of 2005 due to the Company's implementation of the State Share Reform. None of the remaining directors, supervisors or senior management held any shares of the Company.

Save as disclosed above, as at 30 June 2006, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations which were required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2006, the world economy saw a better growth momentum, with the supply and demand in international steel products market basically achieving a balance. The national economy of the PRC maintained a rapid yet stable growth, with its GDP rising by 10.9% compared to the same period of last year. Growth in fixed asset investments was relatively fast, with the fixed asset investment growth rate in cities and towns reaching 31.3% from January to June and the total planned investment of newly commenced projects increasing by 22.2% over the corresponding period of the previous year. Prices of steel products for January and February continued the trend from the end of last year and remained at a low level. Starting from March, as a result of the increase in total demand for steel products and the increase in exports, prices of steel products started to rally. However, overall speaking the steel product prices during the first half of the year were substantially lower than those of the same period of last year. On the other hand, prices of iron ores and electricity have also risen, of which the FOB price for imported iron concentrates surged 19%. As a result, the Company's production and operation faced increased pressure.

1. PRODUCTION OPERATION

During the first half of 2006, the Company focused on lowering costs and enhancing its brands. Through meticulous organisation of production and strengthening the link between production processes, the Company achieved a balance in its production systems and has further upgraded its production standard. Through continuous implementation of comprehensive regularisation in production preservation and striving to achieve preventive maintenance for the whole system, the integrated efficiency of the Company's facilities has been upgraded. By developing the brand effect, a balance between production and sale was achieved and funds were recovered on schedule. As a result of significant technological advancements, the Company has successfully developed new products such as automobile plates, niobium micro-alloy steel, no fingerprints and non-chromium passivation coated steel, etc. The Company's infrastructure technology enhancements progressed smoothly, with the capacity enhancement project for the train wheel rolling system completed and launched for production and the silicon steel production line progressing on schedule. The construction of the 5 million-tonne thin-plate project in the new area made rapid progress and was entering the final stage. With regard to external investments, the Company and Hefei Investment Holding Company Limited jointly invested and established Ma Steel (Hefei) Iron & Steel Co. Ltd.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

1. PRODUCTION OPERATION (continued)

During the reporting period, the Company produced a total of 4,530,000 tonnes of pig iron, 5,180,000 tonnes of crude steel and 4,780,000 tonnes of steel products, representing year-on-year increases of 15.86%, 13.85% and 14.08% respectively. The Company's consolidated energy consumption rate was lowered to 635 kilogrammes of standard coal for each tonne of steel produced; the fresh water consumption rate was lowered to 8.8 tonnes for each tonne of steel produced; the ratio of self-supplied electricity increased to 43.32%; and the utilisation of recycled water was raised to 94.83%. The Company has achieved a 100% production-to-sales ratio for its major products and a 100% payment collection ratio. The Group enjoyed approximately 2.7% market share in Mainland China, while exports for steel products amounted to approximately 410,000 tonnes. During the reporting period, the Group realised a principal operating income of RMB16,142 million, representing a decrease of 3.13% as compared to the corresponding period of the previous year. The Group's gross profit margin for principal operating activities was 12.15%.

2. THE OPERATING RESULTS OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER THE PRC ACCOUNTING STANDARDS

- The iron and steel segment accounted for 95.54% of principal operating income and 89.92% of profit from principal operating activities.

Unit: RMB million

Business segment/ Product segment	Principal operating income	Increase/ (decrease) as compared to the corresponding period of the previous year (%)	Cost of sales from principal operating activities	Increase/ (decrease) as compared to the corresponding period of the previous year (%)	Gross profit margin of principal operating income (%)	Increase/ (decrease) as compared to the corresponding period of the previous year (percentage point)
Iron and steel	15,422	-4.59	13,647	3.74	11.51	a decrease of 7.11 percentage points
Product segment						
Steel plates	5,354	-21.91	4,803	-5.77	10.29	a decrease of 15.37 percentage points
Section steels	3,909	5.68	3,550	17.90	9.18	a decrease of 9.41 percentage points
Wire rods	4,772	1.58	4,413	2.37	7.52	a decrease of 0.72 percentage point
Train wheels and wheel rims	1,123	58.39	647	14.31	42.39	an increase of 22.21 percentage points

The amount involving connected transactions which arose from the Company's selling of its products or providing labour services to the controlling shareholder and its subsidiaries totalled RMB11,503,000 during the reporting period.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2. THE OPERATING RESULTS OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER THE PRC ACCOUNTING STANDARDS (continued)

- Geographical analysis of the principal operation

Unit: RMB million

Region	Percentage (%)	Principal operating income	Increase/(decrease) of principal operating income as compared to the corresponding period of the previous year (%)
Anhui	30	4,766	22
Jiangsu	20	3,209	-9
Shanghai	15	2,477	18
Zhejiang	11	1,860	-17
Guangdong	4	628	-36
Other PRC regions	11	1,801	-37
Exports	9	1,402	34

- Profit from principal operating activities was RMB1,845 million, down 38.56% year-on-year, while net profit was RMB1,072 million, down 49% year-on-year, which was primarily due to the lower average selling prices for steel products compared to the same period of last year.

3. PROFIT BREAKDOWN

Changes in the Group's profit breakdown during the reporting period prepared under PRC Accounting Standards

Unit: RMB million

Item	January to June 2006	January to December 2005
Profit from principal operating activities	1,845	4,569
Expenses for the period	593	1,348
Profit before tax	1,314	3,322

Profit from principal operating activities accounted for 140.41% of profit before tax, an increase of 2.87 percentage points as compared to the previous year, mainly attributable to the increased sales volume in the Company's steel products and a comparative increase in profit from principal operating activities during the reporting period. Expenses for the period accounted for 45.13% of profit before tax, an increase of 4.55 percentage points as compared to the previous year, mainly attributable to the comparative increase of the Company's expenses during the reporting period.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

4. FINANCIAL POSITION AND EXCHANGE RISKS

For the year ended 30 June 2006, the total amount of loans of the Group stood at RMB13,394 million, including loans for working capital of RMB3,557 million and construction loans of RMB9,837 million. Except for the foreign currency loans of US\$100 million and 1.67 million Euro, all other loans were denominated in RMB. Except for the foreign currency loan of US\$100 million which carried interests at LIBOR plus a fixed percentage, all other loans carried interests calculated at fixed interest rates. The total amount of the Group's loans changes in accordance with the changes in the scope of production and construction scale. No overdue payments have been recorded so far.

As at 30 June 2006, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 59.89%. Under Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 60.66%.

At the present stage, other than internal resources, all capital requirements for the Group's 11-5 Master Plan were financed through bank loans. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB28,800 million.

As at 30 June 2006, the Group's cash and balances with financial institutions amounted to RMB3,832 million. Bills receivable amounted to RMB2,080 million (of which bank bills receivable due within three months amounted to RMB1,439 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was primarily settled in US dollar, while import of equipment and spare parts were settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate continued to depreciate during the reporting period, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate is favourable to the Company. During the reporting period, the exchange rates of Euro and Yen were comparatively lower than those of the period when the Company purchased European and Japanese equipment, the Company's costs of funds when it actually settled payments in Euro and Yen were lower than forecast. The Company keeps in close contact with various banks to obtain information in respect of emerging financial products continuously launched by the banks, from which the Company will select those products which are appropriate in order to lower the possible exchange risks of the Company during its operations.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

5. INVESTMENTS OF THE COMPANY

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

During the reporting period, the Company made use of internal resources and bank loans to invest a total of RMB6,452 million in construction in progress. Major investment projects and their progresses were as follows:

- Projects which have already commenced operation

Unit: RMB million

Project name	Total investment
The Capacity Enhancement of Train Wheel Rolling System	320

- Projects under construction

Unit: RMB million

Project name	Total investment	Project progress
Integrated Raw Materials Plot	850	Entering steel structure-making installation stage
New Area Iron-making System	3,500	Steel structure-making installation essentially completed
New Area Steel-making System	3,200	Soon to enter full facilities installation stage
New Area Hot-rolled Belt System	3,600	Soon to enter full facilities installation stage
New Area Pickled Cold Wire and Hot Galvanising Line	4,700	Soon to enter full facilities installation stage
New Area Power Generating Plant Using Integrated Resources	1,850	At the plant structure-making and hoisting installation stage
Cold-rolled Silicon Steel Production Line	1,080	Entering plant structure work stage

During the reporting period, the Company and Hefei Investment Holding Company Limited jointly established Ma Steel (Hefei) Iron & Steel Co. Ltd., with registered capital of RMB500 million. The Company has direct equity interest of 71%. Ma Steel (Hefei) Iron & Steel Company Limited is mainly engaged in ferrous metals smelting and rolling processing, and sales distribution of its products and by-products.

IV. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

6. PRODUCTION AND OPERATION ENVIRONMENT

In the second half of the year, the PRC will further enhance reforms on its economic systems and accelerate adjustments on its economic structure, and change the mode of economic growth. The national economy will maintain a rapid yet stable growth. The imbalance between supply and demand in the iron and steel sector will continue. Therefore, despite continuous increase in demand for steel products from the society, prices for steel products will still remain at a relatively low level. Relevant departments are co-ordinating with the industry policies via enhancement measures in respect of credit, land, construction, environmental protection and safety, in order to provide strategic directions for the development plan, deployment, technology, organisation structure and investments of the iron and steel industry and to push forward structural adjustments.

On 14 June 2006, the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Land and Resources, the State Environmental and Protection Administration, China Customs, the General Administration of Quality Supervision, Inspection and Quarantine, China Banking Regulatory Commission and China Securities Regulatory Commission promulgated a "Notice in Respect of Controlling the Total Output, Eliminating the Laggards and Accelerating the Structural Adjustments of the Iron and Steel Sector" (《關於鋼鐵工業控制總量淘汰落後加快結構調整的通知》). The notice requires the strict execution of legal regulations and development policies for the iron and steel industry; controls the output of the iron and steel sector; accelerates the pace for eliminating the production capacity of the laggards; supports technological enhancements and innovation for enterprises; and speeds up the consolidated restructuring of the iron and steel sector. In order to further implement the "The PRC Law on Promoting Clean Production" (《中華人民共和國清潔生產促進法》), the State Environmental Protection Administration of China promulgated the "Clean Production Standards for the Iron and Steel Industry" (《清潔生產鋼鐵行業標準》) on 3 July 2006, requesting the iron and steel industry to adopt clean production to increase resources utilisation efficiency; to reduce and avoid the creation of pollutants; to protect and improve the environment; and to promote sustainable development for the economy and the society.

In the long run, implementation of the above policies will slash some of the iron and steel output of the laggard enterprises, which will be favourable to the production and operation of the Company.

V. SIGNIFICANT MATTERS

1. CORPORATE GOVERNANCE

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

To further improve the Company's corporate governance structure, during the reporting period, the Company timely amended the Articles of Association and its annexes of respective orders of meeting for shareholders' general meeting, the Board of Directors and the Supervisory Committee, in accordance with the new "Company Law", "Securities Law" and the relevant regulations.

The Company has, to the best knowledge of the Directors, complied with the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 and the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the reporting period, and no deviation from the code provisions was found.

2. PROFIT DISTRIBUTION PLAN AND IMPLEMENTATION

- (1) The Company's profit distribution plan and implementation for the previous year: a cash dividend of RMB0.16 per share was declared to all shareholders on the basis of a total share capital of 6,455,300,000 shares as at the end of 2005, whereas H share dividends were distributed in Hong Kong dollar. The proposal was approved at the shareholders' general meeting held on 13 June 2006, and relevant announcements were made on 14 June 2006 both within and outside the PRC. The entitlement registration date for A shares was 11 July 2006, ex-dividend date was 12 July 2006, and dividend payment date was 20 July 2006; the register of members of H shares was closed from 12 May to 13 June 2006 (both dates inclusive) during which period no transfer of H shares was effected. Dividend cheques for H shares were posted to the respective holders of H shares on 20 July 2006. The distributions of dividends for A shares and H shares were both implemented.
- (2) The Company will not implement profit distribution for the first half of 2006 and no transfer to share capital from capital reserve fund will be conducted.

V. SIGNIFICANT MATTERS (continued)

3. MATERIAL LITIGATIONS AND ARBITRATIONS

- (1) The Company had no material litigation and arbitration during the reporting period.
 - (2) Two material litigations of the Company had been happened and settled in the past but were lasting until the reporting period, that is, the litigations against CITIC Ningbo Inc. and SEG International Trust & Investment Corporation. Their judgments and enforcements were disclosed in the 2002 Annual Report and published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 3 April 2003. There has been no change during the reporting period.
4. The principal of HK\$7,138,000 and an interest amount of HK\$2,296,000 were due to the Company by China Venturetech Investment Corporation. In December 2004, the liquidation team of the People's Bank of China (hereinafter referred to as the "Liquidation Team") and carried out the first fund distribution for the repayment of debts and the Company received RMB757,000. In February 2005, the Liquidation Team carried out the second fund distribution for the repayment of debt, and the Company received RMB757,000. In November 2005, the Liquidation Team carried out the third fund distribution for the repayment of debt and the Company received RMB757,000. In February 2006, the Liquidation Team carried out the last fund distribution for the repayment of debt and the Company received RMB3,632,000. Liquidation is therefore completed.
 5. The principal and interest of the deposit totaling RMB36,460,000 was due to the Company by Shenzhen branch of Guangdong International Trust & Investment Corporation. The Liquidation Team carried out three property distributions since August 2000. A total of RMB7,103,000 has been received by the Company. Details were published in the Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and the Shanghai Stock Exchange's website (<http://www.sse.com.cn>) on 26 April 2005. There has been no change during the reporting period.
 6. During the reporting period, there were no other significant acquisitions, sales or disposals of assets or mergers undertaken by the Company that took place or subsisted during the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

V. SIGNIFICANT MATTERS (continued)

7. CONNECTED TRANSACTIONS

(1) For the period between 1 January and 30 June 2006, all the continuing connected transactions between the Company and Holding and its subsidiaries conducted in the normal course of business were settled in cash and had no adverse impact on the profit of the Company.

- During the reporting period, details of the amounts paid by the Company to Holding in respect of the "Service Agreement" between 2004 and 2006 are as follows (Unit: RMB'000):

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

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

- During the reporting period, the payment made by the Company to Holding in respect of the "Sale and Purchase of Iron Ore Agreement" between 2004 and 2006 are as follows (Unit: RMB'000):

	Amount paid	Proportion of transactions of the same category (%)
Purchases of iron ore, limestone and dolomite	813,956	18.84

V. SIGNIFICANT MATTERS (continued)

7. CONNECTED TRANSACTIONS (continued)

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

During the reporting period, save for the connected transactions made pursuant to the "Service Agreement" and the "Sale and Purchase of Iron Ore Agreement" as mentioned above, amounts of other connected transactions in the ordinary course of business with Holding are as follows (Unit: RMB'000):

	Amount paid	Proportion of transactions of the same category (%)
Steel products and other products purchased by Holding from the Company	4,549	0.03
Water, electricity, telephone and other services acquired by Holding from the Company	6,954	5.17
Payment by the Company for fixed assets and construction services	116,112	5.28
Payment by the Company to Holding for other services	52,198	100

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

(2) Material contracts with the controlling shareholder

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

V. SIGNIFICANT MATTERS (continued)

8. CAPITAL UTILISATION

As at 30 June 2006, save for ordinary business transactions, there was no amount due to or from the Company and connected parties, and neither the controlling shareholder nor its subsidiaries utilised the Company's capital for non-operational purposes.

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

10. GUARANTEES

- **Guarantees**

The Company was in strict compliance with the relevant requirements under the "Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Connected Parties and Listed Companies' Provision of External Guarantees to Other Parties" (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)(Zheng Jian Fa 2003 No. 56) and the "Circular of China Securities Regulatory Commission and China Banking Regulatory Commission on Regulating the External Guarantees Provided by Listed Companies" (《關於規範上市公司對外擔保行為的通知》) (Zheng Jian Fa 2005 No. 120). The Company provided guarantees to Ma Steel International Trade and Economic Cooperation, a wholly-owned subsidiary, amounting to RMB7,714 million, which amount has been fully recognised; to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB66.36 million, which amount has not been recognised; and to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlled subsidiary, amounting to RMB14 million, which amount has been fully recognised.

During the reporting period, the external guarantees did not incur any amount of the provided facilities, with a remaining balance of RMB7,728 million. The total guarantee amount represented 40.75% of the Company's net assets as at the end of the reporting period. The guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of Directors beforehand. The guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company; loans needed for the general businesses of ores, steel billets, equipment and spare parts; and guarantees of credit facilities for businesses regarding the issuing of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, and guarantees for taking delivery. The guarantees for Anhui Masteel K. Wah New Building Materials Co., Ltd. were only provided for land construction and purchase of equipment. All the guarantees were not applicable for external investments, provisions of guarantees for external parties, provisions of loans to external parties, or grants to external parties.

V. SIGNIFICANT MATTERS (continued)

10. GUARANTEES (continued)

- **Independent Directors' opinions**

Pursuant to the provisions under Zheng Jian Fa 2003 No. 56 and Zheng Jian Fa 2005 No. 120, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, independent directors of the Company, have furnished their independent opinions in respect of the Company's cumulative and current portion of external guarantees and their implementation status of the above-mentioned regulations as follows:

- (1) As at 30 June 2006, all the Company's external guarantees have been approved by the Board of Directors beforehand, with the approval procedures meeting the relevant requirements.
- (2) As at 30 June 2006, no guarantee was provided by the Company either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company's external guarantees, no guarantees were provided to any shareholders, their actual controlling persons or any of their connected parties, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.
- (3) As at 30 June 2006, total amount of the Company's cumulative and current period's external guarantees represented less than 50% of the net assets as stated in the consolidated financial statements of the latest accounting year.

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

12. STATE SHARE REFORM

The State Share Reform Proposal of the Company, whereby Holding offered circulating A shareholders 3.4 shares for every 10 shares they held, was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province on 20 February 2006. It was further approved by the relevant shareholders' meeting to the State Share Reform on 27 February 2006, and was approved by the Ministry of Commerce of the PRC on 17 March 2006. With effect from 31 March 2006, the stock abbreviation of A shares of the Company was changed to "G Ma Steel".

V. SIGNIFICANT MATTERS (continued)

12. STATE SHARE REFORM (continued)

During the process of the State Share Reform Proposal, Holding has given the following special undertakings:

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

Furthermore, Holding made representations as follows:

1. If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of Magang as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" (「監管措施與法律責任」) of the Administrative Procedures of the State Share Reform of Listed Companies (《上市公司股權分置改革管理辦法》), accept any punishment imposed by the regulatory authorities such as China Securities Regulatory Commission and the Shanghai Stock Exchange, and will bear any legal liabilities accordingly.
2. Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

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

V. SIGNIFICANT MATTERS (continued)

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

- (1) On 16 January 2006, the notice of the relevant shareholders' meeting convened by the Board of Directors in respect of the State Share Reform Proposal and the notice of convening the online investors symposium for the State Share Reform Proposal were published in China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily, and at the same time made available at the Shanghai Stock Exchange Website; the announcement in respect of the State Share Reform Proposal by Holding, the Company's controlling shareholder, was published in South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong).
- (2) On 25 January 2006, the announcement in respect of the discussion of and adjustment to the State Share Reform Proposal was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (3) On 22 February 2006, the announcement in respect of the approval of the State Share Reform Proposal by the State-owned Asset Supervision and Administration Commission of the People's Government of Anhui Province was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (4) On 28 February 2006, the announcement in respect of the poll results of the relevant shareholders' meeting to the State Share Reform Proposal was published in Shanghai Securities News, South China Morning Post (Hong Kong); Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (5) On 21 March 2006, the announcement in respect of approval of changes of shareholdings by the Ministry of Commerce was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (6) On 28 March 2006, the announcement in respect of the implementation of the State Share Reform Proposal was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.
- (7) On 30 May 2006, the announcement in respect of the resolutions of the Board of Directors on the proposed issuance of bonds with warrants in the PRC, the announcement on the resolutions of the Supervisory Committee and the notice of 2006 first extraordinary general meeting were published in China Securities Journal, Shanghai Securities News, Securities Times, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong), and at the same time made available at the Shanghai Stock Exchange Website.

VI. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2006

ASSETS	Note V	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
CURRENT ASSETS:			
Cash and balances with financial institutions	1	3,832,235,732	3,255,015,677
Short term investments	3	13,568,593	13,568,593
Bills receivable	4	2,080,062,757	1,931,609,265
Trade receivables	5	616,096,142	283,482,921
Other receivables	6	128,181,806	179,272,265
Prepayments	7	659,711,373	377,901,381
Inventories	8	6,696,984,089	5,199,473,669
Total current assets		14,026,840,492	11,240,323,771
LONG TERM INVESTMENTS:			
Long term equity investments	9	536,370,478	518,876,716
Long term debt investment	9	10,918,870	10,918,870
Total long term investments		547,289,348	529,795,586
FIXED ASSETS:			
Cost	10	29,990,784,070	27,919,518,755
Less: Accumulated depreciation	10	(10,539,246,520)	(9,411,080,281)
Net book value	10	19,451,537,550	18,508,438,474
Less: Impairment provision	10	(117,056,844)	(117,056,844)
Fixed assets, net	10	19,334,480,706	18,391,381,630
Construction materials	11	4,438,157,469	3,018,828,077
Construction in progress	12	8,334,649,963	4,727,901,749
Total fixed assets		32,107,288,138	26,138,111,456
INTANGIBLE AND OTHER ASSETS:			
Intangible assets	13	1,078,830,192	970,146,049
TOTAL ASSETS		47,760,248,170	38,878,376,862

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

VI. FINANCIAL STATEMENTS (continued)

CONSOLIDATED BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2006

LIABILITIES AND SHAREHOLDERS' FUNDS	Note V	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
CURRENT LIABILITIES:			
Short term loans	14	508,620,150	112,372,660
Bills payable	15	1,672,338,885	655,567,000
Short term commercial papers	16	2,000,000,000	2,000,000,000
Accounts payable	17	4,702,724,404	3,207,561,493
Deposits received	18	3,926,414,958	3,430,012,919
Wages payable	19	125,891,822	102,958,705
Staff welfare payable		98,099,467	91,069,612
Dividend payable	20	1,032,848,000	–
Taxes payable	21	377,449,526	493,789,755
Other taxes payable	22	34,698,258	20,307,877
Other payables	23	499,726,438	488,726,535
Accrued charges	24	230,347,809	99,117,648
Long term loans due within a year	25	157,638,529	78,988,309
Total current liabilities		15,366,798,246	10,780,472,513
LONG TERM LIABILITIES:			
Long term loans	26	12,728,107,883	8,570,815,511
Specific payables	27	3,200,000	3,200,000
Other long term liabilities	28	503,984,331	503,984,331
Total long term liabilities		13,235,292,214	9,077,999,842
Total liabilities		28,602,090,460	19,858,472,355
MINORITY INTERESTS	29	237,517,801	138,188,599
SHAREHOLDERS' FUNDS:			
Share capital	30	6,455,300,000	6,455,300,000
Capital reserve	31	5,450,345,095	5,450,345,095
Surplus reserves	32	2,380,147,996	2,380,147,996
including: statutory public welfare fund	32	–	1,178,385,368
Retained profits	33	4,634,846,818	4,595,922,817
including: cash dividend proposed by directors		–	1,032,848,000
Total shareholders' funds		18,920,639,909	18,881,715,908
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		47,760,248,170	38,878,376,862

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

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jiangan
1 August 2006

Head of Accounting Department:
Guan Yagang
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	Note V	For the six months ended 30 June	
		2006 Unaudited RMB	2005 Unaudited RMB
Principal operating income	34	16,142,229,487	16,663,877,205
Less: Cost of sales	34	(14,181,370,436)	(13,544,451,055)
Taxes and surcharges	35	(115,902,071)	(116,453,564)
Profit from principal operating activities		1,844,956,980	3,002,972,586
Add: Other operating profit	36	28,160,027	43,917,559
Less: Selling expenses		(124,171,646)	(97,612,515)
Administrative expenses	37	(331,656,410)	(357,203,348)
Financial expenses	38	(137,282,094)	(66,326,989)
Operating profit		1,280,006,857	2,525,747,293
Add: Investment income	39	15,120,523	4,995,983
Non-operating income	40	2,060,142	3,243,208
Less: Non-operating expenses	41	16,541,420	(3,054,072)
Profit before tax		1,313,728,942	2,530,932,412
Less: Income tax	42	(224,906,610)	(410,268,198)
Minority interests		(17,050,331)	(17,354,663)
Net profit		1,071,772,001	2,103,309,551
Add: Retained profits at beginning of period		4,595,922,817	3,758,605,642
Profit available for distribution		5,667,694,818	5,861,915,193
Less: Transfers to statutory surplus reserve		–	–
Transfers to reserve fund		–	–
Transfers to enterprise expansion fund		–	–
Transfers to employee bonus and welfare fund		–	–
Profit available for distribution to shareholders		5,667,694,818	5,861,915,193
Less: Ordinary share dividend payable		(1,032,848,000)	(1,420,166,000)
Retained profits at end of period		4,634,846,818	4,441,749,193

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

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jianguang
1 August 2006

Head of Accounting Department:
Guan Yagang
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2006

		For the six months ended 30 June	
		2006 Unaudited RMB	2005 Unaudited RMB
	Note V		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	19,187,113,629	20,796,124,957
	Refunds of taxes	501,386	4,459,470
	Cash received relating to other operating activities	2,060,142	329,100
	Sub-total of cash inflows	<u>19,189,675,157</u>	<u>20,800,913,527</u>
	Cash paid for goods and services	(14,156,030,132)	(14,075,450,292)
	Cash paid to and on behalf of employees	(1,109,417,927)	(1,046,097,619)
	Cash paid for all taxes	(1,565,406,871)	(1,781,936,899)
	Cash paid relating to other operating activities	(134,585,815)	(151,838,866)
	Sub-total of cash outflows	<u>(16,965,440,745)</u>	<u>(17,055,323,676)</u>
	Net cash flows from operating activities	<u>2,224,234,412</u>	<u>3,745,589,851</u>
2.	Cash flows from investing activities:		
	Cash received from returns on investments	18,529,587	14,102,906
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	3,795,093	6,092,841
	Cash received from retrieval of pledged deposits and overdue deposits	3,632,085	757,158
	Sub-total of cash inflows	<u>25,956,765</u>	<u>20,952,905</u>
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(5,853,544,092)	(3,783,145,176)
	Cash paid for acquisitions of investments	(7,668,200)	(208,523,292)
	Cash paid for acquisition of businesses	–	(149,773,584)
	Cash paid for increase in pledged deposits	(422,106,062)	(103,214,700)
	Sub-total of cash outflows	<u>(6,283,318,354)</u>	<u>(4,244,656,752)</u>
	Net cash flows from investing activities	<u>(6,257,361,589)</u>	<u>(4,223,703,847)</u>

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

VI. FINANCIAL STATEMENTS (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
3. Cash flows from financing activities:		
Cash received from investments by others	310,182,835	6,795,860
Cash received from borrowings	6,423,656,677	5,520,081,175
Cash received from net increase in trust receipt loans	–	50,070,775
Sub-total of cash inflows	<u>6,733,839,512</u>	<u>5,576,947,810</u>
Cash repayments of borrowings	(2,258,719,196)	(3,468,737,466)
Cash paid for distribution of dividend or profits and for interest expenses	(294,635,322)	(218,410,616)
Sub-total of cash outflows	<u>(2,553,354,518)</u>	<u>(3,687,148,082)</u>
Net cash flows from financing activities	<u>4,180,484,994</u>	<u>1,889,799,728</u>
4. Effect of foreign exchange rate changes on cash	<u>11,388,261</u>	<u>(39,823,434)</u>
5. Net increase in cash and cash equivalents	<u><u>158,746,078</u></u>	<u><u>1,371,862,298</u></u>

VI. FINANCIAL STATEMENTS (continued)

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2006

		For the six months ended 30 June	
	Note V	2006 Unaudited RMB	2005 Unaudited RMB
SUPPLEMENTARY INFORMATION			
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit		1,071,772,001	2,103,309,551
Add: Minority interests		17,050,331	17,354,663
Reversal of bad debt provision		(307,795)	–
Reversal of provision against inventories		(37,181,209)	–
Reversal of impairment provision for construction in progress		(17,676,148)	–
Depreciation of fixed assets		1,137,892,924	999,580,549
Amortisation of intangible assets		12,259,806	10,537,741
Increase in accrued charges		62,523,648	111,653,612
Gain on disposal of fixed assets, intangible assets and other long term assets, net		(1,676,553)	(2,914,108)
Financial expenses		120,495,896	61,496,880
Investment income		(15,120,523)	(4,995,983)
Increase in inventories		(1,344,986,576)	(1,330,379,424)
Decrease/(increase) in receivables from operating activities		(684,842,750)	251,870,532
Increase in payables from operating activities		1,904,031,360	1,528,075,838
Net cash flows from operating activities		<u>2,224,234,412</u>	<u>3,745,589,851</u>
2. Investing and financing activities that do not involve cash receipts and payments:			
Non-cash assets and liabilities contributed by a minority shareholder	45	<u>(202,312,595)</u>	–
3. Net increase in cash and cash equivalents:			
Cash and balances with financial institutions at end of period		3,268,015,330	3,544,738,039
Less: Cash and balances with financial institutions at beginning of period		(3,109,269,252)	(2,172,875,741)
Add: Balance of cash equivalents at end of period		–	–
Less: Balance of cash equivalents at beginning of period		–	–
Net increase in cash and cash equivalents		<u>158,746,078</u>	<u>1,371,862,298</u>

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

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jiangan
1 August 2006

Head of Accounting Department:
Guan Yagan
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

COMPANY BALANCE SHEET

(Prepared under PRC accounting standards)

30 June 2006

ASSETS	Note V	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
CURRENT ASSETS:			
Cash and balances with financial institutions		2,326,605,812	2,625,793,200
Short term investments		13,568,593	13,568,593
Bills receivable		2,020,294,603	1,986,453,537
Trade receivables	5	635,037,331	217,203,609
Other receivables	6	45,212,369	22,408,276
Prepayments		745,904,343	379,072,433
Inventories		6,251,923,016	4,915,277,790
Total current assets		12,038,546,067	10,159,777,438
LONG TERM INVESTMENTS:			
Long term equity investments	9	1,463,163,052	1,173,559,564
Long term debt investment	9	10,918,870	10,918,870
Total long term investments		1,474,081,922	1,184,478,434
FIXED ASSETS:			
Cost		29,027,848,451	27,654,753,443
Less: Accumulated depreciation		(10,482,796,461)	(9,377,882,621)
Net book value		18,545,051,990	18,276,870,822
Less: Impairment provision		(117,056,844)	(117,056,844)
Fixed assets, net		18,427,995,146	18,159,813,978
Construction materials		4,363,442,484	3,013,302,877
Construction in progress		8,281,219,607	4,671,938,945
Total fixed assets		31,072,657,237	25,845,055,800
INTANGIBLE AND OTHER ASSETS:			
Intangible assets		812,410,186	822,280,314
TOTAL ASSETS		45,397,695,412	38,011,591,986

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

VI. FINANCIAL STATEMENTS (continued)

COMPANY BALANCE SHEET (continued)

(Prepared under PRC accounting standards)

30 June 2006

LIABILITIES AND SHAREHOLDERS' FUNDS	Note V	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
CURRENT LIABILITIES:			
Short term loans		50,000,000	80,702,000
Bills payable		721,238,885	335,567,000
Short term commercial papers		2,000,000,000	2,000,000,000
Accounts payable		4,375,315,016	3,235,473,002
Deposits received		3,652,048,315	3,115,902,605
Wages payable		110,304,595	97,561,911
Staff welfare payable		89,206,892	83,999,949
Dividend payable	20	1,032,848,000	–
Taxes payable		376,252,647	488,345,802
Other taxes payable		33,161,779	19,412,734
Other payables		481,530,278	511,898,607
Accrued charges		160,938,483	92,760,693
Long term loans due within a year		149,206,178	77,800,936
Total current liabilities		13,232,051,068	10,139,425,239
LONG TERM LIABILITIES:			
Long term loans		12,692,560,000	8,528,227,671
Specific payables		3,200,000	3,200,000
Other long term liabilities		503,984,331	503,984,331
Total long term liabilities		13,199,744,331	9,035,412,002
Total liabilities		26,431,795,399	19,174,837,241
SHAREHOLDERS' FUNDS:			
Share capital	30	6,455,300,000	6,455,300,000
Capital reserve	31	5,450,345,095	5,450,345,095
Surplus reserves	32	2,333,339,350	2,333,339,350
including: statutory public welfare fund	32	–	1,166,669,675
Retained profits		4,726,915,568	4,597,770,300
including: cash dividend proposed by directors		–	1,032,848,000
Total shareholders' funds		18,965,900,013	18,836,754,745
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		45,397,695,412	38,011,591,986

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

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jianguang
1 August 2006

Head of Accounting Department:
Guan Yagang
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

COMPANY STATEMENT OF INCOME AND PROFIT APPROPRIATION

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	Note V	For the six months ended 30 June	
		2006 Unaudited RMB	2005 Unaudited RMB
Principal operating income	34	16,299,630,219	16,729,732,507
Less: Cost of sales	34	(14,397,749,880)	(13,667,529,322)
Taxes and surcharges		(110,357,637)	(113,873,599)
Profit from principal operating activities		1,791,522,702	2,948,329,586
Add: Other operating profit		1,639,719	10,736,113
Less: Selling expenses		(120,553,315)	(96,461,765)
Administrative expenses		(284,348,321)	(331,434,354)
Financial expenses		(129,691,979)	(38,860,462)
Operating profit		1,258,568,806	2,492,309,118
Add: Investment income	39	90,125,482	57,456,406
Non-operating income		1,804,866	3,048,237
Less: Non-operating expenses		16,551,750	(2,939,602)
Profit before tax		1,367,050,904	2,549,874,159
Less: Income tax		(205,057,636)	(404,442,135)
Net profit		1,161,993,268	2,145,432,024
Add: Retained profits at beginning of period		4,597,770,300	3,788,605,893
Profit available for distribution		5,759,763,568	5,934,037,917
Less: Transfers to statutory surplus reserve		–	–
Profit available for distribution to shareholders		5,759,763,568	5,934,037,917
Less: Ordinary share dividend payable		(1,032,848,000)	(1,420,166,000)
Retained profits at end of period		4,726,915,568	4,513,871,917

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

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jiangan
1 August 2006

Head of Accounting Department:
Guan Yagan
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

COMPANY CASH FLOW STATEMENT

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
1. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	19,054,477,447	20,330,374,333
Cash received relating to other operating activities	1,804,866	479,148
Sub-total of cash inflows	19,056,282,313	20,330,853,481
Cash paid for goods and services	(14,279,023,182)	(13,821,827,417)
Cash paid to and on behalf of employees	(1,080,451,345)	(1,050,763,765)
Cash paid for all taxes	(1,503,361,961)	(1,748,045,210)
Cash paid relating to other operating activities	(116,660,504)	(134,334,474)
Sub-total of cash outflows	(16,979,496,992)	(16,754,970,866)
Net cash flows from operating activities	2,076,785,321	3,575,882,615
2. Cash flows from investing activities:		
Cash received from returns on investments	4,106,494	18,678,590
Net cash received from disposal of fixed assets, intangible assets and other long term assets	2,530,401	5,737,310
Cash received from retrieval of pledged deposits and overdue deposits	3,632,085	757,158
Sub-total of cash inflows	10,268,980	25,173,058
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(6,058,949,193)	(3,835,278,289)
Cash paid for acquisitions of investments	(272,163,200)	(245,094,144)
Cash paid for pledged deposit	(37,000,000)	–
Cash paid for acquisition of businesses	–	(149,773,584)
Sub-total of cash outflows	(6,368,112,393)	(4,230,146,017)
Net cash flows from investing activities	(6,357,843,413)	(4,204,972,959)

VI. FINANCIAL STATEMENTS (continued)

COMPANY CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
3. Cash flows from financing activities:		
Cash received from borrowings	5,960,000,000	5,417,798,000
Sub-total of cash inflows	5,960,000,000	5,417,798,000
Cash repayments of borrowings	(1,744,845,396)	(3,379,775,924)
Cash paid for distribution of dividend or profits and for interest expenses	(259,784,722)	(204,765,533)
Sub-total of cash outflows	(2,004,630,118)	(3,584,541,457)
Net cash flows from financing activities	3,955,369,882	1,833,256,543
4. Effect of foreign exchange rate changes on cash	(6,867,093)	(22,636,558)
5. Net increase/(decrease) in cash and cash equivalents	(332,555,303)	1,181,529,641

VI. FINANCIAL STATEMENTS (continued)

COMPANY CASH FLOW STATEMENT (continued)

(Prepared under PRC accounting standards)

Period ended 30 June 2006

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
Supplementary information		
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	1,161,993,268	2,145,432,024
Add: Reversal of bad debt provision	(307,795)	–
Reversal of provision against inventories	(37,181,209)	–
Reversal of impairment provision for construction in progress	(17,676,148)	–
Depreciation of fixed assets	1,114,639,372	991,604,579
Amortisation of intangible assets	10,518,541	10,282,519
Increase in accrued charges	12,251,830	110,131,278
Gain on disposal of fixed assets, intangible assets and other long term assets, net	(1,676,553)	(2,898,237)
Financial expenses	118,786,252	36,525,552
Investment income	(90,125,482)	(57,456,406)
Increase in inventories	(1,299,464,017)	(1,178,388,335)
Decrease/(increase) in receivables from operating activities	(763,154,843)	216,539,400
Increase in payables from operating activities	1,868,182,105	1,304,110,241
Net cash flows from operating activities	<u>2,076,785,321</u>	<u>3,575,882,615</u>
2. Investing and financing activities that do not involve cash receipts and payments:	–	–
3. Net increase/(decrease) in cash and cash equivalents:		
Cash and balances with financial institutions at end of period	2,289,605,812	2,937,743,399
Less: Cash and balances with financial institutions at beginning of period	(2,622,161,115)	(1,756,213,758)
Add: Balance of cash equivalents at end of period	–	–
Less: Balance of cash equivalents at beginning of period	–	–
Net increase/(decrease) in cash and cash equivalents	<u>(332,555,303)</u>	<u>1,181,529,641</u>

Company Representative:
Gu Jianguo
1 August 2006

Chief Accountant:
Su Jianguang
1 August 2006

Head of Accounting Department:
Guan Yagang
1 August 2006

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS

(Prepared under PRC accounting standards)

30 June 2006

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, Magang (Group) Holding Company Limited ("Holding") (formerly known as Maanshan Iron and Steel Company, the "Original Magang"), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The Company's business registration licence number is Qi Gu Wan Zong Zi No. 000970. The Company's A shares and H shares are listed in the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited respectively. The Company and 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 FINANCIAL STATEMENTS

The financial statements have been prepared based on the following accounting policies, estimates and basis for the preparation of consolidated financial statements, which are in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Business Enterprises and other related regulations issued by the Ministry of Finance of the PRC.

1. Accounting system

The Group has implemented the Accounting Standards for Business Enterprises and the 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, the Group performs regular inspection and if the assets are impaired, impairment provisions are made in accordance with the Accounting System for Business Enterprises.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 (the "reference rates") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the reference rates at the balance sheet date. The exchange gains or losses are dealt with in the current period's income statement.

The exchange gains or losses arising from foreign currency borrowings in relation to the acquisition or construction of a fixed asset 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 period. All cash flow statement items are translated at the average exchange rates during the period. 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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. Short-term investments, which include stocks, bonds and funds, are initially accounted for at cost less declared but unpaid cash dividends and interest on bonds which have been accrued at the time of acquisition.

Cash dividends and interest on short term investments declared by investee company during the investment 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 are carried at the lower of cost and market value. Provisions for impairment in value of the short-term investments are determined on an individual item basis, and the resulting gain or loss is recognised in the current period.

9. Bad debts provision

Recognition criteria for bad debts:

- (i) the debtor is deceased or has been declared bankrupt and the debts remain uncollectible after considering the assets of the bankrupt or the estate of the deceased debtor;
- (ii) debts that are long overdue where there is also evidence indicating that the debts are uncollectible or the possibility of collection is remote.

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 contracts, 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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

10. Inventories (continued)

Contract costs incurred comprise direct materials, direct labour, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs record the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised losses) 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 period 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 initially accounted for at cost. 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 accounted for 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). A shortfall of the initial cost over the investor's share of owner's equity of the invested company is accounted for as capital surplus.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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

11. Long term investments (continued)

When the equity method is adopted, the Group recognises its share of post-acquisition result in the invested enterprise for the current period as a gain or loss on investment, and adjusts the carrying amount of the investment accordingly. However, the share of net loss is only recognised to the extent that the carrying value of the investment is reduced to zero.

When the cost method is adopted, investment income is recognised in the income statement of the period to the extent that the Company's share of the post-acquisition profit or cash dividend declared to be distributed by the invested enterprise. Any excess is treated as a recovery of the investment cost.

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

Long-term investments are stated at the lower of book value and the recoverable amount at the balance sheet date. The excess of recoverable amount over the book value should be recognised as an impairment of a long term investment and an investment loss in the current period.

12. Fixed assets

Fixed assets are tangible assets with high unit costs held for use in production of goods, supply of services, for rental or for administrative purposes, and are expected to be used for more than one year.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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

12. Fixed assets (continued)

Fixed assets are recorded at cost when acquired. The cost of fixed assets comprise 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, 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.

Depreciation is provided using the straight-line method. The respective 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 exceeds the estimated useful life of buildings. The corresponding amount is treated as residual value.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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

12. Fixed assets (continued)

Fixed assets are depreciated on a monthly basis. Depreciation for additions of fixed assets in the current month starts in the following month. Depreciation for disposal of fixed assets in the current month ceases in the following month.

Fixed assets are stated at the lower of book value and the recoverable amount at the balance sheet date. 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.

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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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

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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 mine participation 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.

Intangible assets are carried at the lower of book value and recoverable amounts at the balance sheet date. 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 with tax refunds rate ranged from 11% to 13%. The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

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

2. Business tax

Payable based on 3% to 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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. 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 RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries							
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Anhui, PRC	Import of machinery and raw materials and export of steel products	RMB50,000,000	RMB50,000,000	50,000,000	100	-
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	Anhui, PRC	Planning and design of metallurgical, construction and environmental protection projects	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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 RMB	Percentage of equity held by the Company	
						directly %	indirectly %
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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
Anhui Masteel Holly Packing Material Co. ("Holly Packing")	Anhui, PRC	Provision of packing materials for steel and other products; production, sale and provision of agency service for 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")	Anhui, PRC	Provision of equipment inspection and technical consultancy 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)")	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	RMB120,000,000	90,000,000	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	-

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Subsidiaries (continued)							
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (Note i)	Anhui, PRC	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services	RMB500,000,000	RMB334,495,000	237,495,000	71	-
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	-
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	-

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 RMB	Percentage of equity held by the Company	
						directly %	indirectly %
Associates (continued)							
馬鞍山港口(集團)有限責任公司 (“馬鞍山港口公司”)	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	RMB250,000,000	112,500,000	45	-
Joint control enterprise (“JCE”)							
Ma’anshan BOC-Ma Steel Gases Company Limited (“Ma’anshan BOC”) (Note ii)	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					1,157,218,000		

Note i: Newly incorporated during the period.

Note ii: 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 as at 30 June 2006, 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	30 June 2006			31 December 2005		
	Original currency	Unaudited Exchange rate	RMB	Original currency	Audited Exchange rate	RMB
Cash on hand	RMB165,991	1.0000	165,991	RMB179,223	1.0000	179,223
Balances with financial institutions (Note 2)	RMB3,053,233,045 HK\$3,825,078 US\$15,321,935 EUR3,316,716 JPY3,855,156 AUD5,925,514	1.0000 1.0294 7.9956 10.1313 0.0695 5.9196	3,053,233,045 3,974,903 122,769,512 33,630,477 264,780 35,201,698	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
Other balances with financial institutions	RMB556,958,117 (Note) US\$1,861,738 (Note) EUR28,131 JPY157,978,153	1.0000 7.9956 10.1313 0.0695	556,958,117 14,921,498 282,304 10,833,407	RMB135,897,049 US\$1,221,978 EUR269,246 JPY112	1.0000 8.0702 9.5797 0.0687	135,897,049 9,905,749 2,579,297 7
Total			<u>3,832,235,732</u>			<u>3,255,015,677</u>

Note: Included in the balances were US\$1,000,000 (equivalent to RMB8,029,320) and RMB556,191,082 which have been pledged as securities for the provision of banking facilities and issue of bank bills. The deposits were not readily available for payment.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 three (31 December 2005: four) non-bank financial institutions, aggregating approximately HK\$119 million (31 December 2005: approximately HK\$123 million).

	Notes	30 June 2006 Unaudited HK\$'000	31 December 2005 Audited HK\$'000
China Venturetech Investment Corporation ("China Venturetech")	(i)	–	3,491
Guangdong International Trust & Investment Corporation ("GITIC")	(ii)	23,317	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	48,000	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	48,125	48,125
		119,442	122,933

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) 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 during year 2005. On 14 February 2006, the Company received the rest repayment of RMB3,632,000. As at 30 June 2006, the overdue fixed deposit in China Venturetech had been fully settled.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

2. Balances with financial institutions (continued)

- (ii) 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 period, no allocation of assets was made by the liquidator of GITIC.
- (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.

As at the date on which these financial statements were approved, the directors are unable to estimate 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 overdue fixed deposits.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

3. Short term investments

Item		30 June 2006 Unaudited		31 December 2005 Audited	
		Investment cost RMB	Provision for decline in value RMB	Investment cost RMB	Provision for decline in value RMB
Equity investment	Note	<u>13,568,593</u>	<u>—</u>	<u>13,568,593</u>	<u>—</u>

Note:

Name of investee company	Class of share	Number of shares held	Investment cost Unaudited RMB	Closing market unit price RMB	Market price at the end of the period Unaudited RMB
China Petroleum & Chemical Corporation	Circulating share	1,800,000	7,596,000	6.25	11,250,000
Baoshan Iron & Steel Company Limited	Circulating share	1,743,197	<u>5,972,593</u>	4.36	<u>7,600,339</u>
Total			<u>13,568,593</u>		<u>18,850,339</u>

The period end market prices of the shares were the closing market prices as at 30 June 2006 as disclosed in Shanghai Stock Exchange.

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

The movement of provision for decline in value of short term investments for the six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

4. Bills receivable

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Bank bills	<u>2,080,062,757</u>	<u>1,931,609,265</u>

As at the balance sheet date, the Group does not hold any discounted bills with recourse yet to mature.

5. Trade receivables

Trade receivables ageing analysis:

	Group							
	30 June 2006 Unaudited		Provision for bad debts		31 December 2005 Audited		Provision for bad debts	
	Balance RMB	Ratio %	RMB	Ratio %	Balance RMB	Ratio %	RMB	Ratio %
Within one year	595,928,224	89	–	–	270,498,124	81	–	–
One to two years	25,570,828	4	(7,531,256)	29	17,486,861	5	(4,908,558)	28
Two to three years	5,433,043	1	(3,304,697)	61	8,259,890	3	(7,853,396)	95
Over three years	38,354,300	6	(38,354,300)	100	36,536,094	11	(36,536,094)	100
Total	<u>665,286,395</u>	<u>100</u>	<u>(49,190,253)</u>		<u>332,780,969</u>	<u>100</u>	<u>(49,298,048)</u>	

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

	Company				31 December 2005			
	30 June 2006 Unaudited		Provision for bad debts		Audited		Provision for bad debts	
	Balance RMB	Ratio %	Ratio %	Ratio %	Balance RMB	Ratio %	Ratio %	Ratio %
Within one year	617,404,059	90	-	-	204,374,088	77	-	-
One to two years	21,427,659	3	(5,922,732)	28	15,723,061	6	(3,300,034)	21
Two to three years	5,433,042	1	(3,304,697)	61	8,259,890	3	(7,853,396)	95
Over three years	38,354,300	6	(38,354,300)	100	36,536,094	14	(36,536,094)	100
Total	<u>682,619,060</u>	<u>100</u>	<u>(47,581,729)</u>		<u>264,893,133</u>	<u>100</u>	<u>(47,689,524)</u>	

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

Reason	Group and Company	
	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Debtors with age greater than 3 years and demonstrated by sufficient evidence that they were irrecoverable	<u>-</u>	<u>357,613</u>

The increase in the Group's and the Company's net trade receivables by 117% and 192% respectively was mainly attributable to the increase of export sales on credit.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

5. Trade receivables (continued)

The five largest trade receivables of the Group and the Company amounted to RMB251,404,260 and RMB247,214,198 respectively, which accounted for 38% and 36% of the gross trade receivables of the Group and the Company respectively.

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 six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

6. Other receivables

Other receivables ageing analysis:

	Group				Group			
	30 June 2006 Unaudited		Provision for bad debts		31 December 2005 Audited		Provision for bad debts	
	Balance	Ratio	Ratio	Ratio	Balance	Ratio	Ratio	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	124,746,504	81	-	-	174,855,093	85	-	-
One to two years	1,302,928	1	(59,366)	5	2,925,579	2	(509,854)	17
Two to three years	1,419,713	1	(802,814)	57	2,361,612	1	(2,250,672)	95
Over three years	26,885,408	17	(25,310,567)	94	25,302,728	12	(23,412,221)	93
Total	<u>154,354,553</u>	<u>100</u>	<u>(26,172,747)</u>		<u>205,445,012</u>	<u>100</u>	<u>(26,172,747)</u>	

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

	Company				31 December 2005			
	30 June 2006 Unaudited		Provision for bad debts		Audited		Provision for bad debts	
	Balance	Ratio	Ratio	Ratio	Balance	Ratio	Ratio	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
Within one year	40,980,280	57	-	-	18,061,977	37	-	-
One to two years	519,645	1	(59,366)	11	2,905,638	6	(509,854)	18
Two to three years	3,050,715	4	(802,814)	26	2,361,612	5	(2,250,672)	95
Over three years	26,834,476	38	(25,310,567)	94	25,251,796	52	(23,412,221)	93
Total	<u>71,385,116</u>	<u>100</u>	<u>(26,172,747)</u>		<u>48,581,023</u>	<u>100</u>	<u>(26,172,747)</u>	

The increase in the Company's net other receivables by 102% was mainly attributable to the increase in advance to staff.

The five largest other receivables of the Group and the Company amounted to RMB7,778,745, which accounted for 5% and 11% of the gross other receivables of the Group and the Company respectively.

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

The movement of bad debts provision for other receivables for the six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

7. Prepayments

Prepayments ageing analysis:

	30 June 2006			31 December 2005		
	Balance	Ratio	Reason of	Balance	Ratio	Reason of
	RMB	% outstanding	outstanding	RMB	%	outstanding
Within one year	567,280,441	86	N/A	297,726,499	79	N/A
One to two years	12,487,024	2	Note	20,432,951	5	Note
Two to three years	20,201,977	3	Note	59,741,931	16	Note
Over three years	59,741,931	9	Note	–	–	N/A
Total	<u>659,711,373</u>	<u>100</u>		<u>377,901,381</u>	<u>100</u>	

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

The Group's prepayments increased by 75% was mainly attributable to the increase in prepayment for fuel.

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

8. Inventories

	30 June 2006		31 December 2005	
	Balance Unaudited RMB	Provision Unaudited RMB	Balance Audited RMB	Provision Audited RMB
Raw materials	3,765,480,442	–	2,973,683,772	–
Work in progress	838,884,474	(3,000,000)	641,585,619	(3,000,000)
Construction contracts	33,177,646	–	31,002,486	–
Finished goods	578,398,169	(9,656,900)	407,365,707	(46,838,109)
Spare parts	1,564,822,041	(71,121,783)	1,266,795,977	(71,121,783)
Total	<u>6,780,762,772</u>	<u>(83,778,683)</u>	<u>5,320,433,561</u>	<u>(120,959,892)</u>

Included in the Group's inventories were finished goods amounting to RMB260,134,114 which have been pledged to banks as securities for issue of bank bills.

The movement of provision for impairment of inventories for the six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments

Item	Group			
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	At 30 June 2006 Unaudited RMB
Long term equity investments				
Interests in a JCE (ii)	234,000,000	–	–	234,000,000
Interests in associates (iii)	268,059,681	17,493,762	–	285,553,443
Other equity investments (iv)	16,817,035	–	–	16,817,035
	<u>518,876,716</u>	<u>17,493,762</u>	<u>–</u>	<u>536,370,478</u>
Long term debt investment				
Other debt investment (v)	10,918,870	–	–	10,918,870
Total	<u>529,795,586</u>	<u>17,493,762</u>	<u>–</u>	<u>547,289,348</u>

Item	Company			
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	At 30 June 2006 Unaudited RMB
Long term equity investments				
Interests in subsidiaries (i)	654,682,848	339,488,536	(67,378,810)	926,792,574
Interests in a JCE (ii)	234,000,000	–	–	234,000,000
Interests in associates (iii)	268,059,681	17,493,762	–	285,553,443
Other equity investments (iv)	16,817,035	–	–	16,817,035
	<u>1,173,559,564</u>	<u>356,982,298</u>	<u>(67,378,810)</u>	<u>1,463,163,052</u>
Long term debt investment				
Other debt investment (v)	10,918,870	–	–	10,918,870
Total	<u>1,184,478,434</u>	<u>356,982,298</u>	<u>(67,378,810)</u>	<u>1,474,081,922</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

9. Long term investments (continued)

The total of long term investments and short term investments amounted to RMB560,857,941, which represented 3% of the Group's net assets.

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

The movement of provision for long term investments for the six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

(i) Interests in subsidiaries

Name of investee company	Investment period	Percentage of equity held by the Company	Company									
			Initial investment cost	Investment cost				Adjustment for gain or loss				
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)	Closing balance
	Audited	Unaudited	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	%	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	81,143,778	25,520,024	-	106,663,802	156,663,802
Design & Research Institute	N/A	58.96	7,500,000	7,500,000	-	-	7,500,000	34,369,669	11,078,872	(8,818,400)	36,630,141	44,130,141
MG Control Technique	N/A	93.75	6,649,632	7,500,000	-	-	7,500,000	2,535,653	(1,602,964)	-	932,689	8,432,689
Anhui Masteel K. Wah	30 years	70	24,854,930	24,854,930	-	-	24,854,930	3,551,381	527,600	-	4,078,981	28,933,911
Ma Steel (Wuhu)	30 years	70	8,225,885	8,225,885	-	-	8,225,885	35,855,286	4,509,134	(12,927,276)	27,437,144	35,663,029
Ma Steel (Guangzhou)	50 years	66.67	80,000,000	80,000,000	-	-	80,000,000	17,994,823	11,553,465	(14,394,600)	15,153,688	95,153,688
Ma Steel (HK)	N/A	80	4,101,688	4,101,688	-	-	4,101,688	25,130,015	2,064,832	-	27,194,847	31,296,535
MG Trading	N/A	100	1,573,766	1,573,766	-	-	1,573,766	(275,961)	(2,812,296)	-	(3,088,257)	(1,514,491)
Holly Packing	20 years	71	21,478,316	21,478,316	-	-	21,478,316	53,760,988	15,382,088	(31,182,916)	37,960,160	59,438,476
Huayang Equipment	20 years	90	900,000	900,000	-	-	900,000	556,188	375,653	(55,618)	876,223	1,776,223
Ma Steel (Jinhua)	50 years	75	90,000,000	63,000,000	27,000,000	-	90,000,000	6,203	3,025,536	-	3,031,739	93,031,739
Ma Steel (Hefei)	100 years	71	355,000,000	-	237,495,000	-	237,495,000	-	(7,133,598)	-	(7,133,598)	230,361,402
Maanshan Iron and Steel (Australia) Proprietary Limited	N/A	100	126,312,415	126,312,415	-	-	126,312,415	4,607,825	12,505,190	-	17,113,015	143,425,430
Total				<u>395,447,000</u>	<u>264,495,000</u>	<u>-</u>	<u>659,942,000</u>	<u>259,235,848</u>	<u>74,993,536</u>	<u>(67,378,810)</u>	<u>266,850,574</u>	<u>926,792,574</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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	Group and Company										
			Initial investment cost	Investment cost				Adjustment for gain or loss				Closing balance	
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)		
													Audited
RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	Unaudited RMB		
Ma'anshan BOC	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	Group and Company									
			Initial investment cost	Investment cost				Adjustment for gain or loss				Closing balance
				Opening balance	Increase during the period	Decrease during the period	Closing balance	Opening balance	Current period's share of profit/(loss)	Dividend received/receivable	Accumulated increase/(decrease)	
RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	Unaudited RMB	
濟源市金馬焦化	50 Years	40	80,000,000	80,000,000	-	-	80,000,000	11,081,594	6,034,310	-	17,115,904	97,115,904
滕州盛隆煤焦化	50 Years	32	66,776,000	66,776,000	-	-	66,776,000	(837,635)	(276,817)	-	(1,114,452)	65,661,548
上海鋼鐵電子	N/A	20	4,000,000	4,000,000	-	-	4,000,000	(683,589)	730,245	-	46,656	4,046,656
馬鞍山港口公司	20 Years	45	112,500,000	104,831,800	7,668,200	-	112,500,000	2,891,511	3,337,824	-	6,229,335	118,729,335
Total				255,607,800	7,668,200	-	263,276,000	12,451,881	9,825,562	-	22,277,443	285,553,443

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 Unaudited RMB
Shanghai Chlor-Alkali Chemical Company Limited	Circulating shares with sales restriction	164,578	0.01	807,926
Tangshan Iron and Steel Company Limited	Circulating shares with sales restriction	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 period RMB	Accumulated interest received/receivable RMB	Carrying value Unaudited 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>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

10. Fixed assets

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB
Cost				
At 1 January 2006	8,697,233,073	18,806,495,387	415,790,295	27,919,518,755
Additions	22,539	969,576	1,300,206	2,292,321
Contribution by a minority shareholder (Note 45)	212,656,812	385,748,243	3,882,583	602,287,638
Transferred from construction in progress (Note 12)	313,189,322	1,158,733,027	6,608,232	1,478,530,581
Disposal	(20,000)	(5,204,689)	(6,620,536)	(11,845,225)
At 30 June 2006	9,223,081,746	20,346,741,544	420,960,780	29,990,784,070
Accumulated depreciation				
At 1 January 2006	2,748,009,347	6,428,411,270	234,659,664	9,411,080,281
Provided during the period	297,596,554	814,731,707	25,564,663	1,137,892,924
Disposal	(1,153)	(3,637,475)	(6,088,057)	(9,726,685)
At 30 June 2006	3,045,604,748	7,239,505,502	254,136,270	10,539,246,520
Net book value				
At 30 June 2006				
Net book value	6,177,476,998	13,107,236,042	166,824,510	19,451,537,550
Less: Impairment provision	(10,391,900)	(106,664,944)	–	(117,056,844)
Net book value, net of impairment provision	<u>6,167,085,098</u>	<u>13,000,571,098</u>	<u>166,824,510</u>	<u>19,334,480,706</u>
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>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 RMB1.6 billion.

At the balance sheet date, certain equipments with a net book value of approximately RMB29.7 million were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 26 to the financial statements.

At the balance sheet date, certificates of ownership in respect of the Group's building with a net book value of RMB200 million had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

The movement of provision for impairment of fixed assets for the six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

11. Construction materials

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Prepayments for equipment used in construction projects	<u>4,438,157,469</u>	<u>3,018,828,077</u>

The increase in the Group's construction materials by 47% was mainly attributable to the increase in the amount of equipment prepayment for construction projects of "Eleventh Five Year Plan".

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress

Construction in progress represents the following major projects which remained incomplete as at 30 June 2006:

Name of project	Budget cost	At	Contribution	Transferred	Addition	Transferred	Write-off/	At 30 June	Source of fund	Percentage of completion
		1 January 2006	by a minority shareholder (Note 45)	from intangibles assets (Note 13)	during the period	to fixed assets (Note 10)	reversal of impairment provision	2006		
	RMB'000	Audited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB	Unaudited RMB		%
1. Blast Furnaces Project	6,195,381	759,466,040	-	-	1,157,190,375	(135,141)	-	1,916,521,274	Internally generated funds and loans from financial institution	9-100
<i>Including borrowing costs capitalised:</i>		11,765,964	-	-	28,795,352	-	-	40,561,316		
2. Converters Project	3,493,631	475,136,663	-	-	717,747,283	(40,132,184)	-	1,152,751,762	Internally generated funds and loans from financial institution	22-100
<i>Including borrowing costs capitalised:</i>		3,026,339	-	-	16,087,173	-	-	19,113,512		
3. Wheel Line Project	464,330	158,473,675	-	-	297,640,545	(429,690,173)	-	26,424,047	Internally generated funds	63-100
4. Construction Steel Lines Project	16,780,600	1,379,445,445	-	-	1,629,992,502	(741,246,561)	-	2,268,191,386	Internally generated funds and loans from financial institution	4-100
<i>Including borrowing costs capitalised:</i>		43,118,129	-	-	87,400,015	-	-	130,518,144		
5. Coking Stoves Project	2,697,000	279,910,490	-	-	375,550,851	-	-	655,461,341	Internally generated funds and loans from financial institution	22-100
<i>Including borrowing costs capitalised:</i>		8,784,000	-	-	17,393,040	-	-	26,177,040		
6. Public Auxiliary Utilities Project	3,579,694	1,237,039,767	-	-	432,574,410	(62,195,546)	-	1,607,418,631	Internally generated funds and loans from financial institution	5-100
<i>Including borrowing costs capitalised:</i>		1,247,190	-	-	-	-	-	1,247,190		
7. Energy-saving and Environment Protection Project	107,730	33,036,296	-	-	3,465,582	(33,817,606)	-	2,684,272	Internally generated funds	2-100
8. Other Projects	N/A	479,393,373	640,000	33,808,464	418,992,635	(171,313,370)	(33,323,852)	728,197,250	Internally generated funds and loans from financial institution	N/A
<i>Including borrowing costs capitalised:</i>		15,108,480	-	-	20,808,000	-	-	35,916,480		
		4,801,901,749	640,000	33,808,464	5,033,154,183	(1,478,530,581)	(33,323,852)	8,357,649,963		
Less: Impairment provision		(74,000,000)	-	-	-	-	51,000,000	(23,000,000)		
		<u>4,727,901,749</u>	<u>640,000</u>	<u>33,808,464</u>	<u>5,033,154,183</u>	<u>(1,478,530,581)</u>	<u>17,676,148</u>	<u>8,334,649,963</u>		

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

12. Construction in progress (continued)

The increase in the Group's construction in progress by 76% was mainly attributable to the construction for the "Eleventh Five Year Plan" in 2006.

The capitalisation rates of interest are 5.508%-5.76% per annum.

At the balance sheet date, certificates of ownership in respect of land use rights with the aggregate net book value of approximately RMB270 million have 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 six months ended 30 June 2006 is disclosed in the supplementary information of the financial statements.

13. Intangible assets

Method of acquisition	Original amount	Accumulated amortisation	At 1 January 2006	Additions during the period	Transfer to		At 30 June 2006	Remaining years of amortisation
					construction in progress	Amortisation during the period		
	Audited	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Mine Participation right (Note 1)	110,150,400	(1,115,704)	109,034,696	-	-	(566,436)	108,468,260	25 years
Land use rights (Note 2)	1,092,429,840	(231,318,487)	861,111,353	648,413	(33,808,464)	(10,570,570)	817,380,732	37 to 50 years
Land use rights (Note 2)	-	-	-	154,104,000	-	(1,122,800)	152,981,200	30 years
Total	1,202,580,240	(232,434,191)	970,146,049	154,752,413	(33,808,464)	(12,259,806)	1,078,830,192	

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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

13. Intangible assets (continued)

Note 2: At the balance sheet date, certificates of ownership in respect of land use rights with an aggregate net book value of approximately RMB152.98 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 RMB1.22 million (31 December 2005: RMB1.24 million).

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

14. Short term loans

Type	Annual interest rate %	Maturity date	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Unsecured loans	4.63 to 5.265	5/2007 – 6/2007	<u>508,620,150</u>	<u>112,372,660</u>

The increase in the Group's short term loans by 353% was mainly attributable to the increase in working capital loans borrowed for purchase of materials.

15. Bills payable

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Bank bills	<u>1,672,338,885</u>	<u>655,567,000</u>

The increase in the Group's bills payable by 155% was mainly attributable to the increase in using bank bills for payment of material purchase.

Balances with financial institutions amounting to RMB556,191,082 and inventories amounting to RMB260,134,114 have been pledged to banks as securities for issue of bank bills. The balances with financial institutions and inventories were not readily available for payment or sale.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

16. Short term commercial papers

Name	Interest payable	Accumulated	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
	during the period	interest payable		
	Unaudited	Unaudited		
	RMB	RMB		
Short term commercial papers	31,900,000	31,900,000	2,000,000,000	2,000,000,000

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

The increase in the Group's accounts payable by 47% was mainly attributable to the increase in construction fee payables and payables for equipment purchase.

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.

18. Deposits received

The ageing of deposits received is within one year.

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

20. Dividend payable

	Group and Company	
	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Annual dividend payable for 2005 RMB0.16 per share	1,032,848,000	—

The Company's profit distribution plan for 2005 had been approved on the 2005's annual shareholders meeting, which was held on 13 June 2006.

21. Taxes payable

	Group and Company	
	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
VAT	264,803,813	330,870,312
Corporate income tax	87,341,519	118,021,576
City construction and maintenance tax	18,637,932	7,377,600
Business tax	777,722	1,673,353
Other taxes	5,888,540	35,846,914
Total	377,449,526	493,789,755

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

22. Other taxes payable

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Flood prevention fund	23,647,141	13,484,963
Education surcharge	7,987,840	5,079,358
Other taxes	3,063,277	1,743,556
Total	<u>34,698,258</u>	<u>20,307,877</u>

The increase in the Group's other taxes payable by 71% was mainly attributable to the increase 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

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Sales rebate	134,754,890	116,044,016
Staff housing subsidies	98,486,509	103,973,323
Maintenance and inspection fee	75,479,063	61,900,561
Labour costs	70,510,797	50,111,147
Construction fee	63,524,894	77,954,188
Others	56,970,285	78,743,300
Total	<u>499,726,438</u>	<u>488,726,535</u>

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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

24. Accrued charges

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Loan interests	114,638,668	58,712,708
Maintenance fee	37,274,040	4,862,311
Retirement benefits payable to early retired employees	10,773,268	10,773,268
Others	67,661,833	24,769,361
Total	230,347,809	99,117,648

The increase in the Group's accrued charges by 132% was mainly attributable to the increase in accrued loan interests and maintenance fee.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

25. Long term loans due within a year

Lender	Currency type	30 June 2006 Unaudited Original currency amount		Currency type	31 December 2005 Audited Original currency amount		Maturity date	Annual interest rate %	Conditions of borrowings
		RMB			RMB				
The Industrial and Commercial Bank of China	RMB	260,000	260,000	RMB	260,000	260,000	6/2007	2.88	Unsecured
China Construction Bank	RMB	13,200,000	13,200,000	RMB	13,200,000	13,200,000	6/2007	2.4	Unsecured
	USD	7,972,657	63,746,178	USD	7,972,657	64,340,936	10/2006-4/2007	LIBOR (6 months) +0.5	Guaranteed by Holding
Bank of China	EUR	123,947	1,243,830	EUR	123,947	1,187,373	9/2006-3/2007	0.25	Guaranteed by Sinosteel Trading Company
	RMB	32,000,000	32,000,000	-	-	-	3/2007-5/2007	5.76	Guaranteed by Holding
Agricultural Bank of China	RMB	40,000,000	40,000,000	-	-	-	5/2007	5.49	Guaranteed by Holding
Huishang Bank	RMB	5,000,000	5,000,000	-	-	-	6/2007	5.49	Unsecured
Profit Access Investment Limited (Note i)	USD	260,000	2,188,521	-	-	-	6/2007	5.49	Unsecured
Total			<u>157,638,529</u>						<u>78,988,309</u>

Note i: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. Further details on foreign exchange loans granted by Profit Access Investments Limited to Anhui Masteel K. Wah are set out in note 26.

Note ii: LIBOR represents London Interbank Offered Rate.

The increase in the Group's long term loans due within a year by 100% was mainly attributable to the increase in the drawdown of long term loans as well as certain long term loans will be due within a year.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Long term loans

Lender	Currency type	30 June 2006 Unaudited Original currency amount		RMB	Currency type	31 December 2005 Audited Original currency amount		RMB	Maturity date	Annual interest rate %	Conditions of borrowings
The Industrial and Commercial Bank of China	RMB	2,057,000,000	2,057,000,000		RMB	2,057,000,000	2,057,000,000		11/2007-9/2008	5.49, benchmark rate less 10%	Guaranteed by Holding
China Construction Bank	RMB	1,617,000,000	1,617,000,000		RMB	1,117,000,000	1,117,000,000		1/2010-6/2011	Benchmark rate less 10%	Guaranteed by Holding
	RMB	800,000,000	800,000,000		RMB	600,000,000	600,000,000		7/2009-8/2009	4.698	Unsecured
	-	-	-		USD	23,986,329	193,574,471		N/A	N/A	N/A
Bank of China	RMB	1,730,000,000	1,730,000,000		RMB	212,000,000	212,000,000		8/2007-6/2011	5.76, benchmark rate less 10%	Guaranteed by Holding
	RMB	710,000,000	710,000,000		RMB	110,000,000	110,000,000		7/2009-8/2009	4.698	Unsecured
	EUR	1,549,334	15,547,883		EUR	1,611,308	15,435,846		9/2007-9/2019	0.25	Guaranteed by Sinosteel Trading Company
	-	-	-		USD	66,000,000	532,633,200		N/A	N/A	N/A
Agricultural Bank of China	RMB	1,824,000,000	1,824,000,000		RMB	894,000,000	894,000,000		8/2007-6/2011	5.265-5.76	Guaranteed by Holding
	RMB	600,000,000	600,000,000		RMB	600,000,000	600,000,000		9/2008	5.184	Unsecured
Huishang Bank	RMB	114,000,000	114,000,000		RMB	169,000,000	169,000,000		8/2007-5/2010	5.265-5.49	Unsecured
	RMB	360,000,000	360,000,000		RMB	360,000,000	360,000,000		9/2008	5.184	Guaranteed by Holding
China CITIC Bank	RMB	400,000,000	400,000,000		RMB	400,000,000	400,000,000		8/2008	Benchmark rate	Unsecured
	USD	50,000,000	399,780,000		USD	50,000,000	403,510,000		8/2008	LIBOR (6 months) +0.4	Unsecured
Industrial Bank	RMB	100,000,000	100,000,000		-	-	-		6/2010-6/2011	Benchmark rate less 10%	Unsecured

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

26. Long term loans (continued)

Lender	Currency type	30 June 2006 Unaudited Original currency amount		Currency type	31 December 2005 Audited Original currency amount		RMB	Maturity date	Annual interest rate %	Conditions of borrowings
		RMB	RMB		RMB	RMB				
Bank of Communications	RMB	200,000,000	200,000,000	-	-	-	-	4/2009	5.184	Guaranteed by Holding
Shanghai Pudong Development Bank	RMB	200,000,000	200,000,000	-	-	-	-	6/2009	5.427	Unsecured
China Merchants Bank	RMB	400,000,000	400,000,000	RMB	400,000,000	400,000,000	-	10/2008- 11/2008	Benchmark rate less 10%	Unsecured
	USD	50,000,000	399,780,000	USD	50,000,000	403,510,000	-	10/2008- 11/2008	LIBOR (6 months) +0.4	Unsecured
The Export-import Bank of China	RMB	595,000,000	595,000,000	RMB	95,000,000	95,000,000	-	8/2007-8/2012	3.78	Guaranteed by Holding
	RMB	200,000,000	200,000,000	-	-	-	-	6/2010	5.265	Unsecured
Profit Access Investment Limited (Note)	USD	726,000	6,000,000	USD	986,000	8,151,994	-	8/2007	5.49	Secured
Total			<u>12,728,107,883</u>							
										<u>8,570,815,511</u>

Note: Profit Access Investments Limited granted foreign currency 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). 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 RMB 29.67 million as at 30 June 2006.

The increase in the Group's long term loans by 49% was mainly attributable to the increase in the drawdown of long term loans for the construction of the "Eleventh Five Year Plan" projects.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

27. Specific payables

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Government subsidies for specific construction projects	3,200,000	3,200,000

28. Other long term liabilities

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB
Payable to Holding	400,000,000	400,000,000
Accrued charges for furnace relining	74,499,299	74,499,299
Retirement benefits payable to early retired employees	29,485,032	29,485,032
Total	503,984,331	503,984,331

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

29. Minority interests

The increase in minority interests of the Group by 72% was mainly attributable to the capital injection by certain minority shareholders.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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:

	1 January 2006 Audited		Group and Company Increase/(decrease) during the period Unaudited	30 June 2006 Unaudited	
	RMB	Ratio	Transfer of shares under State Share Reform	RMB	Ratio
A. Shares with sales restriction					
1. State-owned shares	4,034,560,000	62.50	(204,000,000)	3,830,560,000	59.34
2. Other domestically owned shares	87,810,000	1.36	–	87,810,000	1.36
Sub-total	4,122,370,000	63.86	(204,000,000)	3,918,370,000	60.70
B. Shares without sales restriction					
1. A shares	600,000,000	9.29	204,000,000	804,000,000	12.45
2. H shares	1,732,930,000	26.85	–	1,732,930,000	26.85
Sub-total	2,332,930,000	36.14	204,000,000	2,536,930,000	39.30
C. Total	6,455,300,000	100.00	–	6,455,300,000	100.00

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

30. Share capital (continued)

On 17 March 2006, all relevant approvals 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") have been obtained. The then Non-circulating Shares have been entitled to be listed and become circulating shares since 31 March 2006 (the "Listing Date"). In accordance with the execution arrangement, Holding offered 3.4 of its shares to each original Circulating A Shares' shareholder for every 10 Circulating A Shares they held. The number of shares held by Holding decreased by 204 million shares whereas the number of shares held by the original Circulating A Shares' shareholders increased by 204 million shares. The total numbers of issued share capital of the Company remained unchanged.

After the implementation of the State Share Reform, all the shares held by Holding and the legal person A shares held by other domestic legal persons are not listed for trading or transferred within 12 months from the Listing Date and the State-owned shares held by Holding are also not listed for trading and transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

31. Capital reserve

	Group and Company			
	At 1 January 2006	Increase during the period	Decrease during the period	At 30 June 2006
	Audited	Unaudited	Unaudited	Unaudited
	RMB	RMB	RMB	RMB
Share premium	4,864,975,395	–	–	4,864,975,395
Specific payables transferred in	585,369,700	–	–	585,369,700
	<u>5,450,345,095</u>	<u>–</u>	<u>–</u>	<u>5,450,345,095</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

32. Surplus reserves

	Group			
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	At 30 June 2006 Unaudited RMB
Statutory surplus reserve	1,179,972,207	1,178,385,368	–	2,358,357,575
Statutory public welfare fund	1,178,385,368	–	(1,178,385,368)	–
Reserve fund	11,112,647	–	–	11,112,647
Enterprise expansion fund	10,677,774	–	–	10,677,774
Total	<u>2,380,147,996</u>	<u>1,178,385,368</u>	<u>(1,178,385,368)</u>	<u>2,380,147,996</u>
	Company			
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Decrease during the period Unaudited RMB	At 30 June 2006 Unaudited RMB
Statutory surplus reserve	1,166,669,675	1,166,669,675	–	2,333,339,350
Statutory public welfare fund	1,166,669,675	–	(1,166,669,675)	–
Total	<u>2,333,339,350</u>	<u>1,166,669,675</u>	<u>(1,166,669,675)</u>	<u>2,333,339,350</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to statutory public welfare fund (the "PWF"). According to the "Company Law of the People's Republic of China (2005 revised)" that took effect as of 1 January 2006, and the modified articles of associations, the Company and its subsidiaries will not allocate the PWF starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SSR.

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

The Company and its subsidiaries did not allocate any SSR, enterprise expansion fund, reserve fund, statutory public welfare fund in current period.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

33. Retained profits

	Group Unaudited RMB
Retained profits at beginning of period	4,595,922,817
Add: Consolidated net profit for the period	1,071,772,001
Less: Ordinary share dividend payable	<u>(1,032,848,000)</u>
Retained profits at end of period	<u><u>4,634,846,818</u></u>

The Company did not distribute profit for the current period.

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

Category	Group					
	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	Unaudited			Unaudited		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	15,158,231,321	13,412,634,264	1,745,597,057	15,962,065,845	12,985,142,769	2,976,923,076
Sale of steel billets	263,630,503	233,964,092	29,666,411	201,735,359	169,095,617	32,639,742
Sale of pig iron	330,690	252,432	78,258	539,372	390,287	149,085
Others	720,036,973	534,519,648	185,517,325	499,536,629	389,822,382	109,714,247
Total	<u><u>16,142,229,487</u></u>	<u><u>14,181,370,436</u></u>	<u><u>1,960,859,051</u></u>	<u><u>16,663,877,205</u></u>	<u><u>13,544,451,055</u></u>	<u><u>3,119,426,150</u></u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

Category	Company					
	For the six months ended 30 June 2006 Unaudited			For the six months ended 30 June 2005 Unaudited		
	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB	Operating income RMB	Cost of sales RMB	Profit from operating activities RMB
Sale of steel products	15,325,477,213	13,584,768,342	1,740,708,871	15,962,065,845	12,985,142,769	2,976,923,076
Sale of steel billets	263,630,503	233,964,092	29,666,411	201,735,359	169,095,617	32,639,742
Sale of pig iron	330,690	252,432	78,258	539,372	390,287	149,085
Others	710,191,813	578,765,014	131,426,799	565,391,931	512,900,649	52,491,282
Total	<u>16,299,630,219</u>	<u>14,397,749,880</u>	<u>1,901,880,339</u>	<u>16,729,732,507</u>	<u>13,667,529,322</u>	<u>3,062,203,185</u>

Sales to the five largest customers of the Group and the Company for the period amounted to RMB2,503,757,540 and RMB1,946,851,074, which accounted for 16% of the Group's and 12% of the Company's total sales amounts respectively.

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

35. Taxes and surcharges

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
City construction and maintenance tax	69,352,112	70,784,384
Education surcharge	29,722,334	30,336,165
Local education surcharge	9,907,445	10,112,055
Other taxes	6,920,180	5,220,960
Total	115,902,071	116,453,564

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 decrease in the Group's other operating profit by 36% was mainly attributable to the decrease in the trading of non-Magang products.

37. Administrative expenses

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
Staff cost	108,172,311	70,149,656
Welfare and support services	47,895,000	47,900,830
Taxes and duties	36,519,333	34,360,044
Depreciation and amortisation charge	23,138,269	21,083,793
Joint office expenses	20,343,205	20,399,085
Removal compensation and demolition expenses	16,997,548	55,490,000
Environmental protection fee	12,995,289	13,000,038
Others	65,595,455	94,819,902
Total	331,656,410	357,203,348

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

38. Financial expenses

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
Interest expenses	147,026,333	183,916,969
Less: Interest income	(13,234,627)	(9,052,523)
Exchange loss	13,064,524	29,671,837
Less: Exchange gain	(26,360,334)	(143,039,403)
Others	16,786,198	4,830,109
Total	<u>137,282,094</u>	<u>66,326,989</u>

The increase in the Group's financial expenses by 107% was mainly attributable to the decrease in exchange gain.

39. Investment income

	Group For the six months ended 30 June		Company For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB	2006 Unaudited RMB	2005 Unaudited RMB
Investment income from investment in subsidiaries	–	–	74,993,536	52,460,423
Share of profits of associates	9,825,562	–	9,825,562	–
Other investment income	5,294,961	4,995,983	5,306,384	4,995,983
	<u>15,120,523</u>	<u>4,995,983</u>	<u>90,125,482</u>	<u>57,456,406</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

39. Investment income (continued)

The increase in the Group's investment income by 2 times was mainly attributable to the increase in the share of profits of associates during the period. The increase in the Company's investment income by 57% was mainly attributable to the increase in investment income calculated under equity method.

According to the directors' opinion, no significant restriction was imposed upon the transfer of the Group's investment income as at the balance sheet date.

40. Non-operating income

The decrease in the Group's non-operating income by 36% was mainly attributable to the decrease in gain on disposal of fixed assets.

41. Non-operating expenses

The credit balance of the Group's non-operating expenses was mainly attributable to the reversal of impairment provision for construction in progress provided in prior years during the period.

42. Income tax

The decrease in the Group's income tax by 45% was mainly attributable to the decrease in profit before tax.

43. Cash paid relating to other operating activities

	For the six months ended 30 June	
	2006 Unaudited RMB	2005 Unaudited RMB
Transportation cost	54,927,132	49,707,219
Environmental improvement fee	12,995,289	13,000,038
Packing fee	9,806,051	9,460,465
Stamp duty	7,458,138	7,770,013
Property insurance fee	6,202,743	7,559,272
Repair and maintenance expenses	4,229,475	3,871,448
Board meeting expenses	1,719,392	1,958,181
Warehouse fee	914,893	3,635,477
Others	36,332,702	54,876,753
Total	134,585,815	151,838,866

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

44. Cash paid for acquisition of businesses

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 RMB150 million, 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:

	Audited 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	71,854,377
Less: Accumulated depreciation	(17,458,303)
Net book value	54,396,074
Construction materials	120,000
Construction in progress	49,735,199
Accounts payable	(113,420,805)
Deposits received	(82,241,475)
Staff welfare payable	(3,810,465)
Taxes payable	(1,228,776)
Other taxes payable	(41,673)
Other payables	(2,907,567)
	<u>149,773,584</u>
Cash paid	<u>149,773,584</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

45. Non-cash assets and liabilities contributed by a minority shareholder

On 28 April 2006, the Company and Hefei Investment Holding Company Limited (“Hefei Investment Holding”) entered into a “Venturers’ Agreement” for the establishment of MS (Hefei). Pursuant to the Venturers’ Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in MS (Hefei), respectively.

On 10 May 2006, MS (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of MS (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two installments before 8 May 2006 and 31 October 2006, respectively. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to MS (Hefei) and Hefei Investment Holding has also contributed cash of RMB299,312,595 and certain assets (including certain leasehold land and production equipment located in Hefei City used for the manufacture of iron and steel products) and liabilities amounting to a net liability value of RMB202,312,595 to MS (Hefei).

The details of these assets and liabilities are as follow:

	Notes	Unaudited RMB
Prepayments		26,635,700
Inventory		115,342,635
Fixed assets	10	602,287,638
Construction in progress	12	640,000
Intangible assets	13	154,104,000
Short term loan		(476,620,150)
Bills payable		(219,200,000)
Accounts payable		(290,311,383)
Deposits received		(102,410,482)
Accrued charges		(12,780,553)
		<u>(202,312,595)</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

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

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000
Net profit		
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		1,090,020
Add: Deferred tax expense	(i)	6,628
Deduct: Recognition of deferred income	(ii)	(24,876)
Net profit from ordinary activities attributable to shareholders under PRC accounting standards		<u>1,071,772</u>
Shareholders' funds	Notes	30 June 2006 Unaudited RMB
Shareholders' funds under Hong Kong accounting standards		18,571,676
Add: Deferred income	(ii)	585,369
Deduct: Deferred tax assets	(i)	(46,547)
Recognition of deferred income	(ii)	(115,359)
Provision for furnace relining costs	(iii)	(74,499)
Shareholders' funds under PRC accounting standards		<u>18,920,640</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(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 30 June 2006.

Under HKAS 12, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 30 June 2006 amounted to approximately RMB46.55 million (31 December 2005: approximately RMB53.18 million). The movement in the deferred tax assets resulted in a deferred tax expense of approximately RMB6.63 million in the current period (for the six months ended 30 June 2005: Nil).

(ii) 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 30 June 2006, accumulated specific payables transferred to the capital reserve amounted to approximately RMB585 million (31 December 2005: approximately RMB585 million).

Under Statement of Standard Accounting Practice No. 20, "Accounting for government grants and disclosure of assistance" ("HKSSAP 20"), upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful life of the relevant assets by equal annual instalments. As at 30 June 2006, accumulated deferred income amounting to approximately RMB585 million (31 December 2005: approximately RMB585 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB24.88 million was released to the current period's income statement (for the six months ended 30 June 2005: approximately RMB23.88 million). As at 30 June 2006, the accumulated deferred income released amounted to approximately RMB115.36 million (31 December 2005: approximately RMB90.48 million).

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

V. MAJOR NOTES TO FINANCIAL STATEMENTS (continued)

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

(iii) 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 period, no furnace relining costs were incurred (for the six months ended 30 June 2005: Nil), and the remaining provision as at 30 June 2006 amounted to approximately RMB74.5 million (31 December 2005: approximately RMB74.5 million).

Under HKSSAP 37, "Provisions, Contingent Liabilities and Contingent Assets", furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment.

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 30 June 2006, Holding owned 60.08% of the Company's voting right. Thus all companies controlled by Holding are the Company's related parties.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

Name	At 1 January 2006 Audited RMB'000	Increase during the period Unaudited RMB'000	Decrease during the period Unaudited RMB'000	At 30 June 2006 Unaudited RMB'000
Holding	6,298,290	—	—	6,298,290

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

Name	At 1 January 2006 Audited RMB'000	Ratio	Increase during the period Unaudited RMB'000	Ratio	Decrease during the period Unaudited RMB'000	Ratio	At 30 June 2006 Unaudited RMB'000	Ratio
Holding	4,082,330	63.24	—	—	(204,000)	(3.16)	3,878,330	60.08

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

4. Related parties without control relationship

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

Name	Relationship with the Company
馬鋼集團建設有限責任公司	Subsidiary 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)控股有限公司桃沖礦業公司	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制品有限責任公司	Subsidiary of Holding
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動分公司	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
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
Ma'anshan BOC	JCE of the Group
Profit Access Investment Limited	Minority shareholder of the Group
安徽鑫鋼商貿有限公司	Minority shareholder of the Group

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 period:

		For the six months ended 30 June	
		2006 Unaudited RMB	2005 Unaudited RMB
	Notes		
Transactions with Holding and its subsidiaries:			
Purchases of iron ore, limestone and dolomite	(i)	813,956,423	671,772,843
Fees paid for welfare, support services and other services	(ii), (iii)	86,173,773	120,038,420
Rental	(iii)	18,125,000	18,125,000
Agency fee	(iii)	2,034,707	2,035,470
Purchases of fixed assets and provision of construction services	(iii)	116,111,744	212,165,431
Fees received for the supply of utilities, services and other consumable goods	(iii)	(6,953,936)	(14,968,422)
Sale of steel products and other by-products	(iii)	(4,549,145)	(2,084,083)
Acquisition of businesses	(iv)	–	149,773,584
Transactions with associates of the Company:			
Purchases of coke	(v)	411,216,519	321,807,686
Transactions with a jointly-controlled entity of the Company:			
Rental income	(vi)	(625,000)	(625,000)
Construction fee income	(vi)	(246,000)	(8,740,000)

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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 period: (continued)
- (i) The terms for the purchases of iron ore, limestone and dolomite from Holding were in accordance with an agreement dated 9 October 2003 between the Company and Holding.
 - (ii) The terms for the provision of certain services, including on job training, food and sanitary services, environmental and hygiene services and maintenance of roads and landscaping services, were in accordance with a services agreement dated 9 October 2003 between the Company and Holding.
 - (iii) The other transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and related parties.
 - (iv) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly owned subsidiary of Holding on contractual price of approximately RMB150 million. Further details of the transaction are included in Note V point 44 to the financial statements.
 - (v) 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.
 - (vi) 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), (v) and (vi) of the above transactions were carried out in the normal course of business of the Group.
- (2) Holding provided guarantee for certain bank loans of the Group with an approximate amount of RMB8.5 billion at the balance sheet date at nil consideration (31 December 2005: approximately RMB4.8 billion). Further details of the transaction are included in Note V point 25 and point 26 to the financial statements.
- (3) Further details on balances with Holding and its subsidiaries are set out in Note VI point 6.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

6. Receivable from/payable to related parties

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB	Details
Prepayments:			
馬鋼集團建設有限責任公司	–	2,467,871	Trade and construction fee
Others	362,268	581,147	
Total	362,268	3,049,018	
Accounts payable:			
Holding	63,609,629	106,906,075	Construction fee, Payment for iron ore, supporting service fee and retirement fund
馬鋼集團建設有限責任公司	5,041,586	29,168,313	Construction and maintenance fees
馬鋼集團建築路橋有限責任公司	387,783	17,219,156	Construction and maintenance fees
馬鋼集團力生有限責任公司	1,130,787	3,557,418	Construction fee
馬鋼集團實業發展有限責任公司	5,543,778	3,049,623	Trade
馬鋼集團南山礦業有限責任公司	1,119,218	3,800,806	Trade
馬鋼集團姑山礦業有限責任公司	20,653	2,920,165	Trade
馬鋼集團設計研究院有限責任公司	1,167,138	–	Construction fee
Others	1,852,701	4,229,288	
Total	79,873,273	170,850,844	

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB	Details
Trade receivables:			
馬鋼集團建設有限責任公司	61,656	27,325,799	Construction and electricity fees
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	3,325,522	3,217,616	Trade
Others	945,194	772,495	
Total	<u>4,332,372</u>	<u>32,364,787</u>	
Deposits received:			
馬鋼集團姑山礦業有限責任公司	38,070,409	55,662,819	Trade
安徽馬鋼比亞西焊網有限公司	–	9,106,633	Trade
Others	1,931,677	2,622,943	
Total	<u>40,002,086</u>	<u>67,392,395</u>	

The balance of prepayments, accounts payable, trade receivables and deposits received between the Group and related parties are interest-free, unsecured and no fixed terms of repayment.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

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

	30 June 2006 Unaudited RMB	31 December 2005 Audited RMB	Details
Short term loans:			
Profit Access Investment Limited	–	1,670,660	US\$ loan
Long term loans due within a year:			
Profit Access Investment Limited	2,188,521	–	US\$ loan
Long term loan:			
Profit Access Investment Limited	6,000,000	8,151,994	US\$ loan
Other long term liability:			
Holding	400,000,000	400,000,000	Dividend

Other long term liability due to Holding is interest-free, unsecured and contracted to be repaid after 1 January 2008.

VII. CONTINGENT LIABILITIES

As at 30 June 2006, the Company had given guarantees amounting to approximately RMB7.8 billion (31 December 2005: approximately RMB7.8 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.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

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	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Authorised, but not contracted for	8,157,961	11,044,413	8,157,961	11,042,318
Contracted, but not provided for	7,207,817	9,835,947	7,207,817	9,828,677
Total	<u>15,365,778</u>	<u>20,880,360</u>	<u>15,365,778</u>	<u>20,870,995</u>

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

	Group		Company	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Contracted, but not provided for	<u>—</u>	<u>7,668</u>	<u>117,505</u>	<u>34,668</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

VIII. COMMITMENTS (continued)

1. Capital commitments (continued)

- (3) The Group's share of the capital commitments of the jointly-controlled entity, which is 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	
	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Authorised, but not contracted for	28,721	31,202
Contracted, but not provided for	88,175	148,218
	116,896	179,420

2. Foreign currency option transaction commitments

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 JPY9,000 million by selling approximately US\$100 million over the period from July 2006 to October 2006 when the exchange rate is ranged from US\$/JPY 90 to US\$/JPY 119 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US\$/JPY 119.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO FINANCIAL STATEMENTS (continued)

(Prepared under PRC accounting standards)

30 June 2006

IX. POST BALANCE SHEET EVENT

The Company proposed the issuance of bonds with warrants ("Bonds with Warrants") to be listed in the Shanghai Stock Exchange ("Proposed Issuance"). The Proposed Issuance plans to issue not more than 55,000,000 Bonds with Warrants with a nominal value of RMB100 each and a 5-year life from the date of issuance. According to the Proposed Issuance, the subscribers of each bond entitle to receive no more than 23 warrants at nil consideration, which in aggregate, not more than 1,265,000,000 warrants to be issued. The warrants is proposed to have a life of 24 months and every warrant can be converted into 1 A share at a proposed conversion price of not lower than 110% of the average price of the Company's A shares as quoted for 20 trading days before the date of the offering memorandum for the Proposed Issuance ("Offering Memorandum"), the average price of the Company's A shares 1 trading day before the date of the Offering Memorandum, 110% of the average price of the Company's H shares as quoted for 20 trading days before the date of the Offering Memorandum and the average price of the Company's H shares 1 trading day before the date of the Offering Memorandum. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants according to the Proposed Issuance.

The Bonds with Warrants are planned to be issued at par and the proceeds from the Proposed Issuance is estimated not more than RMB5,500 million. The proceeds from the Proposed Issuance will be used to finance the construction of 500 million tonnes hot and cold steel plate production line of the Company under its Eleventh Five-year Plan.

The Proposed Issuance has been approved by the respective shareholders in an extraordinary general meeting, an A Shares Class Meeting and a H Shares Class Meeting held on 17 July 2006. The approval of the Proposed Issuance is now considered by the China Securities Regulatory Commission.

X. COMPARATIVE AMOUNTS

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

XI. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 1 August 2006.

VI. FINANCIAL STATEMENTS (continued)

SUPPLEMENTARY INFORMATION

RETURN ON NET ASSETS AND EARNINGS PER SHARE

30 June 2006

Items	Profit during the reporting period RMB'000	Return on net assets (%)		Earnings per share (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operating activities	1,844,957	9.75	9.50	0.286	0.286
Operating profit	1,280,007	6.77	6.59	0.198	0.198
Net profit	1,071,772	5.66	5.52	0.166	0.166
Net profit excluding non-recurring gains or losses	<u>1,054,958</u>	<u>5.58</u>	<u>5.43</u>	<u>0.163</u>	<u>0.163</u>

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

Including: Net profit excluding non-recurring gains or losses

For the six months ended 30 June

	2006 Unaudited RMB	2005 Unaudited RMB
Net profit	1,071,772,001	2,103,309,551
Add/(deduct):		
Gain on disposal of fixed assets, net	(1,676,553)	–
Other non-operating income and expense items	751,139	(189,136)
Reversal of impairment provisions made in prior years	(17,676,148)	–
Income tax effect	1,787,872	1,970
Total	<u>1,054,958,311</u>	<u>2,103,122,385</u>

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

VI. FINANCIAL STATEMENTS (continued)

SUPPLEMENTARY INFORMATION (continued)

PROVISION MOVEMENT SCHEDULE

30 June 2006

Items	Group					At 30 June 2006 Unaudited RMB
	Decrease during the period					
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Reversal on upward revaluation of assets Unaudited RMB	Other transfer-outs Unaudited RMB	Total Unaudited RMB	
1. Provision for bad debts:	75,470,795	200,000	x	x	(307,795)	75,363,000
including: Trade receivables	49,298,048	200,000	x	x	(307,795)	49,190,253
Other receivables	26,172,747	-	x	x	-	26,172,747
2. Provision for decline in value of short term investments	-	-	-	-	-	-
3. Provision for inventories:	120,959,892	-	(37,181,209)	-	(37,181,209)	83,778,683
including: Raw materials	-	-	-	-	-	-
Work in progress	3,000,000	-	-	-	-	3,000,000
Construction contracts	-	-	-	-	-	-
Finished goods	46,838,109	-	(37,181,209)	-	(37,181,209)	9,656,900
Spare parts	71,121,783	-	-	-	-	71,121,783
4. Provision for impairment of long term investments	-	-	-	-	-	-
5. Provision for impairment of fixed assets:	117,056,844	-	-	-	-	117,056,844
including: Buildings and structures	10,391,900	-	-	-	-	10,391,900
Plant, machinery and equipment	106,664,944	-	-	-	-	106,664,944
6. Provision for impairment of intangible assets	-	-	-	-	-	-
7. Provision for impairment of construction in progress	74,000,000	-	(17,676,148)	(33,323,852)	(51,000,000)	23,000,000
8. Provision for impairment of designated loan	-	-	-	-	-	-

VI. FINANCIAL STATEMENTS (continued)

SUPPLEMENTARY INFORMATION (continued) PROVISION MOVEMENT SCHEDULE (continued)

30 June 2006

Items	Company						At 30 June 2006 Unaudited RMB
	Decrease during the period						
	At 1 January 2006 Audited RMB	Increase during the period Unaudited RMB	Reversal on upward revaluation of assets Unaudited RMB	Other transfer-outs Unaudited RMB	Total Unaudited RMB		
1. Provision for bad debts:	73,862,271	200,000	x	x	(307,795)	73,754,476	
including: Trade receivables	47,689,524	200,000	x	x	(307,795)	47,581,729	
Other receivables	26,172,747	-	x	x	-	26,172,747	
2. Provision for decline in value of short term investments	-	-	-	-	-	-	
3. Provision for inventories:	120,959,892	-	(37,181,209)	-	(37,181,209)	83,778,683	
including: Raw materials	-	-	-	-	-	-	
Work in progress	3,000,000	-	-	-	-	3,000,000	
Construction contracts	-	-	-	-	-	-	
Finished goods	46,838,109	-	(37,181,209)	-	(37,181,209)	9,656,900	
Spare parts	71,121,783	-	-	-	-	71,121,783	
4. Provision for impairment of long term investments	-	-	-	-	-	-	
5. Provision for impairment of fixed assets:	117,056,844	-	-	-	-	117,056,844	
including: Buildings and structures	10,391,900	-	-	-	-	10,391,900	
Plant, machinery and equipment	106,664,944	-	-	-	-	106,664,944	
6. Provision for impairment of intangible assets	-	-	-	-	-	-	
7. Provision for impairment of construction in progress	74,000,000	-	(17,676,148)	(33,323,852)	(51,000,000)	23,000,000	
8. Provision for impairment of designated loan	-	-	-	-	-	-	

VI. FINANCIAL STATEMENTS (continued)

The Board of Directors of the Company hereby announces the unaudited interim results of the Group for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005. The consolidated financial results are all unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 Unaudited RMB'000	2005 Unaudited RMB'000
REVENUE	3	16,142,229	16,663,877
Cost of sales		(14,144,189)	(13,544,451)
Gross profit		1,998,040	3,119,426
Other income and gains	3	73,626	85,095
Selling and distribution costs		(240,074)	(214,066)
Administrative expenses		(373,225)	(251,295)
Other operating income/(expenses), net		17,438	(424)
Finance costs	4	(147,026)	(183,917)
Share of profits and losses of associates		9,826	–
PROFIT BEFORE TAX	5	1,338,605	2,554,819
Tax	6	(231,535)	(410,268)
PROFIT FOR THE PERIOD		1,107,070	2,144,551
Attributable to:			
Equity holders of the parent		1,090,020	2,127,196
Minority interests		17,050	17,355
		1,107,070	2,144,551
DIVIDEND	8	Nil	Nil
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		16.89 cents	32.95 cents
Diluted		N/A	N/A

VI. FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

30 June 2006

	Notes	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	19,294,747	18,384,692
Prepaid land premiums		1,280,097	1,137,801
Construction in progress	11	12,502,807	7,476,730
Intangible asset		108,468	109,035
Investment in a jointly-controlled entity		234,000	234,000
Investments in associates		285,553	268,060
Available-for-sale equity investments		16,817	16,817
Held-to-maturity investments		10,919	10,919
Deferred tax assets		46,547	53,175
Total non-current assets		33,779,955	27,691,229
CURRENT ASSETS			
Inventories		6,663,807	5,168,472
Construction contracts		33,178	31,002
Trade and bills receivables	12	2,696,159	2,215,092
Prepayments, deposits and other receivables		793,134	559,386
Equity investments at fair value through profit or loss		13,568	13,568
Pledged deposits		564,220	142,114
Cash and cash equivalents		3,268,016	3,112,902
Total current assets		14,032,082	11,242,536
CURRENT LIABILITIES			
Trade and bills payables	13	6,375,063	3,863,128
Other payables and accruals		5,101,268	4,495,428
Interest-bearing bank and other borrowings		2,666,259	2,191,361
Tax payable		87,342	118,021
Provisions		109,260	114,747
Dividend payable		1,032,848	–
Total current liabilities		15,372,040	10,782,685

VI. FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

	Note	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
NET CURRENT ASSETS/(LIABILITIES)		(1,339,958)	459,851
TOTAL ASSETS LESS CURRENT LIABILITIES		32,439,997	28,151,080
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		12,728,108	8,570,816
Deferred income		473,210	498,086
Provisions		29,485	29,485
Due to the ultimate holding company		400,000	400,000
Total non-current liabilities		13,630,803	9,498,387
Net assets		18,809,194	18,652,693
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	14	6,455,300	6,455,300
Reserves		12,116,376	11,026,356
Proposed final dividend		–	1,032,848
		18,571,676	18,514,504
Minority interests		237,518	138,189
Total equity		18,809,194	18,652,693
Gu Jianguo			
Director			
Su Jianguang			
Director			

VI. FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
At 1 January 2005	6,455,300	4,864,976	893,160	892,852	3,480	5,134	2,489,659	1,420,166	17,024,727	76,315	17,101,042
Profit for the period and total income and expenses for the period recognised in the equity	-	-	-	-	-	-	2,127,196	-	2,127,196	17,355	2,144,551
Final 2004 dividend declared	-	-	-	-	-	-	-	(1,420,166)	(1,420,166)	-	(1,420,166)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	6,795	6,795
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(2,265)	(2,265)
At 30 June 2005	6,455,300	4,864,976	893,160	892,852	3,480	5,134	4,616,855	-	17,731,757	98,200	17,829,957
At 1 January 2006	6,455,300	4,864,976	1,179,972	1,178,385	11,113	10,678	3,781,232	1,032,848	18,514,504	138,189	18,652,693
Profit for the period and total income and expenses for the period recognised in the equity	-	-	-	-	-	-	1,090,020	-	1,090,020	17,050	1,107,070
Transfer from/(to) reserves (Note 7)	-	-	1,178,385	(1,178,385)	-	-	-	-	-	-	-
Final 2005 dividend declared	-	-	-	-	-	-	-	(1,032,848)	(1,032,848)	-	(1,032,848)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	107,870	107,870
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(25,591)	(25,591)
At 30 June 2006	6,455,300	4,864,976	2,358,357	-	11,113	10,678	4,871,252	-	18,571,676	237,518	18,809,194

VI. FINANCIAL STATEMENTS (continued)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,224,234	3,434,590
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(6,197,361)	(4,223,704)
NET CASH INFLOW FROM FINANCING ACTIVITIES	4,180,485	2,200,799
NET INCREASE IN CASH AND CASH EQUIVALENTS	207,358	1,411,685
Cash and cash equivalents at beginning of period	3,049,270	2,112,876
Effect of foreign exchange rate changes, net	11,388	(39,823)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,268,016	3,484,738
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,268,016	3,484,738

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

30 June 2006

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005 except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period’s financial statements:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

2. SEGMENT INFORMATION

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

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Revenue		
Sale of goods	<u>16,142,229</u>	<u>16,663,877</u>
Other income and gains		
Interest income	13,235	9,053
Dividend income from an available-for-sale equity investment	5,295	4,996
Recognition of deferred income	24,876	23,886
Others	30,220	47,160
	<u>73,626</u>	<u>85,095</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Interest on bank loans and other loans wholly repayable within five years	324,970	216,146
Less: Interest capitalised in construction in progress	<u>(177,944)</u>	<u>(32,229)</u>
	<u>147,026</u>	<u>183,917</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Cost of inventories sold (Note i)	14,144,189	13,544,451
Depreciation	1,137,129	999,580
Recognition of prepaid land premiums	12,444	10,538
Amortisation of a mine participation right (Note ii)	567	–
Reversal of provision for doubtful debts (Note iii)	(308)	–
Reversal of impairment provision for construction in progress (Note iii)	(17,676)	–
Auditors' remuneration	2,550	2,513
Staff costs:		
Wages and salaries	684,452	699,618
Welfare and benefits	262,910	253,372
Pension scheme contributions	147,700	143,930
	1,095,062	1,096,920
Contingent rents under operating leases in respect of land and buildings	18,125	18,125
Foreign exchange differences:		
Foreign exchange losses, net	324,970	216,146
Less: Foreign exchange differences capitalised in construction in progress	(177,944)	(32,229)
	147,026	183,917
Gain on disposal of items of property, plant and equipment, net	(1,676)	(2,914)
Gross rental income	(1,250)	(1,250)
Bank interest income	(13,235)	(9,053)
Dividend income from an available-for-sale equity investment	(5,295)	(4,996)
Recognition of deferred income (Note iv)	(24,876)	(23,886)

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

5. PROFIT BEFORE TAX (continued)

Notes:

- (i) Included in the cost of inventories sold for the period is a reversal of provision against inventories of approximately RMB37,181,000 (for the six months ended 30 June 2005: Nil).
- (ii) The amortisation of a mine participation right is included in "Cost of sales" on the face of the condensed consolidated income statement.
- (iii) Reversal of provision for doubtful debts and reversal of impairment provision for construction in progress are included in "Other operating income/(expenses), net" on the face of the condensed consolidated income statement.
- (iv) Various government grants have been received for the construction of specific projects and included in deferred income in the balance sheet. Upon completion of the construction of specific projects and the transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

6. TAX

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Group:		
Current – Mainland China		
Charge for the period	218,970	388,288
Underprovision in prior years	–	21,980
Current – Elsewhere	5,937	–
Deferred	6,628	–
	231,535	410,268
Total tax charge for the period	231,535	410,268

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

6. TAX (continued)

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

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2006 and 2005.

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

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

In accordance with the Company Law of the PRC and the articles of associations of the Company and certain of its subsidiaries, they 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 capital of these companies. Part of the SSR may be capitalised as these company's share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

In previous years, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to statutory public welfare fund (the "PWF"). According to the "Company Law of the People's Republic of China (2005 revised)" that become effective on 1 January 2006 and the revised articles of associations of the Company and its subsidiaries, they do not make appropriation to the PWF commencing from 2006. The balance of PWF as at 31 December 2005 was transferred to the SSR for future use.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

7. STATUTORY SURPLUS RESERVE, STATUTORY PUBLIC WELFARE FUND, RESERVE FUND, ENTERPRISE EXPANSION FUND AND EMPLOYEE BONUS AND WELFARE FUND (continued)

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

The Company and its subsidiaries did not allocate any SSR, enterprise expansion fund, reserve fund and employee bonus and welfare fund in the current period.

8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the period attributable to ordinary equity holders of the parent of approximately RMB1,090,020,000 (For the six months ended 30 June 2005: approximately RMB2,127,196,000) and 6,455,300,000 (2005: 6,455,300,000) ordinary shares in issue during the period.

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

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures Unaudited RMB'000	Plant, machinery and equipment Unaudited RMB'000	Transportation vehicles and equipment Unaudited RMB'000	Total Unaudited RMB'000
30 June 2006				
At 1 January 2006:				
Cost	8,690,543	18,806,495	415,791	27,912,829
Accumulated depreciation and impairment	(2,758,402)	(6,535,075)	(234,660)	(9,528,137)
Net carrying amount	<u>5,932,141</u>	<u>12,271,420</u>	<u>181,131</u>	<u>18,384,692</u>
At 1 January 2006, net of accumulated depreciation and impairment	5,932,141	12,271,420	181,131	18,384,692
Additions	23	970	1,300	2,293
Capital contribution by a minority shareholder (Note 15)	212,657	385,748	3,883	602,288
Transfer from construction in progress (Note 11)	228,801	1,208,732	7,190	1,444,723
Depreciation provided during the period	(246,253)	(864,730)	(26,146)	(1,137,129)
Disposals/write-off	(19)	(1,568)	(533)	(2,120)
At 30 June 2006, net of accumulated depreciation and impairment	<u>6,127,350</u>	<u>13,000,572</u>	<u>166,825</u>	<u>19,294,747</u>
At 30 June 2006:				
Cost	9,182,582	20,346,742	420,962	29,950,286
Accumulated depreciation and impairment	(3,055,232)	(7,346,170)	(254,137)	(10,655,539)
Net carrying amount	<u>6,127,350</u>	<u>13,000,572</u>	<u>166,825</u>	<u>19,294,747</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and structures Unaudited RMB'000	Plant, machinery and equipment Unaudited RMB'000	Transportation vehicles and equipment Unaudited RMB'000	Total Unaudited RMB'000
30 June 2005				
At 1 January 2005:				
Cost	8,415,688	16,382,167	618,572	25,416,427
Accumulated depreciation and impairment	(2,451,585)	(4,754,470)	(347,725)	(7,553,780)
Net carrying amount	<u>5,964,103</u>	<u>11,627,697</u>	<u>270,847</u>	<u>17,862,647</u>
At 1 January 2005, net of accumulated depreciation and impairment	5,964,103	11,627,697	270,847	17,862,647
Additions	1,021	7,339	3,374	11,734
Acquisition of businesses	28,170	21,706	4,521	54,397
Transfer from construction in progress (Note 11)	439,915	1,248,381	5,831	1,694,127
Depreciation provided during the period	(198,980)	(770,490)	(30,110)	(999,580)
Disposals/write-off	—	(3,078)	(102)	(3,180)
At 30 June 2005, net of accumulated depreciation and impairment	<u>6,234,229</u>	<u>12,131,555</u>	<u>254,361</u>	<u>18,620,145</u>
At 30 June 2005:				
Cost	8,908,847	17,636,890	625,504	27,171,241
Accumulated depreciation and impairment	(2,674,618)	(5,505,335)	(371,143)	(8,551,096)
Net carrying amount	<u>6,234,229</u>	<u>12,131,555</u>	<u>254,361</u>	<u>18,620,145</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

11. CONSTRUCTION IN PROGRESS

Unaudited
RMB'000

30 June 2006

Cost:

At beginning of period	7,550,730
Additions	6,452,484
Capital contribution by a minority shareholder (Note 15)	640
Transfer to property, plant and equipment (Note 10)	(1,444,723)
Disposals/write-off	(33,324)

At 30 June 2006	<u>12,525,807</u>
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Accumulated impairment:

At beginning of period	74,000
Reversal/write-off	(51,000)

At 30 June 2006	<u>23,000</u>
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At 30 June 2006, net of impairment	<u><u>12,502,807</u></u>
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30 June 2005

Cost:

At beginning of period	2,386,098
Additions	3,593,334
Acquisition of businesses	49,735
Transfer to property, plant and equipment (Note 10)	(1,694,127)

At 30 June 2005	<u>4,335,040</u>
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Accumulated impairment:

At beginning of period and 30 June 2005	74,000
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At 30 June 2005, net of impairment	<u><u>4,261,040</u></u>
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VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

12. TRADE AND BILLS RECEIVABLES

The Group's credit periods offered to selected customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a few major customers and there is a concentration of credit risk with a maximum exposure equal to the carrying amount of the trade receivables. Trade receivables are non-interest-bearing.

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

	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
Trade receivables:		
Within three months	564,105	188,665
Four to six months	27,757	32,819
Seven to twelve months	4,066	49,014
One to two years	18,040	12,578
Two to three years	2,128	407
	616,096	283,483
Bills receivable	2,080,063	1,931,609
	2,696,159	2,215,092

Bills receivable will mature within one year.

Included in the Group's trade and bills receivables are amounts due from Magang (Group) Holding Company Limited ("Holding"), the ultimate holding company of the Group, and its subsidiaries, aggregating approximately RMB4,332,000 (31 December 2005: approximately RMB32,365,000). Such balances principally arose from normal trading activities.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

13. TRADE AND BILLS PAYABLES

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

	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
Within one year	6,330,516	3,820,295
One to two years	29,852	36,029
Two to three years	9,329	1,549
Over three years	5,366	5,255
	<u>6,375,063</u>	<u>3,863,128</u>

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

Included in the Group's trade payables are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB79,873,000 (31 December 2005: approximately RMB170,850,000). Such balances principally arose from normal trading activities.

At 30 June 2006, the carrying amounts of the Group's inventories and cash deposits were pledged as security for the Group's trading facilities for the issuance of bank bills amounting to approximately RMB260,134,000 (31 December 2005: approximately RMB23,930,000) and approximately RMB556,191,000 (31 December 2005: approximately RMB142,114,000), respectively.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

14. SHARE CAPITAL

On 17 March 2006, all relevant approvals 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") have been obtained. The then Non-circulating Shares have been entitled to be listed and become circulating shares since 31 March 2006 (the "Listing Date"). In accordance with the execution arrangement, Holding offered 3.4 of its shares to each original Circulating A Shares' shareholder for every 10 Circulating A Shares they held. The number of shares held by Holding decreased by 204 million shares whereas the number of shares held by the original Circulating A Shares' shareholders increased by 204 million shares. The total numbers of issued share capital of the Company remained unchanged.

After the implementation of the State Share Reform, all the shares held by Holding and the legal person A shares held by other domestic legal persons are not listed for trading or transferred within 12 months from the Listing Date and the State-owned shares held by Holding are also not listed for trading and transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such shares for the same period as undertaken by Holding.

15. ESTABLISHMENT OF A SUBSIDIARY

On 28 April 2006, the Company and Hefei Investment Holding Company Limited ("Hefei Investment Holding") entered into a "Venturers' Agreement" for the establishment of Ma Steel (Hefei) Iron & Steel Co. Ltd. ("MS (Hefei)"). Pursuant to the Venturers' Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in MS (Hefei), respectively.

On 10 May 2006, MS (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of MS (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two installments before 8 May 2006 and 31 October 2006, respectively. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to MS (Hefei) and Hefei Investment Holding has also contributed cash of approximately RMB299,313,000 and certain assets (including certain leasehold land and production equipment located in Hefei City used for the manufacture of iron and steel products) and liabilities amounting to a net liability value of approximately RMB202,313,000 to MS (Hefei).

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

15. ESTABLISHMENT OF A SUBSIDIARY (continued)

The details of these assets and liabilities are as follows:

	Notes	Unaudited RMB'000
Property, plant and equipment, net	10	602,288
Prepaid land premiums		154,104
Construction in progress	11	640
Inventories		115,343
Prepayments, deposits and other receivables		26,635
Bank and other borrowings		(476,620)
Trade and bills payables		(509,512)
Other payables and accruals		(115,191)
		<u>(202,313)</u>

16. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities not provided for in the condensed consolidated interim financial statements.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

17. COMMITMENTS

(a) Capital commitments

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

	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
Authorised, but not contracted for	8,157,961	11,044,413
Contracted, but not provided for	7,207,817	9,835,947
	<u>15,365,778</u>	<u>20,880,360</u>

- (ii) The Group's commitments for capital contributions at the balance sheet date were as follows:

	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
Contracted, but not provided for	–	7,668
	<u>–</u>	<u>7,668</u>

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

17. COMMITMENTS (continued)

(a) Capital commitments (continued)

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

	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
Authorised, but not contracted for	28,721	31,202
Contracted, but not provided for	88,175	148,218
	116,896	179,420

- (b) The Company entered into a recovery forward contract, which does not qualify for hedging accounting, 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 JPY8,985 million by selling US\$100 million over the period from July 2006 to October 2006 when the exchange rate is ranged from US\$/JPY 90 to US\$/JPY 119 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US\$/JPY 119. As at 30 June 2006, the fair value of the recovery forward contract was insignificant.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

18. RELATED PARTY TRANSACTIONS

- (a) The following is a summary of the significant transactions carried out between the Group and its related parties during the period:

		For the six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
		RMB'000	RMB'000
	Notes		
Transactions with Holding and its subsidiaries:			
Purchase of iron ore, limestone and dolomite	(i)	813,956	671,773
Fees paid for welfare, support services and other services	(ii), (iii)	86,174	120,038
Rental expenses	(iii)	18,125	18,125
Agency fee paid	(iii)	2,035	2,035
Purchase of property, plant and equipment and construction services	(iii)	116,112	212,165
Fees received for the supply of utilities, services and other consumable goods	(iii)	(6,954)	(14,968)
Sale of steel and other by-products	(iii)	(4,549)	(2,084)
Acquisition of businesses	(iv)	–	149,774
<hr/>			
Transactions with associates of the Company:			
Purchases of coke	(v)	411,217	321,808
<hr/>			
Transactions with the jointly-controlled entity of the Company:			
Rental income	(vi)	(625)	(625)
Construction fees income	(vi)	(246)	(8,740)
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VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

18. RELATED PARTY TRANSACTIONS (continued)

- (a) The following is a summary of the significant transactions carried out between the Group and its related parties during the period: (continued)

Notes:

- (i) The prices for the purchases of iron ore, limestone and dolomite from Holding were determined in accordance with an agreement dated 9 October 2003 between the Company and Holding.
- (ii) The prices 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 determined 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 the related parties.
- (iv) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly-owned subsidiary of Holding for a cash consideration of approximately RMB149,774,000.
- (v) These transactions were made between the Group and 濟源市金馬焦化有限公司 and 滕州盛隆煤焦化有限公司 and were conducted in accordance with the terms mutually agreed between them.
- (vi) These transactions were made between the Group and Ma'anshan BOC-Ma Steel Gases Company Limited and were conducted in accordance with the terms mutually agreed between them.

- (b) Other transactions with a related party:

Holding has guaranteed certain bank loans made to the Group up to RMB8,462,970,000 (31 December 2005: approximately RMB4,831,511,000) as at the balance sheet date at nil consideration.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

18. RELATED PARTY TRANSACTIONS (continued)

- (c) Outstanding balances with related parties:
- (i) As disclosed in the condensed consolidated balance sheet, the Group had an amount due to Holding of RMB400 million (31 December 2005: RMB400 million), as at the balance sheet date. The amount is unsecured, interest-free and is repayable after 1 January 2008.
 - (ii) Included in the Group's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB362,000 (31 December 2005: approximately RMB3,049,000).
 - (iii) Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB40,002,000 (31 December 2005: approximately RMB67,392,000).
 - (iv) Included in the Group's interest-bearing bank and other borrowings are amounts due to Profit Access Investments Limited, in aggregate, amounting to approximately RMB8,189,000 (31 December 2005: approximately RMB9,823,000).
 - (v) Further details of balances of the Group with Holding and its subsidiaries are set out in notes 12 and 13 to the condensed interim financial statements.
- (d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Short term employment benefits	2,974	3,304
Post-employment benefits	27	27
Total compensation to key management personnel	3,001	3,331

In the opinion of the directors, the transactions set out in items (a) (i), (ii), (iii), (v) and (vi) above were carried out in the normal course of business of the Group.

The related party transactions in respect of items (a) (i)-(iv) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

VI. FINANCIAL STATEMENTS (continued)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

(Prepared under Hong Kong accounting standards)

30 June 2006

19. POST BALANCE SHEET EVENT

The Company proposed the issuance of bonds with warrants (“Bonds with Warrants”) to be listed in the Shanghai Stock Exchange (“Proposed Issuance”). The Proposed Issuance plans to issue not more than 55,000,000 Bonds with Warrants with a nominal value of RMB100 each and a 5-year life from the date of issuance. According to the Proposed Issuance, the subscribers of each bond entitle to receive no more than 23 warrants at nil consideration, which in aggregate, not more than 1,265,000,000 warrants to be issued. The warrants is proposed to have a life of 24 months and every warrant can be converted into 1 A share at a proposed conversion price of not lower than 110% of the average price of the Company’s A shares as quoted for 20 trading days before the date of the offering memorandum for the Proposed Issuance (“Offering Memorandum”), the average price of the Company’s A shares 1 trading day before the date of the Offering Memorandum, 110% of the average price of the Company’s H shares as quoted for 20 trading days before the date of the Offering Memorandum and the average price of the Company’s H shares 1 trading day before the date of the Offering Memorandum. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants according to the Proposed Issuance.

The Bonds with Warrants are planned to be issued at par and the proceeds from the Proposed Issuance is estimated not more than RMB5,500 million. The proceeds from the Proposed Issuance will be used to finance the construction of 500 million tonnes hot and cold steel plate production line of the Company under its Eleventh Five-year Plan.

The Proposed Issuance has been approved by the respective shareholders in an extraordinary general meeting, an A Shares Class Meeting and a H Shares Class Meeting held on 17 July 2006. The approval of the Proposed Issuance is now considered by the China Securities Regulatory Commission.

20. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 1 August 2006.

VII. DOCUMENTS AVAILABLE FOR INSPECTION

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

Maanshan Iron & Steel Company Limited
Gu Jianguo
Chairman

1 August 2006