# Notes to Financial Statements

(Prepared under Hong Kong Accounting Standards)
31 December 2006

## 1. CORPORATE INFORMATION

Maanshan Iron & Steel Company Limited (the "Company") is a joint stock company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC.

During the year, the Company and its subsidiaries (the "Group") were principally engaged in the manufacture and sale of iron and steel products and related by-products.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Magang (Group) Holding Company Limited ("Holding"), which is incorporated in the PRC.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and compound financial instrument, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 27 Amendment | Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005 |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

The principal changes in accounting policies are as follows:

### (a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

### (b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### (c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

### (d) HK(IFRIC)-*Int 4 Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies* |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangement |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will replace HKAS 34 and shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received or receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

**Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's investment in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of a joint-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a joint-controlled entity is treated as a non-current asset and is stated at cost less any impairment losses.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received or receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contracts, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of non-financial assets other than goodwill (continued)**

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings and structures | 4.9%-9.7% |
| Plant, machinery and equipment | 9.7% |
| Transportation vehicles and equipment | 19.4% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Construction in progress**

Construction in progress, which represents factory buildings and structures as well as plant and machinery under construction, is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing, prepayment for equipment and capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life. The principal annual rates used for this purpose are based on the remaining lease terms of the land use rights.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

**Intangible assets (other than goodwill)**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

*Mine participation right*

The Group has a 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 a sub-lease for a term of 25 years.

The mine participation right is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over the tenure of the sub-lease.

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets**

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss represent financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Investments and other financial assets (continued)**

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of financial assets (continued)**

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

*Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reserved through the income statement, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

### Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Bonds with warrants

The component of bonds with warrants that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of bonds with warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that are recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally three months or less when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Inventories

Inventories, other than spare parts, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Spare parts are stated at cost less provision for obsolescence.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising form the passage of time is included in finance costs in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income tax (continued)**

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) investment income, when the shareholders' right to receive payment has been established.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of certain subsidiaries in Hong Kong and overseas are stated at currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruing at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries in Hong Kong and overseas are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries in Hong Kong and overseas which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Pension benefits**

The contributions to a defined contribution central pension scheme operated by the local municipal government are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

In addition, on 1 January 2005, the Group commenced to establish a voluntary defined contribution enterprise annuities program (the "Enterprise Annuities") in accordance with the Trial Measures for Enterprise Annuities for eligible employees. Contributions are made based on a percentage of the employees' wages and salaries and are charged to the income statement as they become payable in accordance with the rules of the Enterprise Annuities. The assets of the Enterprise Annuities are held separately from those of the Group in an independently administered fund.

Pension benefits payables to early retired employees prior to such employees joining the government-organised pension scheme upon normal retirement were assumed by the Company commencing from 1 January 2000. Such benefits payables are related to the past service of such employees, and were previously charged to the income statement on a one-off basis.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*Useful lives and impairment of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where the useful lives are less than the previously estimated lives and will write off technically obsolete or non-strategic assets that have been abandoned or sold.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

**Estimation uncertainty (continued)**

The impairment loss for property, plant and equipment, as well as construction in progress, is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in note 2.4. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell. The value in use was assessed on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The assessment of fair value less cost to sell is based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable willing parties, after deducting the costs of disposal.

*Impairment of receivables*

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.

*Provision for obsolete inventories under net realisable value*

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

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

*Income tax*

The Group is subject to income taxes in various regions within the PRC. Due to the fact that certain matters relating to the income taxes have not been confirmed by the relevant tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of the related matters are different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realised.

## 4. SEGMENT INFORMATION

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

Geographical segmental analysis is presented based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and capital expenditure is provided.

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **PRC** | **Overseas** | **Total** | PRC | Overseas | Total |
| | **RMB'000** | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue | **30,800,297** | **3,519,577** | **34,319,874** | 30,035,284 | 2,047,812 | 32,083,096 |
| Segment results | **3,812,660** | **603,133** | **4,415,793** | 4,507,109 | 206,016 | 4,713,125 |

## 5. 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:

| | **2006** | 2005 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Revenue** | | |
| Sale of goods | **34,319,874** | 32,083,096 |
| **Other income and gains** | | |
| Bank interest income | **34,259** | 22,103 |
| Recognition of deferred income | **49,752** | 48,498 |
| Trading of iron ores | **24,525** | 90,859 |
| Gain on disposal of equity investments at fair value through profit or loss | **13,994** | – |
| Others | **41,546** | 32,973 |
| | **164,076** | 194,433 |

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## 6. PROFIT BEFORE TAX

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

| | Notes | **2006 RMB'000** | 2005 RMB'000 |
|---|---|---|---|
| Cost of inventories sold (note i) | | **29,904,081** | 27,369,971 |
| Depreciation | 14 | **2,323,629** | 2,064,539 |
| Depreciation of investment properties | 16 | **586** | – |
| Recognition of prepaid land premiums | 17 | **29,070** | 21,092 |
| Amortisation of a mine participation right (note ii) | 18 | **4,481** | 1,115 |
| Provision/(reversal of provision) for doubtful debts, net (note iii) | | **(9,230)** | 554 |
| Auditors' remuneration | | **5,100** | 5,027 |
| Staff costs (excluding directors' and supervisors' remuneration (note 8)): | | | |
| Wages and salaries | | **1,688,418** | 1,497,463 |
| Welfare and benefits | | **760,463** | 471,540 |
| Pension scheme contributions | | **416,479** | 368,228 |
| | | **2,865,360** | 2,337,231 |
| Contingent rents under operating leases in respect of land and buildings | | **36,250** | 36,250 |
| Foreign exchange differences: | | | |
| Foreign exchange losses/(gains), net | | **29,722** | (156,927) |
| Less: Foreign exchange gains capitalised in construction in progress | | **26,150** | 2,184 |
| | | **55,872** | (154,743) |

## 6. PROFIT BEFORE TAX (CONTINUED)

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

| | Notes | **2006** **RMB'000** | 2005 RMB'000 |
|---|---|---|---|
| Loss on disposal of items of property, plant and equipment, net | | **3,011** | 19,114 |
| Loss on disposal of items of construction in progress, net | | **8,185** | – |
| Reversal of impairment of property, plant and equipment (note iii) | 14 | **(19,611)** | – |
| Reversal of impairment of construction in progress (note iii) | 15 | **(17,676)** | – |
| Net rental income | | **(1,400)** | (1,250) |
| Bank interest income | | **(34,259)** | (22,103) |
| Dividend income from an available-for-sale investment | | **(5,284)** | (5,281) |
| Gain on disposal of equity investments at fair value through profit or loss | | **(13,994)** | – |
| Recognition of deferred income (note iv) | | **(49,752)** | (48,498) |

Notes:

(i) Included in the cost of inventories sold for the year is a reversal of provision against inventories of approximately RMB26,190,000 (2005: a provision of approximately RMB75,464,000).

(ii) The amortisation of a mine participation right is included in "Cost of sales" on the face of the consolidated income statement.

(iii) The provision/(reversal of provision) for doubtful debts, net, the reversal of impairment of property, plant and equipment and the reversal of impairment of construction in progress are included in "Other operating income/(expenses), net" on the face of the 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 related transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

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## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Interest on bank loans, other loans and bonds with warrants wholly repayable within five years | **781,726** | 457,908 |
| Less: Interest capitalised in construction in progress | **(485,500)** | (95,438) |
| | **296,226** | 362,470 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and Supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Fees | **220** | 180 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **661** | 701 |
| Performance related bonuses | **3,717** | 3,743 |
| Pension scheme contributions | **30** | 40 |
| | **4,408** | 4,484 |
| | **4,628** | 4,664 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

### (a) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

| | **2006** **RMB'000** | 2005 RMB'000 |
|---|---|---|
| *Independent directors* | | |
| Ms. Cheng Shaoxiu | **–** | 30 |
| Mr. Wu Junnian | **–** | 30 |
| Mr. Shi Jianjun | **–** | 30 |
| Mr. Chan Yuk Sing | **–** | 30 |
| Mr. Wong Chun Wa | **40** | – |
| Mr. Su Yong | **40** | – |
| Mr. Hui Leung Wah | **40** | – |
| Mr. Han Yi | **40** | – |
| | **160** | 120 |
| *Independent supervisors* | | |
| Mr. Wang Xiaoxin | **–** | 20 |
| Mr. Jiang Yulin | **–** | 20 |
| Ms. Tang Xiaoqing | **–** | 20 |
| Ms. Cheng Shaoxiu | **30** | – |
| Mr. An Qun | **30** | – |
| | **60** | 60 |
| | **220** | 180 |

There were no other emoluments payable to the independent directors and independent supervisors during the year (2005: Nil).

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## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

### (b) Executive directors and supervisors

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2006 | | | | | |
| *Executive directors* | | | | | |
| Mr. Gu Jianguo | – | 108 | 664 | 5 | 777 |
| Mr. Gu Zhanggen | – | 108 | 664 | 5 | 777 |
| Mr. Zhu Changqiu | – | 108 | 664 | 5 | 777 |
| Mr. Su Jiangang | – | 87 | 531 | 4 | 622 |
| Mr. Gao Haijian | – | 87 | 531 | 4 | 622 |
| Mr. Zhao Jianming | – | – | – | – | – |
| | – | 498 | 3,054 | 23 | 3,575 |
| *Supervisors* | | | | | |
| Mr. Li Kezhang | – | 87 | 531 | 4 | 622 |
| Mr. Dou Qingxun | – | 76 | 132 | 3 | 211 |
| Mr. Fang Jinrong | – | – | – | – | – |
| | – | 163 | 663 | 7 | 833 |
| | – | 661 | 3,717 | 30 | 4,408 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

### (b) Executive directors and supervisors (continued)

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2005 | | | | | |
| *Executive directors* | | | | | |
| Mr. Gu Jianguo | – | 108 | 611 | 6 | 725 |
| Mr. Gu Zhanggen | – | 108 | 611 | 6 | 725 |
| Mr. Zhu Changqiu | – | 108 | 611 | 6 | 725 |
| Mr. Shi Zhaogui | – | – | – | – | – |
| Mr. Zhao Jianming | – | – | – | – | – |
| Mr. Su Jiangang | – | 87 | 489 | 5 | 581 |
| Mr. Gao Haijian | – | 87 | 489 | 5 | 581 |
| | – | 498 | 2,811 | 28 | 3,337 |
| *Supervisors* | | | | | |
| Mr. Gao Jinsheng | – | 58 | 326 | 3 | 387 |
| Mr. Li Kezhang | – | 87 | 489 | 5 | 581 |
| Mr. Dou Qingxun | – | 58 | 117 | 4 | 179 |
| Mr. Fang Jinrong | – | – | – | – | – |
| | – | 203 | 932 | 12 | 1,147 |
| | – | 701 | 3,743 | 40 | 4,484 |

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2005: Nil).

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## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2005: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: one) non-director, non-supervisor, highest paid employee for the year are as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **87** | 87 |
| Performance related bonuses | **531** | 489 |
| Pension scheme contributions | **4** | 5 |
| | **622** | 581 |

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000. (2005: Nil to RMB1,000,000)

## 10. TAX

| | **2006** | 2005 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Group: | | |
| Current – Mainland China | | |
| Charge for the year | **349,529** | 377,121 |
| Underprovision in prior years | **58,230** | 52,424 |
| Current – Hong Kong | **1,977** | 808 |
| Current – Elsewhere | **12,503** | 3,422 |
| Deferred (note 24) | **(74,861)** | (18,441) |
| Total tax charge for the year | **347,378** | 415,334 |

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

## 10. TAX (CONTINUED)

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

| | Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **RMB'000** | **%** | RMB'000 | % |
| Profit before tax | **2,799,931** | | 3,366,149 | |
| Tax at the applicable tax rate | **419,990** | **15** | 504,922 | 15 |
| Tax relief granted | **(24,404)** | **(1)** | (31,137) | (1) |
| Income not subject to tax | **(46,988)** | **(2)** | (35,159) | (1) |
| Expenses not deductible for tax | **5,350** | **–** | 25,582 | 1 |
| Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in Mainland China* | **–** | **–** | (19,914) | (1) |
| Other tax concessions | **(96,507)** | **(3)** | (89,793) | (3) |
| Adjustments in respect of current tax of previous periods | **58,230** | **2** | 52,424 | 2 |
| Effect of different tax rates of subsidiaries | **31,707** | **1** | 8,409 | – |
| Tax charge at the Group's effective rate | **347,378** | **12** | 415,334 | 12 |

* The amount of 2005 represents a tax concession, approved by the Maanshan City local tax bureau, in respect of the purchases of certain manufacturing plant, machinery and equipment in Mainland China. The tax concession is calculated as 40% of the purchases of such manufactured plant, machinery and equipment in Mainland China in the year of purchases. The amount is deductible in not more than five years and limited to the amount of increase in income tax for the year of assessment as compared with the tax amount in previous year of purchases.

The share of tax attributable to associates amounting to RMB17,128,000 (2005: RMB6,313,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB2,269,098,000 (2005: RMB2,677,000,000) which has been dealt with in the financial statements of the Company (note 38(b)).

## 12. DIVIDEND

| | **2006** | 2005 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Proposed final – RMB13 cents (2005: RMB16 cents) per ordinary share | **839,189** | 1,032,848 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted earnings per share amounts are based on:

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **2,394,652** | 2,909,943 |

| | Number of shares | |
|---|---|---|
| | **2006** | 2005 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation | **6,455,300,000** | 6,455,300,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Warrants attached to bonds | **30,016,949** | – |
| | **6,485,316,949** | 6,455,300,000 |

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## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2006** | | | | |
| At 31 December 2005 and 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 | 5,932,141 | 12,271,420 | 181,131 | 18,384,692 |
| At 1 January 2006, net of accumulated depreciation and impairment | 5,932,141 | 12,271,420 | 181,131 | 18,384,692 |
| Additions | 9,858 | 30,145 | 3,398 | 43,401 |
| Acquisition of a subsidiary (note 40) | 33,146 | 15,386 | 580 | 49,112 |
| Minority shareholder contribution (note 39) | 212,657 | 385,748 | 3,883 | 602,288 |
| Transfers from construction in progress (note 15) | 315,820 | 1,713,783 | 12,530 | 2,042,133 |
| Reversal of impairment during the year recognised in the income statement (note 6) | – | 19,611 | – | 19,611 |
| Depreciation provided during the year (note 6) | (510,876) | (1,761,811) | (50,942) | (2,323,629) |
| Reclassifications | 129,450 | (135,364) | 5,914 | – |
| Disposals/write-off | (13,066) | (42,092) | (9,855) | (65,013) |
| At 31 December 2006, net of accumulated depreciation and impairment | 6,109,130 | 12,496,826 | 146,639 | 18,752,595 |
| At 31 December 2006: | | | | |
| Cost | 9,396,798 | 20,556,252 | 395,132 | 30,348,182 |
| Accumulated depreciation and impairment | (3,287,668) | (8,059,426) | (248,493) | (11,595,587) |
| Net carrying amount | 6,109,130 | 12,496,826 | 146,639 | 18,752,595 |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 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 | 5,964,103 | 11,627,697 | 270,847 | 17,862,647 |
| At 1 January 2005, net of accumulated depreciation and impairment | 5,964,103 | 11,627,697 | 270,847 | 17,862,647 |
| Additions | 2,550 | 17,489 | 12,457 | 32,496 |
| Acquisition of businesses (note 40) | 28,170 | 21,706 | 4,520 | 54,396 |
| Transfers from construction in progress (note 15) | 565,731 | 1,900,295 | 77,957 | 2,543,983 |
| Depreciation provided during the year (note 6) | (458,780) | (1,553,189) | (52,570) | (2,064,539) |
| Reclassifications | (139,181) | 269,901 | (130,720) | – |
| Disposals/write-off | (30,452) | (12,479) | (1,360) | (44,291) |
| At 31 December 2005, net of accumulated depreciation and impairment | 5,932,141 | 12,271,420 | 181,131 | 18,384,692 |
| At 31 December 2005: | | | | |
| 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 | 5,932,141 | 12,271,420 | 181,131 | 18,384,692 |

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## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Company**

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2006** | | | | |
| At 31 December 2005 and at 1 January 2006: | | | | |
| Cost | 8,568,666 | 18,682,182 | 403,905 | 27,654,753 |
| Accumulated depreciation and impairment | (2,745,721) | (6,518,319) | (230,900) | (9,494,940) |
| Net carrying amount | 5,822,945 | 12,163,863 | 173,005 | 18,159,813 |
| At 1 January 2006, net of accumulated depreciation and impairment | 5,822,945 | 12,163,863 | 173,005 | 18,159,813 |
| Additions | 6,650 | 7,214 | 402 | 14,266 |
| Transfers from construction in progress (note 15) | 223,515 | 1,666,263 | 12,317 | 1,902,095 |
| Reversal of impairment during the year recognised in the income statement | – | 19,611 | – | 19,611 |
| Depreciation provided during the year | (494,422) | (1,709,587) | (43,654) | (2,247,663) |
| Reclassifications | 117,192 | (116,458) | (734) | – |
| Disposals/write-off | (10,649) | (34,642) | (8,542) | (53,833) |
| At 31 December 2006, net of accumulated depreciation and impairment | 5,665,231 | 11,996,264 | 132,794 | 17,794,289 |
| At 31 December 2006: | | | | |
| Cost | 8,922,427 | 19,987,710 | 372,150 | 29,282,287 |
| Accumulated depreciation and impairment | (3,257,196) | (7,991,446) | (239,356) | (11,487,998) |
| Net carrying amount | 5,665,231 | 11,996,264 | 132,794 | 17,794,289 |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Company

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2005** | | | | |
| At 1 January 2005: | | | | |
| Cost | 8,323,344 | 16,320,808 | 611,400 | 25,255,552 |
| Accumulated depreciation and impairment | (2,443,561) | (4,747,397) | (344,749) | (7,535,707) |
| Net carrying amount | 5,879,783 | 11,573,411 | 266,651 | 17,719,845 |
| At 1 January 2005, net of accumulated depreciation and impairment | 5,879,783 | 11,573,411 | 266,651 | 17,719,845 |
| Additions | 2,121 | 5,375 | 7,654 | 15,150 |
| Acquisition of businesses (note 40) | 28,170 | 21,706 | 4,520 | 54,396 |
| Transfers from construction in progress (note 15) | 533,402 | 1,850,999 | 77,654 | 2,462,055 |
| Depreciation provided during the year | (453,913) | (1,543,120) | (50,854) | (2,047,887) |
| Reclassifications | (136,166) | 267,778 | (131,612) | – |
| Disposals/write-off | (30,452) | (12,286) | (1,008) | (43,746) |
| At 31 December 2005, net of accumulated depreciation and impairment | 5,822,945 | 12,163,863 | 173,005 | 18,159,813 |
| At 31 December 2005: | | | | |
| Cost | 8,568,666 | 18,682,182 | 403,905 | 27,654,753 |
| Accumulated depreciation and impairment | (2,745,721) | (6,518,319) | (230,900) | (9,494,940) |
| Net carrying amount | 5,822,945 | 12,163,863 | 173,005 | 18,159,813 |

All of the Group's and Company's buildings are located in Mainland China.

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of approximately RMB28,013,000 was pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 33 to the financial statements.

At the balance sheet date, certificates of ownership in respect of the Group's buildings with a net book value of RMB70,183,000 has not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

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## 15. CONSTRUCTION IN PROGRESS

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **31 December 2006** | | |
| Cost: | | |
| At 1 January 2006 | **7,550,730** | **7,489,242** |
| Additions | **15,622,250** | **15,457,597** |
| Minority shareholder contribution (note 39) | **640** | **–** |
| Transfers to property, plant and equipment (note 14) | **(2,042,133)** | **(1,902,095)** |
| Write-off | **(64,509)** | **(64,509)** |
| At 31 December 2006 | **21,066,978** | **20,980,235** |
| Accumulated impairment: | | |
| At 1 January 2006 | **74,000** | **74,000** |
| Reversal of impairment during the year recognised in the income statement (note 6) | **(17,676)** | **(17,676)** |
| Write-off | **(56,324)** | **(56,324)** |
| At 31 December 2006 | **–** | **–** |
| At 31 December 2006, net of accumulated impairment | **21,066,978** | **20,980,235** |
| **31 December 2005** | | |
| Cost: | | |
| At 1 January 2005 | 2,116,098 | 2,056,417 |
| Additions | 7,928,760 | 7,845,025 |
| Acquisition of businesses (note 40) | 49,855 | 49,855 |
| Transfers to property, plant and equipment (note 14) | (2,543,983) | (2,462,055) |
| At 31 December 2005 | 7,550,730 | 7,489,242 |
| Accumulated impairment: | | |
| At beginning of year and 31 December 2005 | 74,000 | 74,000 |
| At 31 December 2005, net of accumulated impairment | 7,476,730 | 7,415,242 |

## 16. INVESTMENT PROPERTIES

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | – | – |
| Additions | 4,145 | – |
| Depreciation provided during the year (note 6) | (586) | – |
| Carrying amount at 31 December | 3,559 | – |

The Group's investment properties are situated in Mainland China and are held under the following lease terms:

| | 2006<br>RMB'000 |
|---|---|
| Medium term leases | 1,275 |
| Short leases | 2,284 |
| | 3,559 |

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 42 to the financial statements.

## 17. PREPAID LAND PREMIUMS

**Group**

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | 1,137,801 | 1,135,710 |
| Additions | 181,185 | 23,183 |
| Acquisition of a subsidiary (note 40) | 13,448 | – |
| Minority shareholder contribution (note 39) | 154,104 | – |
| Recognised during the year (note 6) | (29,070) | (21,092) |
| Carrying amount at 31 December | 1,457,468 | 1,137,801 |

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## 17. PREPAID LAND PREMIUMS (CONTINUED)

**Company**

| | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **1,092,280** | 1,106,687 |
| Additions | **159,502** | 6,188 |
| Recognised during the year | **(23,137)** | (20,595) |
| Carrying amount at 31 December | **1,228,645** | 1,092,280 |

The leasehold land is held under a medium term lease and is situated in Mainland China.

## 18. OTHER INTANGIBLE ASSET

**Group**

| | Mine participation right | |
|---|---|---|
| | **2006 RMB'000** | 2005 RMB'000 |
| Cost at the beginning of year | **109,035** | – |
| Additions | **8,953** | 110,150 |
| Amortisation provided during the year (note 6) | **(4,481)** | (1,115) |
| At the end of year | **113,507** | 109,035 |
| At the end of year: | | |
| Cost | **119,103** | 110,150 |
| Accumulated amortisation | **(5,596)** | (1,115) |
| Net carrying amount | **113,507** | 109,035 |

## 19. INVESTMENTS IN SUBSIDIARIES

### Company

| | **2006 RMB'000** | 2005 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **794,793** | 395,447 |

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/paid-up registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (notes ii, iv) | Mainland China | RMB120,000,000 | 66.67 | – | Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services |
| Design & Research Institute of Maanshan Iron & Steel Company Limited (note i) | Mainland China | RMB50,000,000 | 58.96 | 7.86 | Planning and design of metallurgical, construction and environmental protection projects, construction supervision and contract service |
| MG Control Technique Company Limited (notes i, iv) | Mainland China | RMB8,000,000 | 93.75 | 4.18 | Design of automation systems; purchase, installation and repair of automation, computer and communication systems |
| Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") (notes ii, iv) | Mainland China | US$4,290,000 | 70 | – | Production, sale and transportation of slag products and provision of related consultancy services |
| Maanshan Iron & Steel (HK) Limited ("Masteel HK") | Hong Kong | HK$4,800,000 | 80 | 20 | Trading of steel and iron ores, and provision of steel trading agency services and transportation services |

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## 19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/paid-up registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes ii, iv) | Mainland China | RMB35,000,000 | 70 | 30 | Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products) |
| Maanshan Iron & Steel (Australia) Proprietary Limited (note iv) | Australia | AUD21,737,900 | 100 | – | Production and sale of iron ores through an unincorporated joint venture |
| MG Trading and Development GmbH (note iv) | Germany | EUR153,388 | 100 | – | Trading of equipment, iron and steel products and provision of technology services |
| Ma Steel International Trade and Economic Corporation (notes i, iv) | Mainland China | RMB50,000,000 | 100 | – | Import of machinery and raw materials and export of steel products |
| Ma Steel (Cihu) Processing and Distribution Co., Ltd. (notes i, iv) | Mainland China | RMB30,000,000 | – | 92 | Production, processing and sale of steel plates, steel wires and steel sections and provision of storage and after-sale services |

## 19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/paid-up registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") (notes ii, iv) | Mainland China | RMB30,000,000 | 71 | – | Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macro-molecular compound materials; processing and sale of metallic products |
| Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. (notes i, iv) | Mainland China | RMB1,000,000 | 90 | – | Provision of equipment inspection and technical consultancy services, equipment services and equipment inspection work |
| Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iv) | Mainland China | RMB120,000,000 | 75 | – | Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services |

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## 19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/paid-up registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (notes i, iii, iv) | Mainland China | RMB334,495,000 | 71 | – | Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; 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 |
| Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (notes ii, iii, iv) | Mainland China | RMB91,000,000 | 61 | 28 | Processing and sale of hot rolled and cold rolled steel thin plate for vehicles,home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services |

## 19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/paid-up registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") (notes ii, iii, iv) | Mainland China | USD10,000,000 | 71 | – | Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except of dangerous chemical products) |

Notes:

(i) Registered as limited companies under the PRC law

(ii) Registered as Sino-foreign joint ventures under the PRC law

(iii) Newly incorporated/acquired during the year

(iv) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

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

## 20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **–** | – | **234,000** | 234,000 |
| Share of net assets | **234,000** | 234,000 | **–** | – |
| | **234,000** | 234,000 | **234,000** | 234,000 |

Particulars of the jointly-controlled entity, which is directly held by the Company, are as follows:

| | | Percentage of | | | |
|---|---|---|---|---|---|
| **Name** | **Place of registration** | **Ownership interest** | **Voting power** | **Profit sharing** | **Principal activities** |
| Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") | Mainland China | 50 | 50 | 50 | Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sale services, technical services and other related services |

The financial information of the jointly-controlled entity as at 31 December 2006 shared by the Group is presented as follows:

| | **RMB'000** |
|---|---|
| Non-current assets | **363,076** |
| Current assets | **8,218** |
| Current liabilities | **(12,294)** |
| Non-current liabilities | **(125,000)** |
| Net assets | **234,000** |

As the production plant of the jointly-controlled entity is under construction and its commercial production has not commenced, no income statement of the jointly-controlled entity for the year is presented.

## 21. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **–** | – | **263,276** | 255,608 |
| Share of net assets | **329,514** | 268,060 | **–** | – |
| | **329,514** | 268,060 | **263,276** | 255,608 |

Particulars of the Group's associates are as follows:

| **Name** | **Place of incorporation/ registration and operations** | **Percentage of ownership interest attributable to the Group** | **Principal activities** |
|---|---|---|---|
| 濟源市金馬焦化有限公司(“濟源市金馬焦化”) (note ii) | Mainland China | 40 | Production and sale of coke, tar, benzene and coal gas |
| 滕州盛隆煤焦化有限公司(“滕州盛隆煤焦化”) (note ii) | Mainland China | 32 | Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services |
| 上海大宗鋼鐵電子交易中心有限公司 (note ii) | Mainland China | 20 | Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services |
| 馬鞍山市港口(集團)有限責任公司(“馬鞍山港口公司”) (note ii) | Mainland China | 45 | Loading/unloading and cargos forwarding agency services; storage, transportation of cargos and division/merge of cargos in containers; provision of general services to ships,repair and manufacture of spare parts of ships |

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## 21. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's associates are as follows: (continued)

| Name | Place of incorporation/ registration and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|
| 安徽馬鋼立體智能停車設備有限公司 (notes i, ii) (“馬鋼智能停車”) | Mainland China | 25 | Development, production, installation and sales of automatic parking equipments, storage equipments, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters and provision of related integration and consulting services |
| 安徽奧馬特汽車變速系統有限公司 (notes i, ii) (“奧馬特變速系統”) | Mainland China | 31.95 | Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services |

Notes:

(i) Newly incorporated/acquired during the year

(ii) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

The Group's shareholdings in the associates all comprise equity shares held by the Company, except for 馬鋼智能停車, the shareholding in which is held through Masteel HK, and奧馬特變速系統, the shareholding in which is held through Holly Industrial.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

| | **2006** | 2005 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Assets | **3,108,473** | 1,680,038 |
| Liabilities | **(2,185,372)** | (1,229,570) |
| Revenue | **2,112,525** | 1,715,920 |
| Net profit | **114,471** | 27,289 |

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Unlisted equity investments, at fair value | **16,817** | 16,817 |

The above investments consist of investments in equity security which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

## 23. HELD-TO-MATURITY INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Debt investments | **8,259** | 10,919 |

The debt investments represent electricity debentures issued by the Anhui Provincial Electricity Supply Authority. The debt investments were acquired by the Company in 1994 and are interest-free and collectable by 10 annual instalments starting from 2000. The amount of the investments will be fully repaid by December 2009.

## 24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

**Group and Company**

**Deferred tax assets**

| | **Repair and maintenance expenses** | **Asset provisions** | **Pre-operation expenses** | **Salary payable** | **Sales incentive payable** | **Others** | **Total** |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2006 | 9,024 | 41,200 | 4,448 | – | – | 9,678 | 64,350 |
| Deferred tax credited/ (charged) to the income statement during the year (note 10) | 15,604 | (8,936) | 18,653 | 27,421 | 22,728 | (5,255) | 70,215 |
| Gross deferred tax assets at 31 December 2006 | 24,628 | 32,264 | 23,101 | 27,421 | 22,728 | 4,423 | 134,565 |

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## 24. DEFERRED TAX (CONTINUED)

**Group and Company**

**Deferred tax liabilities**

| | Bonds with warrants RMB'000 | Furnace relining costs RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2006 | – | (11,175) | (11,175) |
| Deferred tax debited directly to equity (note 34) | (128,790) | – | (128,790) |
| Deferred tax credited to the income statement during the year (note 10) | 4,646 | – | 4,646 |
| Gross deferred tax liabilities at 31 December 2006 | (124,144) | (11,175) | (135,319) |
| Net deferred tax liabilities at 31 December 2006 | | | (754) |

**Deferred tax assets**

| | Repair and maintenance expenses RMB'000 | Asset provisions RMB'000 | Pre-operation expenses RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2005 | – | 38,078 | – | 7,831 | 45,909 |
| Deferred tax credited to the income statement during the year (note 10) | 9,024 | 3,122 | 4,448 | 1,847 | 18,441 |
| Gross deferred tax assets at 31 December 2005 | 9,024 | 41,200 | 4,448 | 9,678 | 64,350 |

## 24. DEFERRED TAX (CONTINUED)

### Group and Company

### Deferred tax liabilities

| | Furnace relining costs RMB'000 |
|---|---|
| Gross deferred tax liabilities at 1 January 2005 and 31 December 2005 | (11,175) |
| Net deferred tax assets at 31 December 2005 | 53,175 |

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or the jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 25. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **3,593,290** | 2,973,684 | **3,404,961** | 2,829,103 |
| Work in progress | **538,137** | 638,586 | **503,684** | 627,427 |
| Finished goods | **660,684** | 360,528 | **464,386** | 232,293 |
| Spare parts | **1,696,902** | 1,195,674 | **1,651,777** | 1,195,454 |
| | **6,489,013** | 5,168,472 | **6,024,808** | 4,884,277 |

At 31 December 2006, the carrying amount of the Group's inventories, which were pledged as security for the Group's trading facilities for the issue of bank bills, amounted to approximately RMB121,914,000 (2005: RMB23,930,000), as further detailed in note 31 to the financial statements.

## 26. CONSTRUCTION CONTRACTS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Gross amount due from contract customers | **51,119** | 31,002 |
| Contract costs incurred to date plus recognised profits less recognised losses | **298,395** | 188,542 |
| Less: Progress billings | **(247,276)** | (157,540) |
| | **51,119** | 31,002 |

At 31 December 2006, retentions held by customers for contract works included in trade receivables amounted to approximately RMB7 million (2005: RMB16 million).

## 27. 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 amounts of the trade receivables. Trade receivables are non-interest-bearing.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables: | | | | |
| Within three months | **553,187** | 188,665 | **525,475** | 170,906 |
| Four to six months | **10,623** | 32,819 | **846** | 5,757 |
| Seven to twelve months | **4,953** | 49,014 | **2,764** | 27,711 |
| One to two years | **9,366** | 12,578 | **6,796** | 12,422 |
| Two to three years | **4,292** | 407 | **3,481** | 407 |
| | **582,421** | 283,483 | **539,362** | 217,203 |
| Bills receivables | **681,138** | 1,931,609 | **613,911** | 1,986,454 |
| | **1,263,559** | 2,215,092 | **1,153,273** | 2,203,657 |

Bills receivables will mature within one year.

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries aggregating approximately RMB10,434,000 (2005: approximately RMB32,365,000). Such balances principally arose from normal trading activities.

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB27,347,000 (2005: approximately RMB3,049,000) for the purchase of construction services from Holding.

## 29. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Equity investments listed in Mainland China, at market value | **–** | 13,568 |

All the equity investments at fair value through profit or loss held by the Group have been disposed during year 2006.

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **3,629,568** | 3,027,462 |
| Time deposits and balances with financial institutions, net of provisions | **531,137** | 227,554 |
| | **4,160,705** | 3,255,016 |
| Less: Pledged deposits for trading facilities | **(531,137)** | (142,114) |
| Cash and cash equivalents in the consolidated balance sheet | **3,629,568** | 3,112,902 |
| Less: Non-pledged time deposits with original maturity of more than three months when acquired | **–** | (63,632) |
| Cash and cash equivalents in the consolidated cash flow statement | **3,629,568** | 3,049,270 |

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **2,808,993** | 2,562,161 |
| Time deposits and balances with financial institutions, net of provisions | **–** | 63,632 |
| Cash and cash equivalents | **2,808,993** | 2,625,793 |

## 30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB3,832,573,000 (2005: RMB2,523,465,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods for not more than six months, depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with three (2005: four) non-bank financial institutions, in aggregate, amounting to approximately HK$119 million (2005: approximately HK$123 million).

| | Notes | 2006 HK$'000 | 2005 HK$'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 |

Notes:

(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). On 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated. On 14 February 2006, the Company received the last instalment of repayment of RMB3,632,000. As at 31 December 2006, the overdue fixed deposit in China Venturetech has been fully settled.

(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 while the liquidation process would remain in progress. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the year, no allocation of assets was made by the liquidator of GITIC.

(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 that the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the overdue fixed deposits.

## 31. TRADE AND BILLS PAYABLES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **5,950,074** | 3,820,295 | **4,970,880** | 3,554,133 |
| One to two years | **28,668** | 36,029 | **11,659** | 11,749 |
| Two to three years | **13,080** | 1,549 | **6,748** | 1,491 |
| Over three years | **5,900** | 5,255 | **4,417** | 3,667 |
| | **5,997,722** | 3,863,128 | **4,993,704** | 3,571,040 |

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 RMB197,455,000 (2005: approximately RMB170,850,000). Such balances principally arose from normal trading activities.

Included in the Group's trade payables are amounts due to associates, in aggregate, amounting to approximately RMB7,362,000 (2005: approximately RMB8,478,000). Such balances principally arose from normal trading activities.

At 31 December 2006, the carrying amounts of the Group's inventories and cash deposits, which were pledged as security for the Group's trading facilities for the issuance of bank bills, amounted to RMB121,914,000 (2005: RMB23,930,000) and RMB531,137,000 (2005: RMB142,114,000), respectively.

## 32. OTHER PAYABLES AND ACCRUALS

Other payables are non-interest-bearing and mainly aged within one year.

Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB519,750,000 (2005: approximately RMB67,392,000). Such balances principally arose from normal trading activities.

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### 33. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective interest rate (%) | Maturity | Group 2006 RMB'000 | Group 2005 RMB'000 | Company 2006 RMB'000 | Company 2005 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans – unsecured | 0.25-5.76 | 2007 | **800,620** | 159,690 | **581,328** | 158,503 |
| Short term commercial papers – unsecured | | | **–** | 2,000,000 | **–** | 2,000,000 |
| Other loans – unsecured | 5.49 | 2007 | **2,152** | 31,671 | **–** | – |
| Other loans – secured | 5.49 | 2007 | **6,000** | – | **–** | – |
| | | | **808,772** | 2,191,361 | **581,328** | 2,158,503 |
| **Non-current** | | | | | | |
| Bank loans – unsecured | 0.25-5.76 | 2008-2019 | **15,713,140** | 8,562,664 | **15,697,870** | 8,528,228 |
| Other loan – unsecured | | | **–** | 2,152 | **–** | – |
| Other loan – secured | | | **–** | 6,000 | **–** | – |
| | | | **15,713,140** | 8,570,816 | **15,697,870** | 8,528,228 |
| Bonds with warrants (note 34) | 4.43 | 2011 | **4,672,376** | – | **4,672,376** | – |
| | | | **20,385,516** | 8,570,816 | **20,370,246** | 8,528,228 |
| | | | **21,194,288** | 10,762,177 | **20,951,574** | 10,686,731 |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| Within one year | | | **800,620** | 159,690 | **581,328** | 158,503 |
| In the second year | | | **5,508,142** | 480,358 | **5,506,870** | 460,171 |
| In the third to fifth years, inclusive | | | **10,178,818** | 8,039,619 | **10,175,000** | 8,036,057 |
| Beyond five years | | | **26,180** | 42,687 | **16,000** | 32,000 |
| | | | **16,513,760** | 8,722,354 | **16,279,198** | 8,686,731 |
| Other borrowings repayable: | | | | | | |
| Within one year | | | **8,152** | 2,031,671 | **–** | 2,000,000 |
| In the second year | | | **–** | 8,152 | **–** | – |
| In the third to fifth years, inclusive | | | **4,672,376** | – | **4,672,376** | – |
| | | | **4,680,528** | 2,039,823 | **4,672,376** | 2,000,000 |
| | | | **21,194,288** | 10,762,177 | **20,951,574** | 10,686,731 |

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Certain of the bank and other borrowings of approximately RMB14,985,128,000 (2005: approximately RMB4,831,511,000) and RMB16,542,000 (2005: approximately RMB16,623,000) are guaranteed by Holding and Sinosteel Trading Company, respectively.

Except for bank and other borrowings of approximately RMB820,150,000 and RMB35,561,000 which are denominated in United States dollars and Euros, respectively, all other borrowings are denominated in RMB.

Please refer to note 34 below for the details of bonds with warrants.

Other loans totalling approximately RMB8,152,000 are granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. Certain of the other loans granted by Profit Access Investments Limited are secured by the pledge of certain of the Group's equipment with an aggregate net book value of approximately RMB28,013,000.

Other interest rate information:

| | Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Fixed rate RMB'000** | **Floating rate RMB'000** | Fixed rate RMB'000 | Floating rate RMB'000 |
| **Current** | | | | |
| Bank loans – unsecured | **769,492** | **31,128** | 14,647 | 145,043 |
| Short term commercial papers | **–** | **–** | 2,000,000 | – |
| Other loans – unsecured | **2,152** | **–** | 31,671 | – |
| Other loans – secured | **6,000** | **–** | – | – |
| **Non-current** | | | | |
| Bank loans – unsecured | **7,905,270** | **7,807,870** | 2,372,436 | 6,190,228 |
| Other loan – secured | **–** | **–** | 6,000 | – |
| Other loan – unsecured | **–** | **–** | 2,152 | – |
| Bonds with warrants | **4,672,376** | **–** | – | – |

| | Company | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Fixed rate RMB'000** | **Floating rate RMB'000** | Fixed rate RMB'000 | Floating rate RMB'000 |
| **Current** | | | | |
| Bank loans – unsecured | **550,200** | **31,128** | 13,460 | 145,043 |
| Short term commercial papers | **–** | **–** | 2,000,000 | – |
| **Non-current** | | | | |
| Bank loans – unsecured | **7,890,000** | **7,807,870** | 2,338,000 | 6,190,228 |
| Bonds with warrants | **4,672,376** | **–** | – | – |

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

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### 34. BONDS WITH WARRANTS

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every warrant can be converted into one A share at a conversion price of RMB3.4. 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. Exercise in full of the warrants would have resulted in the issue of 1,265,000,000 A shares.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

The bonds with warrants issued during the year have been split as to the liability and equity components as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Nominal value of bonds with warrants issued during the year | **5,500,000** | – |
| Equity component (net of deferred tax) | **(604,229)** | – |
| Deferred tax liability (note 24) | **(128,790)** | – |
| Direct transaction costs attributable to the liability component | **(125,584)** | – |
| Liability component at the issue date | **4,641,397** | – |
| Interest expense | **30,979** | – |
| Interest paid | **–** | – |
| Liability component at 31 December (note 33) | **4,672,376** | – |

## 35. PROVISIONS

| | Group and Company | | |
|---|---|---|---|
| | **Pension benefits for early retired employees** | **Housing subsidies** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2006 | 40,258 | 103,974 | 144,232 |
| Amounts utilised during the year | (10,773) | (60,644) | (71,417) |
| At 31 December 2006 | 29,485 | 43,330 | 72,815 |
| Portion classified as current liabilities | (7,440) | (43,330) | (50,770) |
| Non-current portion | 22,045 | – | 22,045 |

Housing subsidies represents one-off lump sum cash subsidies payable to both current and retired employees by the Company pursuant to an implemented staff housing subsidy scheme in prior years. According to the revised staff housing subsidy scheme in 2003, no such subsidies will be accrued.

## 36. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to Holding is unsecured, interest-free and is repayable after 1 January 2008.

## 37. SHARE CAPITAL

| | | Group and Company | |
|---|---|---|---|
| | | **2006** | 2005 |
| | | **RMB'000** | RMB'000 |
| Registered, issued and fully paid: | | | |
| 4,034,560,000 | State owned shares | **4,034,560** | 4,034,560 |
| 87,810,000 | Legal person A shares | **87,810** | 87,810 |
| 600,000,000 | Individual A shares of RMB1.00 each | **600,000** | 600,000 |
| 1,732,930,000 | H shares of RMB1.00 each | **1,732,930** | 1,732,930 |
| 6,455,300,000 | | **6,455,300** | 6,455,300 |

Except for dividends for H shares which are payable in Hong Kong dollars, all of the A shares and H shares rank pari passu with each other in respect of dividends and voting rights.

## 37. 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 A 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 number of issued share 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.

## 38. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 68 of the financial statements.

### (b) Company

| | Capital reserve account RMB'000 | Statutory reserve RMB'000 | Statutory public welfare fund RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2005 | 4,864,976 | 888,003 | 888,003 | 2,424,573 | 9,065,555 |
| Profit for the year | – | – | – | 2,677,000 | 2,677,000 |
| Transfer to reserves | – | 278,667 | 278,667 | (557,334) | – |
| Proposed final 2005 dividend | – | – | – | (1,032,848) | (1,032,848) |
| At 31 December 2005 and 1 January 2006 | 4,864,976 | 1,166,670 | 1,166,670 | 3,511,391 | 10,709,707 |
| Profit for the year | – | – | – | 2,269,098 | 2,269,098 |
| Transfer from/(to) reserves | – | 1,397,993 | (1,166,670) | (231,323) | – |
| Proposed final 2006 dividend | – | – | – | (839,189) | (839,189) |
| At 31 December 2006 | 4,864,976 | 2,564,663 | – | 4,709,977 | 12,139,616 |

## 38. RESERVES (CONTINUED)

In accordance with the Company Law of the PRC and the articles of associations of the Company and certain of its subsidiaries, 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 reserve (the "SR") until such reserves reach 50% of the registered capital of these companies. Part of the SR 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 the 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 certain of its subsidiaries were not required to allocate any profit to the PWF starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SR.

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB231.3 million (2005: approximately RMB278.7 million) to the SR. This represents 10% of the Company's profit after tax of approximately RMB2,313 million (2005: approximately RMB2,787 million) determined in accordance with PRC accounting standards and regulations.

During the year, the share of the subsidiaries' current year appropriations to the SR, the reserve fund and the enterprise expansion fund, in accordance with the percentage of equity held by the Group, were approximately RMB6.1 million (2005: approximately RMB8.1 million), approximately RMB11.9 million (2005: approximately RMB7.6 million) and approximately RMB7.7 million (2005: approximately RMB5.5 million), respectively.

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

As at 31 December 2006, the Company had retained profits of approximately RMB4,710 million (31 December 2005: approximately RMB3,511 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or in kind.

As at 31 December 2006, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of approximately RMB5.45 billion (2005: approximately RMB5.45 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

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## 39. 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). Pursuant to the Venturers' Agreement, the Company and Hefei Investment Holding hold 71% and 29% of equity interests in Ma Steel (Hefei), respectively.

On 10 May 2006, Ma Steel (Hefei) was established with a registered capital of RMB500,000,000. Pursuant to the articles and memorandum of Ma Steel (Hefei), its registered capital will be paid up by the Company and Hefei Investment Holding in two instalments. Up to the balance sheet date, the Company has contributed cash of RMB237,495,000 to Ma Steel (Hefei) and Hefei Investment Holding has also contributed cash of approximately RMB299,313,000 and certain assets (including certain prepaid land premiums 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 Ma Steel (Hefei).

Details of the net liability value of RMB202,313,000 injected into Ma Steel (Hefei) by Hefei Investment Holding are as follows:

| | Notes | RMB'000 |
|---|---|---|
| Property, plant and equipment, net | 14 | 602,288 |
| Construction in progress | 15 | 640 |
| Prepaid land premiums | 17 | 154,104 |
| 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) |
| | | (202,313) |

## 40. BUSINESS COMBINATIONS

### (a) Acquisition of a 71% equity interest in MS (Yangzhou) Processing

On 26 November 2006, the Company acquired a 71% of equity interest in 寶威鋼板製品 (揚州) 有限公司 ("Burwill (Yangzhou)") from Burwill Times Industrial Limited at a cash consideration of RMB61,651,010. Burwill (Yangzhou) is mainly engaged in high value-added steel coil processing and distribution in the PRC. Upon completion of the acquisition, Burwill (Yangzhou) will be renamed as Ma Steel (Yangzhou) Processing & Distribution Co., Ltd. ("MS (Yangzhou) Processing"). The consideration was determined with reference to the net assets value, which was valued by 江蘇天衡會計師事務所.

### (b) Acquisition of the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business

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 amounting to approximately RMB149,774,000 was determined by reference to an asset appraisal report issued by an independent assets valuer, Jiangsu Talent Certified Public Accountants. In accordance with the terms of the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, the Businesses were entrusted to Construction Company for management and the profit and loss were assumed by the Company, which were not significant.

The fair values of the identifiable assets and liabilities as at the date of the acquisition were as follow:

| | Notes | **2006 RMB'000** | 2005 RMB'000 |
|---|---|---|---|
| Property, plant and equipment, net | 14 | **49,112** | 54,396 |
| Construction in progress | 15 | **–** | 49,855 |
| Prepaid land premiums | 17 | **13,448** | – |
| Inventories | | **354** | 88,740 |
| Construction contracts | | **–** | 63,500 |
| Trade and bills receivables | | **11,883** | 76,108 |
| Prepayments, deposits and other receivables | | **2,024** | 20,825 |
| Cash and cash equivalents | | **12,487** | – |
| Trade payables | | **(1,534)** | (113,421) |
| Other payables and accruals | | **(309)** | (89,100) |
| Tax payable | | **(633)** | (1,129) |
| Minority interests | | **(25,181)** | – |
| Net assets value | | **61,651** | 149,774 |
| Cash consideration | | **61,651** | 149,774 |
| Less: Unpaid portion of cash consideration | | **(4,246)** | – |
| | | **57,405** | 149,774 |

## 40. BUSINESS COMBINATIONS (CONTINUED)

An analysis of the net outflow of cash and cash equivalents in respect of the aforesaid acquisitions is as follows:

| | 2006<br>RMB'000 | 2005<br>RMB'000 |
|---|---|---|
| Cash payment | **57,405** | 149,774 |
| Cash and cash equivalents acquired | **(12,487)** | – |
| Net outflow of cash and cash equivalents in respect of the aforesaid acquisitions | **44,918** | 149,774 |

Since the aforesaid acquisitions, MS (Yangzhou) Processing's contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 were not significant. The Businesses' contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2005 were not significant either.

Had these combinations taken place at the beginning of the year, the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent would have been RMB34,355 million and RMB2,395 million for the year ended 31 December 2006, respectively, and RMB32,083 million and RMB2,910 million for the year ended 31 December 2005, respectively.

## 41. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2006<br>RMB'000 | 2005<br>RMB'000 | 2006<br>RMB'000 | 2005<br>RMB'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **–** | – | **7,728,130** | 7,795,113 |

## 42. OPERATING LEASE ARRANGEMENTS

The Group leases its investment properties (in note 16 to the financial statements) under operating lease arrangement with BOC-Ma Steel for 18 years. The periodic rent is fixed during the operating lease period.

Holly Industrial, a subsidiary of the Company, leases its investment properties (in note 16 to the financial statements) under operating lease arrangement for 2 years. The periodic rent is fixed during the operating lease period.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Within one year | **1,306** | 1,250 |
| In the second to fifth years, inclusive | **5,000** | 5,000 |
| After five years | **13,750** | 15,000 |
| | **20,056** | 21,250 |

## 43. CAPITAL COMMITMENTS

(a) The Group's and Company's commitments for capital expenditure for buildings and structures, plants and equipments at the balance sheet date were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Authorised, but not contracted for | **5,217,641** | 11,044,413 | **4,469,724** | 11,042,318 |
| Contracted, but not provided for | **4,093,227** | 9,835,947 | **4,051,077** | 9,828,677 |
| | **9,310,868** | 20,880,360 | **8,520,801** | 20,870,995 |

(b) The Group's and Company's commitments for capital contributions at the balance sheet date were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Contracted, but not provided for | **13,500** | 7,668 | **172,947** | 34,668 |

## 43. CAPITAL COMMITMENTS (CONTINUED)

(c) The Group's and Company's share of the capital commitments of the jointly-controlled entity, which was not included in note (a) above, in respect of capital expenditure for buildings and structures, plants and equipments at the balance sheet date was as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Authorised, but not contracted for | **10,952** | 31,202 |
| Contracted, but not provided for | **39,351** | 148,218 |
| | **50,303** | 179,420 |

(d) The Group's and Company's share of other commitments of the jointly-controlled entity, which was not included in notes (a) and (c) above at the balance sheet date was as follows:

| | Group and Company | |
|---|---|---|
| | **2006** | 2005 |
| | **RMB'000** | RMB'000 |
| Contracted, but not provided for | **5,000** | – |

## 44. MAJOR NON-CASH TRANSACTION

During the year, Hefei Investment Holding injected certain non-cash assets and liabilities amounting to a net liability value of approximately RMB202,213,000 into Ma Steel (Hefei) as its capital contribution. For further details, please refer to note 39.

## 45. RELATED PARTY TRANSACTIONS

(a) Transactions carried out between the Group and its related parties during the year

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

| | Notes | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| Transactions with Holding and its subsidiaries: | | | |
| Purchases of iron ore | (i) | **1,631,201** | 1,408,068 |
| Fees paid for welfare, support services and other services | (ii), (iii) | **194,497** | 206,210 |
| Rental expenses | (iii) | **36,250** | 36,250 |
| Agency fee paid | (iii) | **4,093** | 3,784 |
| Purchases of property, plant and equipment and construction services | (iii) | **295,468** | 266,777 |
| Fees received for the supply of utilities, services and other consumable goods | (iii) | **(23,221)** | (27,497) |
| Sale of steel and other by-products | (iii) | **(8,951)** | (8,479) |
| Acquisition of businesses | (iv) | **–** | 149,774 |
| Transactions with associates of the Company: | | | |
| Purchases of coke | (v) | **1,085,125** | 598,732 |
| Loading expenses | (v) | **75,036** | 40,076 |
| Transactions with the jointly-controlled entity of the Company: | | | |
| Rental income | (vi) | **(1,250)** | (1,250) |
| Construction fees income | (vi) | **(2,926)** | (7,440) |

Notes:

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 9 October 2003 entered into between the Company and Holding.

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated 9 October 2003 entered into between the Company and Holding.

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

## 45. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions carried out between the Group and its related parties during the year (continued)

(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 at a cash consideration of approximately RMB150 million in 2005, as further detailed in note 40 to the financial statements.

(v) These transactions were made between the Group and 濟源市金馬焦化, 滕州盛隆煤焦化, 馬鞍山港口公司 and 馬鋼智能停車 that were conducted in accordance with the terms mutually agreed between the parties.

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

(b) Holding has guaranteed certain bank loans of the Group and bonds with warrants up to approximately RMB15 billion (2005: approximately RMB4.8 billion) as at the balance sheet date at nil consideration, as further detailed in note 33 to the financial statements.

(c) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in notes 27, 28, 31, 32 and 36 to the financial statements.

(d) Compensation of key management personnel of the Group:

| | **2006**<br>**RMB'000** | 2005<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **6,476** | 6,608 |
| Post-employment benefits | **40** | 53 |
| Total compensation paid to key management personnel | **6,516** | 6,661 |

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

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) to (iv) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, short term commercial papers, bonds with warrants, pledged deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and other payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of the risks and they are summarised below:

### Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's long term debt obligations with floating interest rates. The Group does not use derivative financial instruments to hedge its cash flow interest rate risk.

At 31 December 2006, approximately 63% (2005: 41%) of the Group's interest-bearing borrowings bore interest at fixed rates.

### Foreign currency risk

The businesses of the Group are principally located in Mainland China. While most of the transactions are conducted in RMB, certain of its sales, purchases and borrowings were denominated in United Stated dollars, Euros and Japanese Yens. Fluctuations of the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all trade debtors who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other major financial assets of the Group, which comprise pledged deposits, cash and cash equivalents, and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, short term commercial papers, bonds with warrants and other available sources of financing. 4% of the Group's debts would mature in less than one year at 31 December 2006 (2005: 20%).

(Prepared under Hong Kong Accounting Standards)
31 December 2006

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

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

The effects on net profit and shareholders' equity arising from the material differences between the consolidated financial statements prepared under PRC and Hong Kong Accounting Standards are summarised as follows:

| | Notes | 2006 RMB'000 | 2005 RMB'000 |
|---|---|---|---|
| **Net profit** | | | |
| Profit attributable to equity holders of the parent under Hong Kong Accounting Standards | | **2,394,652** | 2,909,943 |
| Add back: | | | |
| Employee bonus and welfare fund | (ii) | **6,547** | 4,616 |
| Deduct: | | | |
| Deferred tax income | (i) | **(74,861)** | (18,441) |
| Recognition of deferred income | (iii) | **(49,752)** | (48,498) |
| Profit attributable to equity holders of the parent under PRC Accounting Standards | | **2,276,586** | 2,847,620 |
| **Shareholders' equity** | | | |
| Equity attributable to equity holders of the parent under Hong Kong Accounting Standards | | **20,461,771** | 18,514,504 |
| Add back: | | | |
| Deferred tax liabilities | (i) | **754** | – |
| Deferred income | (iii) | **588,569** | 585,369 |
| Deduct: | | | |
| Deferred tax assets | (i) | **–** | (53,175) |
| Recognition of deferred income | (iii) | **(140,235)** | (90,483) |
| Provision for furnace relining costs | (iv) | **(74,499)** | (74,499) |
| Recognition of equity component of bonds with warrants | (v) | **(733,019)** | – |
| Direct issue cost of bonds with warrants recognised as a deduction from equity component | (v) | **18,766** | – |
| Equity attributable to equity holders of the parent under PRC Accounting Standards | | **20,122,107** | 18,881,716 |

## 47. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (CONTINUED)

### (i) Deferred tax

Under HKAS 12 *Income Tax*, 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 liabilities recognised as at 31 December 2006 amounted to approximately RMB0.8 million (2005: deferred tax assets of approximately RMB53.2 million). The movement in the deferred tax resulted in a deferred tax income of approximately RMB74.9 million in the current year (2005: approximately RMB18.4 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing differences on income tax. Thus, no deferred tax was recognised as at 31 December 2005 and 31 December 2006.

### (ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the boards of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB6.5 million (2005: approximately RMB4.6 million).

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

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

### (iii) Deferred income

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

Under HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB3.2 million received in the current and prior year, were completed. As at 31 December 2006, accumulated deferred income amounting to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB49.8 million (2005: approximately RMB48.5 million) was released to the current year's income statement. As at 31 December 2006, the accumulated deferred income released amounted to approximately RMB140.2 million (31 December 2005: approximately RMB90.5 million).

(Prepared under Hong Kong Accounting Standards)
31 December 2006

## 47. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (CONTINUED)

### (iii) Deferred income (continued)

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2006, accumulated specific payables transferred to the capital reserve amounted to approximately RMB588.6 million (31 December 2005: approximately RMB585.4 million).

### (iv) Furnace relining costs

Under HKAS 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.

Under the PRC Accounting Standard Fixed Assets issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2005: Nil), and the remaining provision as at 31 December 2006 amounted to approximately RMB74.5 million (2005: approximately RMB74.5 million).

### (v) Bonds with warrants

Under HKAS 32 *Financial instruments: Disclosure and Presentation*, the bonds with warrants are determined as a compound financial instrument and should be separately classified as liability and equity components. At the issue date, the carrying amount of the liability component was determined to be approximately RMB4,767 million by measuring the fair value of a similar liability that does not have an associated equity component, and the equity component is then determined to be approximately RMB733 million by deducting the fair value of the liability from the fair value of the compound financial instrument as a whole of RMB5,500 million. Besides, the direct issue costs of the bonds with warrants were allocated between the separate components and the amount recognised as deduction from equity is approximately RMB18.8 million.

Under the PRC accounting standard and regulations, bonds with warrants were recorded as bonds payable at a nominal value of RMB5,500 million at the issue date. Besides, the direct issue costs of bonds with warrants were capitalised in construction in process.

## 48. POST BALANCE SHEET EVENTS

(i) The Company proposed to issue 20,000,000 short term commercial papers with a nominal value of RMB100 each, amounting to RMB2 billion in total. The short term commercial papers will be issued at par and have a maturity of one year from the date of issuance. The proceeds from the issue will be used to finance the working capital of the Company.

The proposal of issuance has been approved in the extraordinary general meeting held on 1 February 2007. Up to reporting date, the proposal is pending for approval of the People's Bank of China.

(ii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

## 49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.