2007
ANNUAL REPORT

MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Stock Code: 323
A Share Stock Code: 600808

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IMPORTANT NOTICES

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

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

Company Profile

1) BASIC INFORMATION

Company Name	:	馬鞍山鋼鐵股份有限公司 (abbreviated "馬鋼")
Company Name in English	:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C. L.)
Legal Representative	:	Gu Jianguo
Secretary to the Board of Directors	:	Gao Haijian
Representative for Securities Affairs	:	Hu Shunliang
Correspondence Address	:	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Telephone	:	86-555-2888158/2887997
Fax	:	86-555-2887284
Email Address	:	mggfdms@magang.com.cn
Company's Registered and Office Address	:	No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC
Postal Code	:	243003
Company's Website	:	http://www.magang.com.cn
Email Address	:	mggfdms@magang.com.cn
Newspapers for Information Disclosure	:	Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong)
Website Designated by China Securities Regulatory Commission (the "CSRC") for Publishing of Annual Report	:	http://www.sse.com.cn
The Company's Annual Report is Available at	:	Secretariat Office for the Board of Directors of Maanshan Iron & Steel Company Limited

Places of Listing	:	Shanghai Stock Exchange (A Share)/The Stock Exchange of Hong Kong Limited (H Share)
Stock Abbreviation	:	Magang Stock (A Share)/Maanshan Iron & Steel (H Share)
Stock Code	:	600808 (A Share)/323 (H Share)
Date of First Registration	:	1 September 1993
Place of Registration	:	Anhui Provincial Administration for Industry and Commerce
Corporate Business License	:	000970
Tax Registration No.	:	State Tax: 340504610400837
		Local Tax: 340504610400837
Organisation Code	:	61040083-7
Accountants Appointed by the Company	:	Ernst & Young Hua Ming Office Address: Level 16, (Block 3), Ernst & Young Tower, East Tower, Oriental Economic and Trade City, Oriental Plaza, No. 1 Changan Street East City East District, Beijing, PRC, Postal code: 100738
		Ernst & Young Hong Kong Office Address: 18/F, Two International Finance Centre, 8 Finance Street Central, Hong Kong

2) ISSUE AND LISTING

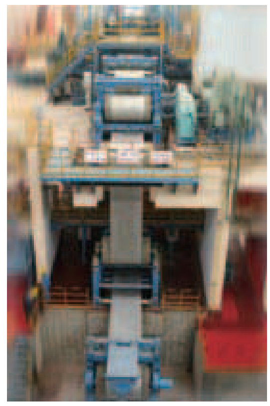
Maanshan Iron & Steel Company Limited (the "Company") was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies. The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 3 November 1993. The Company issued RMB common shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the Shanghai Stock Exchange (the "SSE") in three batches on 6 January, 4 April and 6 September in the following year.

On 13 November 2006, the Company issued bonds with warrants ("Bonds with Warrants") on the SSE. On 29 November 2006, the Company's bonds and warrants were listed on the SSE.

3) PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

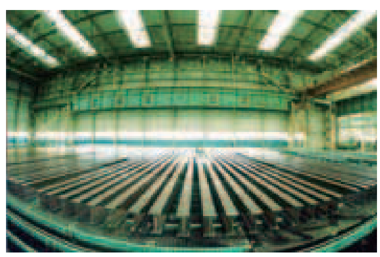
The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacture and sale of iron and steel products. The manufacturing process primarily involves iron-making, steel-making and steel rolling projects. The Company's principal product is steel products which come in four major categories: steel plates, section steel, wire rods and train wheels.

Steel plates



Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used in plates of automobile, home electrical appliances, high-grade construction plates, and plates used in businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, the national standard of the PRC, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six countries including China, the United Kingdom, Germany, the United States, France and Norway.

Section steel



Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under the Japanese JIS standards. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the "Golden Cup Prize of Quality Metal Products".

Wire rods

Major products include high-speed wire rod materials and hot-rolled reinforcing steel used in armoured concrete. High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed "The First Lot of Quality Products Exempted from Inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong. Hot-rolled reinforcing steel and hot-rolled wire rods have been endorsed by the quality control system certification and product certification of the UK Certification Authority for Reinforcing Steels (CARES).

Train wheels

Major products include train wheels and wheel rims, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honour of "Famous Brand of China". The Company owns the core technology and patent of train wheels used for high-speed railroads. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9000:2000 quality system and the AAR issued by the North American Railway Committee.

Extracts of Accounting and Business Data

1) TOTAL PROFIT OF THE COMPANY AND ITS SUBSIDIARIES (THE "GROUP") RECORDED FOR THE YEAR AND ITS BREAKDOWN PREPARED UNDER PRC ACCOUNTING STANDARDS (UNIT: RMB'000):

	2007
Operating profit	**2,831,791**
Profit before tax	**2,796,705**
Net profit attributable to shareholders of the Company	**2,475,382**
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**2,486,120**
Net cash flows from operating activities	**3,624,951**

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

Item	Amount
Net loss on disposal of non-current assets	(136,650)
Subsidy income	49,075
Other non-operating income and expenses, net	(306)
Amortisation for deferred income	52,795
Income tax effect	29,103
Effect of net tax expenses on minority shareholders	(4,754)
Total non-recurring gains or losses, net	(10,737)

2) ITEMS ACCOUNTED UNDER THE FAIR VALUE METHOD (RMB '000)

Item	Balance at the beginning of the reporting period	Balance at the end of the reporting period	Changes during the reporting period	Effects on the profit for the reporting period
Financial assets held for trading	–	1,463	1,463	720
Total	–	1,463	1,463	720

3) SUBSTANTIAL DIFFERENCE BETWEEN THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS (RMB MILLION)

		PRC Accounting Standards	Hong Kong Accounting Standards
Net profit attributable to shareholders of the Company		2,475	2,467
Explanation on the differences	Net profit under PRC Accounting Standards for Business Enterprises		2,475
	Minus: Employee bonus and welfare fund		(8)
	Net profit under Hong Kong Accounting Standards		2,467

Note: For reasons of the difference, please refer to Note 1 to the financial statements prepared under PRC Accounting Standards and Note 49 to the financial statements prepared under Hong Kong Accounting Standards.

4) MAJOR ACCOUNTING FIGURES AND FINANCIAL INDICATORS FOR THE LAST FIVE YEARS (UNIT: RMB'000)

1. Major Accounting Figures and Financial Indicators Prepared under PRC Accounting Standards

Index item	2007	2006		2005		2004		2003	
		After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment
Operating income	**50,645,395**	35,410,061	34,319,874	32,528,616	32,083,096	27,133,843	26,770,055	17,240,259	15,740,348
Profit before tax	**2,796,705**	2,806,478	2,756,726	3,370,765	3,322,267	4,068,017	4,029,637	2,991,470	2,987,914
Income tax	**220,591**	347,378	422,239	415,334	433,775	460,984	441,259	203,860	193,769
Minority interests	**100,731**	57,901	57,901	40,872	40,872	12,572	12,572	1,173	1,173
Net profit attributable to shareholders of the Company	**2,475,382**	2,401,199	2,276,586	2,914,559	2,847,620	3,594,461	3,575,807	2,786,437	2,792,971
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**2,486,120**	2,356,807	2,234,107	2,896,049	2,877,608	3,547,279	3,567,004	2,791,130	2,801,221
Net cash flows from operating activities	**3,624,951**	5,282,804	5,282,804	6,170,942	6,170,942	6,102,277	6,102,277	3,568,687	3,568,687
Basic earnings per share (RMB)	**0.382**	0.372	0.353	0.451	0.441	0.557	0.554	0.432	0.433
Diluted earnings per share (RMB)	**0.350**	0.370	0.351	0.451	0.441	0.557	0.554	0.432	0.433
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.383**	0.365	0.346	0.449	0.446	0.550	0.553	0.432	0.434
Net cash flows from operation activities per share (RMB)	**0.5592**	0.8184	0.8184	0.9559	0.9559	0.9453	0.9453	0.5528	0.5528
Return on net assets (%)									
– Fully diluted	**10.76**	11.74	11.31	15.74	15.08	21.11	20.51	18.85	18.67
– Weighted average	**11.39**	11.96	11.37	15.76	15.10	21.66	21.35	20.46	20.71
Return on net assets excluding non-recurring gains or losses (%)									
– Fully diluted	**10.81**	11.52	11.10	15.64	15.24	20.84	20.46	18.88	18.72
– Weighted average	**11.44**	11.74	11.16	15.66	15.26	21.38	21.30	20.49	20.77

Index item	At the end of 2007	At the end of 2006		At the end of 2005		At the end of 2004		At the end of 2003	
		After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment
Total assets	**71,083,141**	54,851,010	54,842,867	38,942,727	38,878,377	31,507,104	31,461,195	26,420,863	26,355,229
Shareholders' equity attributable to shareholders of the Company	**23,008,971**	20,461,772	20,122,107	18,514,504	18,881,716	17,024,727	17,435,578	14,784,463	14,960,345
Net assets per share attributable to shareholders of the Company (RMB)	**3.55**	3.17	3.12	2.87	2.92	2.64	2.70	2.29	2.32

2. Major Accounting Figures and Financial Indicators Prepared under Hong Kong Accounting Standards

Index item	2007	2006	2005	2004	2003
Turnover	**49,052,851**	34,319,874	32,083,096	26,770,055	15,740,348
Profit before tax	**2,788,575**	2,799,931	3,366,149	4,065,876	2,864,232
Income tax	**220,591**	347,378	415,334	460,984	203,861
Minority interests	**100,731**	57,901	40,872	12,572	1,173
Net profit from ordinary activities attributable to shareholders	**2,467,253**	2,394,652	2,909,943	3,592,320	2,659,198
Net cash flows from operating activities	**3,624,951**	5,282,804	5,859,943	6,413,276	3,568,687
Basic earnings per share (RMB)	**0.381**	0.371	0.451	0.556	0.412
Diluted earnings per share (RMB)	**0.349**	0.369	0.451	0.556	0.412
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.382**	0.364	0.455	0.555	0.413
Net cash flow per share from operating activities (RMB)	**0.5592**	0.8184	0.9078	0.9935	0.5528
Return on net assets (%)					
– Fully diluted	**10.72**	11.70	15.72	21.10	17.98
– Weighted average	**11.36**	12.15	15.75	21.66	19.43
Return on net assets excluding non-recurring gains or losses (%)					
– Fully diluted	**10.77**	11.50	15.88	21.05	18.04
– Weighted average	**11.41**	11.93	15.91	21.61	19.49

Index item	At the end of 2007	At the end of 2006	At the end of 2005	At the end of 2004	At the end of 2003
Total assets	**70,914,865**	54,716,446	38,933,765	31,195,785	26,418,528
Shareholders' equity attributable to shareholders of the Company	**23,008,971**	20,461,771	18,514,504	17,024,727	14,788,020
Net assets per share attributable to shareholders of the Company (RMB)	**3.55**	3.17	2.87	2.64	2.29

Note: The above earnings per share and return on net assets are computed on the formula stipulated in the "Regulations for the Preparation of Information Disclosure by Listed Securities Companies (No.9) – Calculation and Disclosure of Return on Net Assets and Earnings per Share"《公開發行證券公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》(2007 Amendment) issued by the CSRC on 2 February 2007.

5) THE GROUP'S MAJOR BUSINESS DATA FOR THE LAST 3 YEARS (UNIT: '000 TONNES):

Product category	Sales of 2007		Sales of 2006		Sales of 2005	
	Volume	Percentage (%)	Volume	Percentage (%)	Volume	Percentage (%)
Steel plates	**5,390**	**41**	3,220	32	3,040	35
Section steel	**2,790**	**21**	2,790	27	2,260	26
Wire rods	**4,670**	**36**	3,960	39	3,210	37
Train wheels and wheel rims	**240**	**2**	220	2	180	2
Total	**13,090**	**100**	10,190	100	8,690	100

Note: In 2006 and 2007, the Group's product sales volume included that of the controlling subsidiary Ma Steel (Hefei) Iron & Steel Co. Ltd., besides that of the Company.

6) MOVEMENTS IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD (UNIT: RMB'000)

1. Prepared under PRC Accounting Standards

Item	Share capital	Capital reserve	Surplus reserve	Retained profits	Exchange fluctuation reserve	Minority interests	Shareholders' equity
At the beginning of the year	6,455,300	5,450,439	2,637,160	5,918,872	–	310,497	20,772,268
Increase during the year	303,252	701,527	264,403	2,475,383	9,630	161,284	3,915,479
Decrease during the year	–	(95,273)	–	(1,111,722)	–	(25,266)	(1,232,261)
At the end of the year	6,758,552	6,056,693	2,901,563	7,282,533	9,630	446,515	23,455,486

2. Prepared under Hong Kong Accounting Standards

Item	Share capital	Capital reserve	Equity component of Bonds with Warrants	Surplus reserve	Retained profits	Exchange fluctuation reserve	Minority interests	Shareholders' equity
At the beginning of the year	6,455,300	4,864,976	585,463	2,637,160	5,918,872	–	310,497	20,772,268
Increase during the year	303,252	841,877	–	264,402	2,467,253	9,630	161,284	4,047,698
Decrease during the year	–	–	(235,623)	–	(1,103,591)	–	(25,266)	(1,364,480)
At the end of the year	6,758,552	5,706,853	349,840	2,901,562	7,282,534	9,630	446,515	23,455,486

Reasons for movements: (1) The increase in capital reserve was due to the share premium arising from exercise of warrants of the Company. (2) The net increase in surplus reserves is based on the Group's profit for the year and the relevant statutory contribution. (3) The increase in retained profits was due to increase in the Group's profit during the year. The decrease in retained profits was due to the Company's proposed dividend distribution for ordinary shares. (4) The increase in the proposed dividend distribution for ordinary shares was due to the appropriation of dividend distribution for ordinary shares for year 2007. The decrease in the proposed dividend distribution for ordinary shares was due to the distribution of dividend for ordinary shares for year 2006 during the reporting period.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I hereby present to you the operating results of the Group for 2007.

In accordance with PRC Accounting Standards, the Group's sales income for 2007 amounted to RMB50,645 million, representing an increase of 43.03% over the previous year; net profit attributable to shareholders of the Company in 2007 amounted to RMB2,475 million, representing an increase of 3.09% over the previous year. Earnings per share stood at RMB0.382, representing an increase of 2.69% over the previous year. In accordance with Hong Kong Accounting Standards, the Group's sales income for 2007 amounted to RMB49,053 million, representing an increase of 42.93% over the previous year; net profit from ordinary activities attributable to shareholders of the Company in 2007 amounted to RMB2,467 million, up 3.01% from the previous year. Earnings per share stood at RMB0.381, representing an increase of 2.70% over the previous year. Taking into account the Company's profit and future sustainable development, the Board of Directors proposes to distribute a 2007 final dividend of RMB0.13 (tax inclusive) per share in cash, and no conversion of capital reserve fund into share capital will be conducted.

Looking back on 2007, the overall global economy grew relatively rapidly, but the growth rate declined due to the impact of falling US property prices and the sub-prime credit crisis. Demand was robust in the international market, with prices of primary products such as iron ore, coal and petroleum continuing to rise significantly. Global production of crude steel was approximately 1,344,000,000 tonnes, representing a slightly moderated increase of 7.5% as compared to the previous year. During 2007, China had repeatedly raised the deposit reserve ratio and the lending interest rates, with the monetary policy changed from a stable one to one of considerably tightening. The national economy demonstrated a sound trend of rapid growth, optimised structure and increased efficiency, with a GDP growth of 11.4% over the previous year. Yearly fixed asset investments of the society at-large rose 24.8% over the previous year to approximately RMB13,720 billion, with the growth rate representing a 0.9 percentage-point increase. Yearly investments in property developments amounted to approximately RMB253 billion, up 30.2% over the previous year which represents a growth rate with an 8.4 percentage-points increase. The drive impact of investments on the national economy remained significant. The domestic iron and steel industry actively enforced the State's policy of phasing out obsolete production capacity, thereby achieving substantial results. Iron and steel production growth remained rapid but the growth rate has moderated, with the year's crude steel production amounting to 489,000,000 tonnes, up 16.8% over the previous year which represents a growth rate with a 2.9 percentage points decline. During the year, domestic steel product prices rose amid fluctuations. Affected by factors such as price hikes in iron ore and coal, there was a significant increase in costs and expenses for iron and steel enterprises. (Source: National Bureau of Statistics)

During 2007, the blast furnaces, converters, hot-rolling system and cold-rolling system of the Company's 5,000,000-tonne thin-plate production project in the New Area were successively completed and commenced production. Such facilities not only increased the Company's production capacity of steel plates by 5,000,000 tonnes, but also substantially optimised the Company's product mix and enhanced its product class.

With the completion and commencement of the New Area, the logistics flow increased substantially and the difficulty of maintaining balanced production increased as well. Under the premise of maintaining balanced and stable production for the Old Area and rapidly reaching the break-even point for the New Area, the Company optimised resource allocation and strengthened production organisation, striving for a stable operation of facilities in the New and Old Areas to achieve a substantial growth in the output of major products. Meanwhile, the Company initiated an in-depth programme of "adjusting product mix, enhancing variety and quality" and made solid progress on "research-production-sales" integration, as well as fully leveraging the supporting impact of technological innovations, thereby developing and producing approximately 1,250,000 tonnes of new products including pipeline steel, plates for automobiles and heavy-haul train wheels, as well as exporting approximately 1,230,000 tonnes of steel products.

In 2007, the Group produced 12,700,000 tonnes of pig iron, 14,170,000 tonnes of crude steel and 13,190,000 tonnes of steel products (among which the Company produced 11,530,000 tonnes of pig iron, 12,700,000 tonnes of crude steel and 11,760,000 tonnes of steel products), representing increases of 34.53%, 29.88% and 28.81%, respectively, over the previous year.

The aforementioned output growth was mainly a result of the New Area's commencement of operation. As the New Area was unable to reach its designated production capacity rapidly after commencement of operation and that fixed asset depreciation and financial costs increased substantially, while overall speaking the New Area's products managed to report moderate profits, certain products have yet to reach the break-even points and the Company's profitability was unable to grow in line with the output.

In 2007, besides bank borrowings, the Company raised the funding required for its production operation through various channels. On 31 August 2007, the Company successfully issued RMB2,000 million of short-term commercial papers with a term of 365 days at a coupon rate of 4.2%. Proceeds from the issue would be applied to satisfy the Company's liquidity needs for its production operation. From 15 November to 28 November 2007, the first exercise of 馬鋼CWB1 warrants took place and net proceeds raised amounted to approximately RMB1,004.78 million. The proceeds will continue to be used for the payment of construction costs of the 5,000,000-tonne cold and hot thin-plate production project and for the repayment of the project's bank borrowings and interests. The raising of such funds helps the Company to lower its capital costs and to save financing costs.

In 2007, with reference to the Company's engineering construction needs, the Company invested in The 17th China Metallurgical Construction Co., Ltd.. With reference to the Company's strategic planning, the Company joined Chery Automobile Co., Ltd. and Foshan Shunde Shunfeng Material Supply Co., Ltd. (佛山市順德區順豐物資供應有限公司) to establish Magang (Wuhu) Material Technology Co., Ltd. (馬鋼(蕪湖)材料技術有限公司). To safeguard the Company's imported ore supply, the Company joined Shanghai International Port (Group) Co., Ltd., Hong Kong Jue Rui Investment Co., Ltd. (香港珏瑞投資有限公司) and Baoshan Iron & Steel Co., Ltd. to establish Shanghai Luojing Ore Terminal Co., Ltd. (上海羅涇礦石碼頭有限公司). In order to enhance the Company's rolling technology standards to ensure the roll supply for the Company, the Company joined Union Electric Steel (Hong Kong) Co., Ltd. (聯合電鋼(香港)有限公司) to establish Magang-Union Electric Steel Roll Co., Ltd. (馬鋼聯合電鋼軋輥有限公司). In addition, considering the actual condition of Maanshan Municipality's used car market, the Company invested and established the wholly-owned subsidiary Maanshan Used Automobile Trading Centre Co., Ltd. (馬鞍山市舊機動車交易中心有限責任公司).

As one of China's largest iron and steel producers and marketers, the Company conscientiously fulfilled its social obligations as an enterprise. The Company emphasised production safety and emphasised environmental protection, as well as developing a recycling economy. Compared to the previous year, sulphur dioxide emissions decreased by approximately 4,809 tonnes, while chemical consumption of oxygen decreased by approximately 1,186 tonnes. During 2007 the Company's water recycling rate was approximately 95%, while the gas emission rates for blast furnaces and coke furnaces were approximately 7% and 4%, respectively, and the industrial solid waste use rate was approximately 93%. The Company also actively participated in aiding disaster-hit regions and took initiative to support key poverty-aid counties, as well as giving care to children who miss education and giving donations to help impoverished staff.

Looking ahead towards 2008, international oil prices will remain at high levels and prices of primary products such as iron ore and coke will continue to rise. Inflationary risks will further increase, while the US property market slump and the sub-prime credit crisis are not expected to see significant improvement. Accordingly, authoritative international institutions such as the World Bank expect that overall speaking the growth of the global economy will further slow down in 2008. The US adopts a series of measures such as interest rate cuts to stimulate economic growth, while western Europe and Japan are expected to maintain faster economic growth. Large emerging markets such as India will maintain the robust growth momentum. Estimates suggest that the demand for steel products in the international market will continue to remain at a relatively high level.

In 2008, China's national economy will maintain the objective of "attaining sound and rapid growth". The country will adopt a stable fiscal policy and a contractionary monetary policy in order to prevent the structural increases in domestic market prices from becoming an apparent inflation. Efforts will be dedicated to adjust the economy's structure and the mode of economic growth, as well as striving for enhancements in energy conservation, emissions reduction and protection of the ecological environment. Iron and steel enterprises will face various difficulties such as substantial price hikes in raw materials and fuel such as iron ore and coke, and increased steel product export tariffs, with an apparent increase in the pressure on production operation costs and expenses.

In 2008, the operation focus of the Group is to enhance product quality and to optimise the product mix, as well as unleashing the production capacity of the newly commenced 5,000,000-tonne thin-plate production project, thereby achieving the work objective of "Swiftly changing the development mode; Significantly enhancing operating results".

The Group's 2008 operating targets are: producing 15,000,000 tonnes of pig iron, 16,900,000 tonnes of crude steel and 15,820,000 tonnes of steel products (among which the Company plans to produce 13,500,000 tonnes of pig iron, 15,000,000 tonnes of crude steel and 13,960,000 tonnes of steel products).

Accordingly, the Group intends to adopt the following measures:

- **Accelerating product research and development in the New Area**

  Fully leveraging the additional production capacity of the New Area and targeting the advanced standards of its peers, the Company will develop a dynamic enhanced model of the New Area's product mix to accelerate new product development. It will carry out standardised operation and achieve stable, balanced and high-efficiency production, enhancing the quality and profitability of products.

- **Reducing costs and expenses**

  The Company will work hard on projective analysis and research on raw material and fuel markets, strengthen strategic cooperation with suppliers, promote domestic production of spare parts and components, and reduce procurement costs. With raw material and fuel prices in both the domestic and foreign markets rising rapidly, the Company will optimise its transportation plans, strengthen the dynamic control and flexible adjustment of the entire logistics flow of raw materials, fuels and products, thereby achieving effective connection between the logistics flows within and outside the Company and reducing logistics costs. The Company will also strive to effectively control its cash flow and capital reserve management, so as to improve the liquidity of funds, reduce fund appropriation and lower the financing cost.

- **Raising the abilities in technological innovation**

Enhancing the market-oriented technological innovation system of integrated "production-studies-research" to create better conditions and environment for raising the abilities in technological innovation. The Company will strengthen the research on integrating construction and technology and actively integrate internal resources, in order to form a system of integrated construction and technology which is based on construction projects and combines production, research and development, and facility production into a single unit. Accordingly, the Company will push forward the process of materialising, industrialising and marketising new technological innovations. The Company will also strengthen the management of intellectual property and enhance the systems of intellectual property management and protection, thereby establishing and improving an incentive system on intellectual property.

- **Cultivating and expanding new profit growth sources**

The Company will work hard on the construction projects such as the second phase of the capacity enhancement of train wheel rolling system, the silicon steel production line, the large-scale roll production line and the forged steel production line, as well as pushing forward the integration of project construction technology. The Company will also actively develop external markets and expand its external market shares.

- **Pushing ahead energy conservation and emissions reduction**

  Taking the opportunity of being included as one of the State's second group of recycling economy pilot enterprises, the Company will push forward the development of a recycling economy and enhance the overall utilisation of resources. The Company will strengthen the quantitative management of resources and develop an analysis system of energy consumption statistics and utilisation situation. The operation mechanism of energy conservation and emissions reduction will be enhanced, with the implementation of an all-staff incentive scheme on energy conservation and emissions reduction being a priority.

- **Strengthening environmental protection**

  The Company will strengthen the maintenance of environmental protection facilities and promote advanced environmental protection technology. The functions of the energy and environmental protection supervision stations and the technological centre's monitoring and testing setup will be fully utilised, in order to enhance the monitoring, testing and supervisory abilities and the speed of response, thereby striving to develop the Company into a State-graded environment-friendly enterprise.

Finally, on behalf of the Board of Directors, I express my gratitude to all shareholders for their keen support to the Company over the past year. In the new year, the Board of Directors will endeavour to perform their duties diligently and faithfully, bringing better returns to shareholders.

Gu Jianguo
Chairman

17 April 2008
Maanshan City, Anhui Province, the PRC

Management Discussion and Analysis

1) REVIEW OF THE OPERATING ENVIRONMENT

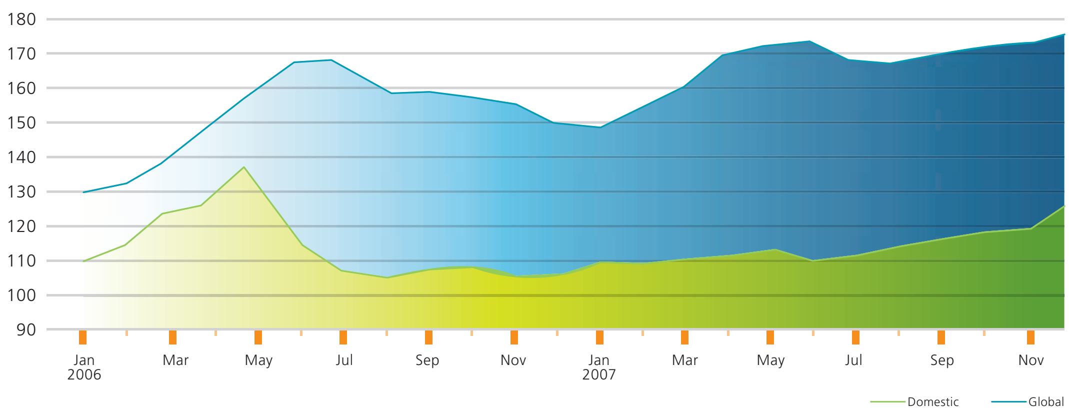
1. The Steel Product Market

In 2007, global demand for steel products was robust. Steel product prices in the international market hovered at relatively high levels. The year's average consolidated index for global steel product prices was 167.2, up approximately 10.5% over 2006, of which the index for long products rose 24.7% and that of steel plates rose 3.7%. The consolidated index for global steel product prices at the end of 2007 was 176.2, up 17.3% over the end of 2006, of which the index for long products increased by 35.1% and that of steel plates increased by 8.3%. The index for global long product prices set a historic high at the end of December 2007. For the whole year, the overall price level of global steel products, including long products and steel plates, was higher than that of the corresponding period of the previous year.

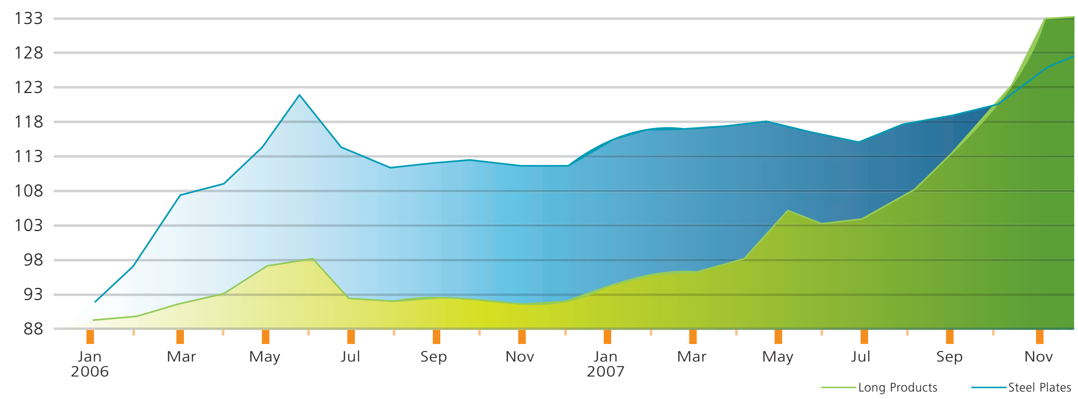
In 2007, China's national economy continued to maintain a steady and relatively fast growth. Major downstream steel-consuming industries such as construction, machinery, automobile, electricity, container and shipbuilding reported relatively fast growth and there was a robust demand for steel products. The relevant provinces and municipalities have been endeavouring to enforce the first batch of the "Undertaking Statement on Closing and Eliminating Obsolete Production Capacity of Iron and Steel". The iron and steel enterprises made substantial progress in eliminating obsolete steel-making and iron-making capacities. Total production volume of steel products increased, but the rate of increase for long products was lower than that of steel plates, highlighting a further change in the product mix regarding supply in the steel product market. Aggregate supply and demand of steel products in the domestic market were generally balanced. The average consolidated index for domestic steel product prices was 113.49 for the year, up 8.16% over 2006, of which the index for long products climbed 15.92% and that of steel plates climbed 7.7%. Comparing the end of 2007 to the end of 2006, the consolidated index for domestic steel product prices rose from 105.15 to 125.12, representing an 18.99% increase, of which the index for long products rose 43.72% while that of steel plates rose 12.55%. For the whole year, the price level of steel products was higher than that of 2006 and reached the year's peak by the year's end. (Source from China Iron and Steel Association)

In general, steel product prices in the domestic and global markets moved in line with each other during 2007.

2007 Consolidated Indices for Global and Domestic Steel Product Prices

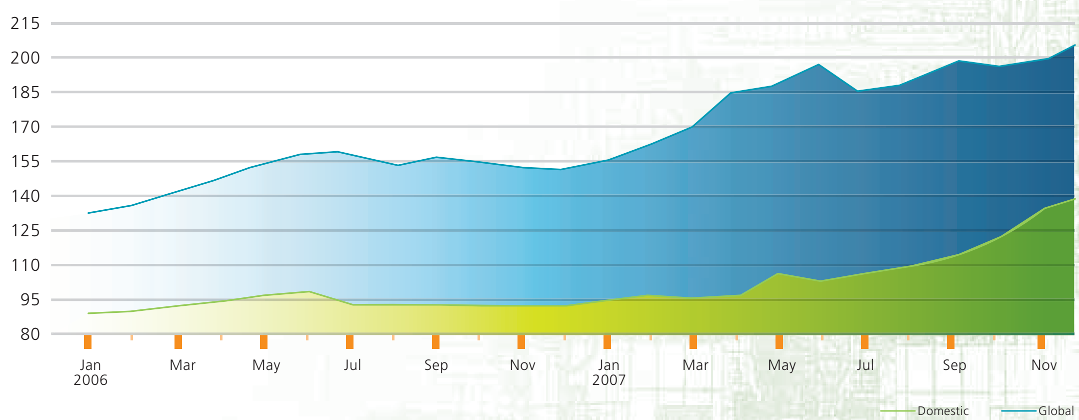


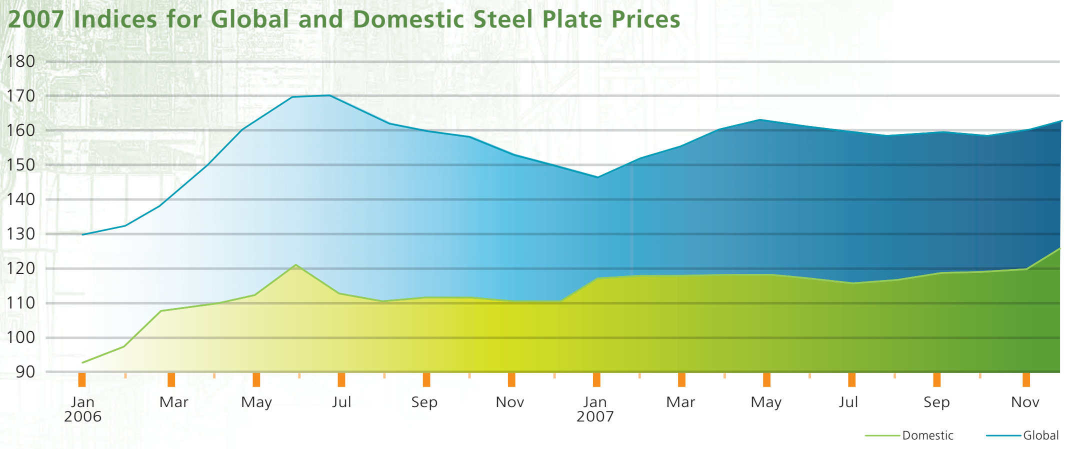
2007 Indices for Domestic Long Product and Steel Plate Prices



During 2007, with the increase in the export volume of Chinese steel products, trade frictions increased between China, a major iron and steel producer, and Europe and the US, which are the major consumers of steel products. Since April, the State has successively launched measures such as export tax rebate reduction and imposition of export tariffs which aimed at limiting iron and steel product exports. The relevant policies made significant impact in the second half of 2007 and changed the trend of rapid growth for Chinese iron and steel product exports, and there were even negative growth in some occasions. In the first half of 2007, China's exports of steel products and steel billets were equivalent to approximately 40,320,000 tonnes of crude steel, while steel product and steel billet imports were equivalent to approximately 9,390,000 tonnes of crude steel. Balancing imports and exports, there was a net crude steel export of approximately 30,930,000 tonnes, up 179.6% year-on-year. During the second half, exports of steel products and steel billets were equivalent to approximately 32,750,000 tonnes of crude steel, while steel product and steel billet imports were equivalent to approximately 8,800,000 tonnes of crude steel. Balancing imports and exports, there was a net crude steel export of approximately 23,950,000 tonnes, up by a mere 1.22% year-on-year and down by 22.55% as compared to the first half of 2007. Of these, net exports of crude steel decreased by 24.46% year-on-year during the fourth quarter. (Source from China Customs)

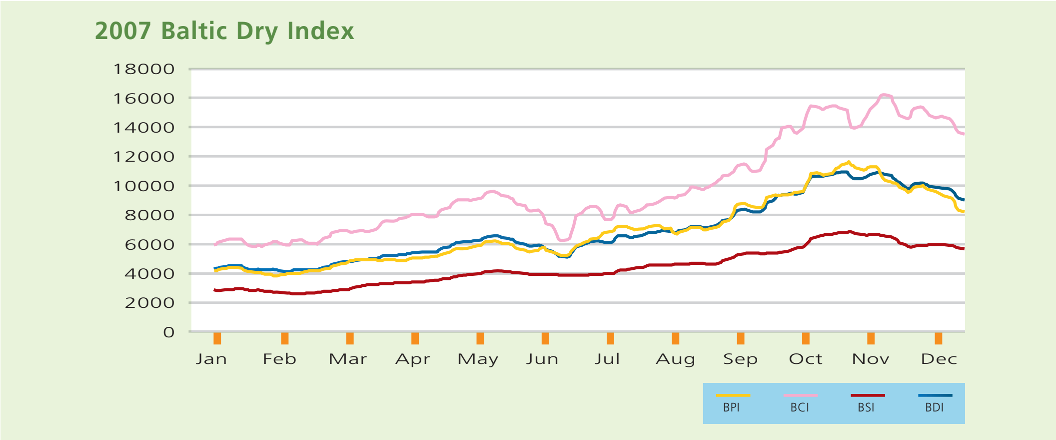
2007 Indices for Global and Domestic Long Product Prices





2. The Markets of Raw Materials, Fuels and Transportation

In 2007, the global prices of iron ore, coke and petroleum and shipping fees underwent a continued increase, with the global benchmark price of iron ore having increased by 9.5% year-on-year. Domestic prices of raw materials, fuels, energy and transportation also witnessed a trend of continued increase. Affected by such factors, costs and expenses for large/medium domestic iron and steel enterprises increased significantly in 2007, of which costs of sales increased by 32.75% and sales expenses increased by 32.46%. (Source from China Iron and Steel Association)



3. The Monetary Market

In 2007, China's monetary policy changed from a prudent one to one of appropriately contractionary. The People's Bank of China adjusted the statutory deposit reserve rate 10 times successively from 9% as at the beginning of the year to 14.5% by the year's end; the RMB lending interest rates were raised six times successively, with the one-year lending benchmark interest rate raised from 6.12% as at the year's beginning to 7.47% by the year's end. In 2007, the finance costs for large/medium domestic iron and steel enterprises increased by 47.68% as compared to 2006. (Sources from The People's Bank of China and China Iron and Steel Association)

2) BASIC STRATEGIES AND MAJOR WORK

In 2007, approximately 80% of the iron ore procured by the Company was imported from overseas, while the FOB price and shipping fees of imported iron ore increased substantially as compared to 2006. Meanwhile, the New Area's 5,000,000-tonne thin-plate production project has commenced production. The logistics flow increased substantially and there was an immense difficulty in maintaining balanced production. As the New Area takes time to reach and surpass the break-even point, there was immense pressure on production operation. Facing such conditions, the Company adopted various measures to deepen the standardisation effort and accelerate the implementation of the low-cost strategy and the brand strategy. Requirements on technical standards and management standards were delegated to various positions to be implemented by individual persons-in-charge for effective enforcement. The major work was as follows:

- **Deepened the standardisation effort and reinforced basic management.**

  In 2007, the Company deepened the standardisation effort, embodying crucial elements such as management requirements, technical indices and market demand into the standards, while the issues of establishing a standardised position-based operation system and the effectiveness of the standardised position-based operation system were deemed the focus of inspection. Through determining the stability and balance of pre-blast furnace iron production and through measuring various concrete indices such as the realisation rate of the steel rolling system's planned steel production (unit: furnaces), the one-off realisation rate of standardised product production plan and the realisation rate of product sales contracts, the actual progress results of various units' standardisation effort were appraised. The Company has basically established a continuously improving and effectiveness-sustaining system of corporate standardisation, with the technical standard system as the main trunk and the management standard system and work standard system as the ancillary items. Accordingly, the support provided by the standardisation effort on enhancing the variety and quality of the Company's products is gradually emerging.

- **Continued with the low-cost strategy, increased the output of products with higher profitability.**

  Based on the conditions of the raw material and fuel markets and the actual production needs, the Company scientifically balanced its resources. The allocation of resources such as imported iron ore, domestic iron ore, pig iron and scrap steel were continuously optimised, while full-process cost control was practised from procurement, storage, production to sales, and the Company strove to alleviate the cost pressure brought by rising prices of raw materials, fuels and transportation. Through dedicated efforts on the production coordination of the new and old systems, the Company balanced the supply logistics of the new and old systems and strove to unleash the production capacity of the New Area. Based on the condition of the steel product market, the Company timely adjusted its production plan and increased the output of more profitable products such as medium plates, cold-forged steel, small H-shaped steel, train wheels and wheel rims. During the year, the Company produced approximately 560,000 tonnes of cold-forged steel, approximately 940,000 tonnes of medium/thick plates, approximately 690,000 tonnes of small H-shaped steel and approximately 240,000 tonnes of train wheels and wheel rims.

- **Continued with the brand strategy and enhanced the technological innovation system to provide support for rapid changes in the development mode.**

To further enhance the technological innovation system, the Company integrated its existing technological innovation systems to form a technological innovation management and operation system, with the core items being setting scientific research projects, process management, completion inspection and acceptance and intellectual property management. A "research-production-sales" working system was built to strengthen the cooperation between technology, production and sales, thereby shortening the product development cycle and assuring the enhancement of actual product quality. As for the development of new products, the Company was guided by market demand and emphasised the priority of efficiency, with a focus on resolving skills and technical issues such as improving the product realisation rate and building the Magang brand. Meanwhile, with reference to the characteristics of the New Area's facilities, the Company developed a series of products such as the high-class DC04 deep-drawing plate and the X65 to 80 pipeline steel from a high starting point. The Company's train wheel products were bestowed the honour of "Famous Brand of China", while hot-rolled wire rods were certified by the UK Certification Authority for Reinforcing Steels (CARES). The class B plates for vessels were endorsed by certificates issued by China. During the year, the Company's expenses on scientific research and development amounted to approximately RMB243 million.

- **Accelerated the construction of key projects and ensured the commencement of the New Area as scheduled.**

Closely following the overall project construction objective of "High Starting Level, Low Investment, Fast in Speed and Good Quality", the construction of the New Area was carefully organised, with obstacles and difficulties overcome. The iron-making blast furnaces A and B commenced operation in February and May 2007, respectively. The steel-making converters

No. 1 and 2 commenced operation in March and May 2007, respectively. The hot-rolled broad belt system, the pickled cold-wire production line and the hot galvanising production line commenced production simultaneously in September 2007. Accordingly, the major items of the Company's 5,000,000-tonne cold and hot thin-plate project were fully completed and commenced operation. Meanwhile, the Company's information system development achieved substantial progress, establishing a comprehensive ERP system which covers all production lines of the Company's New and Old Areas. The system covers all core procedures ranging from the Company's planning, procurement, production, technology, quality, sales and finances, with integrated functions of decision-making, management and execution.

- **Various units cooperated closely, with the New Area's facilities gradually achieving a stable operation and passing the break-even point.**

With the gradual commencement of the New Area project, the relevant parties of the Company made every effort to achieve the coordination of the new and old systems in order to rapidly unleash the production capacity. Accordingly, the New Area's facilities gradually entered stable operation and steel product output increased month-by-month. Product quality was substantially enhanced and the New Area surpassed the break-even point, thereby achieving the Company's target set in mid-2007. During 2007, the New Area produced 4,590,000 tonnes of pig iron, 2,640,000 tonnes of crude steel and 2,410,000 tonnes of steel products. Among the steel product output, hot-rolled products amounted to approximately 2,090,000 tonnes, cold-rolled products amounted to approximately 240,000 tonnes and hot galvanised products amounted to approximately 80,000 tonnes. The New Area realised a sales revenue of approximately RMB8,232 million and the gross margin of products was approximately 6%.

- **Accelerated the elimination of obsolete production capacity and worked diligently on energy conservation and emissions reduction.**

To strengthen the control on environmental pollution sources, the Company took the initiative to close down five 300-cubic metre blast furnaces which were permitted by the State industrial policy to operate until 2010. The Company actively built a network of energy and environmental protection organisations and established the energy and environmental protection committee and the energy and environmental protection department to specifically handle the work on energy, environmental protection and comprehensive utilisation of resources, thereby forming an organisational structure of three tiers for energy conservation and two tiers for environmental protection. Capitalising on the opportunity of pushing ahead the standardisation effort, the Company timely amended its documents on energy and environmental protection management systems, with reference to the environmental protection laws, rules and regulatory documents gradually promulgated by the State. Appraisal was strengthened, and a three-tier appraisal system which focuses on consolidated energy consumption per tonne of steel, energy conservation in work process and key energy-consuming facilities was established while a reward-punishment system for energy conservation was implemented. The Company raised funds for energy conservation and emissions reduction work through various channels, with six projects – namely the gas-steam combined cycle power plant (CCPP), the No.6 furnace, the saturated steam power generation project, the air blast dehumidification project, the New Area's burning residue heat power generation project and the Lufenhe sewage treatment project – have obtained approximately RMB146 million of State financial incentive funding for energy conservation projects. The Company also actively strove for the Clean Development Mechanism project (CDM) and initiated cooperation with climate change fund groups in the UK regarding carbon dioxide emissions reduction. In 2007, the Company also officially started the work on building a "State-graded Environment-Friendly Enterprise".

- **Emphasised competition and cooperation in sales and marketing to balance the interests of various parties.**

  By focusing on the promotion of the New Area's products and the reinforcement of technological services, the Company forged an intensive supply chain of iron and steel. The Company also strengthened strategic cooperation with end-customers and flexibly adjusted its export strategies, thereby achieving balanced production and sales and timely recovery of capital. By establishing strategic alliances with famous domestic automobile and home appliance enterprises, the Company satisfactorily resolved the issue of balancing various parties' interests. By strengthening the construction of information-based management, the Company thoroughly implemented regulated and information-based management. Accordingly, an efficient and regulated operation with fast response to market was formed, while a customer relations management system, a distant and foreign sales system, and a real-time online information enquiry and telephone voice enquiry system, as well as a special GPS transportation management system, were established. In 2007, the market share of the Company's steel products was approximately 2.8%.

- **Actively initiated external investments in coordination with the Company's principal iron and steel business.**

  During the reporting period, external investments continued to serve the Company's overall strategic planning. To secure resource supplies, to strengthen cooperation with end-customers and to introduce sophisticated technology and management ideas, the Company invested RMB2.7 million in The 17th China Metallurgical Construction Co., Ltd. for a 2.7% interest, as well as making the following external investments with internal funds (in million):

Company name	Principal activities	Equity interest held (%)	Investment amount
Maanshan Used Vehicle Trading Centre Co., Ltd.	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	100	RMB0.5
Ma Steel (Wuhu) Material Technique Co., Ltd.	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services.	71	RMB106.5
Ma Steel United Electric Steel Roller Co., Ltd	Developing, processing manufacturing and sale of steel roller, provision of after-sale services and technical consultancy services	51	RMB22.7

Company name	Principal activities	Equity interest held (%)	Investment amount
Shanghai Luojing Ore Terminal Co., Ltd.	Loading and unloading (including transition), storage, transition, warehousing, processing, dispatch and logistics information management for domestic and international cargoes; port facilities leasing; port information and technical consultation services.	12	US$11.88

Note: Magang (Wuhu) Material Technology Co., Ltd. completed the relevant industrial and commercial registration matters on 2 January 2008.

3) RESULTS OF THE GROUP'S PRINCIPAL OPERATING ACTIVITIES FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

1. Analysis of Operating Income by Segment and by Product

The iron and steel segment accounted for 92.89% of the Group's operating income. The iron and steel segment also accounted for 85.36% of the Group's gross operating profit.

Unit: RMB million

Business segment/ Product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	Year-on-year increase/ (decrease) of gross profit margin (%)
Iron and steel	47,042	42,144	10.41	43	45	a decrease of 1.29 percentage points
Product segment						
Steel plates	20,043	18,321	8.59	76	80	a decrease of 2.34 percentage points
Section steels	9,628	8,387	12.89	19	15	an increase of 3.50 percentage points
Wire rods	14,473	13,473	6.91	37	38	a decrease of 0.87 percentage point
Train wheels and wheel rims	2,355	1,449	38.47	4	11	a decrease of 5.26 percentage points

2. Geographical Analysis of Principal Operating Activities

Unit: RMB million

Region	**Percentage (%)**	**Operating income**	**Year-on-year increase/ (decrease) of operating income (%)**
Anhui	43	21,866	78
Jiangsu	14	6,870	34
Shanghai	12	6,053	39
Zhejiang	8	3,812	42
Guangdong	8	3,812	59
Other PRC regions	6	3,440	-5
Exports	9	4,792	25

- During the reporting period, the Group's gross operating margin was 11.33%, a decrease of 1.46 percentage points as compared to the corresponding period of the previous year. This was mainly attributable to the increase in the sales prices of the Company's steel products is slower as compared to the increase in steel product production costs.

4) ASSETS AND LIABILITIES OF THE GROUP AS AT THE END OF THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

1. Assets

As at the end of the reporting period, there were no material differences on the proportions of bills receivable, net amount of trade receivables, prepayments, net amount of other receivables, inventories, held-to-maturity investments, long-term equity investments, investment properties, construction materials and intangible assets out of total assets when compared to the previous year. The amount of net fixed assets accounted for 58.12% of total assets, an increase of 23.93 percentage points over the end of the previous year, which was mainly due to an increase in the Company's fixed assets during the reporting period as certain projects under construction achieved scheduled availability and were reclassified as fixed assets. Construction in progress accounted for 4.94% of total assets, a decrease of 29.21 percentage points over the end of the previous year, mainly owing to a decrease in the Company's projects under construction during the reporting period as certain projects under construction achieved scheduled availability and were reclassified as fixed assets.

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

2. Liabilities

As at the end of the reporting period, the ratios of short-term loans, bills payable, accounts payable, deposits received, other payables and bonds payable in relation to total assets had no material changes as compared to the end of the previous year. Long-term loans accounted for 23.32% of total assets, a decrease of 5.33 percentage points from the end of the previous year, which was mainly due to a smaller increase in long-term borrowings and a larger increase in short-term borrowings and long-term borrowings due within one year.

On 31 August 2007, the Company issued RMB2,000 million of short-term commercial papers with a term of 365 days.

5) EXPENSES AND INCOME TAX OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

During the reporting period, selling expenses increased by 27.00% over the previous year, which was mainly due to increases in sales volume of steel products, transportation costs and loading and unloading costs. Administrative expenses increased by 3.44% over the previous year. Financial expenses increased by 216.10% over the previous year, which was mainly because certain projects under construction in the New Area achieved scheduled availability and were reclassified as fixed assets and the relevant bank borrowings and payable bond interest expenses were no more available for capitalisation and began to be accounted as financial expenses.

During the reporting period, the enterprise income tax rate for the Company was adjusted from 15% to 33%. However, as the Local Taxation Bureau of Maanshan, Anhui Province permitted the Company to offset the additional 2007 enterprise income tax with investments in technological transformations for domestic facilities and that the change in income tax rate for the future resulted in adjustments to the deferred tax for the reporting period, the Group's income tax calculated under PRC Accounting Standards was actually 36.50% less than that of 2006.

6) OPERATING RESULTS DURING THE REPORTING PERIOD UNDER PRC ACCOUNTING STANDARDS

In 2007, the Group's operating income rose 43.03% over the corresponding period of the previous year, which was mainly due to an expansion in production scale and an increase in sales volume of the Company's steel products. Cost of sales increased by 45.02% over the corresponding period of the previous year, mainly due to an expansion in production scale and a rise in raw material costs. Operating profit increased by 2.55% over the corresponding period of the previous year, while net profit attributable to equity holders of the Company increased by 3.03% over the corresponding period of the previous year.

7) ANALYSIS OF THE GROUP'S CASH FLOWS FOR THE REPORTING PERIOD PREPARED UNDER PRC ACCOUNTING STANDARDS

In 2007, the Group realised a net profit attributable to equity holders of the Company amounted to RMB2,475 million, a difference of RMB1,150 million when compared to the net increase of cash flow amounting to RMB3,625 million generated from operating activities, which was mainly due to depreciation charges for fixed assets. The amount of net increase in cash flow generated from operating activities decreased by RMB1,658 million as compared to the corresponding period of the previous year, which was mainly due to an increase in the Company's raw material costs. The amount of net cash outflow from investing activities decreased by RMB7,270 million from the corresponding period of the previous year, which was mainly due to a decrease in acquisition and construction of fixed assets and external investments during the reporting period. The amount of net cash inflow from financing activities decreased by RMB4,289 million from the corresponding period of the previous year, which was mainly due to an increase in cash paid for repayment of borrowings.

8) MAJOR SUPPLIERS AND CUSTOMERS

In 2007, the Group's purchase from the top five suppliers totalled RMB8,465 million, accounting for 21% of the Group's total purchase amount for the year. The Group's sale to the top five customers totalled RMB5,337 million, representing 11% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is a controlling shareholder of the Company. Other than that, in 2007, none of the directors, supervisors, their connected parties and other shareholders (to the knowledge of the Board of Directors holding 5% or more of the Company's shares) held any beneficial interest in the Group's five largest suppliers or customers.

9) THE OPERATIONS AND RESULTS OF THE GROUP'S MAJOR CONTROLLING SUBSIDIARIES AND INVESTED ENTITIES

- Ma Steel (Hefei) Iron & Steel Co. Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB127 million. As at the end of the reporting period, it had total assets amounting to RMB2,206 million and net assets of RMB482 million.

- Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary with a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net profit for the reporting period amounted to RMB31 million. As at the end of the reporting period, it had total assets amounting to RMB4,140 million and net assets of RMB164 million.

- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB50 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB46 million. As at the end of the reporting period, it had total assets amounting to RMB316 million and net assets of RMB125 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$4.29 million, in which the Company holds a direct stakes of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB9 million. As at the end of the reporting period, it had total assets amounting to RMB91 million and net assets of RMB53 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stake of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB24 million. As at the end of the reporting period, it had total assets amounting to RMB999 million and net assets of RMB83 million.

- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB1,177 million and net assets of RMB168 million.

- Anhui Masteel Holly Industries Co. Ltd. (安徽馬鋼和菱實業有限公司) has a registered capital of RMB30 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB88 million. As at the end of the reporting period, it had total assets amounting to RMB290 million and net assets of RMB189 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB231 million and net assets of RMB209 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB541 million and net assets of RMB136 million.

- 馬鞍山港口（集團）有限責任公司 has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB35 million. As at the end of the reporting period, it had total assets amounting to RMB837 million and net assets of RMB304 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB69 million. As at the end of the reporting period, it had total assets amounting to RMB877 million and net assets of RMB536 million.

10) PROJECT CONSTRUCTIONS

In 2007, the Group's expenses on construction projects amounted to RMB10,670 million, representing a 34% decrease over the previous year.

1. Use of Fundraising Proceeds

- Use of proceeds from the issuance of Bonds with Warrants

  In 2006, the net proceeds from the Company's issuance of Bonds with Warrants, excluding issuing fees, amounted to approximately RMB5,355.65 million. Upon securing the proceeds, the Company followed the stipulations under the "Management System for Specified Depositing and Utilisation of Fundraising Proceeds" to strictly enforce the specified account depositing system for fundraising proceeds, with the proceeds solely used to invest in the 5,000,000-tonne cold and hot thin-plate production project as undertaken in the fundraising prospectus. In 2006, a total of approximately RMB3,846.35 million in fundraising proceeds had been used; and approximately RMB1,509.30 million in fundraising proceeds had been used in 2007. As at 31 December 2007, all of the proceeds had been used entirely on the 5,000,000-tonne thin-plate project.

Undertaken investment projects funded by fundraising proceeds (RMB million)

Undertaken project	Planned investment amount	Any changes to the project	Actual investment in the project	Revenue generated	Meeting planned progress or not	Meeting planned revenue or not
5,000,000- tonne cold and hot thin-plate production project	5,355.65	No	5,355.65	Not applicable	Yes	Not applicable
Total	5,355.65	–	5,355.65	–	–	–

The 5,000,000-tonne cold and hot thin-plate production project mainly comprises the Integrated Raw Materials Plot, the Iron-making System, the Steel-making System, the Hot-rolled Broad Belt System, the Pickled Cold Wire and Hot Galvanising Line and the Power Generating Plant Using Integrated Resources. The Iron-making System consists of two 3,600m^3 blast furnaces, with an aggregate designated annual production capacity of 5,670,000 tonnes; the Steel-making System consists of two 300-tonne converters, with an aggregate designated annual production capacity of 5,870,000 tonnes. The Hot-rolled Broad Belt System consists of a 2,250mm hot rolling production line with a designated annual production capacity of 5,500,000 tonnes. The Pickled Cold Wire and Hot Galvanising Line consists of a 2,230mm pickled cold wire production line and two hot galvanising production lines, with the former having a designated annual capacity of 2,100,000 tonnes and the latter having a designated annual capacity of 800,000 tonnes. During the reporting period, the main construction of the Company's 5,000,000-tonne cold and hot thin-plate production project was fully completed and had commenced operation.

- Use of proceeds from the exercise of 馬鋼 CWB1 warrants

In 2007, the net proceeds from the exercise of the 馬鋼 CWB1 warrants amounted to approximately RMB1,004.78 million. Upon securing the proceeds, the Company followed the stipulations under the "Management System for Specified Depositing and Utilisation of Fundraising Proceeds" to strictly enforce the specified account depositing system for fundraising proceeds, with the proceeds solely used to invest in the 5,000,000-tonne cold and hot thin-plate production project, or the repayment of the bank borrowings and incurred interests for the project, as undertaken in the fundraising prospectus. During the reporting period, approximately RMB307.12 million in fundraising proceeds had been used to satisfy the construction cost for the 5,000,000-tonne thin-plate project, while approximately RMB254.3 million had been used to repay the bank borrowings and interests incurred for the project.

2. **Major Investment Projects Financed by Other than Fundraising Proceeds (RMB million)**

Project name	Total investment	Construction progress
The cold-rolled silicon steel line	1,080	Currently in facility installation stage
Phase II of the capacity enhancement project of train wheel rolling system	380	In civil construction stage

11) FINANCIAL POSITION AND EXCHANGE RISKS

As at 31 December 2007, the total amount of loans borrowed by the Group was RMB22,733 million, including loans for working capital of RMB3,289 million and construction loans of RMB19,443 million. Except for foreign currency loans amounting to US$167 million, all other loans were denominated in RMB. Except for a US dollar loan which carried interests at LIBOR plus a fixed percentage, all other loans carried interests calculated at fixed interest rates. Movements of the Group's entire loans followed the developments in production and construction projects. No overdue payments have been recorded so far.

As at 31 December 2007, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 67.16%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 66.90%.

Other than internal resources and the proceeds from the Bonds with Warrants issue, all capital requirements for the Group's Eleventh Five-year Plan were financed through bank loans. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB34,520 million.

As at 31 December 2007, the Group's cash and balances with financial institutions amounted to RMB6,292 million. Bills receivable amounted to RMB4,194 million (of which bank bills receivable due within three months amounted to RMB2,564 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate continued to depreciate during the reporting period, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate is favourable to the Company. During the reporting period, the exchange rates of Euro and Japanese Yen have fallen compared to the time when the Company signed contracts for European and Japanese equipment purchases. Accordingly, the capital costs for actual payments in Euro and Japanese Yen were lower than the original estimates. The Company has been maintaining contacts with various banks to obtain information of emerging financial products from banks, so as to select products which are suitable for the Company to help the Company avoid possible exchange rate risks.

12) DIFFERENCES BETWEEN THE CONSOLIDATED ACCOUNTING STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS

During the reporting period, according to the financial statements prepared under the PRC Accounting Standards for Business Enterprises, net profit attributable to shareholders of the Company amounted to approximately RMB2,475 million; according to the consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRS"), net profit attributable to shareholders of the Company amounted to approximately RMB2,467 million. The difference was resulted from the appropriation of approximately RMB8 million of employee bonus and welfare fund by certain subsidiaries of the Company with reference to their respective articles of association and respective board of directors' resolutions. Pursuant to the relevant regulations under the PRC Accounting Standards for Business Enterprises, employee bonus and welfare fund shall be appropriated from the profit after tax. Pursuant to HKFRS, employee bonus and welfare fund are classified as staff costs and included in the profit and loss account of the reporting period.

13) IMPORTANT ACCOUNTING ESTIMATES AND JUDGMENTS BY THE COMPANY AND THE IMPACT ON THE COMPANY'S FINANCIAL POSITION AND OPERATING RESULTS

Judgments

In the process of applying the Group's accounting policies, the management makes accounting estimates, as well as the following judgments which have material impact on the amounts recognised in the financial statements:

1. Operating Leases – the Group as the Leasor

The Group enters into leasing contracts regarding investment properties. The Group is of the view that it retains all material risks and rewards attached to the ownership of such properties and therefore treats such items as operating leases.

2. The Classification of Investment Properties and Properties Retained for Own Use

The Group decides whether a property meets the conditions of an investment property and devised the standards for such judgment. Investment properties refer to properties held for the purposes of earning rents or capital appreciation or both purposes at the same time. Accordingly, the Group takes into consideration whether the cash flow generated by a property is primarily independent from other properties held by the Group.

For certain properties, part of them are held for earning rent or capital appreciation and part of them are held for the purposes of production, provision of products or services, or administrative uses. If such parts are sold separately (or leased separately under financed leases), the Group will separate these parts for accounting treatment. If such parts cannot be sold separately, the relevant property will be an investment property only if the parts held for the purposes of production, provision of products or services, or administrative uses are not significant.

Judgments are made for individual properties to determine whether the ancillary facilities are immensely important that disqualify the relevant property from being an investment property.

3. Uncertainties of Accounting Estimates

The following are other key sources of uncertainties for key assumptions and estimates in the future as at the date of the balance sheet, which may result in material adjustments to the book values of assets and liabilities in the next financial year.

4. Useful Lives and Impairments of Fixed Assets

The estimated useful lives of fixed assets are estimated on the basis of the actual useful lives of fixed assets of similar natures and functions in the past, with reference to past experience. If the useful life of a fixed asset is shortened, the Company will adopt measures to accelerate the depreciation of the fixed asset, or eliminate fixed assets which are idle or technologically obsolete.

Impairments of fixed assets and projects under construction are calculated by adopting the lower amount between the book value and the recoverable amount. The recoverable amount of an asset is determined by adopting the higher of the net amount after deducting the disposal expenses from the asset's fair value and the current value of the asset's estimated future cash flow. When discounting future cash flow into current value, the pre-tax discount rate will be adopted to reflect the time value of currency in the current market and the specific risks related to the relevant asset. When calculating the net amount after deducting the disposal expenses from the fair value, the prices used in arms-length transactions between voluntarily transacting parties who are familiar with the conditions as at the date of the balance sheet will be adopted.

5. Bad Debt Provisions for Receivables

Bad debt provisions for receivables are determined by the management with reference to objective evidence which affects the recovery of receivables (such as the possibility of bankruptcy or substantial financial difficulties for the debtor). The management will re-assess the bad debt provisions at the end of each year.

6. Provisions for Price Decreases of Inventories on the Basis of Realisable Net Value

The Group calculates its inventories by adopting the lower of the cost and the realisable net value. Provisions for price decreases of inventories are made for inventories (including spare parts) whose costs are higher than the realisables net value and those which are obsolete and slow-selling. At the end of each year, the Group will re-assess whether individual inventory items are obsolete and slow-selling and whether their realisable net values are lower than the costs of inventories.

The realisable net values of inventories are determined by deducting the estimated completion costs and sales expenses from the estimated prices in the course of daily operations. Such estimates are conducted on the basis of the existing market condition and the past experience regarding the production and sales of similar products. The management re-assesses such estimates on each term-end date.

7. Impairment of Available-for-sale Financial Assets

The Group classifies certain specific assets as available-for-sale financial assets and books the fair value changes of such items in the account of shareholders equity. When the fair value decreases, the management has to make assumptions to decide whether an impairment shall be recognised in the profit and loss account of the current period.

8. Income Taxes

The Group pays income taxes in various regions of China at different tax rates. As certain taxation matters remain to be recognised by the relevant taxation authorities, the Group has to make reliable estimates and judgments on the tax adjustments and amounts arising from such matters with reference to the existing tax laws and relevant policies. If any subsequent differences arise between the initial estimates on such matters and the actual finalised tax amount paid due to certain objective factors, the differences will affect the Group's tax amounts and tax payable for the current period.

9. Deferred Income Tax Assets

Within the scope of income tax payable which is likely to obtain deductable temporary differences for deduction and deducted with unused tax credits, the Group recognises deferred income tax assets arising from deductable temporary differences and unused tax credits. This requires the management to adopt a substantial amount of judgments to estimate the time and amount of the future income tax payable to be occurred, in combination with tax planning strategies, to decide on the amount of deferred income tax assets to be recognised.

14) IMPACT OF FAIR VALUE GAINS AND LOSSES ON THE COMPANY'S PROFIT

During the reporting period, the Group's financial assets held for trading were accounted for under the fair value method. The impact of fair value changes on the profit for the reporting period was approximately RMB720,000, equivalent to approximately 0.25% of the operating profit for the reporting period. The sustainability, risks and future trend of the item's profit has no material impact on the Company.

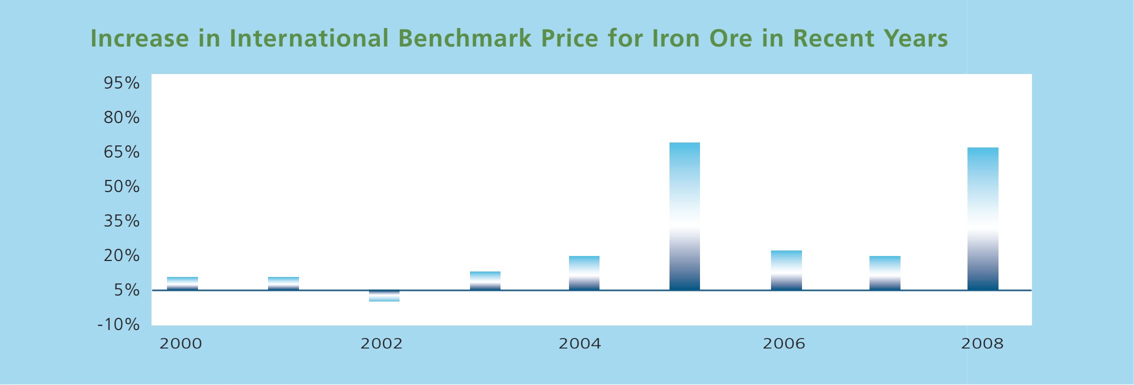
15) CHANGES IN THE PRODUCTION AND OPERATING ENVIRONMENT IN 2008 AND COPING STRATEGIES

In 2008, the expected objective for China's national economic and social development is: on the premise of structural optimisation, efficiency enhancement, consumption reduction and environmental protection, to achieve a GDP growth of around 8% and to control the overall increase in CPI at around 4.8%, while to improve the international balance of payments. Accordingly, the State will continue to adopt a prudent fiscal policy, fully leveraging the important impact of fiscal policy in facilitating structural adjustments and coordinating development, as well as substantially increasing expenses on aspects such as energy conservation and emissions reduction. The State will adopt a contractionary monetary policy and strengthen financial control, in order to rein in the excessive growth in money supply and credit volume. As for increasing effective supply and suppressing irrational demand, the State will adopt measures such as enhancing the monitoring and early warning system for supply-demand and price changes of primary products and preventing excessive increases in production material prices, in order to stop the overall price level from rising excessively. The State will continue to maintain the policy of expanding domestic demand and adjusting the investment-consumption relation, thereby switching the main drivers of economic growth from investment and exports to a coordinated trio of consumption, investment and exports. Stringent controls will be exercised on land and credit supply and market entry barriers, and the requirements for new

project commencements will be strictly enforced. The State will strive to restrain the blind investment and redundant construction in industries of high energy-consumption, high emissions and excess production capacity, as well as raising the entry barriers and percentage of project capital for industries of restricted development, thereby reasonably controlling and stabilising the scale of asset investment.

This year, the State will continue to implement the plan on eliminating obsolete production capacities of industries such as electricity, iron and steel, cement, coal and paper production. A withdrawal system to eliminate obsolete production capacity will be established, while ancillary policies and measures for enterprise closures will be enhanced and implemented. The State will continue to enforce the State Council's "Comprehensive Work Proposal on Energy Conservation and Emissions Reduction" to develop and promote applicable advanced technology on conservation, replacement and recycling of resources and pollution treatment, as well as implementing substantial technological and pilot projects on energy conservation and emissions reduction. Meanwhile, the State will encourage and support the development of the recycling economy, as well as facilitating the recovery and use of renewable resources and fully implementing clean production. A statistics and monitoring system of energy conservation and emissions reduction will be adopted and the examination and monitoring system will be enhanced, while reinforcing the law enforcement effort. The accountability system for energy conservation and emissions reduction work will be enhanced, while the reward-punishment system for energy conservation, emissions reduction and environmental protection will be improved. Meanwhile, the new Enterprise Income Tax Law will be fully adopted and the State will continue to push forward trials on value-added tax transformation reform. The resource tax and charges system will be reformed, while the paid-usage system of resources and the compensation system for ecological environment will be enhanced.

In 2008, while the iron and steel industry will be affected by the State's macroeconomic control measures and steel product exports will continue its trend of decrease, the major steel-consuming industries will maintain a relatively fast growth as driven by the national economy's steady and relatively rapid growth and domestic demand for steel products will maintain a relatively fast growth. While the relevant parties will enforce the second batch of the "Undertaking Statement on Closing and Eliminating Obsolete Production Capacity of Iron and Steel" with 6,000,000 tonnes of obsolete iron production capacity and 14,000,000 tonnes of obsolete steel production capacity are planned to be eliminated this year, iron and steel production will continue to grow. As the international benchmark price of Brazilian iron concentrate imports has increased by 65% over the previous year and the international benchmark price for Australian iron concentrate imports is expected to increase as well, and domestic market prices of coal, coke, petroleum, electricity and transportation and bank borrowing interest rates are hovering at high levels, the iron and steel industry is heading towards a high-cost period and its production operation will face immense pressure. *(Source from National Development and Reform Commission)*



Facing the aforementioned changes in the production operation environment, in 2008, the Company will take into account its actual conditions and devote its attention to the core issue of raising the per tonne profitability of steel products, and will rapidly change its development mode to strive for a significant improvement in operating results. Major measures to be adopted by the Company include:

- **Strengthening the awareness of carrying out sophisticated production and raising the contract realisation rate.**

  The Company will carry out an in-depth examination on the product quality issue and achieve the overall requirement of "Producing Quality Products, Establishing a Brand Name and Raising Efficiency", striving to substantially increase the contract realisation rate. The Company will strengthen the research and development effort on more profitable products such as pipeline steel, up-market steel plates for automobiles, up-market steel plates for home appliances, silicon steel, high-speed train wheels, specialised H-shaped steel and cold-forged steel, in order to effectively form mass production capacity. The Company will adhere to the system-first and efficiency-first principles and enforce the "Three Enhancement Principle", applying the requirement of stable and balanced production to every production line and every production process, as well as gradually commencing the management of planned target values, in order to minimise production volatility. Resource allocation will be inclined towards more efficient production lines and inspection on product realisation rates will be strengthened, thereby maximising the output increase of more profitable products. Meanwhile, in light of the significant change that the Company's plate-strip ratio is rapidly increasing, the Company will segmentate and develop its markets while maintaining its efforts on the sales of existing leading products. The Company will actively enhance the service-oriented iron and steel supply chain, consolidating and developing cooperative and "win-win" relationships with wholesalers, as well as making dedicated efforts to develop direct-supply users, in order to strive for a production-sales balance of maximum efficiency.

- **Improving technical and economic indices and enhancing the whole-process economic operation, in order to expand the per tonne profitability of steel products.**

  The Company will make reference to the advanced standards of its peers and its own historic best to discover the differences, in order to strive for breakthroughs in key indices such as the coal injection rate of blast furnaces, metallic material consumption per tonne of steel, the consolidated energy consumption per tonne of steel and the molten steel (inlay casting included) recovery rate. Accordingly, this will facilitate an across-the-board improvement and upgrade of indices and will reduce production costs. Meanwhile, the Company will also devote itself to the analysis and research of raw materials and fuels and adopt scientific decision-making in procurement policies. The Company will insist on concentrated bulk procurement of raw materials and fuels and planned procurement, while reducing emergency procurement. Supported by technological progress, the Company will rationally optimise the furnace material structure and push forward domestication of parts and components, in order to reduce procurement costs. Communication and coordination with transportation authorities such as railways and ports will be strengthened and process tracking will be reinforced to reduce halts in the process of transportation, thereby ensuring the balanced and orderly delivery of raw materials and fuels and a smooth distribution channel for products, and reducing logistics costs accordingly.

- **Adopting various measures to ensure stable and smooth production in the New Area and raising the sales revenue per tonne of steel products.**

  Through strengthening the site management of the New Area, the Company will enhance the control standard of the New Area's facilities to ensure their smooth operation and achieve stable and smooth production in the New Area. The Company will also reinforce the research and development effort on up-market products of the New Area and shorten the time gap between research and development completion and mass production of up-market products, in order to enhance the Company's profits. In 2008, the New Area is planned to produce 6,400,000 tonnes of pig iron, 4,800,000 tonnes of crude steel and 4,440,000 tonnes of steel products, of which hot-rolled products will amount to 3,000,000 tonnes, cold-rolled products will amount to 860,000 tonnes and galvanised products will amount to 580,000 tonnes.

- **Pushing forward energy conservation and emissions reduction efforts in an in-depth manner to protect the environment and to increase profits at the same time.**

  The Company will further strengthen the construction of the energy conservation and emissions reduction system and mechanism, in order to form a multi-layer support for energy conservation and environmental protection from the Company to the professional divisions, offices, teams and units. Accordingly, work objectives and measures will be implemented on every position and every staff. The Company will ensure the stable operation of the energy conservation and emissions reduction facilities and carry out planned target value management on energy conservation and emissions reduction. Management of energy conservation projects will be strengthened and energy conservation in work process will be refined, while the operation standard of the TRT, CDQ and CCPP power generation projects will be enhanced and the Company will endeavour to complete the development of the CDM project, in order to increase the Company's profits from environmental protection.

- **Strengthening financial management, controlling financial risks and reducing financial costs.**

  The Company will further study and develop financing channels, as well as optimising funding allocation. The Company will strengthen the management of inventory, in particular parts and components and define a rational inventory scale, as well as increasing the turnover rate to reduce funding appropriation. The management of liability items such as bank borrowings will be strengthened to strive for a reduction in the asset-liability ratio, and the Company will scientifically arrange capital expenditure and working capital, as well as actively coordinating various borrowing and liability items, so as to avoid interest rate risks, control financing costs, reduce interest expenses and lower financial costs.

- **Adequately utilising and striving for concessionary tax policies to reduce the tax burden.**

  The Company will carry out in-depth studies on the State's concessionary tax policies in pushing forward energy conservation and emissions reduction and comprehensive resource utilisation. The Company will focus on the tax reduction/exemption application for the New Area's comprehensive resource utilisation project and conduct research and analysis on the New Area's status of comprehensive resource utilisation. The Company will conscientiously select the projects and coordinate the application in accordance with the relevant requirements of the National Development and Reform Commission and the State Administration of Taxation. The Company will adequately capitalise on the State's tax concessions of expanding the value-added tax reduction scope which aim at facilitating mid-China's development or encouraging technological innovations, so as to minimise the Company's overall tax expenses and partially mitigate the Company's additional tax burden resulted from the implementation of the new Enterprise Income Law.

- **Reinforcing efforts on technological breakthroughs and scientific research and development to resolve technological problems in the production process.**

  The Company will deepen the "research-production-sales" and "production-academic studies-research" efforts and actively utilises external intellectual resources to reinforce the effort on open mode joint technological innovations. Accordingly, product variety and quality will be enhanced while technological and economic indices will be improved, thereby substantially raising the contribution of technological innovations to efficiency growth. Meanwhile, the Company will work hard on innovations of the old and New Areas' steel plate production lines and the renovations of the production lines of train wheels, high wires and H-shaped steel, with the objective of forming core technology and products with self-owned intellectual properties, as well as strengthening the technology reserve and attaining technological advantages.

- **Enhancing information-based construction and strengthening the sense of refined management, in order to raise management standards.**

  The Company will enhance its systems and mechanisms to stimulate the motivation for a rapid change in the development mode and a significant growth in operating results. The Company will embody the concept of refined management and stringent management throughout the entire process of corporate development, thereby forming a work habit and value on continued improvement and a pursuit for excellence. Targeting the problems occurred in the ERP system's operation process, the Company will effectively raise the reliability and effectiveness of the system's operation.

16) LONG-TERM STRATEGIES OF THE COMPANY

As the main trunk of the Company's early-stage technological renovation and structural adjustment project of the "Eleventh Five-year Plan" was completed and entered operation in 2007, the Company's newly-added 5,000,000-tonne thin-plate production capacity during the reporting period has substantially increased the Company's plate-strip ratio and enhanced the comprehensive competitiveness and the market risk-resistant ability of the Company's products, as well as significantly raising the Company's profitability. Currently, the. Company is studying the late-stage technological renovation and structural adjustment project of the "Eleventh Five-year Plan", in order to strengthen and expand the principal iron and steel business.

Report of the Directors

1) DAILY WORK OF THE BOARD OF DIRECTORS

1. Description of the Board of Directors' Meetings in 2007 and Details of the Resolutions:

- On 17 April 2007, the Company held the eleventh meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the websites of SSE and the Hong Kong Stock Exchange on 18 April 2007.

- On 25 April 2007, the Company held the twelfth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the websites of SSE and the Hong Kong Stock Exchange on 26 April 2007.

- On 28 May 2007, the Company held the thirteenth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the websites of SSE and the Hong Kong Stock Exchange on 29 May 2007.

- On 20 June 2007, the Company held the fourteenth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News, South China Morning Post (Hong Kong), Wen Wei Po (Hong Kong) and on the websites of SSE and the Hong Kong Stock Exchange on 21 June 2007.

- On 16 August 2007, the Company held the fifteenth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News and on the websites of SSE and the Hong Kong Stock Exchange on 17 August 2007.

- On 29 October 2007, the Company held the sixteenth meeting of the fifth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News and on the websites of SSE and the Hong Kong Stock Exchange on 30 October 2007.

2. Implementation of General Meeting Resolutions by the Board of Directors

- Pursuant to the mandate granted by the 2007 first extraordinary general meeting, the Board of Directors completed the issuance of the RMB2,000 million 1-year short-term commercial papers on 31 August 2007.

- Pursuant to the resolution passed at the 2007 annual general meeting, the Board of Directors determined the 2006 annual audit and interim review fees for the accounting firms and completed the implementation of the 2006 profit appropriation plan.

- Pursuant to the mandate granted by the 2006 first extraordinary general meeting, the Board of Directors completed the relevant work regarding the first exercise of "馬鋼 CWB1" warrants between 15 November 2007 and 28 November 2007.

3. Discharge of Duties by the Remuneration Committee of the Board of Directors during the Reporting Period

Pursuant to the "Work Rules for the Remuneration Committee of the Board of Directors of Maanshan Iron & Steel Company Limited", the discharge of duties by the Remuneration Committee of the Board of Directors of the Company in 2007 was reported as follows:

On 16 April 2007, the Remuneration Committee held a meeting which was attended in person by all members. The meeting was chaired by Mr. Su Yong, the chairman of the committee. In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of Maanshan Iron & Steel Company Limited" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations, the completion of operation targets, the respective scope of work and major duties for the relevant directors and senior management, and taking into account the performance appraisals for the relevant directors and senior management, the meeting conducted an appraisal on the 2006 operating results of the Company's relevant directors and senior management and the appraisal results were submitted to the Board of Directors meeting held on 17 April 2007. The Board of Directors approved the 2006 remunerations for the relevant directors and senior management according to the mandate granted by the general meeting.

At the meeting, all committee members also discussed how to further enhance the Company's incentive system with reference to the actual conditions and according to the requirements of the relevant laws, regulations and regulatory documents.

The procedures of convening and holding, voting and resolutions of the Remuneration Committee meeting were in compliance with the stipulations under the relevant laws, regulations, the articles of association of the Company and the "Work Rules for the Remuneration Committee". While discussing the remunerations of the relevant directors and senior management at the meeting, no director participated in determining his/her own remuneration.

In 2007, all members of the Remuneration Committee faithfully fulfilled the obligation of confidentiality regarding the matters deliberated at the committee meeting pursuant to the relevant rules and there was no unauthorised disclosure of the relevant information.

4. Discharge of Duties by the Audit Committee of the Board of Directors during the Reporting Period

Pursuant to the relevant stipulations under the "Notice for Listed Companies on Completing the 2007 Annual Reports and the Relevant Tasks" (《關於做好上市公司2007年年度報告及相關工作的通知》) promulgated by the CSRC and "Work Rules for the Audit Committee of the Board of Directors of Maanshan Iron & Steel Company Limited", during the process of preparing and disclosing the Company's 2007 annual report, all members of the Audit Committee of the Board of Directors have communicated with the external accounting firms responsible for the auditing of the year's financial report regarding auditing matters, as well as conscientiously discharged their duties of reviewing and monitoring the Company's finances and internal control.

- **Discharge of duties by the Audit Committee during 2007**

  In 2007, the Audit Committee held four meetings and all members attended such meetings. The meetings were chaired by Mr. Wong Chun Wa, the chairman of the committee. The following matters were considered and approved at the meetings:

  – The 2006 annual accounts, 2007 first quarterly accounts, 2007 interim accounts and 2007 third quarterly accounts were reviewed and it was determined that the Company had complied with the requirements of domestic and foreign regulations on the preparation of accounting statements in all major aspects and had made adequate disclosure with no material omissions.

  – Audit was conducted on the status of the Company's external guarantees as at 31 December 2006 and 30 June 2007 and it was determined that all of the Company's external guarantees were approved beforehand by the Board of Directors and the approval procedures were in compliance with the relevant regulations, and that no guarantees were in breach of the regulations. The Company's aggregate external guarantee amount and external guarantee amounts for the relevant periods were all less than 50% of the Company's net assets under the consolidated financial statements for the most recent fiscal year.

  – The connected transactions between the Company and Magang (Group) Holding Company Limited ("Holding") during 2006 were reviewed and it was determined that such transactions took place during the ordinary course of business between the two parties and the transactions conducted were under normal business terms or terms which were not less favourable than those provided to independent third parties, and that such transactions were in the best interests of the Company and shareholders. The yearly total amounts for the Company's transactions conducted in 2006 pursuant to the Sale and Purchase of Ore Agreement and the Service Agreement did not exceed the cap amounts for the Hong Kong Stock Exchange's exemption.

- The "Report of the Changes in the Relevant Accounting Policies of the Company upon Adoption of New Accounting Standards" was considered and approved.

- The planning and financial department's report on the execution of the Company's internal control system in the first half of 2007 was heard and it was determined that the Company's internal control and risk management procedures were effective.

- It was agreed that the Company would pay a fee aggregating HK$5.75 million to Ernst & Young Hua Ming and Ernst & Young for their annual audit and agreed-upon procedures work for year 2006 and it was agreed that the two said accounting firms would be re-appointed as the Company's domestic and international auditors for the Company for 2007.

- **Communication between the Audit Committee and the external accounting firms regarding the relevant auditing matters during the process of preparing and disclosing the Company's 2007 annual report**

  - On 3 January 2008, the Audit Committee held a meeting to adequately discuss with the responsible external accounting firms and confirmed the time schedule of the auditing work for the Company's 2007 financial report.

  - On 5 February 2008, the Audit Committee held a meeting by way of correspondence, conscientiously reviewing the 2007 financial and accounting statements prepared by the Company and forming a written opinion, while the committee chairman was authorised to maintain communications with the external accounting firms on behalf of the committee and be responsible for reminding the external accounting firms to submit the auditor' report according to the agreed schedule.

  - On 20 March 2008, after the entry of the external accounting firms, the committee communicated with the external accounting firms regarding relevant matters of the audit of the 2007 financial reports by way of correspondence, making queries on the audit progress and reminding the accounting firms to submit the auditors' report within the agreed deadline.

  - On 3 April 2008, the committee chairman reminded, in written form, the external accounting firms to submit the auditors' report within the agreed deadline and a document was formed on the results of the reminder.

  - On 16 April 2008, after the external accounting firms had submitted the preliminary auditors' opinion, the Audit Committee held another meeting to review the Company's 2007 financial and accounting statements and formed a written opinion; considered and approved the external accounting firms' summarised reports on the Company's auditing work for the year; and considered and approved the resolutions on the 2007 remunerations and 2008 re-appointment of the Company's external accounting firms. It was agreed that the above documents would be submitted to the Board of Directors for approval.

The procedures of convening and holding, voting and resolutions of the Audit Committee meeting were in compliance with the stipulations under the relevant laws, regulations, the articles of association of the Company and the "Work Rules for the Audit Committee". In 2007, all members of the Audit Committee faithfully fulfilled the obligation of confidentiality regarding the matters deliberated at the committee meeting pursuant to the relevant rules and there was no unauthorised disclosure of the relevant information.

2) PROFIT APPROPRIATION PROPOSAL FOR THE CURRENT PERIOD: THE BOARD OF DIRECTORS OF THE COMPANY HAS RECOMMENDED TO DECLARE A FINAL DIVIDEND OF RMB0.13 (TAX INCLUSIVE) PER SHARE IN CASH FOR YEAR 2007. NO CAPITAL RESERVE FUND WILL BE TRANSFERRED TO SHARE CAPITAL.

As audited by the domestic and international auditors, net profit of the Company for 2007 amounted to RMB2,132 million under PRC Accounting Standards and RMB2,016 million under Hong Kong Accounting Standards. After appropriating 10% as the Company's statutory reserves, together with the retained profit as at the beginning of 2007 and minus the 2006 cash dividend distribution in the amount of RMB839 million, the total profit available for distribution to shareholders for year 2007 amounted to RMB6,681 million under PRC Accounting Standards, and RMB6,513 million under Hong Kong Accounting Standards. To achieve sustained and steady development for the Company, a cash dividend payment of RMB0.13 (tax inclusive) per share for 2007 was recommended, thereby resulting in a total dividend payment of RMB879 million. The remaining undistributed profit will be carried forward to 2008.

3) SPECIFIC STATEMENT OF REGISTERED ACCOUNTANTS ON THE UTILISATION OF FUNDS BY THE CONTROLLING SHAREHOLDER OF THE COMPANY AND OTHER RELATED PARTIES

Pursuant to the Circular Zheng Jian Fa [2003] Document No.56 issued by the CSRC, Ernst & Young Hua Ming has issued the "Specific Statement on the Utilisation of Funds by the Substantial Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties and the Issue on Guarantees Provided to the Controlling Shareholder and the Corporate Entities of the Controlling Shareholder". In the opinion of the auditors, based on the information provided by the Company, as at 31 December 2007, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, they are not aware of any misappropriation of funds by the controlling shareholder of Maanshan Iron & Steel Company Limited and other related parties as stated in the Circular Zheng Jian Fa [2003] Document No.56, and the Company has not provided any guarantee to the controlling shareholder and its corporate entities.

4) IN ACCORDANCE WITH THE CIRCULAR ZHENG JIAN FA [2003] DOCUMENT NO.56, MR. WONG CHUN WA, MR. SU YONG, MR. HUI LEUNG WAH AND MR. HAN YI (APPOINTED MR. SU YONG TO ACT ON HIS BEHALF), ALL BEING INDEPENDENT DIRECTORS OF THE COMPANY, HAVE CONSULTED THE COMPANY MANAGEMENT AND EXTERNAL ACCOUNTING FIRMS, EXAMINED THE RELEVANT INFORMATION AND FURNISHED THEIR INDEPENDENT OPINIONS IN RESPECT OF THE COMPANY'S ACCUMULATED AND CURRENT PORTION OF EXTERNAL GUARANTEES AND THE IMPLEMENTATION STATUS OF THE ABOVE-MENTIONED REGULATIONS, WHICH ARE STATED AS FOLLOWS:

1. As at 31 December 2007, all the external guarantees of the Company had been approved by the Board of Directors.

2. As at 31 December 2007, no guarantee was provided either directly or indirectly for the debts of any party with gearing ratio exceeding 70%, and as to the Company's external guarantees, no guarantees were provided to any controlling shareholder, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.

3. As at 31 December 2007, the total amount of accumulated and current portions of external guarantees was lower than 50% of the net assets of the Company as reported in the 2007 consolidated financial statements.

5) OTHER MATTERS

1. For information analysed by business segments as at 31 December 2007, please refer to Note VI to the Financial Statements prepared under PRC Accounting Standards and Systems and Notes 5 to 51 to the Financial Statements prepared under Hong Kong Accounting Standards.

2. The Group's profit for the year ended 31 December 2007 and the Group's operating status as at that date are set out in the Accounting Statements prepared under PRC Accounting Standards and Systems and the Financial Statements prepared under Hong Kong Accounting Standards.

3. Fixed Assets

Details of movements in fixed assets of the Company and the Group for the year ended 31 December 2007 are set out in Note VI (12) to the financial statements prepared under PRC Accounting Standards and Systems and Note 14 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

4. Pre-emptive Rights

Neither the articles of association of the Company nor the Laws of the PRC provide for any pre-emptive rights.

5. Purchase, Sale and Redemption of Listed Shares

During 2007, the Company has not redeemed any of its listed shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

6. Reserves

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2007 are set out in the financial statements prepared under PRC Accounting Standards and Systems and Note 38 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

7. Service Contracts of Directors and Supervisors

Mr. Zhu Changqiu, formerly a Director of the current session of the Board of Directors, resigned as a Director of the Company on 3 January 2008 as he had reached retirement age. The term of office for Mr. Zhu was from 31 August 2005 to 3 January 2008. Mr. Hui Zhigang, now a Director of the current session of the Board of Directors, was appointed at the 2008 first extraordinary general meeting as a supplementary Director and his term of office is from 19 February 2008 to 31 August 2008. The term of office for other directors and supervisors of the current Board of Directors and the Supervisory Committee is from 31 August 2005 to 31 August 2008. The elected directors and supervisors entered into service contracts with the Company for terms which are the same as the terms of office.

None of the directors has any service contract with the Company that is not terminable by the Company within one year without compensation other than statutory compensation.

8. Directors' and Supervisors' Interests in Contracts

During the year, none of the directors or supervisors had any direct or indirect material interests in any contract to which the Company, its subsidiaries, Holding or any of the subsidiaries of Holding was a party during the year.

9. Directors' Interests in Competing Businesses

During the year and as at the disclosure date of this annual report, none of the directors were or had been deemed, pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), to be directly or indirectly interested in any business that was competing or in possible competition with the Group's business, except for businesses for which the directors of the Company are appointed as directors for the interests of the Company or the Group.

Report of the Supervisory Committee

1) CONVENING OF SUPERVISORY COMMITTEE MEETINGS

According to working needs, in 2007 the Supervisory Committee of the Company convened six meetings. On the premise of timely and thoroughly understanding the Company's production operation status and financial position, the Supervisory Committee approved relevant resolutions on the relevant matters after conscientious reviews. Major items examined by the meetings include:

1. Listening to the Company directors' and financial controller' report on the Company's production operation status and financial position, as well as reviewing the Company's annual report, interim report and quarterly reports.

2. Reviewing matters such as the Company's disposal of fixed assets and impairment provisions for fixed assets, changes in impairment provisions for projects under construction, provisions for bad debts on receivables and changes in impairment provisions for inventories.

3. Extensively discussing whether the deliberation process of the Company's relevant investment acts were in compliance with the laws, regulations and the articles of association of the Company and whether the investment projects were beneficial for the Company's development.

4. Supervising and inspecting the Company's external guarantees and the risk control over external guarantees.

5. Considering and approving the "2006 Work Report of the Supervisory Committee" and the "Report of Supervisors on the Discharge of Duties".

2) SUPERVISION OVER SIGNIFICANT MATTERS OF THE COMPANY IN 2007

1. Operations in Compliance with the Law

The Board of Directors conscientiously executed resolutions approved at the shareholders' general meeting and operated in compliance with the State's laws and regulations and the articles of association of the Company. The operation management conscientiously exercised its power and discharged its duties, within the scopes stipulated by the articles of association of the Company and authorised by the Board of Directors. The series of significant decisions made in 2007 were regulated in procedures, lawfully valid and well executed. The internal control mechanism of the Company was healthy and strictly enforced. Directors, General Manager and senior management of the Company faithfully performed their duties for the Company and carried out regulated management, not only respecting and protecting the Company's interests, but also actively protecting the interests of the shareholders as a whole. No breaches on the laws, regulations, articles of association of the Company or actions that damage the interests of the Company and shareholders were found.

2. Operations of the Company

In 2007, the Company operated in line with the theme of "Pushing forward standardised operation; Accelerating the implemention of the low-cost strategy and the brand strategy". The scientific develop concept was embodied and the Company endeavoured to make substantial progress, thereby allowing the Company's production operation to march onto a new historic plateau. The Supervisory Committee is of the view that no material breaches on financial disciplines and the financial system were found in the Company during the reporting period, and the auditors' reports issued by the accounting firms truthfully represented the financial position and operating results of the Company.

3. Fundraising and Use of Funds of the Company

Proceeds from the Company's issuance of Bonds with Warrants in November 2006 and the exercise of the "馬鋼CWB1" warrants in November 2007 were invested in projects with high technological quality and advanced techniques. Such projects have commenced operation and offer promising market prospects, in line with the relevant State industry policies and the Company's development strategies. The raising and use of funds for the Company's production, operation and investments complied with the Company's operating needs and the relevant requirements of the Board of Directors, with no breaches on regulations found.

4. Implementation of the Company's Investment Projects

The Supervisory Committee is of the view that the investment projects implemented by the Company in 2007 were in the interests of shareholders and complied with the spirit of the resolutions approved at the shareholders' general meetings. Such projects are beneficial to the shareholders and the sustainable development of the Company, without prejudicing the interests of the Company and shareholders.

5. Connected Transactions of the Company

During 2007, the prices on the Company's connected transactions were fair and no actions prejudicing the interests of the Company and shareholders were found.

6. Acquisitions and Swaps in Equity Interests and Assets of the Company

During 2007, the Company did not undergo any material debt restructuring activities, material non-monetary transactions, material asset acquisitions, swaps, transfers or disposals, or any significant matters affecting the decision-making of investors. As at present, no insider dealing has been found, nor are there any events prejudicing the interests of the Company and shareholders or causing asset losses to the Company.

Corporate Governance

In accordance with the requirements of relevant laws and regulations, the Company has set up a corporate governance structure comprising the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board of Directors, the Supervisory Committee and the General Manager were clear and unambiguous. During the reporting period, in order to further regulate the Company's information disclosure and effectively protect the legal interests of the Company, shareholders and other interest related parties, the Board of Directors timely amended the Company's "Administrative Measures for Information Disclosure" in accordance with "Regulations on Information Disclosure of Listed Companies" issued by the CSRC and "Guidelines on Management Systems for Information Disclosure by Listed Companies" issued by the SSE.

1) CODE ON CORPORATE GOVERNANCE PRACTICES

In 2007, the Company has complied with all code provisions of the Code on Corporate Governance (the "Code") in Appendix 14 of the Listing Rules.

1. Directors

The Directors and the composition of the Board of Directors

In 2007, the Company's Board of Directors comprised ten directors, of whom five were executive directors and five were non-executive directors. Among the five non-executive directors, four of them were independent directors, accounting for two-fifth of the members of the Board of Directors.

All executive directors and one non-executive director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction and are capable of making rational decisions on the matters to be resolved by the Board of Directors. Among the four independent directors, there is a director of a financial consultancy in Hong Kong, with years of experience in the accounting profession; a general manager in corporate finance at the MTR Corporation Limited in Hong Kong with extensive experience in finance management; a head of the Enterprise Management Department of the School of Management of Fudan University who is knowledgeable in the aspect of corporate management; and a professor of the School of Law at University of Anhui who is very experienced in legal matters. These independent directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board of Directors fully complied with the requirements of the relevant laws and regulations and regulatory documents within and outside the PRC. The names of all directors were published in the Company's announcement and specifications were made on independent directors.

During the reporting period, so far as the Board of Directors is aware of, there are no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board of Directors (including Chairman and General Manager) that are required to be disclosed.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

The Company received from the four independent directors independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors", "Authorised Representatives and Directors" in the Listing Rules. The Company's Board of Directors is of the opinion that the four independent directors are all independent.

Attendance of Directors at board meetings in 2007:

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
Executive Director					
Gu Jianguo	6	6	0	0	100
Gu Zhanggen	6	4	2	0	100
Zhu Changqiu	6	6	0	0	100
Su Jiangang	6	6	0	0	100
Gao Haijian	6	5	0	1	83
Non-executive Director					
Zhao Jianming	6	6	0	0	100
Independent Non-executive Director					
Wong Chun Wa	6	6	0	0	100
Su Rong	6	5	1	0	100
Hui Leung Wah	6	4	2	0	100
Han Yi	6	6	0	0	100

Chairman and General Manager

The positions of the Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by a simple majority of all directors in the Board of Directors. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board of Directors, ensuring that the Board of Directors will review all matters involved in an appropriate manner, and facilitating an effective operation of the Board of Directors.

The Chairman is entitled to chair shareholders' general meetings, to convene and chair board meetings, to review the implementation of resolutions by the Board of Directors, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board of Directors, the Chairman may convene shareholders' general meetings. Between sessions of the board meeting, the Chairman shall give guidance to the major activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board of Directors, and shall be accountable to the Board of Directors. The General Manager leads the senior management, and is responsible for the usual course of operation in production and management, and organising the implementation of various resolutions by the Board of Directors. The General Manager shall regularly report to the Board of Directors or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board of Directors or the Supervisory Committee.

Non-executive Directors

The term of the Company's non-executive directors is three years starting from 31 August 2005 and ending at 31 August 2008.

Performance of duties by Independent Directors

In 2007, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, performed their duties in a fiduciary manner and actively participated in the decision-making on significant matters of the Company. They have attended all the Company's board meetings in person or by proxy. The independent directors have not had any objection to any matters of the Company.

The Company's independent directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company's substantial shareholders, beneficial owners, or other units or individuals who have interests in the Company. As such, the interests of the Company as a whole as well as the lawful interests of the public shareholders were protected.

During the reporting period, the independent directors for the fifth session of the Company's Board of Directors, namely Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, have reviewed and given their independent opinions on the Company's connected transactions, external guarantees for the period and accrued, and the execution of the aforesaid matters.

Duties and authorities of the Board of Directors and the management

The Board of Directors performs the duties and authorities conferred by the laws and regulations as well as the articles of association of the Company, mainly including:

– To convene the shareholders' general meeting and to execute the resolutions of the shareholders' general meeting;

– To resolve on the annual operating plans and key investment proposals of the Company;

– To formulate the budget, the profit appropriation plan, the fundamental management system, substantial acquisitions or disposal plans;

– To resolve on the establishment of special committees and to appoint and remove their officers-in-charge;

– To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's senior management, such as deputy general managers and financial officers pursuant to the General Manager's nomination;

– To appoint or remove the Secretary to the Board of Directors;

– To manage information disclosure issues of the Company;

– To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;

– To receive the report from the Company's General Manager and to review the work of the General Manager;

– To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and finance management within the limit as provided in the articles of association of the Company.

There are two committees under the Board of Directors, namely the Audit Committee and the Remuneration Committee. The major responsibilities of the Audit Committee are to evaluate the services being provided by the Company's external auditors, to review the Company's financial information and disclosure, and to monitor the implementation of the Company's financial management, internal control and risk management systems. The major responsibilities of the Remuneration Committee are to formulate the remuneration policies, plans or schemes for all directors and senior management and to monitor the implementation of the Company's remuneration system.

The Company's management performed their major responsibilities in accordance with the duties conferred by the articles of association of the Company:

– To organise the implementation of the Company's annual operating plans and key investment proposals;

– To propose the Company's internal management and establishment schemes;

– To propose the Company's fundamental management system;

– To formulate the Company's basic constitutions;

– To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board of Directors;

– To resolve on the rewards and penalty, promotion and demotion, salary increase or decrease, appointment, recruitment or removal and termination of the Company's staff;

– To deal with the important external businesses of the Company on its behalf;

– To propose the convening of ad hoc board meetings.

Board meeting

The Board of Directors convenes four meetings regularly every year. Notice of at least 14 days with details about time and date, location and agenda of a regular board meeting was given so as to give all directors an opportunity to attend. The directors were given an opportunity to raise matters for discussion and such matters will be included in the agenda of the regular meeting. If required by the directors, the management is able to timely provide adequate information to the directors and such information can help the directors to make appropriate decisions. All or most of the directors attended the regular board meeting in person. In voting for connected transactions at the board meeting, the connected directors had abstained from voting and the connected transactions were approved by the non-connected directors. All directors were entitled to and had the opportunity to review the minutes of board meeting.

The secretary to the Board of Directors is responsible to organise and prepare the board meeting, and assist the Chairman to ensure the rules of procedures for the meeting complied with the requirements by relevant laws and regulations and regulatory documents.

2. Remuneration of the Directors, Supervisors and Senior Management

The Remuneration Committee of the Board of Directors

The Remuneration Committee of the Board of Directors comprises independent directors Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi and directors Mr. Zhao Jianming and Mr. Su Jiangang. Mr. Su Yong is the Chairman of the Committee, and was designated to formulate the working regulations of the Committee. The major responsibilities of the Committee are as follows:

– To recommend to the Board of Directors with respect to the remuneration policies for all directors and senior management of the Company, and to formulate the procedures for such policies in a proper and transparent manner;

– To review the remuneration of the directors and senior management in accordance with the corporate objectives formulated by the Board of Directors;

– To review the compensation to be paid to the directors or senior management with respect to their removal or appointment;

– To ensure no directors or any of its associates may decide on their own remuneration;

– Other responsibilities as delegated by the Board of Directors.

Directors' remuneration

As approved at the 2005 extraordinary general meeting, the annual aggregate remuneration of the entire fifth session of the Company's directors shall not exceed RMB4.3 million (taxes inclusive). Each of the independent directors receives a fixed annual remuneration of not more than RMB40,000 (taxes excluded). The Company has adopted an annual salary system for other directors who receive remuneration from the Company. Taking into account the performance of the Company and the directors' personal contribution, the Remuneration Committee of the Board of Directors proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board of Directors' approval. No director may determine his/her own remuneration.

Supervisors' remuneration

As approved at the 2005 extraordinary general meeting, the annual aggregate remuneration of the entire fifth session of the Company's supervisors shall not exceed RMB1 million (taxes inclusive). Each of the independent supervisors receives a fixed annual remuneration of not more than RMB30,000 (taxes excluded). As for other supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for supervisors approved by the general meeting, and such remunerations shall be reported to the annual general meeting.

Senior management's remuneration

The Company has adopted an annual salary system for the senior management. Taking into account the performance of the Company and the senior management member's personal contribution, the Remuneration Committee of the Board of Directors proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the senior management will be implemented accordingly subject to the Board of Directors' approval.

3. Nomination of Directors

A new session for the Company's Board of Directors is elected every three years. The term of all directors is the same as the term of the Board of Directors for such session. Upon the expiry of the session, re-election must be conducted.

Candidates for directors are nominated by the Company's Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 5% of the issued shares in the Company. Candidates for independent directors are nominated by the Company's Board of Directors, the Supervisory Committee or shareholders severally or jointly holding more than 1% of the issued shares in the Company.

The nomination of directors by the Company has taken into consideration the career, academic background, job title and detailed work experience, full time/part time basis, with the consent of the candidate obtained in advance. With respect to the nomination of independent directors, the Board of Directors will issue its opinion on the qualifications and independence of the candidates as independent directors. The candidates will also issue a public statement that there is no relationship between them and the Company that may affect his independent and objective judgment to any extent. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials on the candidates for independent directors to the CSRC, the competent local authority designated by the CSRC at the domicile of the Company and the SSE.

Prior to convening the relevant shareholders' general meeting, the Company disclosed detailed information about the candidates for directors (including their brief biographies and background), so as to ensure that the shareholders have adequate understanding about the candidates before voting. Prior to convening the shareholders' general meeting for election of directors, the Company's Board of Directors published the statements of the candidates and their nominators in accordance with the regulations.

On 3 January 2008, the Company's former Director and General Manager Mr. Zhu Changqiu requested to resign as a Director and General Manager of the Company as he had reached retirement age. After deliberation, the Board of Directors of the Company gave consent to Mr. Zhu's request. Meanwhile, considering the fact the Mr. Hui Zhigang, a Deputy General Manager of the Company, has years of experience in iron and steel production and corporate management as a senior management member, the Board of Directors resolved to nominate Mr. Hui as a candidate for director of the fifth session of the Company's Board of Directors and the nomination was submitted to and approved at the 2008 first extraordinary general meeting. To help investors to gain knowledge on Mr. Hui, the Company had timely published the detailed profile of Mr. Hui in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange for investors' information.

4. Audit Committee

The Audit Committee of the Board of Directors comprises Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors. Mr. Wong Chun Wa is the Chairman of the Committee. According to the amended working regulations, the major duties of the Committee are:

– To propose the appointment or removal of external auditors;

– To monitor the Company's internal audit system and its implementation;

– To communicate between the internal and external auditors;

– To review the Company's financial information and its disclosure;

– To review the Company's internal control systems.

5. Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively. They have audited the financial statements and financial reports prepared under PRC Accounting Standards and Hong Kong Accounting Standards, respectively. The remuneration for the two accounting firms amounted to RMB5.75 million in aggregate. Among the total remuneration, RMB5.1 million represented the annual audit fee and RMB0.65 million represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. Meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2007, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Company for 14 consecutive years. Mr. Li Di and Mr. Qin Tongzhou were the certified public accountants who have signed the Company's 2007 auditors' report. Mr. Li Di provided auditing services to the Company for the first time, while Mr. Qin Tongzhou has provided auditing services to the Company for five consecutive years.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. The fee was HK$12,300.

6. Internal Control

The internal control system encompasses the whole production operation process which includes financial budgeting and accounting, production planning, purchases of materials, product sales, external investments, human resource management, internal auditing and information disclosure. The system ensures orderly conduction of various work of the Company and forms a regulated management system, giving effective control over operating risks.

The Company adopts planned target value management for its production operation. The Planning and Financial Department is responsible for compiling the annual financial budget proposal, which encompasses the annual plans of aspects such as production, procurement, sales and facility maintenance. The proposal is to be discussed at the general manager working meeting and submitted to the Board of Directors for approval. Upon approval by the Board of Directors, the relevant departments of the Company will compile various monthly plans with reference to the annual budget and dispatch such plans to subordinating secondary units for execution.

The Chairman of the Company is the primary person-in-charge of information disclosure. The Secretary to the Board of Directors is responsible for the overall coordination and organisation of the Company's information disclosure matters under the leadership of the Chairman, and the Office of Secretary to the Board of Directors is the managing department of the Company's information disclosure matters. The Supervisory Committee conducts daily supervision on the directors' and senior management's discharge of information disclosure obligations, as well as conducting annual appraisal on the implementation of the Company's information disclosure management system to compile and disclose the annual appraisal report.

The financial departments of the Company and the subsidiaries have the function of financial supervision and are the primary executors of the internal control system. The audit department of the Company is responsible for supervising and inspecting the execution of the internal control systems of the Company and its subsidiaries. When performing the annual audit, the auditors will issue their "Management Recommendations" by evaluating the internal control systems and their execution by the Company and its subsidiaries and identifying relevant issues. The Audit Committee monitors the execution of the Company's internal control systems and risk management procedures through evaluating the work of the Audit Department and the auditors. The Board of Directors confirms whether the internal control systems and the risk management procedures of the Company and its subsidiaries are effective or not in accordance with the report from the Audit Committee.

The Board of Directors confirmed that the internal control systems and the risk management procedures of the Company and its subsidiaries in 2007 have been effective.

7. Communication with Shareholders

Effective communication

The Board of Directors maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encouraging them to attend the general meetings.

During the reporting period, the Company stated clearly in the 2007 first extraordinary general meeting notice and the 2006 annual general meeting notice that A-share holders holding the Company's A-shares as at the market closing of the respective register dates and registered in the register of members maintained by China Securities Depositary & Clearing Corp. Ltd. Shanghai Branch and H-share holders holding the Company's H-shares on the same date and registered in the register of members maintained by The Hong Kong Registrars Limited were eligible for attending the respective general meeting after completing the registration procedures for attending the meetings.

The 2007 first extraordinary general meeting was attended in person and chaired by the Company's Chairman and the 2006 annual general meeting was attended and chaired by the Vice Chairman upon a written appointment by the Chairman. During the reporting period, the Company's General Manager, person-in-charge of financial matters and the directors and deputy general managers responsible for infrastructures and technological reforms attended the general meetings in person and were adequately prepared for answering questions of shareholders' concern. At the general meetings, the chairmen of the meeting proposed individual resolutions for each actually independent matter.

The Company states clearly in the articles of association of the Company that the voting at general meetings shall be conducted by poll. Shareholders (including proxies) exercise their voting rights according to the number of shares with voting rights they represent and each share is entitled to the right of one vote.

As the Company conducted its work on specific corporate governance matters, the "Discussion Forum on Specific Corporate Governance Matters cum 2007 Investor Meeting of Maanshan Iron & Steel Company Limited" was held on 20 July 2007 to proactively create an opportunity for investors to communication with the Company management in person.

Voting by poll

The Company states clearly in the articles of association of the Company that the voting at general meetings shall be conducted by poll. Shareholders (including proxies) exercise their voting rights according to the number of shares with voting rights they represent and each share is entitled to the right of one vote. According the results of voting by poll, the chairman of the meeting shall announce the approval or rejection of the proposed resolution at the meeting and shall record such items in the meeting minutes as the final proof. In case the chairman of the meeting has any doubts on the resolutions submitted for approval, he/she may conduct a count of vote. In case the chairman of the meeting does not conduct a count of vote, shareholders or proxies attending the meeting who disagree with the results announced by the chairman of the meeting are entitled to request a count of vote immediately after the announcement of voting results and the chairman of the meeting shall immediately conduct a count of vote. In case a count of vote takes place at a general meeting, the vote-counting results shall be recorded in the meeting minutes.

The minutes of the meeting, together with the signed shareholder attendance book and the proxy forms of proxies attending the meeting shall be kept in the premises of the Company. Shareholders may view copies of the general meeting minutes for free during office hours. In case any shareholder requests the Company for copies of the relevant meeting minutes, the Company can send such copies within 7 days of receiving the relevant reasonable fees.

8. Other Provisions as Set Out in the Code Apart from the Above

During the reporting period, the Company's directors acknowledged their responsibilities to the preparation of the accounts. Ernst & Young, the auditors, disclosed a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young Hua Ming and Ernst & Young, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firms as the auditors for the Company for 2007. The Board of Directors does not have any contrary opinion and the relevant resolution was considered and approved at the 2006 annual general meeting held on 12 June 2007.

2) INFORMATION ON SPECIFIC CORPORATE GOVERNANCE MATTERS

Pursuant to the relevant requirements of CSRC's "Notice of Relevant Issues on Specific Activities to Enhance Corporate Governance of Listed Companies" (《關於開展加強上市公司專項活動有關事項的通知》) (Zheng Jian Gong Si Zi [2007] Document No.28) and CSRC Anhui Regulatory Bureau's ("Anhui Securities Regulatory Bureau") "Notice on Carrying Out Specific Activities to Enhance Corporate Governance of Listed Companies within the Jurisdiction" (《關於做好轄區上市公司治理專項活動有關工作的通知》) (Wan Zheng Jian Fa Zi [2007] Document No.13), the Company initiated the specific corporate governance activities according to the scheduled progress.

The Board of Directors held a meeting on 25 April 2007 to collectively study Zheng Jian Gong Si Zi [2007] Document No.28 and Wan Zheng Jian Fa Zi [2007] Document No.13, and timely devised the "Proposal on Specific Activities to Enhance Corporate Governance". The task force on specific activities to enhance corporate governance of the listed Company was formed with Mr. Gu Jianguo, the Chairman, as the head. Through a comprehensive self-inspection on corporate governance, the "Self-inspection Report on Specific Activities to Enahnce Corporate Governance" was compiled. The Board of Directors considered and approved the self-inspection report on 28 May 2007 and the Company subsequently submitted the self-inspection report to the Anhui Securities Regulatory Bureau. Upon approval by the Anhui Securities Regulatory Bureau, the Company published the "Announcement Regarding the Self-Inspection Report on Corporate Governance and Improvement Plans" on SSE's website on 5 July 2007. The Company has successfully completed the improvements on the problems discovered during the self-inspection process according to the time schedule.

Anhui Securities Regulatory Bureau issued the "Letter of Overall Evaluation Opinion on the Status of Corporate Governance of the Company" (《關於公司治理狀況總體評價意見的函》) (Wan Zheng Jian Han Zi [2007] Document No. 272) on 25 October 2007 and was of the view that the questions raised by the Company during the self-inspection were objective and concrete, with the devised overall improvement plan accurately targeting the needs. The Company's self-inspection issues were satisfactorily improved or enforced, with significant results. In general, the Company has a sound legal person governance structure and operations are regulated, with a high governance standard. Meanwhile, recommendations were given on further improving the corporate governance standard. On 26 October 2007, SSE issued the "Evaluation Opinion on the Governance of Maanshan Iron

& Steel Company Limited", which provided a comprehensive evaluation and full recognition and acknowledgement on the Company's governance status, while advising the Company to take the opportunity of the specific corporate governance activities to actively enhance corporate governance standards. In light of the recommendations of Anhui Securities Regulatory Bureau and SSE, the Company specifically compiled the "Reform Report on Specific Corporate Governance Matters of Listed Companies", which was published in Shanghai Securities News and the websites of SSE and the Hong Kong Stock Exchange on 30 October 2007.

The Company capitalised on the opportunity of the specific corporate governance activities of listed companies to organise the directors, supervisors, senior management and other relavant staff to conscientiously study again and enhance their understanding in the relevant laws, regulations and regulatory documents. After such activities, the Company's directors have significantly strengthened their sense of duty and the daily operation details are further enhances, thereby further raising the Company's governance standards.

3) SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDER

1. As regards employees, the Company's personnel in production, technical, financial and sales are independent of the controlling shareholder. Senior management personnel such as General Manager and Deputy General Manager are on the Company's payroll without holding any important positions at Holding.

2. As regards assets, the Company owns separate production systems, auxiliary systems and complementary facilities. Industry property rights, trademarks and non-patent technologies are independently owned by the Company, as are systems for purchasing and marketing.

3. As regards finance, the Company has established independent financial departments. Independent systems for accounting and auditing have been developed, as well as a sound financial management system.

4. As regards organisation, the Company has established a sound corporate organisation. The Board of Directors, the Supervisory Committee and other internal departments have been operating independently without being subordinated to any functional departments at the controlling shareholder.

5. As regards business operations, the Company possesses independent and comprehensive operating businesses and the competence of autonomous operations. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.

Directors, Supervisors, Senior Management and Staff

1) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Current Directors

Mr. Gu Jianguo, aged 55, Chairman of the Company. Mr. Gu became Director and Deputy General Manager of the Company in September 1993. He was appointed Vice Chairman and General Manager of the Company in July 1995 and became General Manager of Maanshan Magang Holding Company ("Magang Holding") and Chairman of the Company in June and July 1997, respectively. In September 1998, Magang Holding was restructured into Magang (Group) Holding Company Limited and Mr. Gu was appointed General Manager of Magang (Group) Holding Company Limited. He has ceased to be General Manager of the Company since September 1999. Mr. Gu is also Chairman of Maanshan Iron & Steel (HK) Limited and Chairman of MG Trading and Development GmbH. Mr. Gu held 3,886 shares in the Company.

Mr. Gu Zhanggen, aged 61, Deputy Chairman of the Company. Mr. Gu was appointed Secretary of the Party Committee of Magang Holding and the Company, and Deputy General Manager of Magang Holding in June 1997 and Vice Chairman and Director of the Company in September 1997. In September 1998, Magang Holding was restructured into Magang (Group) Holding Company Limited and Mr. Gu was appointed Secretary of the Party Committee and Deputy General Manager of Magang (Group) Holding Company Limited. Mr. Gu held 3,886 shares in the Company.

Mr. Su Jiangang, aged 53, Director and General Manager of the Company. Mr. Su became Secretary to the Board of Directors of the Company in September 1993. He was appointed Chief Economist in June 1997, Director of the Company in September 1997 and Deputy General Manager of the Company in September 1999. He became General Manager of the Company in January 2008. Mr. Su is also a Director of Maanshan Iron & Steel (HK) Limited, Director of MG Trading and Development GmbH, and Director and Deputy Chairman of 濟源市金馬焦化有限公司. Mr. Su held 3,886 shares in the Company.

Mr. Zhao Jianming, aged 54, Director of the Company. Mr. Zhao was appointed Deputy General Manager of the Company and Secretary of the Party Committee of the Company in June 1997 and has been Director of the Company since September 1997. Since September 1999, he has ceased to be Deputy General Manager of the Company. Mr. Zhao also holds the office of Secretary of the Party Committee of Magang (Group) Holding Company Limited.

Mr. Gao Haijian, aged 51, Director, Deputy General Manager and Secretary to the Board of Directors of the Company. Mr. Gao was appointed Deputy General Manager of the Company in June 1997. He has been Director of the Company since September 1999 and he became Secretary to the Board of Directors of the Company on 3 January 2008.

Mr. Hui Zhigang, aged 54, Director and Deputy General Manager of the Company. Mr. Hui was appointed Deputy General Manager of the Company in June 2001 and became a Director of the Company on 19 February 2008. He is also the Chairman of 馬鞍山港口(集團)有限責任公司.

Current Independent Directors

Mr. Wong Chun Wa, aged 34, Independent Director of the Company. Mr. Wong is associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he has been Qualified Accountant of Zhongtian International Limited from February 2006 to October 2006. He established 毅行顧問有限公司 in December 2006 and acted as the company's Director. Mr. Wong became Independent Director of the Company on 31 August 2005.

Mr. Su Yong, aged 53, Independent Director of the Company. Mr. Su was appointed as Head of the Enterprise Management Department of the School of Management of Fudan University in October 2003, and as Deputy Director of the University's Eastern Management Research Centre in October 2004 respectively. Mr. Su has been Independent Director of Anhui Guofeng Plastic Industry Co., Ltd. since May 2003. He became Independent Director of the Company on 31 August 2005.

Mr. Hui Leung Wah, aged 45, Independent Director of the Company. Mr. Hui joined HSBC Investment Banking in 1990 and served as Corporate Finance Director, Chief Operations Officer of the Asia-Pacific region and other positions. He joined MTR Corporation Limited in Hong Kong since August 2004 as General Manager of Corporate Finance, and became an Independent Director of the Company on 31 August 2005.

Mr. Han Yi, aged 44, Independent Director of the Company. Mr. Han was appointed Professor of the School of Law and Advisor of master degree students of Anhui University in May 2002. In September 2004, Mr. Han joined the programme for postdoctoral fellows at Renmin University of China. Mr. Han is a Professor of the School of Law and Advisor of master degree students at Zhongnan University of Finance and Economics. He became an Independent Director of the Company on 31 August 2005.

Current Supervisors

Mr. Li Kezhang, aged 60, Chairman of the Supervisory Committee. Mr. Li has been Deputy Secretary of the Party Committee and Chairman of the Labour Union of the Company since June 1997. He was appointed Supervisor of the Company in September 1997. He is also Deputy Secretary of the Party Committee and Chairman of the Labour Union of Magang (Group) Holding Company Limited. He became Chairman of the Supervisory Committee on 31 August 2005.

Mr. Dou Qingxun, aged 58, a Supervisor of the Company. Mr. Dou was appointed Chairman of the Labour Union of the Coke-making subsidiary in September 1997. He has also been appointed Deputy Secretary of the Party Committee and Chairman of Labour Union of the Company's train wheels and tyres subsidiary in January 2002. Mr. Dou became a Supervisor of the Company in September 2002.

Mr. Fang Jinrong, aged 44, a Supervisor of the Company. Mr. Fang was appointed Deputy Supervisor of the Finance Department of Magang Holding in November 1997. In September 1998, Magang Holding was restructured into Magang (Group) Holding Company Limited, and Mr. Fang was appointed Deputy Manager of the Finance Department. He has been Manager of the Finance Department since February 2004. He became a Supervisor of the Company on 31 August 2005.

Current Independent Supervisors

Madam Cheng Shaoxiu, aged 65, Independent Supervisor of the Company. Madam Cheng was Chief Accountant of Anhui Guoyuan Holding (Group) Company Limited from May 2001 to September 2004. She was an Independent Director of the Company between September 1999 and August 2005. She became an Independent Supervisor of the Company on 31 August 2005.

Madam An Qun, aged 45, an Independent Supervisor of the Company. Madam An has been Chief Supervisor of the Teaching and Research Department of Law Studies of School of Party Committee, Anhui Province since June 2003 and Professor of Law since December 2004. She became an Independent Supervisor on 31 August 2005.

In accordance with the sections 100 and 139 of the articles of association of the Company, the term of office for directors and supervisors is three years. Save for Mr. Zhu Changqiu, a Director, whose term was from 31 August 2005 to 3 January 2008 as he had reached the retirement age and Mr. Hui Zhigang, a supplementary director, whose term was from 19 February 2008 to 31 August 2008, the term of office of other remaining directors and supervisors is from 31 August 2005 to 31 August 2008.

Current Senior Management

Mr. Shi Xiongliang, aged 55, Deputy General Manager and Chief Engineer of the Company. Mr. Shi was appointed Deputy Chief Engineer of the Company in August 1999, and Deputy General Manager and Chief Engineer in June 2001.

Mr. Ding Yi, aged 44, Deputy General Manager of the Company. Mr. Ding was appointed Assistant to General Manager in January 2002 and Deputy General Manager in January 2004. Mr. Ding was also a Chairman of Maanshan BOC-Ma Steel Gases Company Limited.

Mr. Wan Hon Kau, aged 35, qualified accountant of the Company. Mr. Wan was an auditor of 梁學漣會計師事務所 in September 2002. He was appointed a qualified accountant of the Company in August 2004.

All current senior management members of the Company were appointed by the fifth session of the Board of Directors of the Company and the term of office is from 31 August 2005 to 31 August 2008.

Save as disclosed above, as at 31 December 2007, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

During the year, none of the Company's directors, supervisors, senior management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

As at the end of the reporting period, there was no change to the shareholdings of the directors Mr. Gu Jianguo, Mr. Gu Zhanggen and Mr. Su Jiangang in the Company and none of the other directors, supervisors and senior management held any shares of the Company.

2) EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Annual emoluments of executive directors and senior management were determined by the Remuneration Committee of the Board of Directors based on their respective appraisals and in accordance with the total annual emoluments for directors as approved by shareholders' general meeting, with recommendations thereof to be proposed to the Board of Directors. Emoluments were taken effect by the Board of Directors with the authorisation granted by the shareholders' general meeting. Details of the emoluments of the Company's executive directors and senior management received in 2007 are listed as follows (Unit: RMB'000):

Name	Position	Annual emoluments (tax inclusive)
Gu Jianguo	Chairman	842
Gu Zhanggen	Vice Chairman	842
Zhu Changqiu (note)	Director and General Manager	842
Su Jiangang (note)	Director and General Manager	674
Gao Haijian (note)	Director, Deputy General Manager and Secretary to the Board of Directors	674
Hui Zhigang (note)	Director and Deputy General Manager	674
Shi Xiongliang	Deputy General Manager and Chief Engineer	674
Ding Yi	Deputy General Manager	673
Wan Hon Kau	Qualified Accountant	223

Note: Please refer to "3) PERSONNEL MOVEMENT" of this section

The above-mentioned emoluments for executive directors and senior management of the Company include the portions of basic pension insurance fees paid by the corporation during 2007 in accordance with the pension scheme of the Company and the annuities credited to personal accounts.

Annual emoluments received by non-independent supervisors from the Company were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for independent supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholder's general meeting. Details of the emoluments received by non-independent supervisors from the Company in 2007 are listed as follows (Unit: RMB'000):

Name	Position	Annual emoluments (tax inclusive)
Li Kezhang	Chairman of the Supervisory Committee	674
Dou Qingxun	Supervisor	226

The above-mentioned emoluments received by non-independent supervisors from the Company include the portions of basic pension insurance fees paid by the corporation in accordance with the 2007 pension scheme of the Company and the annuities credited to personal accounts.

In 2007, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors of the fifth session of the Board of Directors received an annual allowance for independent director of RMB50,000 (tax inclusive; RMB40,000 tax exclusive) each from the Company. Madam Cheng Xiaoxiu and Madam An Qun, all independent supervisors of the fifth session of the Supervisory Committee, received a allowance for independent supervisor of RMB37,500 (tax inclusive; RMB30,000 tax exclusive) each from the Company.

Mr. Zhao Jianming, presently director and Mr. Fang Jinrong, presently supervisor, received their emoluments at Holding, respectively.

In 2007, the total salary for directors, supervisors and senior management who received emoluments or allowances from the Company amounted to RMB7,293,000 (tax inclusive).

3) PERSONNEL MOVEMENT

In 2007, there was no new appointment or removal of other directors, supervisors and senior management.

On 3 January 2008, Mr. Zhu Changqiu requested to resign as a Director and General Manager of the Company as he had reached retirement age. After deliberation, the Board of Directors of the Company agreed to the resignation of Mr. Zhu and resolved to appoint Mr. Su Jiangang as General Manager of the Company and Mr. Gao Haijian to replace Mr. Su as the Secretary to the Board of Directors of the Company.

On 19 February 2008, the 2008 first extraordinary general meeting of the Company approved the supplementation of Mr. Hui Zhigang, Depuy General Manager, as a Director of the fifth session of the Board of Directors of the Company.

4) EMPLOYEES

As at the end of 2007, the Company had a total of 43,654 employees, of whom 35,719 were workers at production lines, 381 were sales representatives, 4,172 were technicians, 321 were financial staff and 3,061 were managerial staff. There were 10.89% of employees who had post-graduate qualifications or above. The number of resigned or retired staff for whom the Company was responsible for the pension amounted to 21,069.

Movements in Share Capital and Shareholders

1) SHARE MOVEMENTS

1. Table on Share Movements

During the reporting period, after the domestic legal person shares among the Company's shares subject to selling restrictions became available for listing and trading on 2 April 2007 and the first exercise of "馬鋼CWB1" warrants was completed, movements in the Company's shares are as follows:

Unit: Shares

	Prior to the current movements		Current movements (+, -)					After current movements	
	Number of shares	(%)	Issue of new shares (Note)	Bonus share	Transferred from reserves	State Share Reform	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions									
1. State-owned shares	3,830,560,000	59.34	–	–	–	–	–	3,830,560,000	56.68
2. State-owned legal person shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares Including:									
Shares owned by domestic legal persons	87,810,000	1.36	–	–	–	-87,810,000	-87,810,000	–	–
Shares owned by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Foreign-owned shares Including:									
Shares owned by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares owned by foreign natural persons	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions									
1. RMB-denominated ordinary shares	804,000,000	12.45	303,251,716	–	–	87,810,000	391,061,716	1,195,061,716	17.68
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–
3. Foreign listed foreign shares	1,732,930,000	26.85	–	–	–	–	–	1,732,930,000	25.64
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	6,455,300,000	100	303,251,716	–	–	–	303,251,716	6,758,551,716	100

Note: The first exercise of馬鋼CWB1 warrants took place.

2. Table on Movement of Shares with Selling Restrictions

Unit: Shares

Name of shareholders	Number of shares subject to selling restrictions as at the beginning of the year	Number of shares with selling restrictions relieved during the year	Number of shares with selling restrictions increased during the year	Number of shares subject to selling restrictions as at the end of the year	Reason for selling restrictions	Date of relief of selling restrictions
Magang (Group) Holding Company Limited	3,878,330,000	47,770,000	–	3,830,560,000	State Share reform	2 April 2007
Other shareholders of legal person shares	40,040,000	40,040,000	–	–	Same as above	Same as above
Gu Jianguo	3,886	–	–	3,886	Director of the Company	Not applicable
Gu Zhanggen	3,886	–	–	3,886	Director of the Company	Not applicable
Su Jiangang	3,886	–	–	3,886	Director of the Company	Not applicable
Total	3,918,381,658	87,810,000	–	3,830,571,658		

2) ISSUANCE AND LISTING OF SECURITIES IN THE PAST THREE YEARS

1. Issuance and Listing of Bonds with Warrants

Upon receiving approval from the CSRC through the notice Zheng Jian Fa Xing Zi [2006] Document No. 111, the Company successfully issued RMB5,500 million of Bonds with Warrants at the SSE on 13 November 2006. Prior to the listing, the Bonds with Warrants were segregated into two types of securities, namely corporate bonds and warrants. Holders of the Bonds with Warrants were distributed with 1,265 million warrants for zero consideration. The abbreviation of the corporate bonds is "06 馬鋼債"; the abbreviation of the warrants is " 馬鋼CWB1", whereas the abbreviation of exercise rights is ES081128 and the code of exercise rights is 582010. On 29 November 2006, both "06 馬鋼債" and "馬鋼CWB1" were listed on the SSE under respective trading codes of "126001" and "580010".

"06馬鋼債" has a term of five years and carries a fixed interest rate. The coupon rate is 1.4% per annum, with interests paid in annual arrears. Interest accrual began on 13 November 2006 and the maturity date is 13 November 2011, with the redemption date being five working days after the maturity date of 13 November 2011.

The proportion of exercise rights for the "馬鋼CWB1" warrants is 1:1. Accordingly, each warrant represents the right to subscribe for one A share issued by the Company. The initial exercise price is RMB3.40 per share. The term of the warrants is 24 months upon the listing of the warrants. Holders of the warrants may exercise the warrants in the 10 trading days before 29 November 2007 (ie:11-15 November 2007, 19-23 November 2007, 26-28 November 2007), or in the 10 trading days before 29 November 2008 (ie: 17-21 November 2008 and 24-28 November 2008). On 11 July 2007, the A shares of the Company began to trade on an ex-dividend basis and the Board of Directors of the Company adjusted the exercise price of the "馬鋼CWB1" warrants in accordance with the relevant regulations of SSE. After the adjustment, the exercise price of the warrants became RMB3.33 per share.

2. The First Exercise of "馬鋼CWB1" Warrants

The first exercise of "馬鋼CWB1" warrants took place on 11-15 November 2007, 19-23 November 2007, 26-28 November 2007 at an exercise price of RMB3.33 per share and a 1:1 proportion of exercise rights. Under this exercise, 303,251,716 warrants were successfully exercised. After the exercise, the Company's total number of shares increased from 6,455,300,000 shares to 6,758,551,716 shares, while the number of warrants in circulation decreased from 1,265,000,000 warrants to 961,748,284 warrants.

3) THE NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

1. The Number of Shareholders and Details of the 10 Largest Shareholders

Unit: Shares

Total number of shareholders	As at the end of the reporting period, the Company had a total of 321,340 shareholders, including 319,932 A share holders and 1,408 H share holders.

- **Shareholding of the 10 largest shareholders**

Name of shareholders	Type of shareholders	As a percentage to number of shares held (%)	Number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	56.68	3,830,560,000	3,830,560,000	0
HKSCC (Nominees) Limited	Foreign shareholder	25.26	1,707,128,997	0	Not applicable
上海浦東發展銀行－長信金利趨勢股票型證券投資基金	Others	0.47	32,006,243	0	Unknown
中國工商銀行－易方達價值成長混合型證券投資基金	Others	0.46	31,242,403	0	Unknown
中國光大銀行股份有限公司－光大保德信量化核心證券投資	Others	0.30	20,552,050	0	Unknown
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	Foreign shareholder	0.30	20,366,616	0	Unknown
中國工商銀行－景順長城新興成長股票型證券投資基金	Others	0.30	20,000,000	0	Unknown
交通銀行－博時新興成長股票型證券投資基金	Others	0.29	19,499,862	0	Unknown
中國建設銀行－華寶興業行業精選股票型證券投資基金	Others	0.28	18,972,280	0	Unknown
中國工商銀行－易方達價值精選股票型證券投資基金	Others	0.27	18,004,719	0	Unknown

- **Shareholding of the 10 largest holders of shares without selling restrictions**

Name of shareholders	Number of shares without selling restrictions held	Type of shares
HKSCC (Nominees) Limited	1,707,128,997	Overseas-listed foreign shares
上海浦東發展銀行－長信金利趨勢股票型證券投資基金	32,006,243	RMB-denominated ordinary shares
中國工商銀行－易方達價值成長混合型證券投資基金	31,242,403	RMB-denominated ordinary shares
中國光大銀行股份有限公司－光大保德信量化核心證券投資	20,552,050	RMB-denominated ordinary shares
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	20,366,616	RMB-denominated ordinary shares
中國工商銀行－景順長城新興成長股票型證券投資基金	20,000,000	RMB-denominated ordinary shares
交通銀行－博時新興成長股票型證券投資基金	19,499,862	RMB-denominated ordinary shares
中國建設銀行－華寶興業行業精選股票型證券投資基金	18,972,280	RMB-denominated ordinary shares
中國工商銀行－易方達價值精選股票型證券投資基金	18,004,719	RMB-denominated ordinary shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	17,999,943	RMB-denominated ordinary shares

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

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures for the Management of Information Disclosure on Changes in Shareholding of Shareholders of Listed Companies. E Fund Management Co., Ltd. was the manager of both 中國工商銀行－易方達價值成長混合型證券投資基金 and 中國工商銀行－易方達價值精選股票型證券投資基金. Save for disclosed above, the Company is not aware of whether the other nine shareholders mentioned above had connected relationship or whether they were concerted parties.

During the reporting period, Holding disposed of 47,770,000 shares of the Company it held as a domestic legal person. As at the end of the reporting period, Holding held 3,830,560,000 circulating A shares of the Company with selling restrictions on behalf of the State, representing approximately 56.68% of the total share capital of the Company. Holding was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. The Group had a registered capital of RMB6,298,290,000.

Its principal operations and products include: mining and sorting of mineral products; construction engineering design; construction; property development; integrated technology service; domestic trading; food and beverages; production services; mechanical and electrical equipment manufacturing; and metallic products.

HKSCC (Nominees) Limited held 1,707,128,997 shares of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody.

As at 31 December 2007 and 31 March 2008, which is the latest practicable date for the publication of this report, to the best knowledge of the directors, the Company had sufficient public float as stipulated by the Listing Rules.

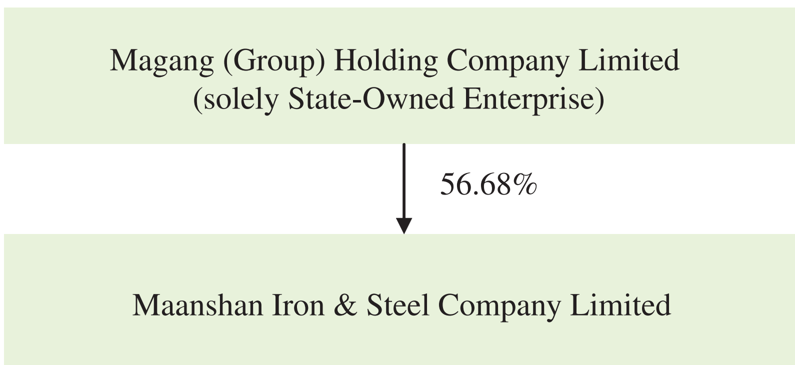
2. Save as disclosed above, details of the holders of the Company's H Shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2007:

Name of shareholders	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (shares)	Approximate percentage of the Company's issued H shares (%)
UBS AG	Note 1	315,321,266 (Long position)	18.20
		162,366,200 (Short position)	9.37
Morgan Stanley	Interests of entities controlled by substantial shareholders	294,762,787 (Long position)	17.01
		46,077,836 (Short position)	2.66
JP Morgan Chase & Co.	Actual owner	141,527,479 (Long position)	8.17
		11,040,000 (Short position)	0.64
	Custodian	108,041,000 (Lending pool)	6.23
HSBC Holdings plc	Interests of entities controlled by substantial shareholders	141,088,259 (Long position)	9.14
		245,596,000 (Short position)	14.17
Citigroup Inc.	Note 2	91,052,021 (Long position)	5.25
	Interests of entities controlled by substantial shareholders	8,085,079 (Short position)	0.47
	Custodian	42,320,000 (Lending pool)	2.44

Note 1: UBS AG has a long position of 315,321,266 shares, including 293,227,266 shares as the actual owner and 22,094,000 shares in the form of interests held by legal entities controlled by the substantial shareholder; it also has a short position of 162,366,200 shares, including 71,022,000 shares as the actual owner, 73,176,200 shares as an entity entitled to guaranteed interests in the shares, and 18,168,000 shares in the form of interests held by legal entities controlled by the substantial shareholder.

Note 2: Citigroup Inc. has a long position of 91,052,021 shares, including 48,725,521 shares in the form of interests held by legal entities controlled by the substantial shareholder, 6,500 shares as an entity entitled to guaranteed interests in the shares, and 42,320,000 shares as a custodian.

3. Flow chart indicating the proprietorship and controlling relationship between the Company and the de facto controller



4. Shareholding of the 10 largest shareholders subject to selling restrictions and their respective selling restrictions

Unit: Shares

Name of shareholder	Number of shares held subject to selling restrictions	Time of listing and trading	Additional listed and tradeable shares	Selling restrictions
Magang (Group) Holding Company Limited	3,830,560,000	31 March 2009	3,830,560,000	Note

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

Bonds with Warrants

1) DETAILS OF THE 10 LARGEST HOLDERS OF "06馬鋼債" AS AT THE END OF THE REPORTING PERIOD

Unit: RMB

Name of bond holders	Number of bonds held
Ping An Insurance (Group) Company of China, Ltd.	649,892,000
China Pacific Life Insurance Co., Ltd.	549,146,000
New China Life Insurance Co., Ltd.	541,629,000
China Life Reinsurance Co., Ltd.	398,572,000
中國大地財產保險股份有限公司	293,517,000
National Social Security Fund No.304	280,884,000
National Social Security Fund No.305	272,536,000
China Marine Finance Co., Ltd.	266,157,000
泰康人壽保險股份有限公司－萬能－個險萬能	251,748,000
National Social Security Fund No.306	241,727,000

2) DETAILS OF THE 10 LARGEST HOLDERS OF "馬鋼CWB1" WARRANTS AS AT THE END OF THE REPORTING PERIOD

Unit: Warrants

Name of warrant holders	Number of warrants held
Tao Jingwei (陶靜威)	28,077,695
Baosteel Group Finance Co., Ltd	6,700,000
華寶投資有限公司	4,669,300
Shenyin Wanguo Securities Co., Ltd.	3,500,050
Shanghai Electric Group Finance Company Ltd.	3,500,000
深圳市平石投資股份有限公司	3,300,006
中國建銀投資證券有限責任公司	3,008,700
交通銀行－易方達科訊股票型證券投資基金	3,000,000
國信證券有限責任公司	3,000,000
東莞市裕榮實業投資有限公司	2,733,700

3) DURING THE REPORTING PERIOD, THERE WERE NO MATERIAL CHANGES IN THE PORFITABILITY, ASSET CONDITION AND CREDIT CONDITION OF HOLDING, THE GUARANTOR.

Shareholders' General Meetings

In 2007, the Company convened two shareholders' general meetings.

1) FIRST EXTRAORDINARY GENERAL MEETING

On 1 February 2007, the Company convened the 2007 first extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The "Resolution Regarding the Issuance by the Company of One-year Short-term Commercial Papers for an Aggregate Amount Not Exceeding RMB3 Billion" was considered and approved at the meeting.

The above matters were published in Shanghai Securities News, the South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 2 February 2007.

2) ANNUAL GENERAL MEETING

On 12 June 2007, the Company convened the annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The work reports of the Board of Directors and of the Supervisory Committee for 2006, the audited financial statements and the profit distribution plan for 2006, the proposed appointment of Ernst & Young Hua Ming and Ernst & Young as auditors of the Company for 2007 and the proposed authorisation to the Board of Directors to determine their remuneration were approved at the meeting.

The above matters were published in Shanghai Securities News, the South China Morning Post (Hong Kong) and Wen Wei Po (Hong Kong) on 13 June 2007.

Significant Matters

1) SIGNIFICANT LITIGATIONS AND ARBITRATIONS

The Company had no material litigation and arbitration during the reporting period.

2) OVERDUE DEPOSITS

In 1996, the Company deposited HK$48 million with CITIC Ningbo Inc. ("CITIC Ningbo") for a term of 1 year but CITIC Ningbo did not repay the amount upon maturity. In May 2001, the liquidation team of CITIC Ningbo recognised the Company's creditor rights at approximately HK$48.42 million, equivalent to approximately RMB51.36 million. In 1996, the Company deposited HK$50 million with SEG International Trust & Investment Corporation for a term of 9 months. Upon maturity, the defendant gradually repaid in stages approximately HK$6.88 million. The Company won a favourable ruling in court litigation and applied for court enforcement, but the defendant was subsequently closed down by the People's Bank of China for restructuring. Accordingly, the enforcement was terminated. In 1996, the Company deposited HK$36.46 million with the Shenzhen Branch of Guangdong International Trust & Investment Corporation for a term of 1 year. Since August 2000, the liquidation team had carried out three property distributions upon bankruptcy and a total of approximately RMB7,103,000 has been received by the Company. Such events have been disclosed in the annual reports from 1997 to 2006 and the interim reports from 1998 to 2007.

As at 30 June 2007, the Company's outstanding balance of principal deposits due in book value from CITIC Ningbo amounted to HK$48 million, equivalent to RMB49.93 million. The accrued interests receivable was about RMB2.11 million. The outstanding balance of principal deposits due from SEG International Trust & Investment Corporation amounted to approximately HK$48.12 million, equivalent to about RMB50.06 million. The outstanding balance of principal deposits due from Guangdong International Trust & Investment Corporation was approximately HK$23.32 million, equivalent to about RMB24.26 million and the accrued interests receivable amounted to about RMB2.88 million. The total principal of such overdue deposits in book value was about RMB124.25 million, with accrued interests receivable of approximately RMB4.99 million. Full provisions of bad debts had been made for such amounts in 1998. As assessed by the Board of Directors, it is believed that the likelihood of recovery is very remote as such overdue deposits are already 11 years old. After consideration, it is decided that such overdue deposits and the corresponding bad debt provision will be written off. The write-offs will have no impact on the Company's profit and loss for the current period. Upon writing off the abovementioned overdue deposits, the Company will remain entitled to the rights to request the above debtors to repay the owed amounts and the Company will continue to seek recovery of the principal and accrued interests of the overdue deposits.

3) During the reporting period, no matters in relation to bankruptcy or restructuring occurred in the Company.

4) During the reporting period, the Company entirely disposed of its 1,304,160 Tang Steel Corp shares received in a transfer in previous years with an initial investment cost of approximately RMB4.56 million and the 164,578 Shanghai Chlor-Alkali shares which carried an initial investment cost of RMB807.93 million. Accordingly, the Company realised a profit of approximately RMB24.55 million. During the reporting period, the Company's investment gain from disposal of shares obtained through subscription of new shares amounting to RMB280,000.

As at the end of the reporting period, save as the shares issued by the following listed companies, the Company did not hold any equity interests in other listed companies, companies that were seeking listing status, or non-listed financial enterprises (shareholding unit: share; amount: RMB'000):

Item no.	Type of securities	Stock code	Abbreviation	Initial investment amount	Number of shares held	Book value at the end of the reporting period	Proportion in securities investment at the end of the reporting period	Gain/loss during the reporting period
1	Stock	601857	PetroChina	584.50	35,000	1,083.60	74.08%	499.10
2	Stock	601390	China Railway Group	158.40	33,000	379.17	25.92%	220.77
Other securities investments held at the end of the reporting period				–	–	–	–	–
Gain/loss from disposal of securities investments during the reporting period				–	–	–	–	–
Total				742.90	–	1,462.77	100%	719.87

5) During the reporting period, there were no other significant acquisitions, sales or disposals of assets or mergers and acquisitions undertaken by the Company that took place during the reporting period or took place in previous periods but subsisted until the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company.

6) CONNECTED TRANSACTIONS

1. Usual Business Transactions between the Company and Holding

The usual business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding and were settled in cash or bills. The details of which are as follows:

(1) To ensure that the Company has sufficient ore to meet the production requirement, Holding agreed to continuously provide the Company with ore on a first priority basis. The Company entered into the Sale and Purchase of Ore Agreement for 2007 to 2009 with Holding on 18 October 2006 which was subsequently approved at the extraordinary general meeting held on 14 December 2006.

The price of iron ore per tonne purchased every year by the Company from Holding will be determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price per tonne charged by the top three independent suppliers supplying the largest amount of iron ore to the purchaser in the previous year of the contracting year for the same type of iron ore supplied to the purchasers.

The price of limestone per tonne purchased every year by the Company from Holding will be determined from time to time by both Holding and the Company after negotiation, and shall not be higher than the weighted average price per tonne charged by the top three independent suppliers supplying the largest amount of limestone to the purchaser in the previous year of the contracting year for the same type of limestone supplied to the purchasers.

The payment made by the Company to Holding in respect of the Sale and Purchase of Ore Agreement from 1 January 2007 to 31 December 2007 was as follows (RMB'000):

	Amount paid	**Proportion of transaction of the same category** (%)
Purchase of iron ore	1,848,362	31.67

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out in daily operational process between the Company and Holding in the normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were processed in respect of terms as set out in the Sales and Purchase of Ore Agreement with effect from 2007 to 2009. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB1,971,659,300.

(2) Save for the connected transactions made pursuant to the aforementioned Sale and Purchase of Ore Agreement, amounts of other connected transactions in the ordinary course of business with Holding are as follows (RMB'000):

	Amount paid	**Proportion of transaction of the same category** (%)
Steel products and other products purchased by Holding from the Company	5,760	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	64,675	12.33
Payment by the Company for fixed assets and construction services	211,009	1.98
Payment by the Company to Holding for other services	230,011	100

All the directors of the Board of Directors who are not associated with Holding (including independent non-executive directors) believed that such transactions were carried out between the Company and Holding in the normal course of business under normal commercial terms and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The total amount of these transactions, accounting for approximately 2.78% of the audited tangible asset value of the Company for the year ended 31 December 2007 and did not have any adversely impact on the Company's profits.

The continuing connected transactions between the Company and Holding under the Sale and Purchase of Ore Agreement for the year 2007 have been approved by the Board of Directors of the Company, in compliance with the terms of these agreements and not exceeding the maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange. Ernst & Young, the auditors of the Company, has implemented the confirmation procedures for such financial information and issued reports regarding the implementation of confirmation procedures.

2. As at 31 December 2007, save for ordinary business transactions and dividends due to Holding, there is no amount due to or from the Company and connected parties.

3. Material Contracts with the Controlling Shareholder

Save for the above-mentioned "Sale and Purchase of Ore Agreement" for 2007 to 2009 entered into on 18 October 2006 and approved at the extraordinary general meeting held on 14 December 2006, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder at any time during the year ended 31 December 2007.

7) The Company did not entrust, contract or lease any assets of other companies, or vice versa, and did not entrust any other parties to implement cash assets arrangement.

The Company was in strict compliance with the document "Notice of Certain Issues Relating to the Standards of Capital Dealings with Connected Parties by Listed Companies and Provisions of External Guarantees by Listed Companies" (Zheng Jian Fa [2003] Document No.56) and did not provide any guarantee in breach of the laws. The Company's guarantees provided to Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary, for banking facilities amounting to RMB5,141 million and RMB150 million of tax deposits, which amount has been fully utilised; guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB60.6 million, which has not been utilised; and guarantees provided to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlling subsidiary, amounting to RMB14 million, which amount has been fully utilised.

The above-mentioned guarantees incurred a total amount of utilised facilities of RMB3,964 million and a remaining balance of RMB5,305 million. The total guarantee amount represented 22.60% of the Company's net assets during the reporting period. The guarantees are all guarantees with joint responsibilities. All the guarantees were approved by the Board of Directors beforehand and the guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company; loans necessary for the general businesses of importing ores, coke, hot-pressed iron plates, coal, scrap steel, equipment and spare parts; guarantees of credit facilities for businesses regarding the opening of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, guarantees for taking delivery and bank acceptances; and guarantees for fax deposits regarding ore imports. The guarantee for Anhui Masteel K. Wah New Building Materials Co., Ltd. is only provided for land construction and the purchase of equipment. All the guarantees are not applicable for investments in properties, stocks, bonds, funds, or external investments, provision of guarantees for external parties, provision of loans to external parties, or grants to external parties.

8) Save as the undertaking made by the controlling shareholder Holding in the Company's 2006 State Share Reform, the Company or shareholders with a shareholding of more than 5% did not disclose any undertakings during the reporting period and did not have any undertakings which were disclosed in the previous reporting periods and continued into the reporting period.

In the process of the State Share Reform, Holding made the following special undertakings:

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

(2) Holding pays all the costs and expenses arising from the State Share Reform.

Moreover, Holding makes representations as follows:

(1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the CSRC and the SSE, and will bear any legal liabilities accordingly.

(2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

9) Save for the recommendations on enhancing the Company's governance provided by Anhui Securities Regulatory Bureau as mentioned in "(3) On-sire Inspection and Overall Evaluation of Corporate Governance by Anhui Securities Regulatory Bureau" of "2) CODE ON CORPORATE GOVERNANCE PRACTICES" of the section "VII. CORPORATE GOVERNANCE" in this annual report, during the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, de facto controller, were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges.

10) INTERNAL CONTROL SYSTEM OF THE COMPANY

Please refer to "(6) Internal Control" of 1) CODE ON CORPORATE GOVERNANCE PRACTICES" of the section "VII. CORPORATE GOVERNANCE" in this annual report.

11) INCOME TAX

On 5 July 2007, the Company was informed through news media that State Administration of Taxation promulgated a notice which ordered the relevant local tax authorities to rectify, immediately, any of the expired concessionary policy for the nine companies listed overseas in 1993 which was still applied. The income tax differences for previous years arising from the applicable expired concessionary tax policy should be treated in accordance with the relevant rules under the Law on the Administration of Tax Collection. Regarding the matter, the Company had published an announcement on Shanghai Securities News and the websites of SSE and Hong Kong Stock Exchange on 6 July 2007.

On 16 April 2008, the Company has received the "Reply on the Relevant Issues of Corporate Income Tax for Maanshan Iron & Steel Company Limited" (Wan Di Shui Han [2008] Document No.207) issued by Local Taxation Bureau of Anhui Province and delivered through Local Taxation Bureau of Maanshan, Anhui Province. The reply requested the Company to adopt the 33% corporate income tax rate for 2007, and the Company has not made retrospective payment for the income tax differences for previous years yet. Accordingly, the Company's corporate income tax for 2007 was 33% of the taxable profit. The directors of the Company are of the view that currently it is uncertain whether the tax authorities will demand retrospective payment of the income tax differences for previous years and it is unable to reliably estimate the eventual outcome of the matter. Accordingly, no provisions for the possible income tax differences for previous years have been made in the 2007 financial statements.

In addition, following the implementation of "The Corporate Income Tax Law of The People's Republic of China" on 1 January 2008, the corporate income tax rate for the Company will be adjusted to 25%.

12) INDEX OF INFORMATION DISCLOSURES ON NEWSPAPERS

No.	Item	Newspaper and page number on which announcement was published	Publication date
1	Announcement on Resolution Passed at the 2007 First Extraordinary General Meeting	Page D7, Shanghai Securities News; Page B14 Wen Wei Po (Hong Kong); Page B9, South China Morning Post (Hong Kong)	2 February 2007

No.	Item	Newspaper and page number on which announcement was published	Publication date
2	Announcement on the Listing of Circulating Shares that are Subject to Selling Restrictions	Page D3, Shanghai Securities News; Page A23, Wen Wei Po (Hong Kong); Page B11, South China Morning Post (Hong Kong)	28 March 2007
3	2006 Annual Results Announcement	Page D83, Shanghai Securities News; Page B14, Wen Wei Po (Hong Kong); Page B9, South China Morning Post (Hong Kong)	18 April 2007
4	Announcement on Resolutions of the Board of Directors Regarding Matters Including the 2006 Annual Report	Page D83, Shanghai Securities News; Page B14, Wen Wei Po (Hong Kong); Page B9, South China Morning Post (Hong Kong)	18 April 2007
5	Announcement on Resolutions of the Supervisory Committee Regarding Matters Including the 2006 Annual Report	Page D83, Shanghai Securities News; Page B14, Wen Wei Po (Hong Kong); Page B9, South China Morning Post (Hong Kong)	18 April 2007
6	2007 First Quarterly Report	Page D56, Shanghai Securities News; Page A29, Wen Wei Po (Hong Kong); Page B16, South China Morning Post (Hong Kong)	26 April 2007
7	Notice of Annual General Meeting	Page D56, Shanghai Securities News; Page A29, Wen Wei Po (Hong Kong); Page B16, South China Morning Post (Hong Kong)	26 April 2007
8	Announcement on Resolutions of the Board of Directors Regarding Matters Including the Company's Administrative Measures for Information Disclosure	Page D13, Shanghai Securities News; Page A23, Wen Wei Po (Hong Kong); Page B13, South China Morning Post (Hong Kong)	29 May 2007

No.	Item	Newspaper and page number on which announcement was published	Publication date
9	Announcement on Resolutions of the Supervisory Committee Regarding the Provision of Guarantees of Subsidiaries	Page D13, Shanghai Securities News; Page A23, Wen Wei Po (Hong Kong); Page B13, South China Morning Post (Hong Kong)	29 May 2007
10	Announcement on Resolutions Passed at the Annual General Meeting	Page D10, Shanghai Securities News; Page A26, Wen Wei Po (Hong Kong); Page B10, South China Morning Post (Hong Kong)	13 June 2007
11	Announcement on Resolutions of the Board of Directors Regarding the Provision of Guarantees to Subsidiaries	Page D5, Shanghai Securities News; Page A33, Wen Wei Po (Hong Kong); Page B12, South China Morning Post (Hong Kong)	21 June 2007
12	Announcement on Resolutions of the Supervisory Committee Regarding the Provision of Guarantees to Subsidiaries	Page D5, Shanghai Securities News; Page A33, Wen Wei Po (Hong Kong); Page B12, South China Morning Post (Hong Kong)	21 June 2007
13	Announcement Regarding the Self-Inspection Report on Corporate Governance and Improvement Plans	Page D15, Shanghai Securities News	5 July 2007
14	Announcement on the Implementation of the 2006 Dividend Distribution	Page D15, Shanghai Securities News	5 July 2007
15	Indicative Announcement on the Adjustment to the Exercise Price of "馬鋼CWB1" Warrants	Page D15, Shanghai Securities News	5 July 2007
16	Announcement on Changes to Concessionary Income Tax Policy Applicable for the Company	Page D15, Shanghai Securities News	6 July 2007
17	Announcement on the Adjustment to the Exercise Price of "馬鋼CWB1" Warrants	Page D13, Shanghai Securities News	11 July 2007

No.	Item	Newspaper and page number on which announcement was published	Publication date
18	Notice of Holding Discussion Forum on Specific Corporate Governance Matters cum 2007 Investor Meeting	Page D23, Shanghai Securities News	17 July 2007
19	Announcement on Resolutions of the Board of Directors Regarding Matters Including the 2007 Interim Report and So Forth	Page D61, Shanghai Securities News	17 August 2007
20	2007 Interim Results Announcement	Page D61, Shanghai Securities News	17 August 2007
21	Announcement on Resolutions of the Supervisory Committee Regarding Matters Including the 2007 Interim Report	Page D61, Shanghai Securities News	17 August 2007
22	Announcement on the Issue of Short-term Commercial Papers	Page D7, Shanghai Securities News	4 September 2007
23	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D75, Shanghai Securities News	25 October 2007
24	Announcement on Resolutions of the Board of Directors Regarding Matters Including the 2007 Third Quarterly Report	Page D44, Shanghai Securities News	30 October 2007
25	2007 Third Quarterly Report	Page D44, Shanghai Securities News	30 October 2007
26	First Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D12, Shanghai Securities News	6 November 2007
27	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D18, Shanghai Securities News	7 November 2007
28	Announcement on Interest Payment of "06馬鋼債"	Page D18, Shanghai Securities News	7 November 2007
29	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D24, Shanghai Securities News	8 November 2007
30	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D11, Shanghai Securities News	9 November 2007

No.	Item	Newspaper and page number on which announcement was published	Publication date
31	Second Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D24, Shanghai Securities News	12 November 2007
32	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D21, Shanghai Securities News	13 November 2007
33	Third Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D17, Shanghai Securities News	14 November 2007
34	Special Indicative Announcement on the 2007 Exercise of "馬鋼 CWB1" Warrants	Page D17, Shanghai Securities News	14 November 2007
35	Indicative Announcement on the Resumption of Trading for "馬鋼 CWB1" Warrants	Page D15, Shanghai Securities News	27 November 2007
36	Indicative Announcement on the Resumption of Trading for "馬鋼 CWB1" Warrants	Page D18, Shanghai Securities News	28 November 2007
37	Announcement on the Rating Tracking of "06馬鋼債"	Page D18, Shanghai Securities News	28 November 2007
38	Announcement on Share Movements	Page B2, Shanghai Securities News	30 November 2007

During the reporting period, effective from 25 June 2007 and pursuant to the relevant requirements of the Hong Kong Stock Exchange, the Company's announcements published in the Hong Kong stock market are published only on the website of the Hong Kong Stock Exchange, save for those specifically required by the Listing Rules to be published in newspapers in Hong Kong.

The above announcements are all published on the websites of SSE (http://www.sse.com.cn) and the Hong Kong Stock Exchange (http://www.hkex.com.hk).

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of Maanshan Iron & Steel Company Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Maanshan Iron & Steel Company Limited set out on pages 92 to 191, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central,
Hong Kong
17 April 2008

Consolidated Income Statement

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4, 5	**49,052,851**	34,319,874
Cost of sales		**(43,478,583)**	(29,904,081)
Gross profit		**5,574,268**	4,415,793
Other income and gains	5	**316,229**	164,076
Selling and distribution costs		**(919,079)**	(469,390)
Administrative expenses		**(1,025,157)**	(1,089,460)
Other operating income/(expenses), net		**(132,831)**	34,851
Finance costs	7	**(1,156,199)**	(296,226)
Share of profits and losses of:			
A jointly-controlled entity		**34,306**	–
Associates		**97,038**	40,287
PROFIT BEFORE TAX	6	**2,788,575**	2,799,931
Tax	10	**(220,591)**	(347,378)
PROFIT FOR THE YEAR		**2,567,984**	2,452,553
Attributable to:			
Equity holders of the parent	11	**2,467,253**	2,394,652
Minority interests		**100,731**	57,901
		2,567,984	2,452,553
DIVIDEND	12	**878,612**	839,189
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**38.06 cents**	37.10 cents
Diluted		**34.90 cents**	36.92 cents

Consolidated Balance Sheet

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**41,315,357**	18,752,595
Construction in progress	15	**4,021,499**	21,066,978
Investment properties	16	**1,240**	3,559
Prepaid land premiums	17	**1,516,155**	1,457,468
Other intangible asset	18	**120,822**	113,507
Investment in a jointly-controlled entity	20	**268,306**	234,000
Investments in associates	21	**414,725**	329,514
Available-for-sale investments	22	**102,917**	16,817
Held-to-maturity investments	23	**5,599**	8,259
Deferred tax assets	24	**90,486**	–
Total non-current assets		**47,857,106**	41,982,697
CURRENT ASSETS			
Inventories	25	**9,550,481**	6,489,013
Construction contracts	26	**75,688**	51,119
Trade and bills receivables	27	**5,209,674**	1,263,559
Prepayments, deposits and other receivables	28	**1,928,496**	769,353
Equity investments at fair value through profit or loss	29	**1,463**	–
Pledged time deposits	30	**768,081**	531,137
Cash and cash equivalents	30	**5,523,876**	3,629,568
Total current assets		**23,057,759**	12,733,749
CURRENT LIABILITIES			
Trade and bills payables	31	**9,472,551**	5,997,722
Other payables and accruals	32	**9,742,997**	5,620,588
Interest-bearing bank and other borrowings	33	**6,081,841**	808,772
Tax payable		**111,819**	93,110
Provisions	35	**40,546**	50,770
Total current liabilities		**25,449,754**	12,570,962
NET CURRENT ASSETS/(LIABILITIES)		**(2,391,995)**	162,787
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,465,111**	42,145,484

Consolidated Balance Sheet (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**45,465,111**	42,145,484
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**16,577,952**	15,713,140
Bonds with warrants	33, 34	**4,828,762**	4,672,376
Deferred income		**590,426**	564,901
Provisions	35	**12,485**	22,045
Due to the ultimate holding company	36	**–**	400,000
Deferred tax liabilities	24	**–**	754
Total non-current liabilities		**22,009,625**	21,373,216
Net assets		**23,455,486**	20,772,268
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**6,758,552**	6,455,300
Equity component of bonds with warrants		**372,679**	585,463
Reserves	38(a)	**14,999,128**	12,581,819
Proposed final dividend	12	**878,612**	839,189
		23,008,971	20,461,771
Minority interests		**446,515**	310,497
Total equity		**23,455,486**	20,772,268

Gu Jianguo
Director

Su Jiangang
Director

Consolidated Statement Of Changes In Equity

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	Attributable to equity holders of the parent												
		Issued share capital RMB'000	Capital reserve account RMB'000	Equity component of bonds with warrants RMB'000	Statutory reserve RMB'000	Statutory public welfare fund RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		6,455,300	4,864,976	–	1,179,972	1,178,385	11,113	10,678	–	3,781,232	1,032,848	18,514,504	138,189	18,652,693
Profit for the year		–	–	–	–	–	–	–	–	2,394,652	–	2,394,652	57,901	2,452,553
Transfer to reserves		–	–	–	1,415,802	(1,178,385)	11,934	7,661	–	(257,012)	–	–	–	–
Final 2005 dividend declared		–	–	–	–	–	–	–	–	–	(1,032,848)	(1,032,848)	–	(1,032,848)
Proposed final 2006 dividend	12	–	–	–	–	–	–	–	–	(839,189)	839,189	–	–	–
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(26,444)	(26,444)
Issue of bonds with warrants	34	–	–	604,229	–	–	–	–	–	–	–	604,229	–	604,229
Direct issue costs of bonds with warrants recognised as a deduction from equity component		–	–	(18,766)	–	–	–	–	–	–	–	(18,766)	–	(18,766)
Acquisition of a subsidiary	40	–	–	–	–	–	–	–	–	–	–	–	25,181	25,181
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	–	115,670	115,670
At 31 December 2006 and 1 January 2007		**6,455,300**	**4,864,976**	**585,463**	**2,595,774**	**–**	**23,047**	**18,339**	**–**	**5,079,683**	**839,189**	**20,461,771**	**310,497**	**20,772,268**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,467,253**	**–**	**2,467,253**	**100,731**	**2,567,984**
Transfer from/(to) reserves	38	**–**	**–**	**–**	**241,569**	**–**	**13,595**	**9,238**	**–**	**(264,402)**	**–**	**–**	**–**	**–**
Final 2006 dividend declared		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(839,189)**	**(839,189)**	**–**	**(839,189)**
Proposed final 2007 dividend	12	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(878,612)**	**878,612**	**–**	**–**	**–**
Dividend paid to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,266)**	**(25,266)**
Issue of shares	34	**303,252**	**819,038**	**(117,511)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,004,779**	**–**	**1,004,779**
Adjustment for deferred tax liability of bonds with warrants arising from change in corporate income tax rate		**–**	**–**	**(95,273)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(95,273)**	**–**	**(95,273)**
Capital contribution by minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,553**	**60,553**
Exchange realignment		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,630**	**–**	**–**	**9,630**	**–**	**9,630**
At 31 December 2007		**6,758,552**	**5,684,014***	**372,679**	**2,837,343***	**–***	**36,642***	**27,577***	**9,630***	**6,403,922***	**878,612**	**23,008,971**	**446,515**	**23,455,486**

* These reserve accounts comprise the consolidated reserves of RMB14,999,128,000 (2006: RMB12,581,819,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,788,575**	2,799,931
Adjustments for:			
Finance costs	7	**1,156,199**	296,226
Share of profits and losses of a jointly-controlled entity		**(34,306)**	–
Share of profits and losses of associates		**(97,038)**	(40,287)
Bank interest income	5, 6	**(52,798)**	(34,259)
Gain on disposal of equity investments at fair value through profit or loss	5, 6	**(282)**	(13,994)
Dividend income from available-for-sale investments	5, 6	**(8,463)**	(5,284)
Depreciation	6	**3,256,266**	2,323,629
Depreciation of investment properties	6	**55**	586
Recognition of prepaid land premiums	6	**38,496**	29,070
Amortisation of a mine participation right	6	**5,096**	4,481
Recognition of deferred income	5, 6	**(52,795)**	(49,752)
Reversal of impairment of property, plant and equipment	6	**–**	(19,611)
Reversal of impairment of construction in progress	6	**–**	(17,676)
Fair value gains on equity investments at fair value through profit or loss	5, 6	**(720)**	–
Gain on disposal of available-for-sale investments	5, 6	**(24,549)**	–
Loss on disposal of items of property, plant and equipment, net	6	**136,650**	3,011
Loss on disposal of items of construction in progress, net	6	**–**	8,185
Provision/(reversal of provision) for inventories, net	6	**40,334**	(26,190)
Reversal of provision for doubtful debts, net	6	**(5,052)**	(9,230)
Foreign exchange losses/(gains), net	6	**(58,457)**	55,872
		7,087,211	5,304,708
Increase in inventories		**(3,079,365)**	(1,178,654)
Increase in construction contracts		**(24,569)**	(20,117)
(Increase)/decrease in trade and bills receivables		**(3,975,686)**	972,646
Increase in prepayments, deposits and other receivables		**(409,585)**	(188,975)
Increase in trade and bills payables		**1,145,058**	406,924
Increase in other payables and accruals		**3,290,066**	504,839
Decrease in provisions for pension benefits and housing subsidies		**(19,784)**	(71,417)
Cash generated from operations		**4,013,346**	5,729,954
Income tax paid		**(388,395)**	(447,150)
Net cash inflow from operating activities		**3,624,951**	5,282,804

Consolidated Cash Flow Statement (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow from operating activities		**3,624,951**	5,282,804
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**52,798**	34,259
Proceeds from disposal of equity investments at fair value through profit or loss		**674**	27,562
Dividend income from available-for-sale investments		**8,463**	5,284
Dividend income from associates		**16,327**	–
Government subsidies granted for specific projects		**78,320**	116,567
Purchases of items of property, plant and equipment, construction in progress and other intangible asset		**(6,999,870)**	(14,055,200)
Purchases of prepaid land premiums		**(61,659)**	(175,177)
Proceeds from disposal of items of property, plant and equipment		**50,749**	62,002
Proceeds from retrieval of held-to-maturity investments		**2,660**	2,660
Investments in equity investments at fair value through profit or loss		**(1,135)**	–
Investments in available-for-sale investments		**(91,467)**	–
Investments in associates		**(4,500)**	(13,500)
Proceeds from disposal of available-for-sale investments		**29,916**	–
Acquisition of a subsidiary	40	**–**	(44,918)
Decrease in non-pledged time deposits		**–**	63,632
Increase in pledged time deposits		**(237,477)**	(389,303)
Net cash outflow from investing activities		**(7,156,201)**	(14,366,132)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**16,516,241**	14,019,019
Issue of bonds with warrants		**–**	5,355,650
Repayment of bank and other borrowings		**(10,358,331)**	(8,538,526)
Proceeds from exercising warrants	34	**1,009,828**	–
Direct costs	34	**(5,049)**	–
Capital contribution by minority shareholders		**60,553**	317,983
Interest paid		**(1,421,295)**	(773,016)
Dividend paid		**(344,087)**	(632,837)
Dividend paid to minority shareholders		**(25,266)**	(26,444)
Net cash inflow from financing activities		**5,432,594**	9,721,829
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,901,344**	638,501
Cash and cash equivalents at beginning of year		**3,629,568**	3,049,270
Effect of foreign exchange rate changes, net		**(7,036)**	(58,203)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,523,876**	3,629,568
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	30	**5,523,876**	3,629,568

Balance Sheet

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**39,741,474**	17,794,289
Construction in progress	15	**3,792,906**	20,980,235
Investment properties		**19,214**	19,619
Prepaid land premiums	17	**1,214,768**	1,228,645
Investments in subsidiaries	19	**899,450**	794,793
Investment in a jointly-controlled entity	20	**234,000**	234,000
Investments in associates	21	**263,276**	263,276
Available-for-sale investments	22	**102,917**	16,817
Held-to-maturity investments	23	**5,599**	8,259
Deferred tax assets	24	**90,335**	–
Total non-current assets		**46,363,939**	41,339,933
CURRENT ASSETS			
Inventories	25	**8,238,787**	6,024,808
Construction contracts	26	**75,688**	51,119
Trade and bills receivables	27	**5,221,264**	1,153,273
Prepayments, deposits and other receivables	28	**1,639,886**	783,540
Equity investments at fair value through profit or loss	29	**1,463**	–
Cash and cash equivalents	30	**3,665,370**	2,808,993
Total current assets		**18,842,458**	10,821,733
CURRENT LIABILITIES			
Trade and bills payables	31	**7,696,708**	4,993,704
Other payables and accruals	32	**8,316,238**	5,095,655
Interest-bearing bank and other borrowings	33	**5,009,660**	581,328
Tax payable		**41,922**	62,695
Provisions	35	**40,546**	50,770
Total current liabilities		**21,105,074**	10,784,152
NET CURRENT ASSETS/(LIABILITIES)		**(2,262,616)**	37,581
TOTAL ASSETS LESS CURRENT LIABILITIES		**44,101,323**	41,377,514

Balance Sheet (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**44,101,323**	41,377,514
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	**16,563,408**	15,697,870
Bonds with warrants	33, 34	**4,828,762**	4,672,376
Deferred income		**590,426**	564,901
Provisions	35	**12,485**	22,045
Due to the ultimate holding company	36	**–**	400,000
Deferred tax liabilities	24	**–**	754
Total non-current liabilities		**21,995,081**	21,357,946
Net assets		**22,106,242**	20,019,568
EQUITY			
Issued capital	37	**6,758,552**	6,455,300
Equity component of bonds with warrants		**372,679**	585,463
Reserves	38(b)	**14,096,399**	12,139,616
Proposed final dividend	12	**878,612**	839,189
Total equity		**22,106,242**	20,019,568

Gu Jianguo
Director

Su Jiangang
Director

Notes To Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

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 (collectively referred to as 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 include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and bonds with warrants, 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 2007. 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 in the prior year had been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred at the date of exchange, plus costs directly attributable to the acquisition.

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

2.2 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.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

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

(a) HKFRS 7 Financial Instruments: *Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enables users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 47 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued equity instruments, the interpretation has had no effect on these financial statements.

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

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost should not be subsequently reversed. As the Group has no impairment losses previously reversed in respect of such assets, the interpretation has no impact on the financial position or results of operations of the Group.

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 (Revised)	*Presentation of Financial Statements*[4]
HKAS 23 (Revised)	*Borrowing Costs*[4]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HKFRS 2 Amendment	*Share-Based Payments – Vesting Conditions and Cancellations*[4]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[4]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[1]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[2]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[2]

1 Effective for annual periods beginning on or after 1 March 2007
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2009
5 Effective for annual periods beginning on or after 1 July 2009

The revised HKAS 1 requires to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

This amendment to HKFRS 2 *Share-Based Payments* restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revised HKFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty scheme and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the group.

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 HKFRS 8 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Joint ventures *(continued)*

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.

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity is eliminated to the extent of the Group's investments in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jointly-controlled entity *(continued)*

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 are 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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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, but 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 where 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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. No development costs have been capitalised during the year.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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 and financial assets designated upon initial recognition as at fair value through profit and loss. 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. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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 less any allowance for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with policies set out for "Revenue recognition" below. Losses arising from the impairment of such investment are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from available-for-sale investment revaluation reserve.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

In relation to trade and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

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 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 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its costs or when other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed 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 (i) has transferred substantially all the risks and rewards of the asset, or (ii) 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

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. The related interest expense is recognised within "finance costs" in the income statement.

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. The net fair value gain and loss recognised in the income statement does not include any interest changed or these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 less 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*.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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 that are readily convertible into known amounts of cash, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Construction contracts *(continued)*

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

- 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) dividend income, when the shareholders' right to receive payment has been established.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

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 ruling 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.

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.

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)*

Borrowing costs *(continued)*

All other borrowing costs are recognised as expenses in the period in which they are incurred.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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:

Operating lease commitments –Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases.

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.

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

Judgements *(continued)*

Classification between investment properties and owner-occupied properties (continued)

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.

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.

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

Estimation Uncertainty *(continued)*

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.

Impairment of available-for-sale investments

The Group classifies certain investments as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

Income tax

The Group is mainly 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.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

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, liabilities and capital expenditure is provided. The Group's revenue by geographical locations is as follows:

	2007			2006		
	PRC	**Overseas**	**Total**	PRC	Overseas	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Segment revenue	**44,490,391**	**4,562,460**	**49,052,851**	30,800,297	3,519,577	34,319,874

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:

	2007	2006
	RMB'000	RMB'000
Revenue		
Sale of goods	**49,052,851**	34,319,874
Other income and gains		
Bank interest income	**52,798**	34,259
Trading of iron ores	**56,377**	24,525
Dividend income from available-for-sale investments	**8,463**	5,284
Gain on disposal of equity investments at fair value through profit or loss	**282**	13,994
Gain on disposal of available-for-sale investments	**24,549**	–
Subsidies income	**49,075**	5,850
Fair value gains on equity investments at fair value through profit or loss	**720**	–
Recognition of deferred income	**52,795**	49,752
Others	**71,170**	30,412
	316,229	164,076

6. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold (note i)		**43,478,583**	29,904,081
Depreciation	14	**3,256,266**	2,323,629
Depreciation of investment properties	16	**55**	586
Recognition of prepaid land premiums	17	**38,496**	29,070
Amortisation of a mine participation right (note ii)	18	**5,096**	4,481
Reversal of provision for doubtful debts, net (note iii)		**(5,052)**	(9,230)
Auditors' remuneration		**5,750**	5,100
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
Wages and salaries		**1,925,041**	1,688,418
Welfare and benefits		**866,170**	760,463
Pension scheme contributions		**443,479**	416,479
		3,234,690	2,865,360
Contingent rents under operating leases in respect of land and buildings		**36,250**	36,250
Foreign exchange differences:			
Foreign exchange losses/(gains), net		**(83,257)**	29,722
Less: Foreign exchange gains capitalised in construction in progress		**24,800**	26,150
		(58,457)	55,872
Loss on disposal of items of property, plant and equipment, net		**136,650**	3,011
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		**(1,250)**	(1,400)
Bank interest income		**(52,798)**	(34,259)
Dividend income from available-for-sale investments		**(8,463)**	(5,284)
Gain on disposal of equity investments at fair value through profit or loss		**(282)**	(13,994)
Gain on disposal of available-for-sale investments		**(24,549)**	–
Fair value gains on equity investments at fair value through profit or loss		**(720)**	–
Recognition of deferred income (note iv)		**(52,795)**	(49,752)

6. PROFIT BEFORE TAX *(CONTINUED)*

Notes:

(i) Included in the cost of inventories sold for the year is a provision against inventories of RMB40,334,000 (2006: a reversal of provision against inventories of RMB26,190,000).

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

(iii) The 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 consolidated balance sheet. Upon completion of the construction of specific projects and the related transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

	Group	
	2007	2006
	RMB'000	RMB'000
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	**1,591,418**	781,726
Less: Interest capitalised in construction in progress	**(435,219)**	(485,500)
	1,156,199	296,226

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	
	2007	2006
	RMB'000	RMB'000
Fees	**220**	220
Other emoluments:		
Salaries, allowances and benefits in kind	**673**	661
Performance related bonuses	**4,071**	3,717
Pension scheme contributions	**30**	30
	4,774	4,408
	4,994	4,628

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:

	2007	2006
	RMB'000	RMB'000
Independent directors		
Mr. Wong Chun Wa	**40**	40
Mr. Su Yong	**40**	40
Mr. Hui Leung Wah	**40**	40
Mr. Han Yi	**40**	40
	160	160
Independent supervisors		
Ms. Cheng Shaoxiu	**30**	30
Mr. An Qun	**30**	30
	60	60
	220	220

There were no other emoluments payable to the independent directors and independent supervisors during the year (2006: Nil).

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
2007					
Executive directors					
Mr. Gu Jianguo	**–**	**108**	**729**	**5**	**842**
Mr. Gu Zhanggen	**–**	**108**	**729**	**5**	**842**
Mr. Zhu Changqiu	**–**	**108**	**729**	**5**	**842**
Mr. Su Jiangang	**–**	**87**	**583**	**4**	**674**
Mr. Gao Haijian	**–**	**87**	**583**	**4**	**674**
Mr. Zhao Jianming	**–**	**–**	**–**	**–**	**–**
	–	**498**	**3,353**	**23**	**3,874**
Supervisors					
Mr. Li Kezhang	**–**	**87**	**583**	**4**	**674**
Mr. Dou Qingxun	**–**	**88**	**135**	**3**	**226**
Mr. Fang Jinrong	**–**	**–**	**–**	**–**	**–**
	–	**175**	**718**	**7**	**900**
	–	**673**	**4,071**	**30**	**4,774**
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

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2006: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2006: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2006: one) non-director, non-supervisor, highest paid employee for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**87**	87
Performance related bonuses	**583**	531
Pension scheme contributions	**4**	4
	674	622

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000 (2006: Nil to RMB1,000,000).

10. TAX

	2007	2006
	RMB'000	RMB'000
Group:		
Current – Mainland China		
Charge for the year	**385,367**	349,529
Underprovision in prior years	**–**	58,230
Current – Hong Kong	**6,752**	1,977
Current – Elsewhere	**14,985**	12,503
Deferred (note 24)	**(186,513)**	(74,861)
Total tax charge for the year	**220,591**	347,378

The income tax for the Company and its subsidiaries in the mainland of the PRC ("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% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

The State Administration of Taxation (the "SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The Circular stated that the difference in corporate income tax ("CIT") arising from the expired preferential CIT rate and the applicable CIT rate (the "CIT Differences") should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

Based on a notice from the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that, at this stage, it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences in respect of any prior years. The CIT for the current year has been provided at the rate of 33% (2006: 15%) on the assessable profits according to the relevant tax rules and regulations.

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.

During the Fifth Session of the Tenth 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 has become effective since 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%. In this regard, the Company and its subsidiaries in the PRC will be subject to corporate income tax at a rate of 25% on their taxable income commencing from 1 January 2008. The effective of this change has been reflected in the calculation of deferred income tax assets as at 31 December 2007.

10. TAX *(CONTINUED)*

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			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,788,575**		2,799,931	
Tax at the applicable tax rate	**920,230**	**33**	419,990	15
Effect of different tax rates of subsidiaries	**(25,457)**	**(1)**	31,707	1
Expenses not deductible for tax	**12,048**	**–**	5,350	–
Adjustments in respect of current tax of previous periods	**–**	**–**	58,230	2
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in Mainland China*	**(334,379)**	**(12)**	–	–
Other tax concessions	**(139,192)**	**(5)**	(96,507)	(3)
Tax relief granted	**(20,665)**	**(1)**	(24,404)	(1)
Income not subject to tax	**(83,041)**	**(3)**	(40,945)	(2)
Effect on deferred tax arising from changes in tax rates	**(65,462)**	**(2)**	–	–
Profits and losses attributable to a jointly–controlled entity and associates	**(43,491)**	**(1)**	(6,043)	–
Tax charge at the Group's effective rate	**220,591**	**8**	347,378	12

* The amount represents the increase in CIT in 2007 that is calculated based on the preferential CIT rate of 15% adopted by the Company for the 2006 tax assessment. The tax concession is calculated at 40% of the purchases of such manufacturing 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 RMB49,566,000 (2006: RMB17,128,000), are 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 2007 includes a profit of RMB2,016,357,000 (2006: RMB2,269,098,000) which has been dealt with in the financial statements of the Company (note 38(b)).

12. DIVIDEND

	2007	2006
	RMB'000	RMB'000
Proposed final – RMB13 cents (2006: RMB13 cents) per ordinary share	**878,612**	839,189

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.

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.

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

	2007	2006
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share and diluted earnings per share calculation	**2,467,253**	2,394,652

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

	Number of shares 2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**6,482,717,278**	6,455,300,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**586,294,382**	30,016,949
	7,069,011,660	6,485,316,949

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 2007				
At 31 December 2006 and at 1 January 2007:				
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
At 1 January 2007, net of accumulated depreciation and impairment	6,109,130	12,496,826	146,639	18,752,595
Additions	886	98,520	14,849	114,255
Transfers from construction in progress (note 15)	8,952,800	16,911,252	28,119	25,892,171
Depreciation provided during the year (note 6)	(744,536)	(2,467,098)	(44,632)	(3,256,266)
Reclassifications	279,480	(280,189)	709	–
Disposals/write-off	(30,188)	(155,385)	(1,825)	(187,398)
At 31 December 2007, net of accumulated depreciation and impairment	14,567,572	26,603,926	143,859	41,315,357
At 31 December 2007:				
Cost	18,684,265	36,839,150	425,256	55,948,671
Accumulated depreciation and impairment	(4,116,693)	(10,235,224)	(281,397)	(14,633,314)
Net carrying amount	14,567,572	26,603,926	143,859	41,315,357

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 2006				
At 1 January 2006:				
Cost	8,690,543	18,806,495	415,791	27,912,829
Accumulated depreciation and impairment	(2,758,402)	(6,535,075)	(234,660)	(9,528,137)
Net carrying amount	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 businesses (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)*

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
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
At 1 January 2007, net of accumulated depreciation and impairment	5,665,231	11,996,264	132,794	17,794,289
Additions	153	23,639	8,893	32,685
Transfers from construction in progress (note 15)	8,633,895	16,571,726	28,119	25,233,740
Depreciation provided during the year	(711,383)	(2,380,099)	(42,069)	(3,133,551)
Reclassifications	279,590	(280,366)	776	–
Disposals/write-off	(29,050)	(154,816)	(1,823)	(185,689)
At 31 December 2007, net of accumulated depreciation and impairment	13,838,436	25,776,348	126,690	39,741,474
At 31 December 2007:				
Cost	17,891,928	35,856,821	396,410	54,145,159
Accumulated depreciation and impairment	(4,053,492)	(10,080,473)	(269,720)	(14,403,685)
Net carrying amount	13,838,436	25,776,348	126,690	39,741,474

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 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

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 RMB24,658,000 (2006: RMB28,013,000) was pledged to secure a loan granted by Profit Access Investments Limited, a minority shareholder of a subsidiary of the Company. 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 RMB1,537,917,000 (2006: 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 certificates.

15. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
31 December 2007		
Cost:		
At 1 January 2007	**21,066,978**	**20,980,235**
Additions	**8,846,692**	**8,046,411**
Transfers to property, plant and equipment (note 14)	**(25,892,171)**	**(25,233,740)**
At 31 December 2007	**4,021,499**	**3,792,906**
Accumulated impairment:		
At 1 January 2007 and 31 December 2007	**–**	**–**
At 31 December 2007, net of accumulated impairment	**4,021,499**	**3,792,906**
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

16. INVESTMENT PROPERTIES

	2007 **RMB'000**	2006 RMB'000
Carrying amount at 1 January	**3,559**	–
Additions	**–**	4,145
Transfers to prepaid land premiums (note 17)	**(2,264)**	–
Depreciation provided during the year (note 6)	**(55)**	(586)
Carrying amount at 31 December	**1,240**	3,559

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

	2007 **RMB'000**	2006 RMB'000
Medium term leases	**1,240**	1,275
Short term leases	**–**	2,284
	1,240	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

	2007 **RMB'000**	2006 RMB'000
Carrying amount at 1 January	**1,457,468**	1,137,801
Additions	**94,919**	181,185
Transfers from investment properties (note 16)	**2,264**	–
Acquisition of a subsidiary (note 40)	**–**	13,448
Minority shareholder contribution (note 39)	**–**	154,104
Recognised during the year (note 6)	**(38,496)**	(29,070)
Carrying amount at 31 December	**1,516,155**	1,457,468

17. PREPAID LAND PREMIUMS *(CONTINUED)*

Company

	2007 **RMB'000**	2006 RMB'000
Carrying amount at 1 January	**1,228,645**	1,092,280
Additions	**16,000**	159,502
Recognised during the year	**(29,877)**	(23,137)
Carrying amount at 31 December	**1,214,768**	1,228,645

The leasehold lands are held under a medium term lease and are situated in Mainland China.

18. OTHER INTANGIBLE ASSET

Group

	Mine participation right	
	2007 **RMB'000**	2006 RMB'000
Carrying amount at 1 January	**113,507**	109,035
Additions	**12,411**	8,953
Amortisation provided during the year (note 6)	**(5,096)**	(4,481)
Carrying amount at 31 December	**120,822**	113,507
At the end of year:		
Cost	**131,514**	119,103
Accumulated amortisation	**(10,692)**	(5,596)
Net carrying amount	**120,822**	113,507

19. INVESTMENTS IN SUBSIDIARIES

Company

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**899,450**	794,793

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	6.25	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

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	
Maanshan Iron & Steel (HK) Limited ("Masteel HK")	Hong Kong	HKD4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services
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)	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

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	Percentage of equity attributable to the Company Indirect	Principal activities
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (notes i, 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, leasing properties, provision of construction services and repair and maintenance of used equipments
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (notes ii, iv)	Mainland China	RMB120,000,000	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
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") (notes ii, iv)	Mainland China	USD20,000,000	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)

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
Maanshan Used Vehicle Trading Center Co. Ltd ("Used Vehicle Trading") (notes i, iii, iv)	Mainland China	RMB500,000	100	–	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller") (notes ii, iii, iv)	Mainland China	USD6,000,000	51	–	Developing, processing manufacturing and sale of steel roller, provision of after-sale services and technical consultancy services
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique") (notes i, iii, iv)	Mainland China	RMB37,500,000	71	–	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services

Notes:

(i) Registered as limited companies under the PRC law

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

(iii) Newly incorporated during the year

(iv) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	–	–	**234,000**	234,000
Share of net assets	**268,306**	234,000	**–**	–
	268,306	234,000	**234,000**	234,000

The Group's trade receivable, other receivable and trade payable balances with the jointly-controlled entity are disclosed in notes 27, 28 and 31 to the financial statements.

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 following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2007	2006
	RMB'000	RMB'000
Assets	**877,327**	371,294
Liabilities	**(340,716)**	(137,294)
Revenue	**293,382**	–
Net profit	**68,611**	–

21. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	–	–	**263,276**	263,276
Share of net assets	**414,725**	329,514	–	–
	414,725	329,514	**263,276**	263,276

The Group's trade payable balance with the associates is disclosed in note 31 to the financial statements.

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 i)	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 i)	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 i)	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 i)	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

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 ("馬鋼智能停車") (notes i)	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 ("奧馬特變速系統") (notes i)	Mainland China	45	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) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

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

	2007	2006
	RMB'000	RMB'000
Assets	**3,832,958**	3,108,473
Liabilities	**(2,737,271)**	(2,185,372)
Revenues	**2,744,219**	2,112,525
Net profit	**291,718**	114,471

22. AVAILABLE-FOR-SALE INVESTMENTS

Group and Company

	2007 RMB'000	2006 RMB'000
Unlisted equity investments, at fair value	–	16,817
Unlisted equity investments, at cost	102,917	–
	102,917	16,817

The above investments consist of investments in equity securities which were designated as available-for-sale investments and have no fixed maturity date or coupon rate.

Certain unlisted equity investments of the Group and the Company are not stated at fair value but at cost, because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is so significant that the director are of the opinion that their fair value cannot be reasonably assessed. The Group does not intend to dispose of them in the near future.

23. HELD-TO-MATURITY INVESTMENTS

Group and Company

	2007 RMB'000	2006 RMB'000
Debt investments	5,599	8,259

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

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	24,628	32,264	23,101	27,421	22,728	4,423	134,565
Deferred tax credited to the income statement during the year (note 10)	12,851	529	7,337	29,149	72,696	1,635	124,197
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2007	37,479	32,793	30,438	56,570	95,424	6,058	258,762

Deferred tax liabilities

	Bonds with warrants RMB'000	Furnace relining costs RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	(124,144)	(11,175)	–	(135,319)
Deferred tax debited directly to equity (note 34)	(95,273)	–	–	(95,273)
Deferred tax credited/(charged) to the income statement during the year (note 10)	51,607	11,175	(466)	62,316
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2007	(167,810)	–	(466)	(168,276)
Net deferred tax assets recognised in the consolidated balance sheet at 31 December 2007				90,486

24. DEFERRED TAX *(CONTINUED)*

Company

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	**24,628**	**32,264**	**23,101**	**27,421**	**22,728**	**4,423**	**134,565**
Deferred tax credited to the income statement during the year	**12,851**	**529**	**7,337**	**29,149**	**72,696**	**1,198**	**123,760**
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2007	**37,479**	**32,793**	**30,438**	**56,570**	**95,424**	**5,621**	**258,325**

Deferred tax liabilities

	Bonds with warrants RMB'000	Furnace relining costs RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	**(124,144)**	**(11,175)**	**–**	**(135,319)**
Deferred tax debited directly to equity (note 34)	**(95,273)**	**–**	**–**	**(95,273)**
Deferred tax credited/(charged) to the income statement during the year	**51,607**	**11,175**	**(180)**	**62,602**
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2007	**(167,810)**	**–**	**(180)**	**(167,990)**
Net deferred tax assets recognised in the balance sheet at 31 December 2007				**90,335**

24. DEFERRED TAX *(CONTINUED)*

Group and Company

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre–operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Others RMB'000	Total 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 recognised in the consolidated balance sheet at 31 December 2006	24,628	32,264	23,101	27,421	22,728	4,423	134,565

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 recognised in the consolidated balance sheet at 31 December 2006	(124,144)	(11,175)	(135,319)
Net deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2006			(754)

24. DEFERRED TAX *(CONTINUED)*

At 31 December 2007, the Group had unrecognised deferred tax assets, in respect of tax credit arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credit amounting to RMB243,030,000 and RMB5,835,000, respectively, which have not been recognised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**4,866,757**	3,593,290	**4,485,055**	3,404,961
Work in progress	**738,365**	538,137	**717,022**	503,684
Finished goods	**1,684,709**	660,684	**853,403**	464,386
Spare parts	**2,260,650**	1,696,902	**2,183,307**	1,651,777
	9,550,481	6,489,013	**8,238,787**	6,024,808

At 31 December 2007, the carrying amount of the Group's inventories, which were pledged as securities for the Group's trading facilities for the issue of bank bills, amounted to RMB786,930,000 (2006: RMB121,914,000), as further detailed in note 31 to the financial statements.

26. CONSTRUCTION CONTRACTS

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Gross amount due from contract customers	**75,688**	51,119
Contract costs incurred to date plus recognised profits less recognised losses	**490,435**	298,395
Less: Progress billings	**(414,747)**	(247,276)
	75,688	51,119

At 31 December 2007, retentions held by customers for contract works included in the Group's trade receivables amounted to RMB7 million (2006: RMB7 million).

27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**1,032,731**	623,360	**1,570,463**	579,802
Bills receivable	**4,194,298**	681,138	**3,667,209**	613,911
	5,227,029	1,304,498	**5,237,672**	1,193,713
Impairment	**(17,355)**	(40,939)	**(16,408)**	(40,440)
	5,209,674	1,263,559	**5,221,264**	1,153,273

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

27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**946,862**	553,187	**1,523,572**	525,475
Four to six months	**12,770**	10,623	**7,092**	846
Seven to twelve months	**41,895**	4,953	**11,428**	2,764
One to two years	**12,852**	9,366	**10,925**	6,796
Two to three years	**539**	4,292	**351**	3,481
Over 3 years	**458**	–	**687**	–
	1,015,376	582,421	**1,554,055**	539,362
Bills receivable	**4,194,298**	681,138	**3,667,209**	613,911
	5,209,674	1,263,559	**5,221,264**	1,153,273

Bills receivable will mature within one year.

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**40,939**	49,298	**40,440**	47,690
Impairment losses recognised	**448**	–	**–**	–
Amount written off as uncollectible	**(18,441)**	871	**(18,441)**	871
Impairment losses reversed	**(5,591)**	(9,230)	**(5,591)**	(8,121)
At 31 December	**17,355**	40,939	**16,408**	40,440

27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The above provision for impairment of the Group's trade and bills receivables is a provision for individually impaired trade receivables, with a carrying amount of RMB70,390,000 (2006: RMB70,174,000). The individually impaired trade receivables relate to customers that were in financial difficulties or the customers were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither overdue nor impaired	**5,156,639**	1,234,324	**5,176,983**	1,139,386
Overdue less than six months	**52,100**	13,695	**43,567**	3,917
Overdue over six months	**935**	15,540	714	9,970
	5,209,674	1,263,559	**5,221,264**	1,153,273

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

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

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries, and the Group's jointly-controlled entity of RMB9,773,000 (2006: RMB10,434,000) and RMB19,405,000 million (2006: Nil), respectively. Such balances principally arose from normal trading activities.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Prepayments	**1,672,057**	608,716	**1,576,389**	733,451
Deposits and receivables	**263,461**	186,810	**70,428**	76,262
	1,935,518	795,526	**1,646,817**	809,713
Impairment	**(7,022)**	(26,173)	**(6,931)**	(26,173)
	1,928,496	769,353	**1,639,886**	783,540

The above impairment was made for deposits and receivables and the movements are as follows:

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
At 1 January	**26,173**	26,173	**26,173**	26,173
Impairment losses recognised	**91**	–	**–**	–
Amount written off as uncollectible	**(19,242)**	–	**(19,242)**	–
At 31 December	**7,022**	26,173	**6,931**	26,173

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

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Neither overdue nor impaired	**246,536**	124,851	**58,325**	45,810
Overdue less than six months	**8,495**	34,395	**5,128**	2,967
Overdue over six months	**1,408**	1,391	**44**	1,312
	256,439	160,637	**63,497**	50,089

Deposits and receivables that were neither overdue nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

Included in the Group's prepayments, deposits and other receivables are amount due from Holding and its subsidiaries and jointly-controlled entity of RMB28,081,000 (2006: RMB27,347,000) and RMB104,000 (2006: Nil), respectively. Such balances were mainly for the purchase of construction services.

29. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Listed equity investments	**1,463**	–

The Group's and the Company's equity investments at fair value through profit or loss represented listed equity investments in the PRC.

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group	
	2007	2006
	RMB'000	RMB'000
Cash and bank balances	**5,463,876**	3,629,568
Time deposits and balances with financial institutions, net of provisions	**828,081**	531,137
	6,291,957	4,160,705
Less: Pledged time deposits for		
– Trade facilities	**(763,881)**	(531,137)
– Others	**(4,200)**	–
	(768,081)	(531,137)
Cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement	**5,523,876**	3,629,568

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(CONTINUED)*

	Company	
	2007	2006
	RMB'000	RMB'000
Cash and cash equivalents	**3,665,370**	2,808,993

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB5,970,712,000 (2006: RMB3,832,573,000). 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 three months, depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposits as follows:

	Notes	**2007**	2006
		HK$'000	HK$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	–	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(ii)	–	48,000
SEG International Trust & Investment Corporation ("SEG")	(ii)	–	48,125
		–	119,442

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(CONTINUED)*

Notes:

(i) 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. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the period from 1 January 2005 to the balance sheet date, no repayments have been received from GITIC.

(ii) The Company has registered its debts with the liquidators. Up to the balance sheet date, no repayments have been received from Ningbo CITIC and SEG.

As the ageing of the aforesaid deposits have been overdue for 11 years and the Company has made full provision in prior years, the directors opined that the possibility to recover these overdue deposits is remote. Accordingly, overdue fixed deposits and the relevant provisions were written off in current year.

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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**9,111,984**	5,950,074	**7,681,098**	4,970,880
One to two years	**353,317**	28,668	**8,924**	11,659
Two to three years	**5,911**	13,080	**5,361**	6,748
Over three years	**1,339**	5,900	**1,325**	4,417
	9,472,551	5,997,722	**7,696,708**	4,993,704

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

Included in the Group's trade and bills payables are amounts due to Holding and its subsidiaries, and the Group's jointly-controlled entity and associates of RMB94,997,000 (2006: RMB197,455,000), RMB54,513,000 (2006: Nil) and RMB146,457,000 (2006: RMB7,362,000), respectively. Such balances principally arose from normal trading activities.

At 31 December 2007, the carrying amounts of the Group's inventories and time deposits, which were pledged as securities for the Group's trading facilities for the issuance of bank bills, amounted to RMB786,930,000 (2006: RMB121,914,000) and RMB763,881,000 (2006: RMB531,137,000), respectively, as further detailed in notes 25 and 30 to the financial statements.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**3,113,357**	1,696,004	**2,859,617**	1,428,548
Advanced from customers	**6,629,640**	3,924,584	**5,456,621**	3,667,107
	9,742,997	5,620,588	**8,316,238**	5,095,655

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 RMB1,425,801,000 (2006: RMB519,750,000). Such balances principally arose from normal trading activities.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective contractual interest rate (%)	Maturity	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Current						
Bank loans – unsecured	**0.25-5.95**	**2008**	**1,265,817**	399,019	**200,000**	200,000
Current portion of long term bank loans – unsecured	**0.25-5.95**	**2008**	**2,809,660**	401,601	**2,809,660**	381,328
Short term commercial papers – unsecured	**4.2**	**2008**	**2,000,000**	–	**2,000,000**	–
Other loans – unsecured			**–**	2,152	**–**	–
Other loans – secured	**5.49**	**2008**	**6,364**	6,000	**–**	–
			6,081,841	808,772	**5,009,660**	581,328
Non-current						
Bank loans – unsecured	**5.265-5.832**	**2009-2012**	**12,577,952**	15,713,140	**12,563,408**	15,697,870
Other loans – unsecured	**4.87/5.076**	**2010**	**4,000,000**	–	**4,000,000**	–
			16,577,952	15,713,140	**16,563,408**	15,697,870
Bonds with warrants (note 34)	**4.43**	**2011**	**4,828,762**	4,672,376	**4,828,762**	4,672,376
			21,406,714	20,385,516	**21,392,170**	20,370,246
			27,488,555	21,194,288	**26,401,830**	20,951,574
Analysed into:						
Bank loans repayable:						
Within one year			**4,075,477**	800,620	**3,009,660**	581,328
In the second year			**567,322**	5,508,142	**566,000**	5,506,870
In the third to fifth years, inclusive			**12,001,375**	10,178,818	**11,997,408**	10,175,000
Beyond five years			**9,255**	26,180	**–**	16,000
			16,653,429	16,513,760	**15,573,068**	16,279,198
Other borrowings repayable:						
Within one year			**2,006,364**	8,152	**2,000,000**	–
In the second year			**–**	–	**–**	–
In the third to fifth years, inclusive			**8,828,762**	4,672,376	**8,828,762**	4,672,376
			10,835,126	4,680,528	**10,828,762**	4,672,376
			27,488,555	21,194,288	**26,401,830**	20,951,574

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

Certain of the bank and other borrowings of RMB15,640,000,000 (2006: RMB14,985,128,000) and RMB15,866,000 (2006: RMB16,542,000) are guaranteed by Holding and Sinosteel Trading Company, respectively.

Except for bank and other borrowings of RMB2,026,728,000 (2006: RMB820,150,000) and RMB15,866,000 (2006: RMB35,561,000) which are denominated in United States dollar and Euro, respectively, all other borrowings are denominated in RMB.

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

Other loans totalling RMB6,364,000 (2006: RMB8,125,000) 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 RMB24,658,000 (2006: RMB28,013,000).

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**1,240,495**	**24,000**	399,019	–
Current portion of long term bank loans – unsecured	**1,250,522**	**1,560,460**	370,473	31,128
Short term commercial papers – unsecured	**2,000,000**	**–**	–	–
Other loans – unsecured	**–**	**–**	2,152	–
Other loans –secured	**6,364**	**–**	6,000	–
Non-current				
Bank loans – unsecured	**4,078,544**	**8,499,408**	7,905,270	7,807,870
Other loans – unsecured	**4,000,000**	**–**	–	–
Bonds with warrants	**4,828,762**	**–**	4,672,376	–

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

	Company			
	2007		2006	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**200,000**	**–**	200,000	–
Current portion of long term bank loans – unsecured	**1,249,200**	**1,560,460**	350,200	31,128
Short term commercial papers – unsecured	**2,000,000**	**–**	–	–
Non-current				
Bank loans – unsecured	**4,064,000**	**8,499,408**	7,890,000	7,807,870
Other loans– unsecured	**4,000,000**	**–**	–	–
Bonds with warrants	**4,828,762**	**–**	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.

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. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. 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. The original conversion price is RMB3.40 each. Since the declaration of dividends on 13 July 2007, the conversion price has been adjusted to RMB3.33 each.

During the year ended, the first exercise period of the warrants took place on 15 November 2007 to 28 November 2007. A total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33 and as a result of which the Holding's equity interest has been diluted to 56.68% (2006: 59.34%). Upon the first exercise period is completed, the equity component of bonds with warrants of RMB117,511,000 (2006: Nil) has been transferred to capital reserve account accordingly.

34. BONDS WITH WARRANTS *(CONTINUED)*

As detailed in note 10 to the financial statements, the change in corporate income tax rate to 25% on 1 January 2008, resulted in charging to the equity component of bonds with warrants of RMB95,273,000 in current year arising from the deferred tax liabilities of the bonds with warrants.

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 carrying amount of the liability component of the bonds with warrants as at 31 December 2007 is arrived at as follows:

	RMB'000
Nominal value of bonds with warrants issued	5,500,000
Equity component (net of deferred tax)	(604,229)
Deferred tax liability	(128,790)
Direct transaction costs attributable to the liability component	(125,584)
Liability component at the issue date	4,641,397
For the period from the issue date to 31 December 2006	
Interest expense	30,979
The carrying amount at 31 December 2006 and 1 January 2007	4,672,376
For the period from 1 January 2007 to 31 December 2007	
Interest expense	233,386
Less: Interest paid	(77,000)
The carrying amount at 31 December 2007	4,828,762

35. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees RMB'000	Housing subsidies RMB'000	Total RMB'000
At 1 January 2007	29,485	43,330	72,815
Amounts utilised during the year	(10,000)	(9,784)	(19,784)
At 31 December 2007	19,485	33,546	53,031
Portion classified as current liabilities	(7,000)	(33,546)	(40,546)
Non-current portion	12,485	–	12,485

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 was unsecured and interest-free. The amount is repayable in January 2008. Thus, the amount is included in other payables as current liabilities. The amount is fully repaid in January 2008.

37. SHARE CAPITAL

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Issued and fully paid:		
State owned shares	**3,830,560**	3,830,560
Legal person A shares	**–**	87,810
Individual A shares of RMB1.00 each	**1,195,062**	804,000
H shares of RMB1.00 each	**1,732,930**	1,732,930
	6,758,552	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.

During the year, the movements in share capital were as follows:

(a) On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares (including state-owned shares and legal person A shares, collectively as "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").

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.

In accordance with the execution arrangement of the State Share Reform, on 2 April 2007, the entire legal person A shares amounting to 87,810,000 shares were released from Selling Restriction, and were transferred to Circulating A Shares, i.e., individual A shares.

37. SHARE CAPITAL *(CONTINUED)*

(b) During the year, 303,251,716 warrants were exercised for 303,251,716 individual A shares of RMB3.33 per share for a total cash proceeds, after expenses, of RMB701,527,000. At the balance sheet date, the Company had 961,748,284 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 961,748,284 additional individual A shares of RMB1 each.

(c) At the balance sheet date, the change in the Company's registered capital is in progress.

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 6 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 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 to reserves	–	1,397,993	(1,166,670)	(231,323)	–
Proposed final 2006 dividend	–	–	–	(839,189)	(839,189)
At 31 December 2006 and 1 January 2007	**4,864,976**	**2,564,663**	**–**	**4,709,977**	**12,139,616**
Profit for the year	**–**	**–**	**–**	**2,016,357**	**2,016,357**
Transfer from/(to) reserves	**–**	**213,190**	**–**	**(213,190)**	**–**
Share premium (note 34)	**701,527**	**–**	**–**	**–**	**701,527**
Issue of shares through exercising warrants (note 34)	**117,511**	**–**	**–**	**–**	**117,511**
Proposed final 2007 dividend	**–**	**–**	**–**	**(878,612)**	**(878,612)**
At 31 December 2007	**5,684,014**	**2,777,853**	**–**	**5,634,532**	**14,096,399**

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 companies' share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

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 RMB213.2 million (2006: RMB231.3 million) to the SR. This represents 10% of the Company's profit after tax of RMB2,132 million (2006: RMB2,313 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 RMB28.4 million (2006: RMB6.1 million), RMB13.6 million (2006: RMB11.9 million) and RMB9.2 million (2006: RMB7.7 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 2007, the Company had retained profits of RMB5,635 million (31 December 2006: RMB4,710 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 2007, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of RMB6.06 billion (2006: 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.

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. As at 31 December 2006, the Company had contributed cash of RMB237,495,000 to Ma Steel (Hefei) and Hefei Investment Holding had 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

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.

40. BUSINESS COMBINATIONS *(CONTINUED)*

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

	Notes	2006 RMB'000
Property, plant and equipment, net	14	49,112
Prepaid land premiums	17	13,448
Inventories		354
Trade and bills receivables		11,883
Prepayments, deposits and other receivables		2,024
Cash and cash equivalents		12,487
Trade payables		(1,534)
Other payables and accruals		(309)
Tax payable		(633)
Minority interests		(25,181)
Net assets value		61,651
Cash consideration		61,651
Less: Unpaid portion of cash consideration		(4,246)
		57,405

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

	2006 RMB'000
Cash payment	57,405
Cash and cash equivalents acquired	(12,487)
Net outflow of cash and cash equivalents in respect of the aforesaid acquisitions	44,918

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.

Had these combinations taken place at the beginning of the year 2006 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.

41. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**5,305,000**	7,728,130

As at 31 December 2007, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB814,495,000 (2006: RMB33,019,000).

(b) As detailed in note 10 to the financial statements, the Group has potential risk on CIT in prior years. The directors of the Company, at this stage, consider that it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences and the related tax concessions, deferred tax, penalty and interest (if applicable).

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.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within one year	**1,250**	1,306
In the second to fifth years, inclusive	**5,000**	5,000
After five years	**12,658**	13,750
	18,908	20,056

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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for	**3,157,701**	5,217,641	**2,961,230**	4,469,724
Contracted, but not provided for	**556,524**	4,093,227	**422,200**	4,051,077
	3,714,225	9,310,868	**3,383,430**	8,520,801

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for	**9,000**	13,500	**286,788**	172,947

(c) The Group'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:

	2007	2006
	RMB'000	RMB'000
Authorised, but not contracted for	**778**	10,952
Contracted, but not provided for	**–**	39,351
	778	50,303

43. CAPITAL COMMITMENTS *(CONTINUED)*

(d) The Group'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:

	2007 **RMB'000**	2006 RMB'000
Contracted, but not provided for	**4,500**	5,000

44. MAJOR NON-CASH TRANSACTION

In 2006, 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 to the financial statements.

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	**2007** **RMB'000**	2006 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	**1,848,362**	1,631,201
Fees paid for welfare, support services and other services	(ii), (iii)	**188,849**	194,497
Rental expenses	(iii)	**36,250**	36,250
Agency fee paid	(iii)	**4,912**	4,093
Purchases of property, plant and equipment and construction services	(iii)	**211,009**	295,468
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(64,675)**	(23,221)
Sale of steel and other by-products	(iii)	**(5,760)**	(8,951)

45. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Notes	2007 RMB'000	2006 RMB'000
Transactions with associates of the Company:			
Purchases of coke	(iv)	**1,047,313**	1,085,125
Loading expenses	(iv)	**133,783**	75,036
Transactions with the jointly-controlled entity of the Company:			
Rental income	(v)	**(1,250)**	(1,250)
Construction fees income	(v)	**–**	(2,926)
Fee received for the supply of electricity	(v)	**(140,901)**	–
Purchase of gas products	(v)	**297,468**	–
Compensation income	(vi)	**(10,500)**	–

Notes:

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 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 15 February 2007 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.

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

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

45. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Notes: *(continued)*

(vi) The amount was charged base on the period of delaying the supply of gas to the Company by BOC-Ma Steel with reference to the terms mutually agreed between the parties.

(b) Holding has guaranteed certain bank loans and bonds with warrants of the Group up to RMB15.6 billion (2006: RMB15 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, the Group's jointly-controlled entity and associates are set out in notes 27, 28, 31, 32 and 36 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

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

	2007	2006
	RMB'000	RMB'000
Short term employee benefits	**6,979**	6,476
Post-employment benefits	**42**	40
Total compensation paid to key management personnel	**7,021**	6,516

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) to (v) above were carried out in the normal course of business of the Group.

The related party transactions in respect of items (a) (i) to (iii) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL INSTRUMENTS BY CATERGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007
Financial assets

	Group				
	Financial assets at fair value through profit and loss – held for trading investments RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Held-to-maturity investment	–	5,599	–	–	5,599
Available-for-sale investments	–	–	–	102,917	102,917
Trade and bills receivables	–	–	5,209,674	–	5,209,674
Financial assets included in prepayments, deposits and other receivables	–	–	256,439	–	256,439
Equity investments at fair value through profit and loss	1,463	–	–	–	1,463
Pledged time deposits	–	–	768,081	–	768,081
Cash and cash equivalents	–	–	5,523,876	–	5,523,876
	1,463	5,599	11,758,070	102,917	11,868,049

46. FINANCIAL INSTRUMENTS BY CATERGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**9,472,551**
Financial liabilities included in other payables and accruals (note 32)	**3,113,357**
Bonds with warrants	**4,828,762**
Interest-bearing bank and other borrowings	**2,659,793**
Tax payable	**111,819**
Provisions	**53,031**
	40,239,313

2006 Group

Financial assets

	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Held-for-maturity investment	8,259	–	–	8,259
Available-for-sale investments	–	–	16,817	16,817
Trade and bills receivables	–	1,263,559	–	1,263,559
Financial assets included in prepayments, deposits and other receivables	–	160,637	–	160,637
Pledged time deposits	–	531,137	–	531,137
Cash and cash equivalents	–	3,629,568	–	3,629,568
	8,259	5,584,901	16,817	5,609,977

46. FINANCIAL INSTRUMENTS BY CATERGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	5,997,722
Financial liabilities included in other payables and accruals (note 32)	1,696,004
Bonds with warrants	4,672,376
Interest-bearing bank and other borrowings	16,521,912
Due to the ultimate holding company	400,000
Tax payable	93,110
Provisions	72,815
	29,453,939

2007
Financial assets

	Company				
	Financial assets at fair value through profit and loss – held for trading investments RMB'000	**Held-to-maturity investment RMB'000**	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Held-to-maturity investment	**–**	**5,599**	**–**	**–**	**5,599**
Available-for-sale investments	**–**	**–**	**–**	**102,917**	**102,917**
Trade and bills receivables	**–**	**–**	**5,221,264**	**–**	**5,221,264**
Financial assets included in prepayments, deposits and other receivables	**–**	**–**	**63,497**	**–**	**63,497**
Equity investments at fair value through profit and loss	**1,463**	**–**	**–**	**–**	**1,463**
Cash and cash equivalents	**–**	**–**	**3,665,370**	**–**	**3,665,370**
	1,463	**5,599**	**8,950,131**	**102,917**	**9,060,110**

46. FINANCIAL INSTRUMENTS BY CATERGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**7,696,708**
Financial liabilities included in other payables and accruals (note 32)	**2,859,617**
Bonds with warrants	**4,828,762**
Interest-bearing bank and other borrowings	**21,573,068**
Tax payable	**41,922**
Provisions	**53,031**
	37,053,108

2006 Company

Financial assets

	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Held-to-maturity investment	8,259	–	–	8,259
Available-for-sale investments	–	–	16,817	16,817
Trade and bills receivables	–	1,153,273	–	1,153,273
Financial assets included in prepayments, deposits and other receivables	–	50,089	–	50,089
Cash and cash equivalents	–	2,808,993	–	2,808,993
	8,259	4,012,355	16,817	4,037,431

46. FINANCIAL INSTRUMENTS BY CATERGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,993,704
Financial liabilities included in other payables and accruals (note 32)	1,428,548
Bonds with warrants	4,672,376
Interest-bearing bank and other borrowings	16,279,198
Due to the ultimate holding company	400,000
Tax payable	62,695
Provisions	72,815
	27,909,336

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, bonds with warrants, pledged time 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 and bills payables and other payables which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group does not use any derivative financial instruments to hedge its cash flow interest rate risk.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Interest rate risk *(continued)*

As at 31 December 2007, change in market interest rates could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax RMB'000
2007		
United States dollar	**0.5**	**(6,099)**
RMB	**0.5**	**(44,320)**
United States dollar	**(0.5)**	**6,099**
RMB	**(0.5)**	**44,320**
2006		
United States dollar	0.5	(4,060)
RMB	0.5	(35,135)
United States dollar	(0.5)	4,060
RMB	(0.5)	35,135

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 dollar, Euro and Japanese Yen. Fluctuations of the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk *(continued)*

As at 31 December 2007, the aforesaid foreign currencies could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in %	Increase/ (decrease) in profit before tax RMB'000
2007		
United States dollar	**5**	**(9,364)**
Euro	**5**	**(841)**
Japanese Yen	**5**	**(28,942)**
United States dollar	**(5)**	**9,364**
Euro	**(5)**	**841**
Japanese Yen	**(5)**	**28,942**
2006		
United States dollar	5	(1,888)
Euro	5	(1,371)
Japanese Yen	5	(64,645)
United States dollar	(5)	1,888
Euro	(5)	1,371
Japanese Yen	(5)	64,645

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers 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.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Credit risk *(continued)*

With respect to credit risk arising from the other major financial assets of the Group, which comprise held-to-maturity investment, available-for-sale investments, equity investments at fair value through profit or loss, pledged time deposits, cash and cash equivalents, and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in note 41 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 39% (2006: 24%) of the Group's trade receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and deposits and receivables are disclosed in note 27 and 28 to the financial statements, respectively.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitment over the next year in accordance with its strategic plan. In the opinion of the director of the Company, most of the borrowings that mature within one year are able to renew and the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted principal payments, was as follows:

Group

	2007					
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**2 to 3 years RMB'000**	**3 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bonds with warrants	**–**	**–**	**–**	**5,500,000**	**–**	**5,500,000**
Interest-bearing bank and other borrowings	**6,081,841**	**567,322**	**817,322**	**15,184,053**	**9,255**	**22,659,793**
Trade and bills payables	**9,111,984**	**353,317**	**5,911**	**1,339**	**–**	**9,472,551**
Other payables	**2,980,115**	**119,243**	**13,170**	**339**	**490**	**3,113,357**
Tax payable	**111,819**	**–**	**–**	**–**	**–**	**111,819**
Provisions	**40,546**	**4,214**	**2,893**	**2,900**	**2,478**	**53,031**

	2006					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bonds with warrants	–	–	–	5,500,000	–	5,500,000
Interest-bearing bank and other borrowings	808,772	5,508,142	751,272	9,427,546	26,180	16,521,912
Trade and bills payables	5,950,074	28,668	13,080	5,900	–	5,997,722
Other payables	1,657,915	26,516	6,185	5,388	–	1,696,004
Due to the ultimate holding company	–	400,000	–	–	–	400,000
Tax payable	93,110	–	–	–	–	93,110
Provisions	50,770	6,022	4,214	4,803	7,006	72,815

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted principal payments, was as follows: *(continued)*

Company

	2007					
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**2 to 3 years RMB'000**	**3 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bonds with warrants	**–**	**–**	**–**	**5,500,000**	**–**	**5,500,000**
Interest-bearing bank and other borrowings	**5,009,660**	**566,000**	**816,000**	**15,181,408**	**–**	**21,573,068**
Trade and bills payables	**7,681,098**	**8,924**	**5,361**	**1,325**	**–**	**7,696,708**
Other payables	**2,830,019**	**16,079**	**12,963**	**339**	**217**	**2,859,617**
Tax payable	**41,922**	**–**	**–**	**–**	**–**	**41,922**
Provisions	**40,546**	**4,214**	**2,893**	**2,900**	**2,478**	**53,031**

	2006					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bonds with warrants	–	–	–	5,500,000	–	5,500,000
Interest-bearing bank and other borrowings	581,328	5,506,870	750,000	9,425,000	16,000	16,279,198
Trade and bills payables	4,970,880	11,659	6,748	4,417	–	4,993,704
Other payables	1,399,391	19,821	4,225	5,111	–	1,428,548
Due to the ultimate holding company	–	400,000	–	–	–	400,000
Tax payable	62,695	–	–	–	–	62,695
Provisions	50,770	6,022	4,214	4,803	7,006	72,815

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(continued)*

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, amount due to the ultimate holding company, trade and bills payables, other payables, liability components of bonds with warrants, less cash and cash equivalents and pledged time deposits. Capital includes equity attributable to equity holders of parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**22,659,793**	16,521,912
Trade and bills payables	**9,472,551**	5,997,722
Other payables	**3,113,357**	2,096,004
Liability component of bonds with warrants	**4,828,762**	4,672,376
Less: Cash and cash equivalents	**(5,523,876)**	(3,629,568)
Pledged time deposits	**(768,081)**	(531,137)
Net debt	**33,782,506**	25,127,309
Equity attributable to equity holders	**23,008,971**	20,461,771
Total capital	**23,008,971**	20,461,771
Capital and net debt	**56,791,477**	45,589,080
Gearing ratio	**59%**	55%

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

In accordance with "Circular on Issue of the 38 Specific Accounting Standards" (Cai Kuai [2006] No.3) issued by Ministry of Finance ("MOF"), commencing from 1 January 2007, the Company has adopted the "Accounting Standards for Business Enterprises" and its application guides (the "New PRC Standards") issued by MOF in 2006 to prepare its consolidated financial statements under the PRC Accounting Standards. The Company has retrospectively adjusted relevant items in relevant periods and restated the financial statements in accordance with Accounting Standards for Business Enterprises No.38 "first-time adoption of Accounting Standards for Business Enterprises" and "Q&A on Criteria of Information Disclosure by Companies Offering Securities to the Public No.7 – Preparation and Disclosure of Comparative Financial Information in Transition Period of Former and New Accounting Standards" (Zheng Jian Kuai Ji Zi [2007] No.10) issued by China Securities Regulatory Commission ("CSRC").

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

The effects on net profit arising from the difference between the consolidated financial statements prepared under the New PRC Standards and Hong Kong Accounting Standards are summarised as follows:

	Notes	**2007** **RMB'000**	2006 RMB'000
Net profit			
Profit attributable to equity holders of the parent under Hong Kong Accounting Standards		**2,467,253**	2,394,652
Add back:			
Employee bonus and welfare fund	(i)	**8,130**	6,547
Profit attributable to equity holders of the parent under the New PRC standards		**2,475,383**	2,401,199

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

(i) 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, certain subsidiaries have to make appropriations to the employee bonus and welfare fund.

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

49. POST BALANCE SHEET EVENT

On 1 January 2008, Holly Industrial has entered into a Share Transfer Agreement (the "Agreement") with Holding for an acquisition of 75% equity interests in 馬鋼智能停車 at a consideration of RMB15,667,000. The transaction has yet to be approved by the relevant government authorities.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2008.

Report Of The Auditors

ERNST & YOUNG HUA MING
安 永 华 明 会 计 师 事 务 所

Ernst & Young Hua Ming (2008) Shen Zi No. 60438514-A04

To the shareholders of Maanshan Iron & Steel Company Limited

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated and company balance sheet as at 31 December 2007, the consolidated and company income statement, consolidated and company cash flow statement for the year then ended, and the notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

2. AUDITOR'S RESPONSIBILITY

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

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

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

3. OPINION

In our opinion, the financial statements of the Company and the Group have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2007, and the results of their operations and their cash flows for the year then ended.

Ernst & Young Hua Ming
Beijing, the People's Republic of China

Li Di
Chinese Certified Public Accountant

Qin Tongzhou
Chinese Certified Public Accountant
17 April 2008

Consolidated Balance Sheet

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

ASSETS	Note VI	31 December 2007	31 December 2006 (restated)
CURRENT ASSETS:			
Cash and balances with financial institutions	1	**6,291,957,508**	4,160,704,714
Financial assets held for trading	3	**1,462,770**	–
Bills receivable	4	**4,194,297,474**	681,137,717
Trade receivables	5	**1,015,376,154**	582,420,964
Prepayments	6	**1,672,056,969**	608,716,305
Other receivables	7	**256,438,362**	160,637,099
Inventories	8	**9,626,168,900**	6,540,131,949
Total current assets		**23,057,758,137**	12,733,748,748
NON-CURRENT ASSETS:			
Held-to-maturity investments	9	**5,598,870**	8,258,870
Long term equity investments	10	**785,948,790**	580,331,440
Investment properties	11	**1,240,303**	3,559,300
Fixed assets	12	**41,315,357,426**	18,752,595,064
Construction materials		**510,853,043**	2,334,055,945
Construction in progress	13	**3,510,645,084**	18,732,921,149
Intangible assets	14	**1,636,977,393**	1,570,974,980
Deferred tax assets	15	**258,762,170**	134,565,000
Total non-current assets		**48,025,383,079**	42,117,261,748
TOTAL ASSETS		**71,083,141,216**	54,851,010,496

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Balance Sheet (Continued)

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note VI	31 December 2007 RMB'000	31 December 2006 RMB'000 (restated)
CURRENT LIABILITIES:			
Short term loans	17	**1,264,495,217**	399,018,506
Bills payable	18	**1,790,845,160**	1,346,880,982
Short term commercial papers	19	**2,000,000,000**	–
Accounts payable	20	**7,681,705,904**	4,650,841,361
Deposits received	21	**6,629,640,409**	3,924,584,355
Payroll and benefits payable	22	**341,844,965**	297,882,337
Taxes payable	23	**609,688,494**	299,623,169
Interests payable		**80,523,220**	66,785,238
Dividends payable	24	**1,303,757,138**	408,654,914
Other payables	25	**929,909,300**	766,937,747
Non-current liabilities due within one year	26	**2,817,346,333**	409,752,537
Total current liabilities		**25,449,756,140**	12,570,961,146
NON-CURRENT LIABILITIES:			
Long term loans	27	**16,577,951,605**	15,713,139,994
Bonds payable	28	**4,828,761,588**	4,672,376,376
Deferred income	29	**590,425,767**	564,900,631
Deferred tax liabilities	15	**168,275,911**	135,319,000
Other non-current liabilities	30	**12,485,032**	422,044,660
Total non-current liabilities		**22,177,899,903**	21,507,780,661
Total liabilities		**47,627,656,043**	34,078,741,807
SHAREHOLDERS' EQUITY:			
Share capital	31	**6,758,551,716**	6,455,300,000
Capital reserve	32	**6,056,692,904**	5,450,438,794
Surplus reserves	33	**2,901,562,765**	2,637,160,200
Retained profits	34	**7,282,533,393**	5,918,872,526
including: cash dividend proposed by directors		**878,611,723**	839,189,000
Exchange fluctuation reserve		**9,629,706**	–
Equity attributable to equity holders of the parent		**23,008,970,484**	20,461,771,520
Minority interests	35	**446,514,689**	310,497,169
Total shareholder's equity		**23,455,485,173**	20,772,268,689
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**71,083,141,216**	54,851,010,496

The accompanying notes from page 208 to page 331 form an integral part of the financial statements
The financial statements from page 194 to page 331 are signed by persons below

Company Representative:	Chief Accountant:	Head of Accounting epartment:
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
17 April 2008	17 April 2008	17 April 2008

Consolidated Statement of Income and Profit Appropriation

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

	Note VI	2007	2006 (restated)
Revenue	36	**50,645,394,601**	35,410,060,678
Less: Cost of sales		**44,907,020,169**	30,965,300,474
Taxes and surcharges	37	**628,246,219**	244,113,338
Selling expenses		**290,832,792**	228,996,806
Administrative expenses		**1,034,093,862**	999,715,658
Financial expenses	38	**1,083,487,311**	342,770,249
Assets impairment losses/(reversal)	39	**35,281,201**	(72,707,438)
Add: Gain on fair value changes		**719,870**	–
Investment income	40	**164,638,062**	59,564,445
including: share of profits of associates and a jointly controlled entity		**131,343,987**	40,286,524
Operating profit		**2,831,790,979**	2,761,436,036
Add: Non-operating income	41	**105,643,519**	59,102,049
Less: Non-operating expenses	42	**140,729,779**	14,059,913
including: loss on disposal of non-current assets		**136,649,892**	11,196,092
Profit before tax		**2,796,704,719**	2,806,478,172
Less: Income tax	43	**220,591,429**	347,378,437
Net profit		**2,576,113,290**	2,459,099,735
Attributable to:			
Equity holders of the parent		**2,475,382,229**	2,401,199,103
Minority interests		**100,731,061**	57,900,632
EARNINGS PER SHARE	44		
Basic		**38.18 cents**	37.20 cents
Diluted		**35.02 cents**	37.03 cents

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Statement of Changes In Equity

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

	Attributable to equity holders of the parent							
	Share capital (Note VI.31)	Capital reserve (Note VI.32)	Surplus reserves (Note VI.33)	Retained profits (Note VI.34)	fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2007	6,455,300,000	5,450,438,794	2,637,160,200	5,918,872,526	–	20,461,771,520	310,497,169	20,772,268,689
2. Increase/(decrease) during the year								
1) Net profit	–	–	–	2,475,382,229	–	2,475,382,229	100,731,061	2,576,113,290
2) Gains or losses recognised in equity								
1. Adjustment of deferred tax liability due to bonds with warrants	–	(95,273,247)	–	–	–	(95,273,247)	–	(95,273,247)
2. Exchange fluctuation reserve	–	–	–	–	9,629,706	9,629,706	–	9,629,706
Sub-total	6,455,300,000	5,355,165,547	2,637,160,200	8,394,254,755	9,629,706	22,851,510,208	411,228,230	23,262,738,438
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	303,251,716	701,527,357	–	–	–	1,004,779,073	60,553,126	1,065,332,199
2. Others	–	–	–	–	–	–	–	–
4) Profits appropriation								
1. Transfer to surplus reserves	–	–	264,402,565	(264,402,565)	–	–	–	–
2. Dividend declared	–	–	–	(839,189,000)	–	(839,189,000)	(25,266,667)	(864,455,667)
3. Transfer to employee bonus and welfare fund	–	–	–	(8,129,797)	–	(8,129,797)	–	(8,129,797)
5) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
3. At 31 December 2007	**6,758,551,716**	**6,056,692,904**	**2,901,562,765**	**7,282,533,393**	**9,629,706**	**23,008,970,484**	**446,514,689**	**23,455,485,173**

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Statement of Changes In Equity (Continued)

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

	Attributable to equity holders of the parent							
	Share capital (Note VI.31)	Capital reserve (Note VI.32)	Surplus reserves (Note VI.33)	Retained profits (Note VI.34)	fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2006	6,455,300,000	4,864,975,395	2,380,147,996	4,814,080,508	–	18,514,503,899	138,188,599	18,652,692,498
2. Increase/(decrease) during the year								
1) Net profit	–	–	–	2,401,199,103	–	2,401,199,103	57,900,632	2,459,099,735
2) Gains or losses recognised in equity								
1. Issue of bonds with warrants (deduct of direct issue costs)	–	585,463,399	–	–	–	585,463,399	–	585,463,399
Sub-total	6,455,300,000	5,450,438,794	2,380,147,996	7,215,279,611	–	21,501,166,401	196,089,231	21,697,255,632
3) Capital contribution and withdrawal by shareholders								
1. Capital contribution by shareholders	–	–	–	–	–	–	140,851,634	140,851,634
2. Others	–	–	–	–	–	–	–	–
4) Profits appropriation								
1. Transfer to surplus reserves	–	–	257,012,204	(257,012,204)	–	–	–	–
2. Dividend declared	–	–	–	(1,032,848,000)	–	(1,032,848,000)	(26,443,696)	(1,059,291,696)
3. Transfer to employee bonus and welfare fund	–	–	–	(6,546,881)	–	(6,546,881)	–	(6,546,881)
5) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
3. At 31 December 2006	6,455,300,000	5,450,438,794	2,637,160,200	5,918,872,526	–	20,461,771,520	310,497,169	20,772,268,689

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Cash Flow Statement

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

	Note VI	2007	2006
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**60,479,952,530**	44,077,721,477
Refunds of taxes		**26,192,100**	5,632,500
Cash received relating to other operating activities	45	**26,656,555**	73,699,849
Sub-total of cash inflows		**60,532,801,185**	44,157,053,826
Cash paid for goods and services		**(49,480,937,398)**	(32,681,829,481)
Cash paid to and on behalf of employees		**(3,208,641,160)**	(2,833,399,061)
Cash paid for all taxes		**(3,904,413,363)**	(2,942,129,860)
Cash paid relating to other operating activities	45	**(313,858,212)**	(416,891,551)
Sub-total of cash outflows		**(56,907,850,133)**	(38,874,249,953)
Net cash flows from operating activities	46	**3,624,951,052**	5,282,803,873
2. Cash flows from investing activities:			
Cash received from disposal of investments		**33,250,191**	30,222,330
Cash received from returns on investments		**77,588,288**	39,542,992
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**50,747,608**	62,000,181
Cash received from retrieval of overdue deposits		**–**	3,632,085
Cash received relating to other investing activities	45	**78,320,000**	116,566,523
Sub-total of cash inflows		**239,906,087**	251,964,111
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(7,061,527,038)**	(14,230,379,016)
Cash paid for acquisitions of investments		**(97,102,520)**	(13,500,000)
Cash paid for acquisition of a subsidiary	47	**–**	(44,917,194)
Cash paid due to increase in pledged deposits, net		**(237,477,305)**	(389,300,000)
Sub-total of cash outflows		**(7,396,106,863)**	(14,678,096,210)
Net cash flows from investing activities		**(7,156,200,776)**	(14,426,132,099)

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Cash Flow Statement (Continued)

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

		Note VI	2007	2006
3.	Cash flows from financing activities:			
	Cash received from capital contribution		**1,065,332,199**	317,982,830
	including: capital contribution by minority shareholders received by subsidiaries		**60,553,126**	317,982,830
	Cash received from issue of bonds with warrants		**–**	5,355,650,000
	Cash received from borrowings		**16,516,241,222**	14,019,018,506
	Sub-total of cash inflows		**17,581,573,421**	19,692,651,336
	Cash repayments of borrowings		**(10,358,331,162)**	(8,538,526,131)
	Cash paid for distribution of dividend or profits and for interest expenses		**(1,790,648,046)**	(1,432,295,804)
	including: dividend paid to minority shareholders by subsidiaries		**(26,118,999)**	(25,591,364)
	Sub-total of cash outflows		**(12,148,979,208)**	(9,970,821,935)
	Net cash flows from financing activities		**5,432,594,213**	9,721,829,401
4.	Effect of foreign exchange rate changes on cash		**(7,036,260)**	(58,202,373)
5.	Net increase in cash and cash equivalents		**1,894,308,229**	520,298,802
	Add: Balance of cash and cash equivalents at beginning of year		**3,629,568,054**	3,109,269,252
6.	Balance of cash and cash equivalents at end of year	49	**5,523,876,283**	3,629,568,054

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Balance Sheet

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

ASSETS	Note XV	31 December 2007	31 December 2006 (restated)
CURRENT ASSETS:			
Cash and balances with financial institutions		**3,665,369,814**	2,808,993,288
Financial assets held for trading		**1,462,770**	–
Bills receivable		**3,667,209,079**	613,910,339
Trade receivables	1	**1,554,054,832**	539,362,472
Prepayments		**1,576,389,197**	733,451,150
Other receivables	2	**63,496,847**	50,088,671
Inventories		**8,314,475,335**	6,075,927,157
Total current assets		**18,842,457,874**	10,821,733,077
NON-CURRENT ASSETS:			
Held-to-maturity investments		**5,598,870**	8,258,870
Long term equity investments	3	**1,667,922,886**	1,361,624,450
Investment properties		**19,214,182**	19,619,230
Fixed assets		**39,741,473,656**	17,794,289,162
Construction materials		**432,590,795**	2,324,778,635
Construction in progress		**3,360,315,305**	18,655,455,975
Intangible assets		**1,214,768,182**	1,228,644,614
Deferred tax assets		**258,324,901**	134,565,000
Total non-current assets		**46,700,208,777**	41,527,235,936
TOTAL ASSETS		**65,542,666,651**	52,348,969,013

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Balance Sheet (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XV	**31 December 2007**	31 December 2006 (restated)
CURRENT LIABILITIES:			
Short term loans		**200,000,000**	200,000,000
Bills payable		**63,000,000**	365,380,982
Short term commercial papers		**2,000,000,000**	–
Accounts payable		**7,633,708,228**	4,628,322,903
Deposits received		**5,456,620,794**	3,667,107,146
Payroll and benefits payable		**297,925,673**	272,275,325
Taxes payable		**529,786,745**	253,459,226
Interests payable		**80,432,389**	66,785,238
Dividends payable		**1,303,757,138**	407,802,582
Other payables		**730,183,167**	541,690,161
Non-current liabilities due within one year		**2,809,660,000**	381,328,044
Total current liabilities		**21,105,074,134**	10,784,151,607
NON-CURRENT LIABILITIES:			
Long term loans		**16,563,408,200**	15,697,870,000
Bonds payable		**4,828,761,588**	4,672,376,376
Deferred income		**590,425,767**	564,900,631
Deferred tax liabilities		**167,989,571**	135,319,000
Other non-current liabilities		**12,485,033**	422,044,660
Total non-current liabilities		**22,163,070,159**	21,492,510,667
Total liabilities		**43,268,144,293**	32,276,662,274
SHAREHOLDERS' EQUITY:			
Share capital		**6,758,551,716**	6,455,300,000
Capital reserve		**6,056,692,904**	5,450,438,794
Surplus reserves		**2,777,851,769**	2,564,661,890
Retained profits		**6,681,425,969**	5,601,906,055
including: cash dividend proposed by directors		**878,611,723**	839,189,000
Total shareholder's equity		**22,274,522,358**	20,072,306,739
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**65,542,666,651**	52,348,969,013

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Statement of Income and Profit Appropriation

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

	Note VI	2007	2006 (restated)
Revenue	5	**51,362,704,242**	34,903,941,640
Less: Cost of sales		**46,523,363,747**	30,908,209,062
Taxes and surcharges		**594,614,981**	228,127,406
Selling expenses		**274,171,003**	222,155,506
Administrative expenses		**850,802,245**	878,591,003
Financial expenses		**1,008,929,593**	308,870,230
Assets impairment losses/(reversal)	6	**34,742,535**	(71,598,179)
Add: Gain on fair value changes		**719,870**	–
Investment income	7	**220,252,203**	128,954,228
including: share of profits associates and a jointly controlled entity		**131,867,977**	40,286,524
Operating profit		**2,297,052,211**	2,558,540,840
Add: Non-operating income		**75,331,885**	52,705,663
Less: Non-operating expenses		**137,836,013**	14,435,912
including: loss on disposal of non-current assets		**135,194,611**	11,905,919
Profit before tax		**2,234,548,083**	2,596,810,591
Less: Income tax		**102,649,290**	287,426,139
Net profit		**2,131,898,793**	2,309,384,452
EARNINGS PER SHARE			
Basic		**32.89 cents**	35.78 cents
Diluted		**30.16 cents**	35.61 cents

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Statement of Changes In Equity

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

2007

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2007	6,455,300,000	5,450,438,794	2,564,661,890	5,601,906,055	20,072,306,739
2. Increase/(decrease) during the year					
1) Net profit	–	–	–	2,131,898,793	2,131,898,793
2) Gains or losses recognised in equity					
1. Adjustment of deferred tax liability due to bonds with warrants	–	(95,273,247)	–	–	(95,273,247)
2. Others	–	–	–	–	–
Sub-total	6,455,300,000	5,355,165,547	2,564,661,890	7,733,804,848	22,108,932,285
3) Capital contribution and withdrawal by shareholders					
1. Capital contribution by shareholders	303,251,716	701,527,357	–	–	1,004,779,073
2. Others	–	–	–	–	–
4) Profits appropriation					
1. Transfer to surplus reserves	–	–	213,189,879	(213,189,879)	–
2. Dividend declared	–	–	–	(839,189,000)	(839,189,000)
3. Others	–	–	–	–	–
5) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2007	6,758,551,716	6,056,692,904	2,777,851,769	6,681,425,969	22,274,522,358

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Consolidated Statement of Changes In Equity (Continued)

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

2006 (restated)

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2006	6,455,300,000	4,864,975,395	2,333,339,350	4,556,692,143	18,210,306,888
2. Increase/(decrease) during the year					
1) Net profit	–	–	–	2,309,384,452	2,309,384,452
2) Gains or losses recognised in equity					
1. Issue of bonds with warrants (deduct of direct issue cost)	–	585,463,399	–	–	585,463,399
2. Others	–	–	–	–	–
Sub-total	6,455,300,000	5,450,438,794	2,333,339,350	6,866,076,595	21,105,154,739
3) Capital contribution and withdrawal by shareholders	–	–	–	–	–
4) Profits appropriation					
1. Transfer to surplus reserves	–	–	231,322,540	(231,322,540)	–
2. Dividend declared	–	–	–	(1,032,848,000)	(1,032,848,000)
3. Others	–	–	–	–	–
5) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2006	6,455,300,000	5,450,438,794	2,564,661,890	5,601,906,055	20,072,306,739

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Cash Flow Statement

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

		Note XV	**2007**	2006
1.	Cash flows from operating activities:			
	Cash received from sale of goods or rendering of services		**57,562,850,206**	42,718,615,826
	Cash received relating to other operating activities		**22,537,021**	67,303,463
	Sub-total of cash inflows		**57,585,387,227**	42,785,919,289
	Cash paid for goods and services		**(48,039,618,162)**	(32,315,507,490)
	Cash paid to and on behalf of employees		**(2,903,686,973)**	(2,690,162,667)
	Cash paid for all taxes		**(3,561,957,939)**	(2,767,606,519)
	Cash paid relating to other operating activities		**(238,292,773)**	(361,795,997)
	Sub-total of cash outflows		**(54,743,555,847)**	(38,135,072,673)
	Net cash flows from operating activities	8	**2,841,831,380**	4,650,846,616
2.	Cash flows from investing activities:			
	Cash received from disposal of investments		**33,250,191**	30,222,330
	Cash received from returns on investments		**125,164,368**	86,077,811
	Net cash received from disposal of fixed assets, intangible assets and other long term assets		**31,435,725**	50,113,598
	Cash received from retrieval of and overdue deposits		**–**	3,632,085
	Cash received relating to other investing activities		**78,320,000**	116,566,523
	Sub-total of cash inflows		**268,170,284**	286,612,347
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(6,789,012,658)**	(13,903,464,551)
	Cash paid for acquisitions of investments		**(197,240,183)**	(337,695,000)
	Cash paid for acquisition of a subsidiary		**–**	(57,404,685)
	Sub-total of cash outflows		**(6,986,252,841)**	(14,298,564,236)
	Net cash flows from investing activities		**(6,718,082,557)**	(14,011,951,889)

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Company Cash Flow Statement (Continued)

(Prepared under China Accounting Standards)
Year ended 31 December 2007
Renminbi Yuan

		Note XV	2007	2006
3.	Cash flows from financing activities:			
	Cash received from capital contribution		**1,004,779,073**	–
	Cash received from issue of bonds with warrants		**–**	5,355,650,000
	Cash received from borrowings		**15,377,094,100**	13,820,000,000
	Sub-total of cash inflows		**16,381,873,173**	19,175,650,000
	Cash repayments of borrowings		**(10,018,446,771)**	(8,197,632,073)
	Cash paid for distribution of dividend or profits and for interest expenses		**(1,621,828,860)**	(1,362,278,078)
	Sub-total of cash outflows		**(11,640,275,631)**	(9,559,910,151)
	Net cash flows from financing activities		**4,741,597,542**	9,615,739,849
4.	Effect of foreign exchange rate changes on cash		**(8,969,839)**	(67,802,403)
5.	Net increase in cash and cash equivalents		**856,376,526**	186,832,173
	Add: Balance of cash and cash equivalents at beginning of year		**2,808,993,288**	2,622,161,115
6.	Balance of cash and cash equivalents at end of year		**3,665,369,814**	2,808,993,288

The accompanying notes from page 208 to page 331 form an integral part of the financial statements

Notes To Financial Statements

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited liability company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business licence is Qi Gu Wan Zong Zi No. 000970. Headquarter of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC. The Company's A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange respectively. The Company together with its subsidiaries (the "Group") are principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company amounts to RMB6,455,300,000, and the share number is 6,455.3 million, including 3,830.56 million state-owned shares, 87.81 million domestic legal person shares, 804 million ordinary A shares and 1,732.93 million ordinary H shares. The nominal value of each share is RMB1.

On 2 April 2007, the entire domestic legal person shares of 87.81 million were released from selling restriction, and were transferred to ordinary A shares.

On 13 November 2006, the Company issued 55,000,000 bonds with warrants, of which the subscribers 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 ordinary A share. During the year ended 31 December 2007, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's ordinary A share at a conversion price of RMB3.33.

Up to 31 December 2007, the Company had issued 6,758.55 million shares in total, including 3,830.56 million state-owned shares, 1,195.06 million ordinary A shares and 1,732.93 million ordinary H shares. The nominal value of each share is RMB1. Further details are included in Note VI.31 to the financial statements.

The Company's principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycle and processing of discarded vehicles (limited to the internal discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificate); rendering of technological services and consultancy services.

The parent is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

II. BASIS OF PREPARATION AND STATEMENT OF ADOPTION OF CHINA ACCOUTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements are prepared in accordance with the China Accounting Standards for Business Enterprises (the "CAS") which consists of a basic standard, specific standards, application guidance and other related regulations issued by Ministry of Finance (the "MOF") in 2006.

In accordance with "Circular on Issue of the 38 Specific Accounting Standards" (Cai Kuai [2006] No.3) issued by MOF, commencing from 1 January 2007, the Company has adopted the CAS issued by MOF in 2006. The Group was listed in Hong Kong Stock Exchange since November 1993, and prepared financial statements in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). The Company has retrospectively adjusted relevant items and transactions in relevant periods, restated the financial statements, and consistently applied accounting policies included in Note III to the financial statements in accordance with the requirements stipulated in Interpretation No. 1 to CAS issued by MOF in November 2007. Further details are included in Note III.26 to the financial statements.

The financial statements have been prepared in accordance with CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2007, and the results of their operations and their cash flows for the year then ended.

The financial statements are prepared on an ongoing basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information of the Company and the Group stated in the financial statements for the year ended 31 December 2007 is prepared upon the principal accounting policies and accounting estimates below, which were selected in accordance with CAS.

1. Financial year

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

2. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

3. Basis of accounting and measurement

The Group's accounts have been prepared on an accrual basis, and they have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Impairment of assets is provided in accordance with related regulations when indications of impairment noted.

4. Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

Business combination involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under business combination involving entities under common control, the combining entity obtains control of other involving entity being absorbed on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Any costs incurred that are directly attributable to the combination are recognised in income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

4. Business Combinations *(continued)*

Business combination involving entities not under common control

A business combination involving entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties before and after the business combination. Under business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree plus any costs directly attributable to the business combination. When the business combination is achieved in stage, the cost of the combination is the aggregate cost of the individual transactions. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

The acquirer shall, at the acquisition date initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable net assets. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the cost of the business combination, the acquirer shall reassess the identification and measurement of the acquiree's identifiable net assets and the measurement of the cost of the combination; and recognise immediately in income statement any excess remaining after reassessment.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

5. Consolidated financial statements

The scope of consolidated financial statements is determined on control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2007. Subsidiaries refer to the investee companies controlled by the Group.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All significant intro-group transactions and balances within the Group are eliminated on consolidation.

Shareholders' equity in consolidated subsidiaries that exceed the portion owned by the Group is considered as minority interests, and presented separately in the consolidated financial statements.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period.

6. Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value.

7. Foreign currency

Foreign currency transaction

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

7. Foreign currency *(continued)*

Foreign currency transaction (continued)

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated to functional currencies at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in income statement.

Translation of overseas businesses

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the exchange rates prevailing at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the exchanged rates prevailing at the transaction date; all income and expense items in income statement are translated at the average exchange rates during the period. Exchange differences arising from the translation mentioned above are recognised as the exchange fluctuation reserve, and are presented separately in the shareholder's equity of balance sheet. When such overseas businesses disposes, related exchange fluctuation reserve will be ceased to current profit and loss of the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is included in income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the exchange rates prevailing at the dates of the cash flows. The effect of exchange rates changes on cash and cash equivalents are presented separately in the cash flow statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

8. Inventories

Inventories include raw materials, work in progress, construction contract, finished goods and spare parts. Inventories are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are initially recognised at cost, which comprises of purchase cost, processing cost, and other costs.

Cost of delivered inventories, other than construction contracts and spare parts, are determined on weighted average basis. Cost of spare parts, lower price consumables and packing materials are charged to income statement when issued.

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

Inventories are accounted for using perpetual inventory system.

Inventories shall be written down to net realizable value if the cost is in excess of amounts expected to be realised from their sale or use. Provision for inventories is recognised in income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to income statement.

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion the estimated selling expenses and related taxes. Provision is considered on an individual basis for finished goods, and on category basis for raw materials.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Long term equity investments

Long term equity investments consist of investments in subsidiaries, jointly controlled entities, associates and other equity investments under cost method. Long term equity investments are initially recognised at initial investment cost on acquisition.

The cost method is applied for long term equity investments when the Group can control the investee company, or the investee companies are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee enterprise should be recognised as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. The excess should be treated as a recovery of investment cost.

The equity method is applied for long term equity investments when investee enterprises are jointly controlled or significantly influenced by the Group.

When the equity method is adopted, the initial cost of investment that in excess of the share of investee enterprise's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee enterprise's fair value on identifiable net assets shall be adjusted, by which the difference been charged to income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. Long term equity investments *(continued)*

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee enterprise. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognised). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortisation in straight line method (if exists) should be recognised as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee enterprise is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee enterprise to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee enterprise is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee enterprise other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity. When such investment disposes, related shareholders' equity will be ceased proportionately to income statement.

When long term equity investment disposes, the differences between carrying amount and actual proceeds received should be charged to income statement.

10. Investment properties

Investment properties are interests in land and buildings (including land use rights) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalised when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to income statement.

The Group accounts for investment properties under cost method after initial recognition. Depreciation is calculated on the straight-line basis over its estimated useful life, the period over which that future economic benefits will flow into the Group.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

11. Fixed assets

Fixed assets represent tangible assets with useful lives exceeding 1 year, which are held for the purposes of production of products, provision of services, leasing or operational use.

Fixed assets are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met, otherwise, is charged to income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprise its purchase price, related taxes, and any directly attributable expenditures for bringing the asset to its working condition for its intended use, such as transportation and installation costs.

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life (year)	**Estimated residual value** (%)	**Annual depreciation rate** (%)
Buildings and structures	10 – 20	3	4.9 – 9.7
Plant, machinery and equipment	10	3	9.7
Transportation vehicles and equipment	5	3	19.4

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjust if appropriate, at least at each balance sheet date.

12. Construction in progress

Construction in progress consists of necessary costs incurred, capitalised borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. Intangible assets

The Group's intangible assets are initially recorded at cost.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	Useful life
Land use rights	50 years
Mining rights	25 years

The Group accounts for its land use rights either purchased or obtained after payment of land remise fund as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortised over the useful lives on straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

14. Research and development costs

The Group's expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase.

Expenditures on research phase are recognised in income statement when incurred.

Expenditures on development phase are capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. No development costs occurred in the Group have been capitalised during the reporting year.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset will be derecognised when, and only when:

1) The contractual rights to the cash flows from the financial asset expire; or

2) The financial asset is transferred, and the transfer qualifies for derecognition.

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expires. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminated the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulations as a new financial liability, and the gap is recognised in income statement.

Classification and measurement of financial assets

The Group classifies its financial assets into four categories when initial recognition, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value when initial recognition. For financial assets at fair value through income statement, the directly associated transaction costs are charged to income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated by the Group as at fair value through income statement upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative. Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than those that meet the definition of the other three categories. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in income statement when the loans and receivables are derecognised, impaired, or amortised.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. The Group measures available-for-sale financial assets at fair value upon subsequent recognition. The premium or discount is amortised using the effective interest method, with interests recognised in interest income or expense. The fair value changes of available-for-sale financial assets are recognised as a separate part of capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in capital reserves in prior period are transferred to income statement. All dividends or interest income related to available-for-sale financial assets are recognised in income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Available-for-sale financial assets (continued)

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Classification and measurement of financial liabilities

The Group classifies its financial liabilities as: financial liabilities at fair value through income statement, and other financial liabilities. With respect to financial liabilities at fair value through income statement, its transaction costs are charged to income statement; whereas other financial liabilities, its transaction cost are recognised as initial cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated by the Group as at fair value through income statement upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative. Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in income statement.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial guarantee contracts

Financial guarantee contracts are initially recognised at fair value, and subsequently measured at the higher of (i) the fixed amount of provisions in accordance with CAS 13 "Contingencies" and (ii) the amount initially recognised less, where appropriate, cumulative amortisation in accordance with CAS 14 "Revenue".

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. Such techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

Financial assets carried at amortised cost

If there is objective evidence that the financial asset carried at amortised cost impaired, the asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred), the reduced amount is recognised in income statement. The present value of estimated future cash flows is determined with the financial asset's original effective interest rate, taking into account the carrying amount of guarantees.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in income statement when objective evidence of impairment exists. Assets that are individually insignificant are also assessed individually. Assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Financial assets carried at amortised cost (continued)

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 and recognised in income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss on the financial asset 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 discounted at the current market rate of return for a similar financial asset, and recognised in income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair value cannot be reliably measured, their impairments are assessed under abovementioned principles.

Available-for-sale financial assets

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in capital reserves due to decline in the fair value shall be removed from capital reserves and recognised in income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Financial assets transfer

Financial assets transfer refers to that the Group releases or delivers financial assets to an entity (transfer-in entity) other than the issuer of the financial assets.

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the financial asset shall be derecognised; if the Group retains substantially all the risks and rewards of ownership of the financial asset, the financial asset shall continue to be recognised.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case: (i) if the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; (ii) if the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset and recognises the associated liabilities.

16. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Borrowing costs *(continued)*

The capitalisation of borrowing costs commences when:

– Expenditures for the assets are being incurred;

– Borrowing costs are incurred;

– The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense.

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following method:

– For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income.

– For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

17. Impairment of assets

The Group determines the impairment of assets according to following method, except for inventories, deferred tax assets, financial assets, and long term equity investment measured at cost method, not quoted in an active market and their fair value cannot be reliably measured.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

17. Impairment of assets *(continued)*

The Group assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

When the recoverable amount of an asset or a asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to income statement and an impairment allowance is provided.

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

17. Impairment of assets *(continued)*

Impairment losses cannot be reversed in the prospective accounting periods.

18. Provisions

The Group shall recognise provisions from obligations related to contingencies when following conditions are met simultaneously:

– the obligation is a present obligation assumed by the Group;

– it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

– a reliable estimate can be made of the amount of the obligation

Provision are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value and etc. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

19. Revenue

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

19. Revenue *(continued)*

Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Where a contract or agreement signed between the Group and other enterprises concerns sale of goods and rendering of services, if the part of sale of goods and the part of rendering of services can be distinguished from each other and can be measured respectively, the part of sale of goods shall be conducted as sale of goods and the part of rendering of services shall be conducted as rendering of services. If the part of sale of goods and the part of rendering of services can not be distinguished from each other, or if the part of sale of goods and the part of rendering of services can be distinguished from each other but can not be measured respectively, both parts shall be conducted as sale of goods.

Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and effective interest rate.

Lease income

Lease income from operating lease is recognised over the lease terms on a straight-line basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

20. Lease

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed finance lease. All the other leases are termed operating leases.

Operating lease – the Group as lessor

Operating lease rentals are charged to associated assets costs or the income statement over the lease terms on a straight-line basis.

21. Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the unpaid amount of employee benefits as a liability. An entity shall recognise the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. endowment insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalised in related assets or charged to income statement.

Termination benefits are recognised as liabilities and charged to income statement when, and only when, the Group demonstrably commits itself to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy by having a detailed formal plan or voluntary redundancy advices which are without realistic possibility of withdrawal.

The Group accounts for the early retirement scheme in the same way as termination benefits. All salaries and social security contributions the Group committed to pay for the period from early retirement date to normal retirement date shall be recognised as employee benefits and charged to income statement if the conditions on termination benefits are met.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

22. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognised directly in equity, which recognised in equity.

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognised as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

22. Income tax *(continued)*

2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

23. 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.

24. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. Significant accounting judgments and estimates

Judgements

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

Operating lease – the Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases.

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 portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgement is made on individual 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. Significant accounting judgments and estimates *(continued)*

Estimation uncertainty (continued)

Useful lives and impairment of fixed assets

The Group's management determines the estimated useful lives of its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions.

The impairment loss for fixed assets, as well as construction in progress, is recognised for the amount by which the carrying amount exceeds its recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or assets group'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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. Significant accounting judgments and estimates *(continued)*

Estimation uncertainty (continued)

Impairment of available-for-sale financial assets

The Group classifies certain investments as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

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.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

26. First-time adoption of the CAS

As stated in Note II, the Group has adopted the CAS commencing from 1 January 2007. As the Group prepared financial statements in accordance with HKFRS since November 1993 when the Company's H shares were listed in Hong Kong Stock Exchange, the Group has retrospectively adjusted relevant items and restated comparative figures in the financial statements according to the "Issue Notice of Interpretation 1 to the CAS" Cai Kuai [2007] No.14 by MOF on 16 November 2007.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

(i) Long term Equity Investments

Before adoption of the CAS, the amount of initial cost of long term equity investments under equity method in excess of the investor's share of the owner's equity in the investee company is regarded as an equity investment difference and amortised to income statement on a straight-line basis during the period specified in the contract; whereas the amount fall short of the investor's share of the owner's equity in the investee company is credited to capital reserves in accordance with Cai Kuai [2003] No.10, compared with prior accounting treatment of recognition of the equity investment difference and amortisation into income statement on a straight-line basis during the period specified in the contract.

After adoption of the CAS, detailed accounting policy of long term equity investments is stated in Note III.9 "*Long term equity investment*" to the financial statements.

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method in accordance with adoption of the CAS, compared with equity method adopted before 1 January 2007. Detailed accounting policy is stated in Note III.9 "*Long term equity investment*" to the financial statements. On the first-time adoption date, the Company adjusted the investment in subsidiaries retrospectively as if the cost method had always been applied. Profits or cash dividends declared to be distributed by subsidiaries are recognised as investment income in the current period.

(ii) Income tax

Before adoption of the CAS, the Group uses tax payable method to account for income tax.

After adoption of the CAS, the Group uses liability method to account for income tax. Detailed accounting policy is stated in Note III.22 "*Income tax*" to the financial statements.

On the first-time adoption date, the Group made retrospective adjustment of tax effect arising from temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and recorded into retained earnings.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

(iii) Bonds with warrants

Before adoption of the CAS, bonds with warrants issued are recorded under the par value. Any premium or discount arising from the difference between issue price and par value of the bonds issued particularly for acquisition or construction of fixed assets is capitalised in a lump sum in construction in progress.

After adoption of the CAS, bonds with warrants are separately classified as liability and equity components. The liability component shall be amortised over the duration of bonds based on effective interest rate method. Detailed accounting policy of bonds with warrants is stated in Note III.24 "*Bonds with warrants*" to the financial statements.

(iv) Government grants

Before adoption of the CAS, government grants related to an asset are recognised as specific payables on actual receipt of the grants. Upon completion of subsidised construction projects, the utilised portion of specific payables thereof is transferred to capital reserves.

After adoption of the CAS, government grants are accounted for as deferred income and upon completion of the subsidised construction projects, the deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. Detailed accounting policy is stated in Note III.23 "*Government grants*" to the financial statements.

(v) Provision for furnace relining costs

Before adoption of the CAS, subsequent expenditure after items of fixed assets is accounted in accordance with "*PRC Accounting Standards – Fixed assets*" issued on 1 January 2002. The balance of provision for furnace relining costs accrued before issue of Accounting System for Business Enterprises is carried forward and will be utilised when the costs are actually incurred.

After adoption of the CAS, the balance of provision for furnace relining costs is to be reversed.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

(vi) Consolidated financial statement

Before adoption of the CAS, "Minority interests" is presented separately between "Liabilities" and "Owners' equity" in consolidated balance sheet, and as a deduction item before "Net profit" in consolidated income statement.

After adoption of the CAS, "Minority interests" is presented as a component in "Owners' equity" in consolidated balance sheets; and as a component in consolidated income statement together with "Net profit attributable to equity holders of the parent".

The presentation of comparative figures of "Minority interests" in prior year's consolidated financial statements is restated when preparing the first financial statement under the CAS.

(vii) Research and development costs

Before adoption of the CAS, only fees on legal registration and lawyer consultation can be recognised as initial cost of an internally generated intangible asset that has passed legal registration process. All other research and development costs incurred before registration is charged to income statement.

After adoption of the CAS, detailed accounting treatment related to research and development costs is stated in Note III.14 "*Research and Development costs*" to the financial statements.

As the Group cannot distinguish research and development expenditures between research phase and development phase reliably, all research and development expenditures are charged to income statement due to mismatch with capitalisation criteria in accordance with the CAS.

(viii) Borrowing costs

Before adoption of the CAS, borrowing costs that may be capitalised are limited to those generated by specific borrowings for acquisition or construction of fixed assets, and are capitalised and recorded in the fixed asset's cost before the fixed asset is ready for its intended use. Other borrowings should be recognised as expenses in the period when incurred.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

(viii) Borrowing costs (continued)

After adoption of the CAS, detailed accounting policy is stated in Note III.16 "*Borrowing costs*" to the financial statements.

As the borrowing costs generated from the Group's general borrowings cannot be reliably determined as those been directly attributable to the acquisition and construction of a qualifying asset, the amount of such borrowing costs are charged to income statement when incurred.

(ix) Employee's welfare

Before adoption of the CAS, employee's welfare is accrued under certain percentage of total salary, and charged to current income statement.

After adoption of the CAS, employee's welfare will not be accrued, but charged in actual basis under employee's welfare plan. Related liability incurred was recognised in payroll and benefits payable (employee's welfare), and charged to income statement. On the first-time adoption date, nil difference of the balance of employee's welfare payable under accrual basis was noted from the amount that been measured under CAS.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

The cumulative impacts of changes in accounting policies listed above to shareholders' equity on 1 January 2006 and 31 December 2006 are as follows:

Group:

	Capital reserve	Surplus reserves	Retained profit	Minority interests
Before retrospective adjustments				
At 31 December 2006	5,453,545,095	2,637,160,200	5,576,101,635	310,497,169
Retrospective adjustments:				
Recognition of deferred tax (ii)	(128,790,000)	–	128,036,000	–
Recognition of equity component of bonds with warrants (iii)	714,253,399	–	–	–
Adjustment of government grants from capital reserve and amortisation to non-operating income by instalments (iv)	(588,569,700)	–	140,235,592	–
Reversal of provision for furnace relining costs (v)	–	–	74,499,299	–
After retrospective adjustments				
At 31 December 2006	5,450,438,794	2,637,160,200	5,918,872,526	310,497,169

	Capital reserve	Surplus reserves	Retained profit	Minority interests
Before retrospective adjustments				
At 1 January 2006	5,450,345,095	2,380,147,996	4,595,922,817	138,188,599
Retrospective adjustments:				
Recognition of deferred tax (ii)	–	–	53,175,000	–
Recognition of equity component of bonds with warrants (iii)	–	–	–	–
Adjustment of government grants from capital reserve and amortisation to non-operating income by instalments (iv)	(585,369,700)	–	90,483,392	–
Reversal of provision for furnace relining costs (v)	–	–	74,499,299	–
After retrospective adjustments				
At 1 January 2006	4,864,975,395	2,380,147,996	4,814,080,508	138,188,599

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

Company:

	Capital reserve	Surplus reserves	Retained profit
Before retrospective adjustments At 31 December 2006	5,453,545,095	2,564,661,890	5,646,825,157
Retrospective adjustments:			
Adjustment of accounting treatment of investment in subsidiaries under cost method (i)	–	–	(387,689,993)
Recognition of deferred tax (ii)	(128,790,000)	–	128,036,000
Recognition of equity component of bonds with warrants (iii)	714,253,399	–	–
Adjustment of government grants from capital reserve and amortisation to non-operating income by instalments (iv)	(588,569,700)	–	140,235,592
Reversal of provision for furnace relining costs (v)	–	–	74,499,299
After retrospective adjustments At 31 December 2006	5,450,438,794	2,564,661,890	5,601,906,055

	Capital reserve	Surplus reserves	Retained profit
Before retrospective adjustments At 1 January 2006	5,450,345,095	2,333,339,350	4,597,770,300
Retrospective adjustments:			
Adjustment of accounting treatment of investment in subsidiaries under cost method (i)	–	–	(259,235,848)
Recognition of deferred tax (ii)	–	–	53,175,000
Recognition of equity component of bonds with warrants (iii)	–	–	–
Adjustment of government grants from capital reserve and amortisation to non-operating income by instalments (iv)	(585,369,700)	–	90,483,392
Reversing provision for furnace relining costs (v)	–	–	74,499,299
After retrospective adjustments At 1 January 2006	4,864,975,395	2,333,339,350	4,556,692,143

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

26. First-time adoption of the CAS *(continued)*

The impact of changes in accounting policies listed above to net profit for the year ended 31 December 2006 is as follows:

Group:

	Attributable to equity holders of the parent	Minority interests
Before retrospective adjustments	2,276,585,903	57,900,632
Retrospective adjustments:		
Recognition of deferred tax (ii)	74,861,000	–
Adjustment for government grants from capital reserve and amortisation to non-operating income by instalments (iv)	49,752,200	–
After retrospective adjustments	2,401,199,103	57,900,632

Company:

	Net profit
Before retrospective adjustments	2,313,225,397
Retrospective adjustments:	
Adjustment of accounting treatment of investment in subsidiaries under cost method (i)	(128,454,145)
Recognition of deferred tax (ii)	74,861,000
Adjustment for government grants from capital reserve and amortisation to non-operating income by instalments (iv)	49,752,200
After retrospective adjustments	2,309,384,452

IV. TAX

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

(1) Value-added tax ("VAT")

The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT.

According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refunds rates of 8% – 13%. Since April 2007, tax refunds for export of certain products were cancelled and the refunds rates for other products were adjusted to 5% – 13%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.

(2) Business tax

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

(3) City construction and maintenance tax

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

(4) Education surcharge

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

(5) Local education surcharge

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

(6) Flood prevention fund

Payable based on 0.06% of last year's taxable income.

(7) Real estate tax

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

IV. TAX *(CONTINUED)*

(8) Corporate income tax

The corporate income tax of the Company and its subsidiaries is calculated at 15% to 33%, on their estimated assessable profits for the period based on existing legislation, interpretations and practice in respect thereof. Certain subsidiaries of the Company are foreign investment enterprises and their corporate income taxes have been provided at the rate of 15% to 30% and are entitled to enjoy "Two years exempted and subsequent three years with 50% reduction" tax holidays. Profits tax of overseas and Hong Kong subsidiaries have been provided at the rate of 17.5% – 30% on their estimated assessable profits which were earned in or derived from overseas and Hong Kong during the period.

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax ("CIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

In response to the notice issued by relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years. The charge for PRC income tax for the current year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations.

IV. TAX *(CONTINUED)*

(8) Corporate income tax *(continued)*

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%. In this regard, the Group has changed the carrying amount of deferred tax as at 31 December 2007 by the new tax rate of 25% for temporary differences expected to be utilised after 1 January 2008. The resulting deferred tax is recognised in the income tax for the year 2007, except to certain circumstances that it is charged or credited directly to equity if the tax relates to such items that are previously credited or charged directly to equity (capital reserve).

(9) Others

In accordance with tax laws and relevant regulations.

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Name of investee	Place of incorporation and registration	Registered capital 2007.12.31	Investment cost 2007.12.31 RMB Equivalent	Percentage of equity held% 2007.12.31 directly	2007.12.31 indirectly	2006.12.31 directly	2006.12.31 indirectly	Percentage of vote right% 2007.12.31	Principal activities	Note
Subsidiaries										
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Anhui, PRC	RMB50,000,000	50,000,000	100	–	100	–	100	Import of machinery and raw materials and export of steel products	(i)
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	Anhui, PRC	RMB50,000,000	8,500,000	58.96	7.86	58.96	7.86	66.82	Planning and design of metallurgical, construction and environmental protection projects, construction supervision and contract service	(i)
MG Control Technique Company Limited ("MG Control Technique") communication systems	Anhui, PRC	RMB8,000,000	8,000,000	93.75	6.25	93.75	6.25	100	Design of automation systems; purchase, installation and repairs of automation, computers and	(i)
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Anhui, PRC	USD4,290,000	24,854,930	70	–	70	–	70	Production, sale and transportation of slag products and provision of related consultation services	(i)
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	RMB35,000,000	10,214,885	70	30	70	30	100	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	(i)
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	RMB30,000,000	27,600,000	–	92	–	92	92	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	(i)
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	RMB120,000,000	80,000,000	66.67	–	66.67	–	66.67	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	(i)
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Hong Kong, PRC	HKD4,800,000	5,124,920	80	20	80	20	100	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	(i)
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	RMB30,000,000	21,478,316	71	–	71	–	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 macromolecular compound materials; processing and sale of metallic products	(i)
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Anhui, PRC	RMB1,000,000	900,000	90	–	90	–	90	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	(i)

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

Name of investee	Place of incorporation and registration	Registered capital 2007.12.31	Investment cost 2007.12.31 RMB Equivalent	Percentage of equity held% 2007.12.31 directly	2007.12.31 indirectly	2006.12.31 directly	2006.12.31 indirectly	Percentage of vote right% 2007.12.31	Principal activities	Note
Subsidiaries *(Continued)*										
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	RMB120,000,000	90,000,000	75	–	75	–	75	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	(i)
MG Trading and Development GmbH ("MG Trading")	Germany	EUR153,388	1,573,766	100	–	100	–	100	Trading of equipment, iron and steel products and provision of technology services	(i)
Maanshan Iron & Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Australia	AUD21,737,900	126,312,415	100	–	100	–	100	Production and sales of iron ores through an unincorporated joint venture	(i)
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Anhui, PRC	RMB500,000,000	237,495,000	71	–	71	–	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 sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used equipments	(i)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing")	Anhui, PRC	RMB120,000,000	106,800,000	61	28	61	28	89	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	(i)
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing")	Jiangsu, PRC	USD20,000,000	116,462,300	71	–	71	–	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)	(ii)
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique")	Anhui, PRC	RMB150,000,000	26,625,000	71	–	–	–	71	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	(iii)
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller")	Anhui, PRC	USD30,000,000	22,720,806	51	–	–	–	51	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	(iv)
Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading")	Anhui, PRC	RMB500,000	500,000	100	–	–	–	100	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	(v)

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

Name of investee	Place of incorporation and registration	Registered capital 2007.12.31	Investment cost 2007.12.31 RMB Equivalent	Percentage of equity held% 2007.12.31 directly	2007.12.31 indirectly	2006.12.31 directly	2006.12.31 indirectly	Percentage of vote right% 2007.12.31	Principal activities	Note
Associates										
濟源市金馬焦化有限公司 ("濟源市金馬焦化")	Henan, PRC	RMB200,000,000	80,000,000	40	–	40	–	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")	Shandong, PRC	RMB208,800,000	66,776,000	32	–	32	–	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 ("上海鋼鐵電子")	Shanghai, PRC	RMB20,000,000	4,000,000	20	–	20	–	20	Set-up of iron & steel e-commerce and related services; provision of iron & steel e-commerce technology and information services	
馬鞍山港口(集團)有限責任公司 ("馬鞍山港口公司")	Anhui, PRC	RMB250,000,000	112,500,000	45	–	45	–	45	Loading/unloading, cargo forwarding agency service, storage, transmitting of cargo and division or merge of cargo in containers; provision of general services to ships, repairing and manufacturing of spare parts	
安徽奧特汽車變速系統有限公司 ("奧特汽車變速系統")	Anhui, PRC	RMB50,000,000	13,500, 000	–	45	–	45	45	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	
安徽馬鋼立體智能停車設備有限公司 ("馬鋼智能停車")	Anhui, PRC	USD2,500,000	4,444,964	–	25	–	25	25	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	
Jointly-controlled entity ("JCE")										
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Anhui, PRC	RMB468,000,000	234,000,000	50	–	50	–	50	Manufacture and sale of air products (hydrogen, oxygen, argon and other gases) in gas and liquid states and other industrial gases, provision of products related sales and supply work and technical services and other related services	

(i) These companies are the subsidiaries of the Group. The voting power owned is consistent with the percentage of equity held by the Group. These subsidiaries are included in consolidation for the year ended 31 December 2006 and 2007, and both their financial positions and operating results are reflected in the consolidated financial statements. During the reporting year, the Group's initial investment cost is not adjusted.

(ii) 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 from Burwill Times Industrial Limited at a cash consideration of RMB61,651,010, the transaction should be recognised as business combination not under common control. After business combination, MS (Yangzhou) Processing is included in consolidation. Details are disclosed in Note VI.47. During 2007, the Group entered into an agreement with Burwill Times Industrial Limited to raise USD10,000,000 of registered capital of MS (Yangzhou) Processing. The Group injected USD7,100,000 (equivalent to RMB54,811,290) and still owns 71% of equity shares.

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

(iii) On 13 December 2007, the Company, 奇瑞汽車有限公司 and 佛山市順德區豐物業供應有限公司 entered into a Venturers' Agreement for the establishment of Wuhu Technique, with a registered capital of RMB150,000,000. The Company hold 71% of equity interests in Wuhu Technique. Beginning from current year, Wuhu Technique is included in consolidation.

(iv) On 12 October 2007, the Company and 聯合鋼鐵 (香港) 有限公司 entered into a Venturers' Agreement for the establishment of Ma Steel Roller, with a registered capital of USD30,000,000. The Company hold 51% of equity interests in Ma Steel Roller. Beginning from current year, Ma Steel Roller is included in consolidation.

(v) On 20 July 2007, the Company established Used Vehicle Trading with a registered capital of RMB500,000. Beginning from current year, Used Vehicle Trading is included in consolidation.

Except items (iii), (iv) and (v), the extent of consolidation is consistent with previous year.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and balances with financial institutions

	31 December 2007			31 December 2006		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
Cash on hand						
– RMB	**–**	**–**	**240,606**	–	–	200,631
Balances with financial institutions						
– RMB	**–**	**–**	**5,182,694,444**	–	–	3,306,174,722
– HKD (Note 2)	**405,264**	**0.9364**	**379,932**	305,323	1.0047	306,691
– USD	**16,437,874**	**7.3046**	**120,071,946**	19,946,528	7.8087	155,789,281
– EUR	**2,468,810**	**10.6669**	**26,334,550**	3,209,257	10.2665	32,947,833
– JPY	**1,051,044,601**	**0.0641**	**67,334,122**	1,030,670,853	0.0656	67,642,928
– AUD	**15,584,748**	**6.4050**	**99,820,683**	9,702,434	6.1579	59,746,618
			5,496,635,677			3,622,608,073
Others						
– RMB	**–**	**–**	**787,777,305**	–	–	526,197,697
– USD	**1,000,000**	**7.3046**	**7,303,920**	1,000,184	7.8087	7,838,098
– EUR	**–**	**–**	**–**	363,170	10.2665	3,728,484
– JPY	**–**	**–**	**–**	2,007,165	0.0656	131,731
			795,081,225			537,896,010
Total			**6,291,957,508**			4,160,704,714

	31 December 2007	31 December 2006
Restriction on ownership		
Deposits for issuance of bank acceptance bills	**763,881,225**	531,136,660
Others	**4,200,000**	–
Total	**768,081,225**	531,136,660

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

1. Cash and balances with financial institutions *(continued)*

Cash deposited in current account earns interest at floating interest rate. Terms of short term time deposits take from 7 days to 3 months, which is depended on cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

2. Balances with financial institutions

As at balance sheet date, following overdue Hong Kong dollar fixed deposit with non-bank financial institutions has been fully liquidated.

	Notes	**31 December 2007**	31 December 2006
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**–**	23,317
CITIC Ningbo Inc. ("Ningbo CITIC")	(ii)	**–**	48,000
SEG International Trust & Investment Corporation ("SEG")	(ii)	**–**	48,125
Total		**–**	119,442

(i) 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. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the period from 1 January 2005 to the balance sheet date, no repayments have been received from GITIC.

(ii) The Company has registered its debts with the liquidators. Up to the balance sheet date, no repayments have been received from Ningbo CITIC and SEG.

As the ageing of the aforesaid deposits have been overdue for 11 years and the Company has made full provision in prior years, the directors opined that the possibility to recover these overdue deposits is remote. Accordingly, overdue fixed deposits and the relevant provisions were written off in current year.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. Financial assets held for trading

	31 December 2007	31 December 2006
Equity instruments held for trading	**1,462,770**	–

The above equity instruments were all listed in Shanghai or Shenzhen Stock Exchange. According to the management's opinion, there is no material restriction on realisation of investments as at the balance sheet date.

4. Bills receivable

	31 December 2007	31 December 2006
Bank acceptance bills	**4,194,297,474**	681,137,717

As at 31 December 2007 and 31 December 2006, the Group did not hold any discounted bills with recourse yet to mature.

As at 31 December 2007 and 31 December 2006, the balance of bills receivable did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5. Trade receivables

The Group's credit terms are usually 30 to 90 days. And trade receivables are interest free.

The ageing of trade receivables is analysed below:

	31 December 2007	31 December 2006
Within one year	1,001,527,673	569,139,754
One to two years	12,851,844	11,991,603
Two to three years	1,108,762	7,842,899
Over three years	17,243,068	34,385,996
	1,032,731,347	623,360,252
Less: Provisions for bad debts	17,355,193	40,939,288
Total	1,015,376,154	582,420,964

Trade receivables balance is analysed as follows:

	31 December 2007				31 December 2006			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	961,692,593	93%	(14,184,569)	1%	579,605,024	93%	(32,835,948)	6%
Other insignificant	71,038,754	7%	(3,170,624)	4%	43,755,228	7%	(8,103,340)	19%
Total	1,032,731,347	100%	(17,355,193)		623,360,252	100%	(40,939,288)	

The following balances are denominated in foreign currencies:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	75,775,420	7.3046	553,509,135	47,519,318	7.8087	371,064,097
EUR	334,076	10.6669	3,563,553	–	–	–
AUD	794,331	6.4050	5,087,711	1,765,188	6.1579	10,869,850
Total			562,160,399			381,933,947

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5. Trade receivables *(continued)*

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

Reason	**31 December 2007**	31 December 2006
Bankrupt or liquidated debtors	**12,801,734**	307,795
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**10,091,021**	–
Less: Reversal of bad debts provisions written-off in prior year	**4,452,111**	1,179,122
Total	**18,440,644**	(871,327)

The five largest trade receivables of the Group amounted to RMB398,733,665, which accounted for 39% of the gross trade receivables of the Group. The ageing of such balances were within one year.

As at 31 December 2007 and 31 December 2006, the balance of trade receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in Note VIII.5 to the financial statement.

The movement of bad debts provisions for trade receivables for the year 2007 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. Prepayments

The ageing of prepayments is analysed below:

	31 December 2007		31 December 2006	
	Balance	**Ratio**	Balance	Ratio
Within one year	**1,536,362,636**	**91%**	517,690,362	85%
One to two years	**76,173,349**	**5%**	11,517,780	2%
Two to three years	**11,512,770**	**1%**	20,000,000	3%
Over three years	**48,008,214**	**3%**	59,508,163	10%
Total	**1,672,056,969**	**100%**	608,716,305	100%

Prepayments aged over one year were mainly attributable to the delay in raw materials supply.

As at 31 December 2007 and 31 December 2006, the balance of prepayments did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests.

7. Other receivables

The ageing of other receivables is analysed below:

	31 December 2007	31 December 2006
Within one year	**255,030,828**	159,246,588
One to two years	**1,772,286**	676,445
Two to three years	**83,380**	2,197,702
Over three years	**6,573,930**	24,689,111
	263,460,424	186,809,846
Less: Provisions for bad debts	**7,022,062**	26,172,747
Total	**256,438,362**	160,637,099

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Other receivables *(continued)*

Other receivables balance is analysed as follows:

	31 December 2007				31 December 2006			
	Balance	**Ratio**	**Provision for bad debts**	**Ratio**	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**184,050,439**	**70%**	**(3,688,268)**	**2%**	135,365,086	72%	(11,987,110)	9%
Other insignificant	**79,409,985**	**30%**	**(3,333,794)**	**4%**	51,444,760	28%	(14,185,637)	28%
Total	**263,460,424**	**100%**	**(7,022,062)**		186,809,846	100%	(26,172,747)	

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

Reason	**31 December 2007**	31 December 2006
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**19,241,834**	–

The five largest other receivables of the Group amounted to RMB184,050,439, which accounted for 70% of the gross other receivables of the Group. Except for RMB3,688,268 with ageing over 3 years, the ageing of such receivables was within 1 year.

As at 31 December 2007 and 31 December 2006, the balance of other receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

The movement of bad debts provisions for other receivables for the year 2007 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

8. Inventories

	31 December 2007	31 December 2006
Raw materials	**4,866,756,659**	3,593,290,386
Work in progress	**738,364,782**	538,136,776
Construction contract	**75,688,341**	51,118,889
Finished goods	**1,694,504,749**	665,523,682
Spare parts	**2,382,957,761**	1,783,832,105
	9,758,272,292	6,631,901,838
Less: Provisions for inventories	**132,103,392**	91,769,889
Total	**9,626,168,900**	6,540,131,949

As at 31 December 2007, the Group's inventories amounting to RMB786,930,000 have been pledged to banks as securities for issue of bank acceptance bills for the Company's subsidiaries (31 December 2006: RMB121,914,383).

The movement of impairment provision against inventories for the year 2007 is disclosed in Note 16.

9. Held-to-maturity investments

	31 December 2007	31 December 2006
Debt investments	**5,598,870**	8,258,870
Less: Impairment	**–**	–
Total	**5,598,870**	8,258,870

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.

The Group has assessed the intention and ability to hold to maturity as at the balance sheet date, and no changes were noted.

The movement of impairment provision of held-to-maturity investments for the year 2007 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments

	31 December 2007	31 December 2006
Long term investments under equity method		
JCE (i)	**268,305,755**	234,000,000
Associates (ii)	**414,725,675**	329,514,405
Long term investments under cost method		
Other equity investments (iii)	**102,917,360**	16,817,035
	785,948,790	580,331,440
Less: Impairment	**–**	–
Total	**785,948,790**	580,331,440

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

The movement of impairment provision of long term investment for the year 2007 is disclosed in Note 16.

(i) JCE

			2007			
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	***Cash dividend received during the year***	**Closing balance**
BOC-Ma Steel	**234,000,000**	**234,000,000**	**34,305,755**	**–**	**–**	**268,305,755**
Less: Impairment		**–**	**–**	**–**		**–**
		234,000,000	**34,305,755**	**–**		**268,305,755**

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(i) *JCE* *(continued)*

			2006			
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Cash dividend received during the year*	Closing balance
BOC-Ma Steel	234,000,000	234,000,000	–	–	–	234,000,000
Less: Impairment		–	–	–		–
		234,000,000	–	–		234,000,000

Major financial information of a JCE:

	2007			
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit**
BOC-Ma Steel	**877,327,382**	**340,715,872**	**293,382,569**	**68,611,510**

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(ii) Associates

2007

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Cash dividend received during the year*	Closing balance
濟源市金馬焦化	80,000,000	109,116,860	34,466,633	(11,033,478)	*(11,033,478)*	132,550,015
滕州盛隆煤焦化	66,776,000	76,834,581	32,789,468	–	–	109,624,049
上海鋼鐵電子	4,000,000	8,204,437	14,404,676	(4,000,000)	*(4,000,000)*	18,609,113
馬鞍山港口公司	112,500,000	121,858,527	15,901,445	(1,293,484)	*(1,293,484)*	136,466,488
奧馬特變速系統	13,500,000	9,000,000	4,500,000	(523,990)	–	12,976,010
馬鋼智能停車	4,500,000	4,500,000	–	–	–	4,500,000
		329,514,405	102,062,222	(16,850,952)		414,725,675
Less: Impairment		–	–	–		–
Total		329,514,405	102,062,222	(16,850,952)		414,725,675

2006

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Cash dividend received during the year*	Closing balance
濟源市金馬焦化	80,000,000	91,081,594	18,035,266	–	–	109,116,860
滕州盛隆煤焦化	66,776,000	65,938,365	10,896,216	–	–	76,834,581
上海鋼鐵電子	4,000,000	3,316,411	4,888,026	–	–	8,204,437
馬鞍山港口公司	112,500,000	107,723,311	14,135,216	–	–	121,858,527
奧馬特變速系統	9,000,000	–	9,000,000	–	–	9,000,000
馬鋼智能停車	4,500,000	–	4,500,000	–	–	4,500,000
		268,059,681	61,454,724	–		329,514,405
Less: Impairment		–	–	–		–
Total		268,059,681	61,454,724	–		329,514,405

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(ii) Associates (continued)

Major financial information of associates:

Name of investee	2007 Total assets	Total liabilities	Revenue	Net profit/(loss)
濟源市金馬焦化	1,109,504,680	780,205,607	1,176,297,649	86,166,581
滕州盛隆煤焦化	912,212,496	576,786,741	1,200,401,959	102,467,087
上海鋼鐵電子	904,927,207	810,811,194	139,838,620	72,023,380
馬鞍山港口公司	837,121,784	533,176,827	202,210,235	35,336,545
奧馬特變速系統	23,545,247	1,701,405	–	(1,060,999)
馬鋼智能停車	45,646,694	34,589,250	25,470,161	(3,214,636)

(iii) Other equity investments

Name of investee	2007 Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing Balance
河南龍宇能源股份有限公司	10,000,000	10,000,000	–	–	10,000,000
唐山鋼鐵股份有限公司	4,559,109	4,559,109	–	(4,559,109)	–
上海氯鹼化工股份有限公司	807,926	807,926	–	(807,926)	–
中國第十七冶金建設有限公司	2,700,000	–	2,700,000	–	2,700,000
上海羅涇礦石碼頭有限公司	88,767,360	–	88,767,360	–	88,767,360
Others	1,450,000	1,450,000	–	–	1,450,000
		16,817,035	91,467,360	(5,367,035)	102,917,360
Less: Impairment		–	–	–	–
Total		16,817,035	91,467,360	(5,367,035)	102,917,360

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(iii) Other equity investments (continued)

2006

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing Balance
河南龍宇能源股份有限公司	10,000,000	10,000,000	–	–	10,000,000
唐山鋼失鐵股份有限公司	4,559,109	4,559,109	–	–	4,559,109
上海氯碱化工股份有限公司	807,926	807,926	–	–	807,926
Others	1,450,000	1,450,000	–	–	1,450,000
		16,817,035	–	–	16,817,035
Less: Impairment		–	–	–	–
Total		16,817,035	–	–	16,817,035

11. Investment properties

Cost method for subsequent measurement

2007

	Land use rights
Cost	
At 1 January 2007	**4,145,293**
Transferred to intangible assets (Note 14)	**(2,422,651)**
At 31 December 2007	**1,722,642**
Accumulated depreciation	
At 1 January 2007	**585,993**
Provided during the year	**54,641**
Transferred to intangible assets (Note 14)	**(158,295)**
At 31 December 2007	**482,339**
Impairment	
At 1 January 2007 and 31 December 2007	**–**
Net carrying amount	
At 31 December 2007	**1,240,303**
At 1 January 2007	**3,559,300**

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

11. Investment properties *(continued)*

Cost method for subsequent measurement

2006 (restated)

	Land use rights
Cost	
At 1 January 2006	–
Addition	4,145,293
At 31 December 2006	4,145,293
Accumulated depreciation	
At 1 January 2006	–
Provided during the year	585,993
At 31 December 2006	585,993
Impairment	
At 1 January 2006 and 31 December 2006	–
Net carrying amount	
At 31 December 2006	3,559,300
At 1 January 2006	–

The movement of impairment provision of investment properties for the year 2007 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Fixed assets

2007

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost				
At 1 January 2007	9,396,797,945	20,556,252,974	395,131,002	30,348,181,921
Additions	886,032	98,520,781	14,848,614	114,255,427
Transferred from constructions in progress (Note 13)	8,952,799,681	16,911,252,419	28,118,924	25,892,171,024
Reclassifications	405,664,597	(406,476,801)	812,204	–
Disposal	(71,883,327)	(320,398,866)	(13,655,106)	(405,937,299)
At 31 December 2007	18,684,264,928	36,839,150,507	425,255,638	55,948,671,073
Accumulated depreciation				
At 1 January 2007	3,282,414,244	7,974,004,727	248,492,242	11,504,911,213
Provided during the year	744,536,407	2,467,097,886	44,632,296	3,256,266,589
Reclassifications	126,184,599	(126,287,629)	103,030	–
Disposal	(41,694,637)	(165,014,362)	(11,830,800)	(218,539,799)
At 31 December 2007	4,111,440,613	10,149,800,622	281,396,768	14,542,638,003
Impairment				
At 1 January 2007 and 31 December 2007	5,252,400	85,423,244	–	90,675,644
Net carrying amount				
At 31 December 2007	14,567,571,915	26,603,926,641	143,858,870	41,315,357,426
At 1 January 2007	6,109,131,301	12,496,825,003	146,638,760	18,752,595,064

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Fixed assets *(continued)*

2006 (restated)

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost				
At 1 January 2006	8,690,543,096	18,806,495,387	415,790,295	27,912,828,778
Additions	9,858,846	30,144,811	3,396,706	43,400,363
Acquisition of a subsidiary (Note 47)	34,567,612	16,793,913	666,897	52,028,422
Minority shareholder contribution (Note 48)	212,656,812	385,748,243	3,882,583	602,287,638
Transferred from constructions in progress (Note 13)	315,818,982	1,713,783,325	12,530,224	2,042,132,531
Reclassifications	172,523,886	(179,247,185)	6,723,299	–
Disposal	(39,171,289)	(217,465,520)	(47,859,002)	(304,495,811)
At 31 December 2006	9,396,797,945	20,556,252,974	395,131,002	30,348,181,921
Accumulated depreciation				
At 1 January 2006	2,748,009,347	6,428,411,270	234,659,664	9,411,080,281
Provided during the year	510,875,489	1,761,811,454	50,941,736	2,323,628,679
Acquisition of a subsidiary (Note 47)	1,422,359	1,407,743	86,377	2,916,479
Reclassifications	43,074,508	(43,883,151)	808,643	–
Disposal	(20,967,459)	(173,742,589)	(38,004,178)	(232,714,226)
At 31 December 2006	3,282,414,244	7,974,004,727	248,492,242	11,504,911,213
Impairment				
At 31 December 2006	5,252,400	85,423,244	–	90,675,644
At 1 January 2006	10,391,900	106,664,944	–	117,056,844
Net carrying amount				
At 31 December 2006	6,109,131,301	12,496,825,003	146,638,760	18,752,595,064
At 1 January 2006	5,932,141,849	12,271,419,173	181,130,631	18,384,691,653

The cost of fully depreciated fixed assets which are still in use amounted to approximately RMB2,559 million and the net carrying amount amounted to approximately RMB77 million.

As at 31 December 2007, certain of the Group's equipments with a net carrying amount of approximately RMB24.66 million (31 December 2006: approximately RMB28.01 million) were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in Note 27.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Fixed assets *(continued)*

As at 31 December 2007, certificates of ownership in respect of the Group's buildings with a net carrying amount of RMB1,537.92 million had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

The movement of impairment provision of fixed assets for the year 2007 is disclosed in Note 16.

13. Construction in progress

2007

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (Note 12) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Blast Furnaces Project	6,864,100	3,573,884,000	1,904,588,407	(5,376,661,632)	101,810,775	Internally generated funds and loans from financial institution	76-100
Including: borrowing costs capitalised		*117,801,524*	*59,354,681*	*(177,156,205)*	-		
2. Converters Project	4,219,740	2,843,102,096	1,398,647,206	(4,207,921,932)	33,827,370	Internally generated funds and loans from financial institution	100
Including: borrowing costs capitalised		*57,061,560*	*43,789,623*	*(100,851,183)*	-		
3. Wheel Line Project	956,420	25,178,233	180,705,348	-	205,883,581	Internally generated funds	34-100
4. Construction Steel Lines Project	17,253,430	6,784,526,616	3,033,726,312	(8,461,828,791)	1,356,424,137	Internally generated funds and loans from financial institution	15-100
Including: borrowing costs capitalised		*221,631,632*	*226,302,112*	*(447,933,744)*	-		
5. Coking Stoves Project	2,933,350	1,528,778,171	1,091,503,747	(2,232,350,000)	387,931,918	Internally generated funds and loans from financial institution	51-100
Including: borrowing costs capitalised		*69,523,740*	*45,482,288*	*(115,006,028)*	-		
6. Public Auxiliary Utilities Project	5,865,709	3,405,924,218	1,652,808,892	(4,342,872,632)	715,860,478	Internally generated funds and loans from financial institution	33-100
Including: borrowing costs capitalised		*55,736,895*	*35,490,390*	*(89,166,015)*	*2,061,270*		
7. Energy-saving and Environment Protection Project	376,540	37,559,790	163,086,782	(54,970,000)	145,676,572	Internally generated funds	44-100
8. Other Projects	N/A	533,968,025	1,244,828,265	(1,215,566,037)	563,230,253	Internally generated funds and loans from financial institution	N/A
Including: borrowing costs capitalised		*15,108,480*	-	*(15,108,480)*	-		
		18,732,921,149	10,669,894,959	(25,892,171,024)	3,510,645,084		
Less: Impairment		-	-	-	-		
Total		18,732,921,149	10,669,894,959	(25,892,171,024)	3,510,645,084		

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13. Construction in progress *(continued)*

2006 (restated)

Name of projects	Budget cost RMB'000	Opening balance RMB	Minority shareholder contribution (Note 48) RMB	Additions during the year RMB	Transferred to fixed assets (Note 12) RMB	Other transfer out RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Blast Furnaces Project	5,715,560	761,803,243	–	2,850,906,050	(38,825,293)	–	3,573,884,000	Internally generated funds and loans from financial institution	21-100
Including: borrowing costs capitalised		*11,765,964*	–	*106,035,560*	–	–	*117,801,524*		
2. Converters Project	3,491,500	475,136,663	–	2,429,219,373	(61,253,940)	–	2,843,102,096	Internally generated funds and loans from financial institution	82-100
Including: borrowing costs capitalised		*3,026,339*	–	*54,035,221*	–	–	*57,061,560*		
3. Wheel Line Project	524,330	158,473,675	–	302,903,186	(436,198,628)	–	25,178,233	Internally generated funds	84-100
4. Construction Steel Lines Project	16,842,710	1,379,445,445	–	6,148,628,671	(743,547,500)	–	6,784,526,616	Internally generated funds and loans from financial institution	25-100
Including: borrowing costs capitalised		*43,118,129*	–	*201,979,003*	*(23,465,500)*	–	*221,631,632*		
5. Coking Stoves Project	2,697,000	279,910,490	–	1,298,851,178	(49,983,497)	–	1,528,778,171	Internally generated funds and loans from financial institution	43-100
Including: borrowing costs capitalised		*8,784,000*	–	*60,739,740*	–	–	*69,523,740*		
6. Public Auxiliary Utilities Project	4,781,794	1,237,039,767	–	2,267,971,488	(99,087,037)	–	3,405,924,218	Internally generated funds and loans from financial institution	7-100
Including: borrowing costs capitalised		*1,247,190*	–	*54,489,705*	–	–	*55,736,895*		
7. Energy-saving and Environment	107,730	33,036,296	–	38,341,100	(33,817,606)	–	37,559,790	Internally generated funds	22-100
8. Other Projects	N/A	477,056,170	640,000	700,199,425	(579,419,030)	(64,508,540)	533,968,025	Internally generated funds and loans from financial institution	N/A
Including: borrowing costs capitalised		*15,108,480*	–	–	–	–	*15,108,480*		
		4,801,901,749	640,000	16,037,020,471	(2,042,132,531)	(64,508,540)	18,732,921,149		
Less: Impairment		74,000,000	–	–	–	(74,000,000)	–		
Total		4,727,901,749	640,000	16,037,020,471	(2,042,132,531)	9,491,460	18,732,921,149		

The capitalisation rates of interest are 1.4% to 6.723% per annum.

The movement of impairment provision of construction in progress for the year 2007 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Intangible assets

2007

	Land use rights	Mining right	Total
Cost			
At 1 January 2007	1,717,196,607	119,103,568	1,836,300,175
Additions	94,918,098	12,411,341	107,329,439
Transferred from investment properties (Note 11)	2,422,651	–	2,422,651
At 31 December 2007	1,814,537,356	131,514,909	1,946,052,265
Accumulated depreciation			
At 1 January 2007	259,728,133	5,597,062	265,325,195
Provided during the year	38,495,834	5,095,548	43,591,382
Transferred from investment properties (Note 11)	158,295	–	158,295
At 31 December 2007	298,382,262	10,692,610	309,074,872
Impairment			
At 1 January 2007 and 31 December 2007	–	–	–
Net carrying amount			
At 31 December 2007	1,516,155,094	120,822,299	1,636,977,393
At 1 January 2007	1,457,468,474	113,506,506	1,570,974,980

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Intangible assets *(continued)*

2006 (restated)

	Land use rights	Mining right	Total
Cost			
At 1 January 2006	1,368,255,434	110,150,400	1,478,405,834
Additions	181,185,132	8,953,168	190,138,300
Acquisition of a subsidiary (Note 47)	13,652,041	–	13,652,041
Minority shareholder contribution (Note 48)	154,104,000	–	154,104,000
At 31 December 2006	1,717,196,607	119,103,568	1,836,300,175
Accumulated depreciation			
At 1 January 2006	230,454,104	1,115,704	231,569,808
Provided during the year	29,069,870	4,481,358	33,551,228
Acquisition of a subsidiary (Note 47)	204,159	–	204,159
At 31 December 2006	259,728,133	5,597,062	265,325,195
Impairment			
At 1 January 2007 and 31 December 2007	–	–	–
Net carrying amount			
At 31 December 2006	1,457,468,474	113,506,506	1,570,974,980
At 1 January 2006	1,137,801,330	109,034,696	1,246,836,026

One subsidiary of the Company, Ma Steel (Australia), has 10% interest in an Australian unincorporated joint venture, in which Ma Steel (Australia) does not have joint control or is not in a position to exercise significant influence. During 2005, together with the other participants of this joint venture, Ma Steel (Australia) purchased a mine participation right in Australia in the form of sub-lease for 25 years.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Intangible assets *(continued)*

The movement of impairment provision of intangible assets for the year 2007 is disclosed in Note 16.

15. Deferred tax assets/liabilities

Recognised deferred tax assets:

	31 December 2007	31 December 2006 (restated)
Opening balance	**134,565,000**	64,350,000
Credited to the income statement during the year	**124,197,170**	70,215,000
Closing balance	**258,762,170**	134,565,000

Breakdown	**31 December 2007**	31 December 2006 (restated)
Repair and maintenance expenses	**37,478,684**	24,628,000
Impairment provisions of assets	**32,792,775**	32,264,000
Pre-operation expenses	**30,437,786**	23,101,000
Salary payable	**56,570,101**	27,421,000
Sales incentive	**95,424,297**	22,728,000
Others	**6,058,527**	4,423,000
Total	**258,762,170**	134,565,000

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15. Deferred tax assets/liabilities *(continued)*

Recognised deferred tax liabilities:

	31 December 2007	31 December 2006 (restated)
Opening balance	**135,319,000**	11,175,000
Debited directly to equity	**95,273,247**	128,790,000
Credited to the income statement during the year	**(62,316,336)**	(4,646,000)
Closing balance	**168,275,911**	135,319,000

Breakdown

	31 December 2007	31 December 2006 (restated)
Bonds with warrants	**167,809,603**	124,144,000
Others	**466,308**	11,175,000
Total	**168,275,911**	135,319,000

At 31 December 2007, the Group had unrecognised deferred tax assets, in respect of tax credit arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credit amounting to RMB243,030,075 and RMB5,834,831, respectively, which have not been recognised.

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: 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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. Assets impairment provisions

2007

	Opening balance	Increase during the year	Decrease during the year Reversal	Write-off	Closing balance
Provisions for bad debts	67,112,035	538,666	(5,590,968)	(37,682,478)	24,377,255
including: Trade receivables	40,939,288	447,517	(5,590,968)	(18,440,644)	17,355,193
Other receivables	26,172,747	91,149	–	(19,241,834)	7,022,062
Provisions for inventories	91,769,889	45,173,503	(4,840,000)	–	132,103,392
including: Finished goods	4,840,000	9,795,364	(4,840,000)	–	9,795,364
Spare parts	86,929,889	35,378,139	–	–	122,308,028
Impairment of held-to-maturity investments	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	90,675,644
including: Buildings and structures	5,252,400	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	85,423,244
Impairment of construction in progress	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–
Total	249,557,568	45,712,169	(10,430,968)	(37,682,478)	247,156,291

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. Assets impairment provisions *(continued)*

2006 (restated)

	Opening balance	Increase during the year	Decrease during the year Reversal	Decrease during the year Write-off	Closing balance
Provisions for bad debts	75,470,795	–	(9,230,087)	871,327	67,112,035
including: Trade receivables	49,298,048	–	(9,230,087)	871,327	40,939,288
Other receivables	26,172,747	–	–	–	26,172,747
Provisions for inventories	120,959,892	15,808,106	(41,998,109)	(3,000,000)	91,769,889
including: Work in progress	3,000,000	–	–	(3,000,000)	–
Finished goods	46,838,109	–	(41,998,109)	–	4,840,000
Spare parts	71,121,783	15,808,106	–	–	86,929,889
Impairment of held-to-maturity investments	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–
Impairment of fixed assets	117,056,844	–	(19,611,200)	(6,770,000)	90,675,644
including: Buildings and structures	10,391,900	–	–	(5,139,500)	5,252,400
Plant, machinery and equipment	106,664,944	–	(19,611,200)	(1,630,500)	85,423,244
Impairment of construction in progress	74,000,000	–	(17,676,148)	(56,323,852)	–
Impairment of intangible assets	–	–	–	–	–
Total	387,487,531	15,808,106	(88,515,544)	(65,222,525)	249,557,568

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. Short term loans

	31 December 2007			31 December 2006		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
Unsecured loans						
– RMB	**–**	**–**	**464,000,000**	–	–	380,000,000
Trust receipt loans						
– USD	**109,587,824**	**7.3046**	**800,495,217**	–	–	–
– EUR	**–**	**–**	**–**	1,852,482	10.2665	19,018,506
Total			**1,264,495,217**			399,018,506

The interest rates of the above short term loans are 5.751% – 6.840% per annum.

18. Bills payable

	31 December 2007	31 December 2006
Bank acceptance bills	**1,710,845,160**	1,346,880,982
Commercial acceptance bills	**80,000,000**	–
Total	**1,790,845,160**	1,346,880,982

Balances with financial institutions of USD1,000,000 and RMB756,577,305 and inventories amounting to RMB786,930,000 have been pledged to banks as securities for issuance of bank acceptance bills by subsidiaries, and were not readily available for payment or sale.

As at 31 December 2007 and 31 December 2006, the balance of bills payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or related parties.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

19. Short term commercial papers

Name	31 December 2007	31 December 2006
Short term commercial papers	**2,000,000,000**	–

The short-term commercial papers represented 20,000,000, 4.2% per annum short-term commercial papers with a nominal value of RMB100 issued by the Company at par on 3 September 2007. These short-term commercial papers were redeemed on 2 September 2008.

20. Accounts payable

The following balances were denominated in foreign currencies:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	**3,174,284**	**7.3046**	**23,186,875**	1,272,769	7.8087	9,938,668
EUR	**18,147,367**	**10.6669**	**193,576,144**	26,606,379	10.2665	273,154,392
AUD	**20,106**	**6.4050**	**128,782**	35,498	6.1579	218,594
JPY	**1,629,876,700**	**0.0641**	**104,416,421**	2,325,577,610	0.0656	152,627,659
Total			**321,308,222**			435,939,313

The accounts payables are interest free and are normally settled within three months.

As at 31 December 2007, certain of the Group's accounts payable amounting to RMB360,566,432 aged over one year, as a result of retention with settlement term over 1 year.

As at 31 December 2007 and 31 December 2006, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in Note VIII.5 to the financial statements.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

21. Deposits received

The ageing of deposits received is within one year.

As at 31 December 2007 and 31 December 2006, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of deposits received are stated in Note VIII.5 to the financial statements.

22. Payroll and benefits payable

	At 1 January 2007	**Increase during the year**	**Payment during the year**	**At 31 December 2007**
Salaries, bonus and subsidies	**145,612,912**	**2,070,080,009**	**(2,030,916,592)**	**184,776,329**
Welfare (including: employee bonus and welfare fund)	**68,124,566**	**150,806,483**	**(208,635,999)**	**10,295,050**
Social insurance	**58,926,358**	**771,007,083**	**(725,875,726)**	**104,057,715**
Housing fund	**10,938,025**	**120,407,394**	**(107,831,991)**	**23,513,428**
Labour union fee and employee education fee	**8,635,130**	**68,291,454**	**(66,244,389)**	**10,682,195**
Supplementary pension scheme	**5,645,346**	**72,011,366**	**(69,136,464)**	**8,520,248**
Total	**297,882,337**	**3,252,603,788**	**(3,208,641,160)**	**341,844,965**

	At 1 January 2006	Increase during the year	Payment during the year	At 31 December 2006
Salaries, bonus and subsidies	102,958,705	1,897,213,138	(1,854,558,932)	145,612,912
Welfare (including: employee bonus and welfare fund)	91,069,612	138,878,233	(161,823,279)	68,124,566
Social insurance	20,743,119	656,518,502	(618,335,263)	58,926,358
Housing fund	10,629,686	68,969,938	(68,661,599)	10,938,025
Labour union fee and employee education fee	11,086,335	60,410,709	(62,861,914)	8,635,130
Supplementary pension scheme	6,157,632	66,645,788	(67,158,074)	5,645,346
Total	242,645,089	2,888,636,309	(2,833,399,061)	297,882,337

As at 31 December 2007, the balance of payroll and benefits payable included performance-related wages amounting to RMB152,233,352 (31 December 2006: RMB132,205,414).

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

23. Taxes payable

	31 December 2007	31 December 2006
VAT	**366,681,369**	100,355,879
Corporate income tax	**111,818,886**	93,109,562
City construction and maintenance tax	**49,414,421**	31,132,303
Flood prevention fund	**40,550,737**	26,909,152
Other taxes	**41,223,081**	48,116,273
Total	**609,688,494**	299,623,169

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

24. Dividends payable

	31 December 2007	**Reason**	31 December 2006
Dividends of shares with selling restriction	**1,297,972,800**	Unpaid	400,000,000
Dividends of shares without selling restriction	**5,784,338**	Unpaid	8,654,914
Total	**1,303,757,138**		408,654,914

The 2006 profit appropriation plan of the Company has been approved at 2006 annual general meeting held at 12 June 2007.

As at 31 December 2007 and 31 December 2006, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of dividends payable are stated in Note VIII.5 to the financial statements.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

25. Other payables

	31 December 2007	31 December 2006
Sales incentive	**381,697,189**	151,517,642
Construction, maintenance and inspection fee	**244,667,802**	247,342,214
Payables to a minority shareholder	**145,672,000**	168,620,150
Housing subsidy	**33,546,450**	43,330,067
Freights	**20,969,368**	8,324,952
Retirement benefits payable to early retired employees	**7,000,000**	7,440,372
Direct transaction costs of bonds with warrants	**–**	64,350,000
Other	**96,356,491**	76,012,350
Total	**929,909,300**	766,937,747

As at 31 December 2007 and 31 December 2006, the balance of other payables does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

Certain of the Group's other payables amounting to RMB133,241,496 aged over one year, as a result of unsettled payable to minority shareholder.

26. Non-current liabilities due within one year

	31 December 2007	31 December 2006
Long term loans (Note 27)	**2,817,346,333**	409,752,537

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27. Long term loans

Lenders	31 December 2007 Original currency	31 December 2007 RMB Equivalent	31 December 2006 Original currency	31 December 2006 RMB Equivalent	Maturity date	Annual interest rate	Conditions of borrowings
Industrial and Commercial Bank of China ("ICBC")	RMB –	2,100,000,000	RMB –	1,700,000,000	2011-2012	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB –	550,000,000	RMB –	900,000,000	2011-2012	Central Bank benchmark rate less 10%; 5.832	Unsecured
China Construction Bank ("CCB")	RMB –	1,460,000,000	RMB –	1,377,000,000	2010-2011	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB –	513,200,000	RMB –	1,013,200,000	2008-2011	2.4; 5.265; 5.427	Unsecured
	– –	–	USD3,986,329	31,128,044	N/A	N/A	N/A
Bank of China	RMB –	2,830,000,000	RMB –	1,962,000,000	2008-2012	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB –	300,000,000	RMB –	900,000,000	2011	5.427	Unsecured
	USD 20,000,000	146,092,000	– –	–	2011	LIBOR(6 months)+0.5	Unsecured
	EUR 1,487,361	15,865,533	EUR1,611,308	16,542,493	2008-2019	0.25	Guaranteed by Sinosteel Trading Company
Agricultural Bank of China	RMB –	2,520,000,000	RMB –	2,310,000,000	2008-2012	5.508; 5.265; 5.832; 5.76	Guaranteed by Holding
	– –	–	RMB –	600,000,000	N/A	N/A	N/A
Huishang Bank	– –	–	RMB –	360,000,000	N/A	N/A	N/A
	RMB –	350,000,000	RMB –	19,000,000	2011	Central Bank benchmark rate less 10%; 5.508	Unsecured
China CITIC Bank	RMB –	400,000,000	RMB –	400,000,000	2008	Central Bank benchmark rate	Unsecured
	USD 50,000,000	365,230,000	USD50,000,000	390,435,000	2008	LIBOR(6 months)+0.4	Unsecured
China Merchants Bank	RMB –	400,000,000	RMB –	400,000,000	2008	Central Bank benchmark rate less 10%	Unsecured
	USD 50,000,000	365,230,000	USD50,000,000	390,435,000	2008	LIBOR(6 months)+0.4	Unsecured
The Export-import	RMB –	580,000,000	RMB –	595,000,000	2008-2012	3.78	Guaranteed by Holding
Bank of China	RMB –	400,000,000	RMB –	200,000,000	2011	Central Bank benchmark rate	Unsecured
	USD 47,000,000	343,316,200	– –	–	2011	LIBOR(6 months)+0.8	Unsecured

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27. Long term loans *(continued)*

	31 December 2007			31 December 2006					
Lenders	Original currency		RMB Equivalent	Original currency		RMB Equivalent	Maturity date	Annual interest rate	Conditions of borrowings
Bank of Communications	RMB	–	500,000,000	RMB	–	1,000,000,000	2009-2011	Central Bank benchmark rate less 10%; 5.184	Guaranteed by Holding
	–	–	–	RMB	–	500,000,000	N/A	N/A	N/A
Industrial Bank	RMB	–	500,000,000	RMB	–	300,000,000	2010-2011	Central Bank benchmark rate less 10%	Unsecured
Shanghai Pudong Development Bank	RMB	–	200,000,000	RMB	–	600,000,000	2009	5.427	Unsecured
Shenzhen Development Bank	RMB	–	150,000,000	RMB	–	150,000,000	2009	Central Bank benchmark rate less 10%	Guaranteed by Holding
China Everbright Bank	RMB	–	400,000,000	–	–	–	2010; 2011	Central Bank benchmark rate; 5.508	Unsecured
Zhonghai Trust & Investment Co., Ltd	RMB	–	2,000,000,000	–	–	–	2011	5.076	Guaranteed by CCB
CITIC Trust & Investment Co., Ltd	RMB	–	2,000,000,000	–	–	–	2011	4.87	Guaranteed by ICBC
Profit Access Investment Company Limited (note)	USD 726,000		6,364,205	USD	726,000	6,000,000	2008	5.49	Pledged of fixed assets
	–	–	–	USD	260,000	2,151,994	N/A	N/A	N/A
Less: Long term loans due within one year			2,817,346,333			409,752,537			
			16,577,951,605			15,713,139,994			

Note: Profit Access Investments Limited holds a 30% equity interests in Anhui Masteel K. Wah and is a minority shareholder of Anhui Masteel K. Wah. Profit Access Investments Limited granted foreign currency loans to Anhui Masteel K. Wah. The loans bear interest at a rate of 5.49% per annum. Certain loans are secured by the pledge of certain of the Anhui Masteel K. Wah's equipment with an aggregate net carrying amount of approximately RMB24.66 million as at 31 December 2007.

The foreign currency balances were translated into RMB at the exchange rates prevailing at the balance sheet date. The exchange rates of USD and EUR were 7.3046 (2006: 7.8087) and 10.6669 (2006: 10.2665) respectively.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28. Bonds payable

	31 December 2007	31 December 2006 (restated)
Opening balance	**4,672,376,376**	–
Liability component of bonds with warrants	**–**	4,641,396,601
Interest expense	**233,385,212**	30,979,775
Interest paid	**(77,000,000)**	–
Closing balance	**4,828,761,588**	4,672,376,376

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. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. 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. The original conversion price is RMB3.40 each. Since dividends declared on 13 July 2007, the conversion price has been deducted to RMB3.33 each.

During the year ended, the first exercise period of the warrants took place on 15 November 2007 to 28 November 2007. A total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33 and as a result of which the Holding's equity interest has been diluted to 56.68% (2006: 59.34%).

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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28. Bonds payable *(continued)*

The carrying amount of the liability component of the bonds with warrants at the issue date is arrived at as follows:

Nominal value of bonds with warrants	5,500,000,000
Equity component (net of deferred tax)	(604,228,899)
Deferred tax liability	(128,790,000)
Direct transaction costs attributable to the liability component	(125,584,500)
Liability component at the issue date	4,641,396,601

29. Deferred income

	2007	2006 (restated)
Opening balance	**564,900,631**	498,086,308
Government subsidies granted for specific projects	**78,320,000**	116,566,523
Amortised during the year (Note 41)	**(52,794,864)**	(49,752,200)
Closing balance	**590,425,767**	564,900,631

30. Other non-current liabilities

	31 December 2007	31 December 2006
Payables to Holding	**–**	400,000,000
Retirement benefits payable to early retired employees	**12,485,032**	22,044,660
Total	**12,485,032**	422,044,660

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

30. Other non-current liabilities *(continued)*

As at 31 December 2007 and 31 December 2006, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of other non-current liabilities are stated in Note VIII.5 to the financial statements.

31. Share capital

Up to 31 December 2007, the Company had issued and fully paid share capital amounting to RMB6,758,551,716, with each share having a face value of RMB1. The types and structure of share capital are as follows:

	At 1 January 2007		Increase/(Decrease) during the year			At 31 December 2007	
	Number of shares	Percentage	Reform for non-circulating shares (i)	Issue of shares (ii)	Sub-total	Number of shares	Percentage
A. Shares with selling restriction							
1. State-owned shares	3,830,560,000	59.34%	–	–	–	3,830,560,000	56.68%
2. Other domestically owned shares	87,810,000	1.36%	(87,810,000)	–	(87,810,000)	–	–
Including:							
Shares owned by domestic legal persons	87,810,000	1.36%	(87,810,000)	–	(87,810,000)	–	–
Shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	3,918,370,000	60.70%	(87,810,000)	–	(87,810,000)	3,830,560,000	56.68%
B. Shares without selling restriction							
1. A shares	804,000,000	12.45%	87,810,000	303,251,716	391,061,716	1,195,061,716	17.68%
2. H shares	1,732,930,000	26.85%	–	–	–	1,732,930,000	25.64%
Sub-total	2,536,930,000	39.30%	87,810,000	303,251,716	391,061,716	2,927,991,716	43.32%
C. Total	6,455,300,000	100.00%	–	303,251,716	303,251,716	6,758,551,716	100.00%

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

31. Share capital *(continued)*

(i) On 17 March 2006, all relevant approvals for converting all the Company's unlisted and non-circulating Shares (including state-owned shares and legal person A shares, collectively as "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"). 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. In accordance with the execution arrangement of the State Share Reform, on 2 April 2007, the entire legal person A shares amounting to 87,810,000 shares were released from Selling Restriction, and were transferred to Circulating A Shares, i.e., individual A shares.

(ii) During the year, 303,251,716 warrants were exercised for 303,251,716 individual A shares of RMB3.33 per share for a total cash proceeds. Anhui Huapu Certified Public Accountants verified the share capital and issued the Capital Verification Report (Hua Pu Yan Zi No.0870 [2007]). At the balance sheet date, the Company had 961,748,284 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 961,748,284 additional individual A shares of RMB1 each.

(iii) At the balance sheet date, the change in the Company's registered capital is in progress.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32. Capital reserve

	Equity component of bonds with warrants	Share premium	Total
At 1 January 2006 (restated)	–	4,864,975,395	4,864,975,395
Issuance of bonds with warrants (equity component net of direct transaction costs)	585,463,399	–	585,463,399
At 31 December 2006 (restated)	585,463,399	4,864,975,395	5,450,438,794
Issue of shares (i)	–	701,527,357	701,527,357
Transferred within capital reserve (i)	(117,510,676)	117,510,676	–
Adjustment for deferred tax liability of bonds with warrants arising from change in corporate income tax rate (ii)	(95,273,247)	–	(95,273,247)
At 31 December 2007	372,679,476	5,684,013,428	6,056,692,904

(i) During the year ended, 303,251,716 warrants were exercised for 303,251,716 individual A shares. The net cash proceeds of RMB701,527,357 after deducting the face value of corresponding A shares was recorded in share premium. Upon the exercise of warrants, the equity component of bonds with warrants of RMB117,510,676 has been transferred to share premium account accordingly.

(ii) The corporate income tax rate will become effective on 1 January 2008, the change in tax rate resulted to the adjustment for deferred tax liabilities relating to equity component of bonds with warrants of RMB95,273,247. The details are disclosed in Note 15.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

33. Surplus reserves

	Statutory reserve (i)	Statutory public welfare fund (ii)	Reserve fund (iii)	Enterprise expansion fund (iii)	Total
At 1 January 2006	1,179,972,207	1,178,385,368	11,112,647	10,677,774	2,380,147,996
Increased during the year	237,416,338	–	11,934,321	7,661,545	257,012,204
Transferred within surplus reserves	1,178,385,368	(1,178,385,368)	–	–	–
At 31 December 2006	2,595,773,913	–	23,046,968	18,339,319	2,637,160,200
Increased during the year	241,570,025	–	13,594,860	9,237,680	264,402,565
At 31 December 2007	2,837,343,938	–	36,641,828	27,576,999	2,901,562,765

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

(ii) 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 statutory public welfare fund (the "PWF") starting from 2006. The balance of PWF as at 31 December 2005 was transferred to the SR.

(iii) Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with CAS 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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

33. Surplus reserves *(continued)*

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB213,189,879 (2006: RMB231,322,540) to the SR.

During the year, the share of subsidiaries' current year appropriations to each of the SR, the reserve fund and the enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB28,380,146 (2006: RMB6,093,798), RMB13,594,860 (2006: RMB11,934,321) and RMB9,237,680 (2006: RMB7,661,545), respectively.

34. Retained profits

	2007	2006 (restated)
Retained profits at beginning of year	**5,918,872,526**	4,814,080,508
Add: the consolidated net profit for the year	**2,475,382,229**	2,401,199,103
Less: Transfer to SR	**241,570,025**	237,416,338
Transfer to reserve fund	**13,594,860**	11,934,321
Transfer to enterprise expansion fund	**9,237,680**	7,661,545
Transfer to employee bonus and welfare fund	**8,129,797**	6,546,881
Ordinary share dividend payable (i)	**839,189,000**	1,032,848,000
Retained profits at end of year	**7,282,533,393**	5,918,872,526
Including: Cash dividend proposed by directors (ii)	**878,611,723**	839,189,000

Pursuant to the articles of association, 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 CAS, and the amount determined in accordance with HKFRS.

(i) Final dividend in respect of 2005 was approved by the Company's shareholders at the annual general meeting hold on 13 June 2006. Based on the number of shares of 6,455,300,000 in issue as at 31 December 2005, a final dividend of RMB0.16 (including tax) per share and in aggregate, a total of RMB1,032,848,000 payable to shareholders was recognised as a liability.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

34. Retained profits *(continued)*

(i) *(continued)*

Final dividend in respect of 2006 was approved by the Company's shareholders at the annual general meeting hold on 12 June 2007. Based on the number of shares of 6,455,300,000 in issue as at 31 December 2006, a final dividend of RMB0.13 (including tax) per share and in aggregate, a total of RMB839,189,000 payable to shareholders was recognised as a liability.

(ii) Final dividends proposed by the board of directors for the year is subject to the approval of the Company's shareholders at the annual general meeting.

The effects on opening balance of retained profits arising from the first-time adoption of CAS are stated in Note III.26 to the financial statements.

35. Minority interests

Minority interests of the Group's major subsidiaries are as following:

	31 December 2007	31 December 2006
Ma Steel (Hefei)	**139,745,101**	102,838,050
Ma Steel (Guangzhou)	**56,633,719**	52,930,250
Holly Industrial	**56,162,531**	39,676,731
MS (Yangzhou) Processing	**51,464,415**	25,433,493
Design & Research Institute	**41,357,107**	32,605,702
Ma Steel (Jinhua)	**34,312,517**	32,086,528
Ma Steel Roller	**21,683,256**	–
Anhui Masteel K. Wah	**16,038,589**	13,453,288
MS (Hefei) Processing	**13,277,330**	7,798,308
Wuhu Technique	**10,875,000**	–
Others	**4,965,124**	3,674,819
Total	**446,514,689**	310,497,169

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

36. Revenue and cost of sales

Revenue is stated as follows:

	2007	2006
Principle operating income	**49,052,850,801**	34,319,874,152
Other operating income	**1,592,543,800**	1,090,186,526
Total revenue	**50,645,394,601**	35,410,060,678
Five largest customers	**5,337,423,631**	4,203,430,165
Percentage to total revenue	**11%**	12%

Principle operating income and principle cost of sales are stated as follows:

	2007		2006	
	Principle operating income	Principle cost of sales	Principle operating income	Principle cost of sales
Sale of steel products	**46,499,051,443**	**41,630,253,105**	32,315,572,592	28,529,075,512
Sale of steel billets	**540,503,827**	**512,638,181**	545,925,914	488,023,868
Sale of coke by-products	**537,416,454**	**392,957,093**	523,437,134	347,290,381
Sale of pig iron	**2,273,128**	**1,920,706**	657,460	516,726
Others	**1,473,605,949**	**900,480,349**	934,281,052	565,364,651
Total	**49,052,850,801**	**43,438,249,434**	34,319,874,152	29,930,271,138

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

37. Taxes and surcharges

	2007	2006 (restated)
City construction and maintenance tax	**248,950,026**	142,411,681
Export duty changes	**220,460,569**	–
Education surcharge	**106,692,868**	61,033,577
Local education surcharge	**35,564,289**	20,344,526
Other taxes	**16,578,467**	20,323,554
Total	**628,246,219**	244,113,338

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

38. Financial expenses

	2007	2006 (restated)
Interest expenses	**1,591,417,797**	799,654,967
Less: Interest capitalisation	**435,219,094**	503,429,229
	1,156,198,703	296,225,738
Less: Interest income	**52,798,147**	34,258,808
Exchange gain or loss, net	**(83,257,040)**	29,722,235
Less: Capitalisation of exchange gain or loss	**(24,800,000)**	(26,150,000)
	(58,457,040)	55,872,235
Others	**38,543,795**	24,931,084
Total	**1,083,487,311**	342,770,249

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

38. Financial expenses *(continued)*

Both interest capitalisation and capitalisation of exchange gain or loss have been recorded in the cost of construction in progress.

39. Assets impairment loss

	2007	2006 (restated)
Provision/(reversal of provisions) for bad debts	**(5,052,302)**	(9,230,087)
Including: Trade receivables	**(5,143,451)**	(9,230,087)
Other receivables	**91,149**	–
Provision/(reversal of provisions) for inventories	**40,333,503**	(26,190,003)
Provision/(reversal of impairment) of fixed assets	**–**	(19,611,200)
Provision/(reversal of impairment) of construction in progress	**–**	(17,676,148)
Total	**35,281,201**	(72,707,438)

40. Investment income

	2007	2006
Long term equity investments income under equity method	**131,343,987**	40,286,524
Long term equity investments income under cost method	**8,463,179**	5,156,384
Gain on disposal of long term investments	**24,549,046**	13,993,737
Other equity investment income	**281,850**	127,800
Total	**164,638,062**	59,564,445

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

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

41. Non-operating income

	2007	2006 (restated)
Subsidies income (Note)	**49,075,007**	5,850,001
Amortisation of deferred income (Note 29)	**52,794,864**	49,752,200
Others	**3,773,648**	3,499,848
Total	**105,643,519**	59,102,049

Note: Details of subsidies income are stated as follows:

	2007	2006
Special fund granted by government (i)	**20,000,000**	–
Refunds of taxes (ii)	**26,192,100**	5,632,500
Others	**2,882,907**	217,501
Total	**49,075,007**	5,850,001

(i) Representing special fund for overseas economic cooperation that was granted by the Bureau of Commerce of Anhui Province which was charged to income statement as subsidiaries income upon the receipt.

(ii) Representing value-added tax refunds to Ma Steel (Hefei) granted by government of Hefei, which was charged to income statement as subsidies income upon the receipt. The refunds must be utilised for the business development.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. Non-operating expenses

	2007	2006 (restated)
Loss on the disposal of non-current assets	**136,649,892**	11,196,092
Others	**4,079,887**	2,863,821
Total	**140,729,779**	14,059,913

43. Income tax

	2007	2006 (restated)
Current income tax expense	**407,104,935**	422,239,437
Deferred tax income	**(186,513,506)**	(74,861,000)
Total	**220,591,429**	347,378,437

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

43. Income tax *(continued)*

Relationship between income tax and profit before tax:

	2007	2006 (restated)
Profit before tax	**2,796,704,719**	2,806,478,172
Tax at the applicable tax rate of 33% (2006: 15%)	**922,912,557**	420,971,726
Effect of different tax rates of subsidiaries	**(25,457,000)**	31,706,561
Expenses not deductible for tax	**9,365,436**	4,366,946
Adjustments in respect of current tax of previous periods	**–**	58,230,237
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in PRC (Note)	**(334,379,142)**	–
Other tax concessions	**(159,857,158)**	(120,909,673)
Income not subject to tax	**(83,040,572)**	(40,944,381)
Effect on deferred tax arising from changes in tax rates	**(65,461,622)**	–
Profits and losses attributable to a jointly-controlled entity and associates	**(43,491,070)**	(6,042,979)
Tax charge at the Group's effective rate	**220,591,429**	347,378,437

Note: The amount represents the increase in CIT in 2007 that is calculated based on the preferential CIT rate of 15% adopted by the Company for the 2006 tax assessment. The tax concession is calculated at 40% of the purchases of such manufacturing 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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

43. Income tax *(continued)*

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%. In this regard, the Group has changed the carrying amount of deferred tax as at 31 December 2007 by the new tax rate of 25% for temporary differences expected to be utilised after 1 January 2008. The resulting deferred tax is recognised in the income tax for the year 2007, except to certain circumstances that it is charged or credited directly to equity if the tax relates to such items that are previously credited or charged directly to equity (capital reserve).

44. Earnings per share

Basic earnings per share shall be calculated by dividing income statement attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

For the purpose of calculating diluted earnings per share, an entity shall adjust income statement attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

44. Earnings per share *(continued)*

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

	2007	2006 (restated)
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**2,475,382,229**	2,401,199,103
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation (Note)	**6,482,717,278**	6,455,300,000
Effect of dilution – weighted average number of ordinary shares: Warrants attached to bonds	**586,294,382**	30,016,949
Weighted average number of ordinary shares in issue after adjustment	**7,069,011,660**	6,485,316,949

Note: During the year, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share and as a result, there were 6,758,551,716 ordinary shares in issue during the year. Consequently, the adjusted shares were used for calculating earnings per share for 2007.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

45. Cash received/paid relating to other operating/investing activities

The main cash flows are as follows:

	2007	2006
Cash received relating to other operating activities		
Special fund granted by government	**20,000,000**	–
Temporary receipt	**–**	64,350,000
Others	**6,656,555**	9,349,849
Total	**26,656,555**	73,699,849
Cash paid relating to other operating activities		
Supporting services	**99,560,000**	95,845,003
Security expenses	**59,020,264**	51,496,378
Flood prevention fund	**39,521,679**	32,460,658
Removal compensation and demolishment expenses	**30,296,359**	61,661,513
Repair and maintenance expenses	**28,267,774**	24,228,949
Environmental improvement fee	**26,983,090**	26,076,536
Packing fee	**17,629,007**	19,227,486
Others	**12,580,039**	105,895,028
Total	**313,858,212**	416,891,551
Cash received relating to other investing activities		
Government subsidies granted for specific projects	**78,320,000**	116,566,523

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

46. Cash flows from operating activities:

	2007	2006 (restated)
Net profit	**2,475,382,229**	2,401,199,103
Add: Minority interests	**100,731,061**	57,900,632
Reversal of provisions for bad debts	**(5,052,302)**	(9,230,087)
Provision/(reversal of provision) for inventories	**40,333,503**	(26,190,003)
Reversal of impairment of fixed assets	**–**	(19,611,200)
Reversal of impairment of construction in progress	**–**	(17,676,148)
Depreciation of fixed assets	**3,256,266,589**	2,323,628,679
Amortisation of investment properties	**54,641**	585,993
Amortisation of intangible assets	**43,591,382**	33,551,228
Amortisation of deferred income	**(52,794,864)**	(49,752,200)
Loss on disposal of non-current assets	**136,649,892**	11,196,092
Financial expenses	**1,044,943,516**	317,839,165
Investment income	**(164,638,062)**	(59,564,445)
Fair value gains	**(719,870)**	–
Deferred tax income	**(186,513,506)**	(74,861,000)
Increase in inventories	**(3,103,932,558)**	(1,198,771,501)
Decrease/(increase) in receivables from operating activities	**(4,385,270,367)**	781,458,204
Increase in payables from operating activities	**4,425,919,768**	811,101,361
Net cash flows from operating activities	**3,624,951,052**	5,282,803,873

47. Business combination involving entities not under common control

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 coils processing and distribution in the PRC. Upon completion of the acquisition, Burwill (Yangzhou) will be renamed as Ma Steel (Yangzhou) Processing and 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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

47. Business combination involving entities not under common control *(continued)*

The net assets of MS (Yangzhou) Processing at the date of transfer were set out below:

	Notes	RMB
Cash and balances with financial institutions		12,487,491
Trade receivables		11,882,851
Other receivables		2,016,761
Prepayments		7,258
Inventories		354,141
Fixed assets cost	12	52,028,422
Less: Accumulated depreciation	12	2,916,479
Net carrying amount		49,111,943
Intangible assets	14	13,447,882
Accounts payable		(1,533,881)
Taxes payable		(632,990)
Other payables		(303,032)
Other accrued charges		(6,015)
Minority interests		(25,181,399)
Net assets		61,651,010
Cash consideration paid		57,404,685
Unpaid portion of cash consideration		4,246,325

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

47. Business combination involving entities not under common control *(continued)*

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

	RMB
Cash consideration paid	57,404,685
Cash and balances with financial institutions	(12,487,491)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	44,917,194

The operating results of MS (Yangzhou) Processing are not material since the date of acquisition.

48. Investing and financing activities that do not involve cash receipts and payments

Investing and financing transactions that do not require the use of cash or cash equivalents but have a direct impact on current financial position or future cash flow:

	2007	2006
Capital contributed in non-cash assets and liabilities by a minority shareholder	–	(202,312,595)

On 28 April 2006, the Company and Hefei Investment Holding Company Limited ("Hefei Investment Holding") entered into a Venturers' Agreement for the establishment of Ma Steel (Hefei) Iron & Steel Co. Ltd. ("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 RMB299,312,595 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 RMB202,312,595 to Ma Steel (Hefei).

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

48. Investing and financing activities that do not involve cash receipts and payments *(continued)*

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

	Notes	**RMB**
Prepayments		26,635,700
Inventory		115,342,635
Fixed assets	12	602,287,638
Construction in progress	13	640,000
Intangible assets	14	154,104,000
Short term loan		(476,620,150)
Bills payable		(219,200,000)
Accounts payable		(290,311,383)
Deposits received		(102,410,482)
Accrued charges		(12,780,553)
Total		(202,312,595)

49. Cash and cash equivalents

	31 December 2007	31 December 2006
Cash on hand	**240,606**	200,631
Balances with financial institutions without restriction	**5,496,635,677**	3,622,608,073
Others without restriction	**27,000,000**	6,759,350
Closing balance of cash and cash equivalents	**5,523,876,283**	3,629,568,054

As at 31 December 2007, there is no restriction on utilization of the Company and its subsidiaries' cash and cash equivalents.

VII. SEGMENT INFORMATION

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

As over 90% of the Group's revenue is derived from domestic customers and over 90% of the Group's assets are almost entirely situated in the PRC and accordingly, no information on geographical segment is provided.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Recognition criteria of related party

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Parties are considered to be related if one party is:

1) the parent of the Group;

2) the subsidiaries of the Group;

3) the fellow subsidiaries of the Group;

4) able to jointly control the Group;

5) able to exercise significant influence over the Group;

6) jointly-controlled entities of the Group;

7) associates of the Group;

8) major individual investors of the Group and a close member of his/her family;

9) a member of key management personnel of the Group or the parent and a close member of his/her family;

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

1. Recognition criteria of related party *(continued)*

10) the entities controlled, jointly controlled or significantly influenced by major individual investors of the Group, key management personnel of the Group or the parent and a close member of his/her family.

The entities without relationships other than being under common control of the nation with the Group are not considered as related parties.

The related party transactions disclosed in the financial statements are those carried out between the Group and the related parties beyond the consolidation scope, not including the transactions carried out within the Group.

2. Parent company and subsidiary company

Name of parent company	Registered place	Business nature	Share of equity interests	Share of voting rights	Registered capital RMB
Holding	Anhui, PRC	Manufacturing	56.68%	56.68%	6,298,290,000

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

The details of the subsidiaries of the Group are stated in Note V to the financial statements.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

3. Other related parties who carried out transactions with the Group

Name	Relationship with the Company
馬鋼(集團)控股有限公司桃沖礦業公司	Controlled by Holding
馬鋼(集團)控股有限公司再就業勞務分公司	Controlled by Holding
馬鋼(集團)控股有限公司有線電視中心	Controlled by Holding
馬鋼(集團)控股有限公司通訊技術服務部	Controlled by Holding
馬鋼(集團)控股有限公司馬鋼日報社	Controlled by Holding
馬鋼(集團)控股有限公司安冶機械廠	Controlled by Holding
馬鋼(集團)控股有限公司測繪大隊	Controlled by Holding
馬鋼(集團)控股有限公司塑鋼廠	Controlled by Holding
馬鋼集團建設有限責任公司	Controlled by Holding
馬鋼集團建設有限責任公司建築安裝分公司	Controlled by Holding
馬鋼集團建設有限責任公司設備租賃分公司	Controlled by Holding
馬鋼集團建設有限責任公司小汽車修理廠	Controlled by Holding
馬鋼集團建築路橋有限責任公司	Controlled by Holding
馬鋼集團建築路橋有限責任公司建築裝飾分公司	Controlled by Holding
馬鋼集團南山礦業有限責任公司	Controlled by Holding
馬鋼集團姑山礦業有限責任公司	Controlled by Holding
馬鋼集團設計研究院有限責任公司	Controlled by Holding
馬鞍山市湖西有限責任公司	Controlled by Holding
馬鋼礦山岩土工程勘察聯合公司	Controlled by Holding
馬鋼集團康泰置地發展有限公司	Controlled by Holding
馬鋼集團康泰物業有限責任公司	Controlled by Holding
馬鋼集團康泰建安實業有限責任公司	Controlled by Holding
馬鋼集團力生有限責任公司	Controlled by Holding
馬鋼集團力生有限責任公司暖通設備工程分公司	Controlled by Holding
馬鋼集團力生有限責任公司園林綠化工程分公司	Controlled by Holding
馬鋼集團力生有限責任公司汽車修理廠	Controlled by Holding
馬鋼集團楚江假日國際旅遊有限責任公司	Controlled by Holding
馬鋼集團實業發展有限責任公司	Controlled by Holding
馬鋼集團實業發展有限責任公司潤滑油分公司	Controlled by Holding

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

3. Other related parties who carried out transactions with the Group *(continued)*

Name	Relationship with the Company
馬鋼集團實業發展有限責任公司報業印務分公司	Controlled by Holding
馬鋼集團實業發展有限責任公司環保防腐分公司	Controlled by Holding
馬鋼集團實業發展有限責任公司建安分公司	Controlled by Holding
黃山太白山莊	Controlled by Holding
馬鋼神馬冶金有限責任公司	Controlled by Holding
馬鋼集團鋼渣綜合利用有限責任公司	Controlled by Holding
馬鋼實業生興爐料加工有限責任公司	Controlled by Holding
安徽馬鋼比亞西焊網有限公司	Controlled by Holding
馬鞍山市聯營乙炔廠	Controlled by Holding
馬鞍山馬鋼永固螺絲製品有限公司	Controlled by Holding
馬鋼集團動力機電安裝有限責任公司	Controlled by Holding
馬鞍山馬鋼嘉華商品混凝土有限公司	Controlled by Holding
馬鞍山市華鑫軋鋼廠	Controlled by Holding
深圳粵海馬鋼實業有限公司	Controlled by Holding
馬鞍山博力建設監理有限公司	Controlled by Holding
安徽馬鋼技師學院	Controlled by Holding
巢湖市馬鋼五頂山礦業有限公司	Controlled by Holding
馬鞍山實發冶金工貿有限責任公司	Controlled by Holding
安徽冶金科技職業學院	Controlled by Holding
安徽馬鋼羅河礦業有限公司	Controlled by Holding
濟源市金馬焦化	Associate of the Group
滕州盛隆煤焦化	Associate of the Group
馬鞍山港口公司	Associate of the Group
BOC-Ma Steel	JCE of the Group

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Notes	2007 Amount	2007 %	2006 Amount	2006 %
Transactions with Holding and its subsidiaries:					
Purchases of iron ore	(i)	**1,848,361,933**	**32**	1,631,201,228	38
Fees paid for welfare, support services and other services	(ii), (iii)	**188,849,149**	**100**	194,496,697	100
Rental expenses	(iii)	**36,250,000**	**100**	36,250,000	100
Agency fee paid	(iii)	**4,911,500**	**100**	4,092,780	100
Purchases of fixed assets and construction services	(iii)	**211,009,092**	**2**	295,468,496	2
Fees received for the supply of utilities, services and other consumable goods	(iii)	**64,674,829**	**12**	23,220,822	4
Sale of steel products and related by products	(iii)	**5,760,344**	**–**	8,950,704	–
Transactions with associates of the Group:					
Purchases of coke	(iv)	**1,047,312,594**	**54**	1,085,124,812	92
Loading expenses	(iv)	**133,783,361**	**15**	75,036,389	11
Transactions with a JCE of the Group:					
Rental income	(v)	**1,250,000**	**95**	1,250,000	89
Construction fee income	(v)	**–**	**–**	2,925,929	3
Fee received for the supply of electricity	(v)	**140,900,781**	**11**	–	–
Purchase of gas products	(v)	**297,467,681**	**100**	–	–
Compensation income	(vi)	**10,500,000**	**100**	–	–

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 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 15 February 2007 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.

(iv) 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 were conducted in accordance with the terms mutually agreed between the parties.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

(vi) The penalty was based on the period of delaying the supply of gas to the Company by reference to the Supply of Gas Contract entered into with the Company.

The above transactions from (i) to (v) were carried out in the normal course of business of the Group.

(2) Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting to RMB15.6 billion (2006: approximately RMB15 billion) as at the balance sheet date at nil consideration. The details are disclosed in Note VI.27 to the financial statements.

(3) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VIII.5 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.

5. Receivable from/payable to related parties

	31 December 2007	31 December 2006
Prepayments:		
Holding and its subsidiaries		
馬鞍山神馬冶金有限責任公司	**27,596,420**	–
馬鋼集團建設有限責任公司	**–**	26,328,100
Others entities controlled by Holding	**484,263**	1,018,542
Total	**28,080,683**	27,346,642
Percentage to the balance of the Group	**1.7%**	4.5%
Associates and a JCE of the Group		
BOC-Ma Steel	**104,167**	–
Percentage to the balance of the Group	**–**	–

(Prepared under China Accounting Standards)
31 December 2007
Renminbi Yuan

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. Receivable from/payable to related parties *(continued)*

	31 December 2007	31 December 2006
Accounts payable:		
Holding and its subsidiaries		
Holding	**504,395**	136,339,089
馬鋼集團建設有限責任公司	**61,077,554**	21,610,018
馬鋼集團建築路橋有限責任公司	**15,957,440**	25,938,446
Others entities controlled by Holding	**6,718,298**	13,567,162
Total	**94,997,287**	197,454,715
Percentage to the balance of the Group	**1.2%**	4.2%
Associates and a JCE of the Group		
BOC-Ma Steel	**54,513,048**	–
馬鞍山港口公司	**17,172,371**	6,524,273
滕州盛隆煤焦化	**2,080,065**	368,571
濟源市金馬焦化	**127,204,676**	469,100
Total	**200,970,160**	7,361,944
Percentage to the balance of the Group	**2.6%**	0.2%
Trade receivables:		
Holding and its subsidiaries		
馬鋼集團康泰置地發展有限公司	**1,149,811**	–
馬鋼集團建設有限責任公司	**5,551,142**	6,406,519
Others entities controlled by Holding	**3,072,321**	4,027,493
Total	**9,773,274**	10,434,012
Percentage to the balance of the Group	**1.0%**	1.8%
Associates and a JCE of the Group		
BOC-Ma Steel	**19,404,958**	–
Percentage to the balance of the Group	**1.9%**	–

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. Receivable from/payable to related parties *(continued)*

	31 December 2007	31 December 2006
Deposits received:		
Holding and its subsidiaries		
Holding	**59,653,996**	44,200,000
馬鋼集團建設有限責任公司	**318,578**	9,144,804
馬鋼集團姑山礦業有限責任公司	**48,005,461**	59,156,440
Others entities controlled by Holding	**19,850,363**	7,248,853
Total	**127,828,398**	119,750,097
Percentage to the balance of the Group	**1.9%**	3.1%
Dividends payable:		
Holding	**1,297,972,800**	400,000,000
Percentage to the balance of the Group	**99.6%**	97.9%
Other non-current liabilities:		
Holding	**–**	400,000,000
Percentage to the balance of the Group	**–**	94.8%

IX. CONTINGENT LIABILITIES

1. Guarantee

As at 31 December 2007, the Company had granted guarantees amounting to approximately RMB5,305 million (31 December 2006: approximately RMB7,728 million) to banks for trading facilities granted to its subsidiaries.

2. Difference of corporate income tax

As detailed in Note IV.8 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

X. LEASE ARRANGEMENTS

Significant operating lease:

The Group leases its investment properties under operating lease arrangement to BOC-Ma Steel for 18 years. The rent is fixed during the operating lease period.

	2007	2006
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,305,500
1 to 2 years, inclusive	**1,250,000**	1,250,000
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**15,157,534**	16,250,000
Total	**18,907,534**	20,055,500

XI. COMMITMENTS

1. The commitments of the Group as at the balance sheet date were as follows:

	31 December 2007	31 December 2006
Capital commitments		
Authorised, but not contracted for	**3,157,701**	5,217,641
Contracted, but not provided for	**556,524**	4,093,227
Total	**3,714,225**	9,310,868
Investment commitments		
Contracted, but not fully contributed	**9,000**	13,500

2. Share of the commitments of the JCE by the Group (not included in Note 1 above) as at the balance sheet date were as follows:

	31 December 2007	31 December 2006
Capital commitments		
Authorised, but not contracted for	**778**	10,952
Contracted, but not provided for	**–**	39,351
Total	**778**	50,303
Other commitments		
Contracted, but not provided for	**4,500**	5,000

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, short term commercial papers, bonds with warrants and cash and balances with financial institutions. 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 receivables, bills receivable, other receivables, accounts payable, bills payable, and other payables which arise directly from its operations.

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk mainly arises from default or delinquency in principal payment trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables and bills 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 held-to-maturity investments, financial assets held for trading, cash and balances with financial institutions and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in Note IX to the financial statements.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Credit risk *(continued)*

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 39% (2006: 24%) of the Group's trade receivables were due from the Group's five largest customers.

As at 31 December 2007 and 31 December 2006, the aged analysis of the Group's financial assets that are not considered to be impaired is as follows:

		31 December 2007		
		Overdue nor impaired		
	Neither overdue nor impaired	**Less than six months**	**Over six months**	**Total**
Trade receivables	**962,340,491**	**52,100,214**	**935,449**	**1,015,376,154**
Bills receivable	**4,194,297,474**	**–**	**–**	**4,194,297,474**
Other receivables	**246,536,015**	**8,494,813**	**1,407,534**	**256,438,362**
Held-to-maturity investments	**5,598,870**	**–**	**–**	**5,598,870**

		31 December 2006		
		Overdue nor impaired		
	Neither overdue nor impaired	Less than six months	Over six months	Total
Trade receivables	553,186,556	13,694,529	15,539,879	582,420,964
Bills receivable	681,137,717	–	–	681,137,717
Other receivables	124,851,314	34,395,274	1,390,511	160,637,099
Held-to-maturity investments	8,258,870	–	–	8,258,870

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk may arises from an entity will not sell financial assets at fair value in a timely manner; or the counterparts encounter difficulty in repaying contractual liabilities; or the entity could be required to pay its liabilities earlier than expected; or the entity could not obtain sufficient cash flow as expected.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitment over the next year in accordance with its strategic plan. In the opinion of the director of the Company, most of the borrowings that mature within one year are able to renew and the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

	31 December 2007					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Cash and balances with financial institutions	6,291,958	–	–	–	–	6,291,958
Financial assets held for trading	1,463	–	–	–	–	1,463
Bills receivable	4,194,297	–	–	–	–	4,194,297
Trade receivables	1,001,527	12,852	539	458	–	1,015,376
Other receivables	255,031	1,407	–	–	–	256,438
Held-to-maturity investments	–	2,800	2,799	–	–	5,599
Short term loans	1,264,495	–	–	–	–	1,264,495
Bills payable	1,790,845	–	–	–	–	1,790,845
Short term commercial papers	2,000,000	–	–	–	–	2,000,000
Accounts payable	7,321,139	353,317	5,911	1,339	–	7,681,706
Payroll and benefits payable	341,845	–	–	–	–	341,845
Taxes payable	609,688	–	–	–	–	609,688
Interests payable	80,523	–	–	–	–	80,523
Dividends payable	1,303,757	–	–	–	–	1,303,757
Other payables	796,667	119,243	13,170	339	490	929,909
Non-current liabilities due within one year	2,817,346	–	–	–	–	2,817,346
Long term loans	–	567,322	817,322	15,184,053	9,255	16,577,952
Bonds payable	–	–	–	4,828,762	–	4,828,762
Other non-current liabilities	–	4,214	2,893	2,900	2,478	12,485

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Liquidity risk *(continued)*

	31 December 2006					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Cash and balances with financial institutions	4,160,705	–	–	–	–	4,160,705
Bills receivable	681,138	–	–	–	–	681,138
Trade receivables	568,763	9,366	4,292	–	–	582,421
Other receivables	159,247	460	879	51	–	160,637
Held-to-maturity investments	–	2,753	2,753	2,753	–	8,259
Short term loans	399,019	–	–	–	–	399,019
Bills payable	1,346,881	–	–	–	–	1,346,881
Accounts payable	4,603,193	28,668	13,080	5,900	–	4,650,841
Payroll and benefits payable	297,882	–	–	–	–	297,882
Taxes payable	299,623	–	–	–	–	299,623
Interests payable	66,785	–	–	–	–	66,785
Dividends payable	408,655	–	–	–	–	408,655
Other payables	728,849	26,516	6,185	5,388	–	766,938
Non-current liabilities due within one year	409,753	–	–	–	–	409,753
Long term loans	–	5,508,142	751,272	9,427,546	26,180	15,713,140
Bonds payable	–	–	–	4,672,376	–	4,672,376
Other non-current liabilities	–	406,022	4,214	4,803	7,006	422,045

The carrying amount of the Group's financial instrument is equal to the undiscounted contract value.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group exposes to "cash flow" interest rate risk relate to floating interest instruments and exposes to "fair value" interest rate risk relate to fixed interest instruments.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Interest rate risk *(continued)*

The maturity profile of carrying amount of Group's financial instruments that exposure to interest rate risk as at the balance sheet date, based on the earlier of contracted date or maturity date, was as follows:

	31 December 2007					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Fixed rate						
Short term loans	1,240,495	–	–	–	–	1,240,495
Short term commercial papers	2,000,000	–	–	–	–	2,000,000
Non-current liabilities due within one year	1,256,886	–	–	–	–	1,256,886
Bonds payable	–	–	–	4,828,762	–	4,828,762
Long term loans	–	417,322	17,322	7,634,645	9,255	8,078,544
Floating rate						
Cash and balances with financial institutions	6,291,957	–	–	–	–	6,291,957
Short term loans	24,000	–	–	–	–	24,000
Non-current liabilities due within one year	1,560,460	–	–	–	–	1,560,460
Long term loans	–	150,000	800,000	7,549,408	–	8,499,408

	31 December 2006					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Fixed rate						
Short term loans	399,019	–	–	–	–	399,019
Non-current liabilities due within one year	378,625	–	–	–	–	378,625
Bonds payable	–	–	–	4,672,376	–	4,672,376
Long term loans	–	2,627,272	201,272	5,050,546	26,180	7,905,270
Floating rate						
Cash and balances with financial institutions	4,160,705	–	–	–	–	4,160,705
Non-current liabilities due within one year	31,128	–	–	–	–	31,128
Long term loans	–	2,880,870	550,000	4,377,000	–	7,807,870

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Interest rate risk *(continued)*

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's bank and other loans with floating interest rates. The Group's policy is to manage its interest cost using a mix of loans with fixed and floating interest rates. The Group does not use any derivative financial instruments to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax RMB'000
2007		
United States dollar	**0.5**	**(6,099)**
Renminbi	**0.5**	**(44,320)**
United States dollar	**(0.5)**	**6,099**
Renminbi	**(0.5)**	**44,320**
2006		
United States dollar	0.5	(4,060)
Renminbi	0.5	(35,135)
United States dollar	(0.5)	4,060
Renminbi	(0.5)	35,135

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The businesses of the Group are principally located in PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings were denominated in United Stated dollar, Euro and Japanese Yen. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Foreign currency risk *(continued)*

The carrying amount and related maximum exposure to foreign currency risk of Group's cash and balances with financial institutions, trade receivables, short term loans, accounts payable and long term loans are stated in Note VI.1, 5, 17, 20 and 27 to the financial statements respectively.

The following table demonstrates the major exchange rates adopted by the Group.

Renminbi	Average exchange rate		Year-end exchange rate	
	2007	2006	**2007**	2006
Hong Kong dollar	**0.9706**	1.0225	**0.9364**	1.0047
United State dollar	**7.5567**	7.9395	**7.3046**	7.8087
Euro	**10.4667**	9.9231	**10.6669**	10.2665
Japanese Yen	**0.0649**	0.0672	**0.0641**	0.0656
Australia dollar	**6.2815**	6.0399	**6.4050**	6.1579

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in %	Increase/ (decrease) in profit before tax RMB'000
2007		
United States dollar	**5**	**(9,364)**
Euro	**5**	**(841)**
Japanese Yen	**5**	**(28,942)**
United States dollar	**(5)**	**9,364**
Euro	**(5)**	**841**
Japanese Yen	**(5)**	**28,942**
2006		
United States dollar	5	(1,888)
Euro	5	(1,371)
Japanese Yen	5	(64,645)
United States dollar	(5)	1,888
Euro	(5)	1,371
Japanese Yen	(5)	64,645

XIII. POST BALANCE SHEET EVENTS

On 1 January 2008, Holly Industrial has entered into a Share Transfer Agreement with Holding for an acquisition of 75% equity interests in 馬鋼智能停車 at a consideration of RMB15,667,000. The transaction has yet to be approved by the relevant government authorities.

XIV. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to comply with presentation requirements on first adoption of the CAS.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

The Company's credit terms are usually 30 to 90 days. And trade receivables are interest free.

The ageing of trade receivables is analysed below:

	31 December 2007	31 December 2006
Within one year	**1,542,092,337**	529,392,156
One to two years	**10,925,223**	9,061,019
Two to three years	**920,542**	6,963,324
Over three years	**16,525,141**	34,385,996
	1,570,463,243	579,802,495
Less: Provisions for bad debts	**16,408,411**	40,440,023
Total	**1,554,054,832**	539,362,472

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. Trade receivables *(continued)*

Trade receivables balance is analysed as follows:

	31 December 2007				31 December 2006			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**1,530,563,390**	**97%**	**(14,184,569)**	**1%**	534,142,988	92%	(32,835,948)	6%
Other insignificant	**39,899,853**	**3%**	**(2,223,842)**	**6%**	45,659,507	8%	(7,604,075)	17%
Total	**1,570,463,243**	**100%**	**(16,408,411)**		579,802,495	100%	(40,440,023)	

The following balances are denominated in foreign currencies:

	31 December 2007			31 December 2006		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	**71,357,021**	**7.3046**	**521,234,495**	44,974,087	7.8087	351,189,153

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

Reason	31 December 2007	31 December 2006
Bankrupt or liquidated debtors	**12,801,734**	307,795
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**10,091,021**	–
Less: Reversal of bad debts provisions written-off in prior year	**4,452,111**	1,179,122
Total	**18,440,644**	(871,327)

The five largest trade receivables of the Company amounted to RMB793,465,585, which accounted for 51% of the gross trade receivables of the Company. The ageing of such balances were within one year.

The movement of bad debts provisions for trade receivables for the year 2007 is disclosed in Note 4.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. Other receivables

The ageing of other receivables is analysed below:

	31 December 2007	31 December 2006
Within one year	**63,453,239**	48,777,104
One to two years	**338,748**	648,433
Two to three years	**80,988**	2,197,702
Over three years	**6,554,785**	24,638,179
	70,427,760	76,261,418
Less: Provisions for bad debts	**6,930,913**	26,172,747
Total	**63,496,847**	50,088,671

Other receivables balance is analysed as follows:

	31 December 2007				31 December 2006			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**23,822,132**	**34%**	**(3,688,268)**	**15%**	34,031,502	45%	(11,987,110)	35%
Other insignificant	**46,605,628**	**66%**	**(3,242,645)**	**7%**	42,229,916	55%	(14,185,637)	34%
Total	**70,427,760**	**100%**	**(6,930,913)**		76,261,418	100%	(26,172,747)	

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

Reason	**31 December 2007**	31 December 2006
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**19,241,834**	–

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. Other receivables *(continued)*

The five largest other receivables of the Company amounted to RMB24,782,132, which accounted for35% of the gross trade receivables of the Company. Except for RMB4,648,268 with ageing over 3 years, the ageing of such receivables was within 1 year.

The movement of bad debts provisions for other receivables for the year 2007 is disclosed in Note 4.

3. Long term equity investments

	31 December 2007	31 December 2006
Long term equity investments under equity method		
JCE (i)	**268,305,755**	234,000,000
Associates (ii)	**397,249,665**	316,014,405
Long term equity investments under cost method		
Subsidiaries (iii)	**899,450,106**	794,793,010
Other equity investments (iv)	**102,917,360**	16,817,035
	1,667,922,886	1,361,624,450
Less: Impairment	**–**	–
Total	**1,667,922,886**	1,361,624,450

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

The movement of impairment provision of long term investment for the year 2007 is disclosed in Note 4.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. Long term equity investments *(continued)*

(i) JCE

	2007					
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	***Cash dividend received during the year***	**Closing balance**
BOC-Ma Steel	**234,000,000**	**234,000,000**	**34,305,755**	**–**	**–**	**268,305,755**
Less: Impairment		**–**	**–**	**–**		**–**
		234,000,000	**34,305,755**	**–**		**268,305,755**

	2006					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Cash dividend received during the year*	Closing balance
BOC-Ma Steel	234,000,000	234,000,000	–	–	–	234,000,000
Less: Impairment		–	–	–		–
		234,000,000	–	–		234,000,000

Major financial information of JCE:

	2007			
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit**
BOC-Ma Steel	**877,327,382**	**340,715,872**	**293,382,569**	**68,611,510**

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. Long term equity investments *(continued)*

(ii) Associates

	2007					
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	***Cash dividend received during the year***	**Closing balance**
濟源市金馬焦化	**80,000,000**	**109,116,860**	**34,466,633**	**(11,033,478)**	***(11,033,478)***	**132,550,015**
滕州盛隆煤焦化	**66,776,000**	**76,834,581**	**32,789,468**	**–**	**–**	**109,624,049**
上海鋼鐵電子	**4,000,000**	**8,204,437**	**14,404,676**	**(4,000,000)**	***(4,000,000)***	**18,609,113**
馬鞍山港口公司	**112,500,000**	**121,858,527**	**15,901,445**	**(1,293,484)**	***(1,293,484)***	**136,466,488**
		316,014,405	**97,562,222**	**(16,326,962)**		**397,249,665**
Less: Impairment		**–**	**–**	**–**		**–**
Total		**316,014,405**	**97,562,222**	**(16,326,962)**		**397,249,665**

	2006					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Cash dividend received during the year*	Closing balance
濟源市金馬焦化	80,000,000	91,081,594	18,035,266	–	–	109,116,860
滕州盛隆煤焦化	66,776,000	65,938,365	10,896,216	–	–	76,834,581
上海鋼鐵電子	4,000,000	3,316,411	4,888,026	–	–	8,204,437
馬鞍山港口公司	112,500,000	107,723,311	14,135,216	–	–	121,858,527
		268,059,681	47,954,724	–		316,014,405
Less: Impairment		–	–	–		–
Total		268,059,681	47,954,724	–		316,014,405

Major financial information of associates:

	2007			
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit**
濟源市金馬焦化	**1,109,504,680**	**780,205,607**	**1,176,297,649**	**86,166,581**
滕州盛隆煤焦化	**912,212,496**	**576,786,741**	**1,200,401,959**	**102,467,087**
上海鋼鐵電子	**904,927,207**	**810,811,194**	**139,838,620**	**72,023,380**
馬鞍山港口公司	**837,121,784**	**533,176,827**	**202,210,235**	**35,336,545**

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. Long term equity investments *(continued)*

(iii) Subsidiaries

	2007				
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing Balance**
Ma Steel International Trade Corp	**50,000,000**	**50,000,000**	**–**	**–**	**50,000,000**
Design & Research Institute	**7,500,000**	**7,500,000**	**–**	**–**	**7,500,000**
MG Control Technique	**7,500,000**	**7,500,000**	**–**	**–**	**7,500,000**
Anhui Masteel K. Wah	**24,854,930**	**24,854,930**	**–**	**–**	**24,854,930**
Ma Steel (Wuhu)	**8,225,885**	**8,225,885**	**–**	**–**	**8,225,885**
Ma Steel (Guangzhou)	**80,000,000**	**80,000,000**	**–**	**–**	**80,000,000**
Ma Steel (HK)	**4,101,688**	**4,101,688**	**–**	**–**	**4,101,688**
MG Trading	**1,573,766**	**1,573,766**	**–**	**–**	**1,573,766**
Holly Industrial	**21,478,316**	**21,478,316**	**–**	**–**	**21,478,316**
Huayang Equipment	**900,000**	**900,000**	**–**	**–**	**900,000**
Ma Steel (Jinhua)	**90,000,000**	**90,000,000**	**–**	**–**	**90,000,000**
Ma Steel (Australia)	**126,312,415**	**126,312,415**	**–**	**–**	**126,312,415**
Ma Steel (Hefei)	**237,495,000**	**237,495,000**	**–**	**–**	**237,495,000**
MS (Hefei) Processing	**73,200,000**	**73,200,000**	**–**	**–**	**73,200,000**
MS (Yangzhou) Processing	**116,462,300**	**61,651,010**	**54,811,290**	**–**	**116,462,300**
Ma Steel Roller	**22,720,806**	**–**	**22,720,806**	**–**	**22,720,806**
Used Vehicle Trading	**500,000**	**–**	**500,000**	**–**	**500,000**
Wuhu Technique	**26,625,000**	**–**	**26,625,000**	**–**	**26,625,000**
		794,793,010	**104,657,096**	**–**	**899,450,106**
Less: Impairment		**–**	**–**	**–**	**–**
Total		**794,793,010**	**104,657,096**	**–**	**899,450,106**

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. Long term equity investments *(continued)*

(iii) Subsidiaries (continued)

	2006				
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing Balance
Ma Steel International Trade Corp	50,000,000	50,000,000	–	–	50,000,000
Design & Research Institute	7,500,000	7,500,000	–	–	7,500,000
MG Control Technique	7,500,000	7,500,000	–	–	7,500,000
Anhui Masteel K. Wah	24,854,930	24,854,930	–	–	24,854,930
Ma Steel (Wuhu)	8,225,885	8,225,885	–	–	8,225,885
Ma Steel (Guangzhou)	80,000,000	80,000,000	–	–	80,000,000
Ma Steel (HK)	4,101,688	4,101,688	–	–	4,101,688
MG Trading	1,573,766	1,573,766	–	–	1,573,766
Holly Industrial	21,478,316	21,478,316	–	–	21,478,316
Huayang Equipment	900,000	900,000	–	–	900,000
Ma Steel (Jinhua)	90,000,000	63,000,000	27,000,000	–	90,000,000
Ma Steel (Australia)	126,312,415	126,312,415	–	–	126,312,415
Ma Steel (Hefei)	237,495,000	–	237,495,000	–	237,495,000
MS (Hefei) Processing	73,200,000	–	73,200,000	–	73,200,000
MS (Yangzhou) Processing	61,651,010	–	61,651,010	–	61,651,010
		395,447,000	399,346,010	–	794,793,010
Less: Impairment		–	–	–	–
Total		395,447,000	399,346,010	–	794,793,010

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

3. Long term equity investments *(continued)*

(iv) Other equity investments

	2007				
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing Balance**
河南龍宇能源股份有限公司	**10,000,000**	**10,000,000**	**–**	**–**	**10,000,000**
唐山鋼鐵股份有限公司	**4,559,109**	**4,559,109**	**–**	**(4,559,109)**	**–**
上海氯碱化工股份有限公司	**807,926**	**807,926**	**–**	**(807,926)**	**–**
中國第十七冶金建設有限公司	**2,700,000**	**–**	**2,700,000**	**–**	**2,700,000**
上海羅涇礦石碼頭有限公司	**88,767,360**	**–**	**88,767,360**	**–**	**88,767,360**
Others	**1,450,000**	**1,450,000**	**–**	**–**	**1,450,000**
		16,817,035	**91,467,360**	**(5,367,035)**	**102,917,360**
Less: Impairment		**–**	**–**	**–**	**–**
Total		**16,817,035**	**91,467,360**	**(5,367,035)**	**102,917,360**

	2006				
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing Balance
河南龍宇能源股份有限公司	10,000,000	10,000,000	–	–	10,000,000
唐山鋼失鐵股份有限公司	4,559,109	4,559,109	–	–	4,559,109
上海氯碱化工股份有限公司	807,926	807,926	–	–	807,926
Others	1,450,000	1,450,000	–	–	1,450,000
		16,817,035	–	–	16,817,035
Less: Impairment		–	–	–	–
Total		16,817,035	–	–	16,817,035

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Assets impairment provisions

2007

	Opening balance	Increase during the year	Decrease during the year Reversal	Decrease during the year Write-off	Closing balance
Provisions for bad debts	66,612,770	–	(5,590,968)	(37,682,478)	23,339,324
including: Trade receivables	40,440,023	–	(5,590,968)	(18,440,644)	16,408,411
Other receivables	26,172,747	–	–	(19,241,834)	6,930,913
Provisions for inventories	91,769,889	45,173,503	(4,840,000)	–	132,103,392
including: Finished goods	4,840,000	9,795,364	(4,840,000)	–	9,795,364
Spare parts	86,929,889	35,378,139	–	–	122,308,028
Impairment of held-to-maturity investments	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	90,675,644
including: Buildings and structures	5,252,400	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	85,423,244
Impairment of construction in progress	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–
Total	249,058,303	45,173,503	(10,430,968)	(37,682,478)	246,118,360

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Assets impairment provisions *(continued)*

2006 (restated)

	Opening balance	Increase during the year	Decrease during the year Reversal	Decrease during the year Write-off	Closing balance
Provisions for bad debts	73,862,271	–	(8,120,828)	871,327	66,612,770
including: Trade receivables	47,689,524	–	(8,120,828)	871,327	40,440,023
Other receivables	26,172,747	–	–	–	26,172,747
Provisions for inventories	120,959,892	15,808,106	(41,998,109)	(3,000,000)	91,769,889
including: Work in progress	3,000,000	–	–	(3,000,000)	–
Finished goods	46,838,109	–	(41,998,109)	–	4,840,000
Spare parts	71,121,783	15,808,106	–	–	86,929,889
Impairment of held-to-maturity investments	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–
Impairment of fixed assets	117,056,844	–	(19,611,200)	(6,770,000)	90,675,644
including: Buildings and structures	10,391,900	–	–	(5,139,500)	5,252,400
Plant, machinery and equipment	106,664,944	–	(19,611,200)	(1,630,500)	85,423,244
Impairment of construction in progress	74,000,000	–	(17,676,148)	(56,323,852)	–
Impairment of intangible assets	–	–	–	–	–
Total	385,879,007	15,808,106	(87,406,285)	(65,222,525)	249,058,303

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. Revenue and cost of sales

Revenue is stated as follows:

	2007	2006
Principle operating income	**49,989,576,471**	34,268,626,938
Other operating income	**1,373,127,771**	635,314,702
Total revenue	**51,362,704,242**	34,903,941,640
Five largest customers	**5,038,041,063**	4,054,038,407
Percentage to total revenue	**10%**	12%

Principle operating income and cost of sales are stated as follows:

	2007		2006	
	Principle operating income	**Principle cost of sales**	Principle operating income	Principle cost of sales
Sale of steel products	**47,144,279,999**	**42,812,506,945**	32,301,046,955	28,700,830,117
Sale of steel billets	**540,503,827**	**517,648,815**	545,925,914	488,023,868
Sale of coke by-products	**540,484,600**	**396,818,622**	523,437,134	348,277,129
Sale of pig iron	**2,273,128**	**1,920,706**	657,460	516,726
Others	**1,762,034,917**	**1,506,920,374**	897,559,475	747,915,702
Total	**49,989,576,471**	**45,235,815,462**	34,268,626,938	30,285,563,542

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

6. Assets impairment losses

	2007	2006
Provision/(reversal of provisions) for bad debts	**(5,590,968)**	(8,120,828)
Including: trade receivables	**(5,590,968)**	(8,120,828)
other receivables	**–**	–
Provision/(reversal of provisions) for inventories	**40,333,503**	(26,190,003)
Provision/(reversal of impairment) of fixed assets	**–**	(19,611,200)
Provision/(reversal of impairment) of construction in progress	**–**	(17,676,148)
Total	**34,742,535**	(71,598,179)

7. Investment income

	2007	2006
Long term equity investments income under equity method	**131,867,977**	40,286,524
Long term equity investments income under cost method	**63,553,330**	74,523,967
Gain on disposal of long term investments	**24,549,046**	13,993,737
Other equity investment income	**281,850**	150,000
Total	**220,252,203**	128,954,228

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

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

8. Cash flows from operating activities:

	2007	2006 (restated)
Net profit	**2,131,898,793**	2,309,384,452
Add: Reversal of provisions for bad debts	**(5,590,968)**	(8,120,828)
Provision/(reversal of provision) for inventories	**40,333,503**	(26,190,003)
Reversal of impairment of fixed assets	**–**	(19,611,200)
Reversal of impairment of construction in progress	**–**	(17,676,148)
Depreciation of fixed assets	**3,133,551,746**	2,247,662,091
Amortisation of investment properties	**405,048**	633,185
Amortisation of intangible assets	**29,876,432**	23,137,147
Amortisation of deferred income	**(52,794,864)**	(49,752,200)
Loss on disposal of non-current assets	**135,194,611**	11,905,919
Financial expenses	**984,288,392**	293,640,270
Investment income	**(220,252,203)**	(128,954,228)
Fair value gains	**(719,870)**	–
Deferred tax income	**(186,362,577)**	(74,861,000)
Decrease/(increase) in inventories	**(2,278,881,681)**	(1,134,459,364)
Decrease/(increase) in receivables from operating activities	**(4,190,436,106)**	679,585,025
Increase in payables from operating activities	**3,321,321,124**	544,523,498
Net cash flows from operating activities	**2,841,831,380**	4,650,846,616

XVI. APPROVAL OF THE FINANCIAL STATEMENT

The financial statements were approved by the board of directors on 17 April 2008.

Appendix Supplementary Information

31 December 2007

1. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER CAS AND HKFRS

The differences between the consolidated financial statements prepared under CAS and HKFRS are summarised as follows:

	Net profit **RMB'000**
Prepared under CAS	2,576,114
Less: Employee bonus and welfare fund (Note)	8,130
Prepared under HKFRS	2,567,984

The financial statements prepared under HKFRS are audited by Ernst & Young.

Note: Pursuant to the articles of association and the resolutions of the boards of directors of certain subsidiaries of the Company, certain subsidiaries have to make appropriations to the employee bonus and welfare fund. Under CAS, the employee bonus and welfare fund is an appropriation of profit and is deducted from net profit for the year. Under HKFRS, 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.

Nil difference exists on shareholders' equity recorded in the consolidated financial statements prepared under the CAS and HKFRS.

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2007

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to equity holders of the parent	**10.76**	**11.39**	**0.382**	**0.350**
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**10.81**	**11.44**	**0.383**	**0.352**

2006

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to equity holders of the parent	11.74	11.96	0.372	0.370
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	11.52	11.74	0.365	0.363

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure by listed securities companies No.9 – Calculation and disclosure of return on net assets and earnings per share (2007 revised)" (Zheng Jian Kuai Ji Zi No.9 [2007]) issued by CSRC.

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE *(CONTINUED)*

	2007 RMB	2006 RMB (restated)
Non-recurring gains or losses items		
Loss on disposal of non-current assets	**(136,649,892)**	(11,196,092)
Subsidies income	**49,075,007**	5,850,001
Amortisation of deferred income	**52,794,864**	49,752,200
Other non-operating income and expense items	**(306,239)**	636,027
	(35,086,260)	45,042,136
Less: Income tax effect	**(29,103,066)**	(127,128)
Non-recurring gains or losses attributable to minority shareholders	**4,754,224**	777,176
Net effect of non-recurring gains or losses	**(10,737,418)**	44,392,088
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit attributable to ordinary equity holders of the parent	**2,475,382,229**	2,401,199,103
Less: Net effect of non-recurring gains or losses	**(10,737,418)**	44,392,088
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**2,486,119,647**	2,356,807,015

The calculation of non-recurring gains or losses is in accordance with "Questions and answers on information disclosure standards of listed securities companies No.1 – Non-recurring Gains or Losses (2007 revised)" (Zheng Jian Kuai Ji Zi No. No.9 [2007]) issued by CSRC.

3. VARIANCE ANALYSIS

Analysis on items with fluctuation more than 30% (inclusive) in consolidated financial statements is as follows:

(1) The Group's cash and balances with financial institutions amounted to RMB6,291,957,508, an increase of 51% over the previous year, which was mainly attributable to the increase in revenue and bank loans balance.

(2) The Group's bills receivable amounted to RMB4,194,297,474, an increase of 516% over the previous year, which was mainly attributable to the increase in receipt of bank acceptance bills when sell of goods.

(3) The Group's trade receivables amounted to RMB1,015,376,154, an increase of 74% over the previous year, which was mainly attributable to the increase in export sales with credit terms.

(4) The Group's prepayments amounted to RMB1,672,056,969, an increase of 175% over the previous year, which was mainly attributable to the increase in purchase of raw materials and equipments.

(5) The Group's other receivables amounted to RMB256,438,362, an increase of 60% over the previous year, which was mainly attributable to the increase in prepayments for import customs and taxes.

(6) The Group's inventories amounted to RMB9,626,168,900, an increase of 47% over the previous year, which was mainly attributable to the increase in raw materials and finished goods.

(7) The Group's held-to-maturity investments amounted to RMB5,598,870, an decrease of 32% over the previous year, which was mainly attributable to partial withdrawal of investment.

(8) The Group's long term equity investments amounted to RMB785,948,790, an increase of 35% over the previous year, which was mainly attributable to the increase in share of profit in associates and JCE.

(9) The Group's investment properties amounted to RMB1,240,303, an decrease of 65% over the previous year, which was mainly attributable to maturity of land use right leasing contract.

3. VARIANCE ANALYSIS *(CONTINUED)*

(10) The Group's fixed assets amounted to RMB41,315,357,426, an increase of 120% over the previous year, which was mainly attributable to certain assets were ready for its intended use and transferred to fixed assets.

(11) The Group's construction materials amounted to RMB510,853,043, a decrease of 78% over the previous year, which was mainly attributable to decrease of uninstalled equipment due to completion of major construction projects in "Eleventh Five-year Plan".

(12) The Group's construction in progress amounted to RMB3,510,645,084, a decrease of 81% over the previous year, which was mainly attributable to certain assets were ready for its intended use and transferred to fixed assets.

(13) The Group's deferred tax assets amounted to RMB258,762,170, an increase of 92% over the previous year, which was mainly attributable to the increase of future applicable income tax rate.

(14) The Group's short term loans amounted to RMB1,264,495,217, an increase of 217% over the previous year, which was mainly attributable to more working capital borrowings were obtained for payment of imported raw materials.

(15) The Group's bills payable amounted to RMB1,790,845,160, an increase of 33% over the previous year, which was mainly attributable to more bank acceptance bills were issued to meet the payment for materials purchase.

(16) The Group's accounts payable amounted to RMB7,681,705,904, an increase of 65% over the previous year, which was mainly attributable to the increase in payables for constructions due to completion of major construction projects in "Eleventh Five-year Plan".

(17) The Group's deposits received amounted to RMB6,629,640,409, an increase of 69% over the previous year, which was mainly attributable to the increase in revenue.

(18) The Group's taxes payable amounted to RMB609,688,494, an increase of 103% over the previous year, which was mainly attributable to the increase balance of unpaid VAT.

3. VARIANCE ANALYSIS *(CONTINUED)*

(19) The Group's dividends payable amounted to RMB1,303,757,138, an increase of 219% over the previous year, which was mainly attributable to unpaid dividend of 2006 and transfer from other non-current liabilities.

(20) The Group's non-current liabilities due within one year amounted to RMB2,817,346,333, an increase of 588% over the previous year, which was mainly attributable to the increase in long term loans due within one year.

(21) The Group's other non-current liabilities amounted to RMB12,485,032, a decrease of 97% over the previous year, which was mainly attributable to the payables to Holding due within one year, being transferred into the current liability.

(22) The Group's revenue and Cost of sales amounted to RMB50,645,394,601 and RMB44,907,020,169 respectively, an increase of 43% and 45% over the previous year respectively, which was mainly attributable to the increase in production scale and the increase in raw material purchase cost.

(23) The Group's taxes and surcharges amounted to RMB628,246,219, an increase of 157% over the previous year, which was mainly attributable to the increase in revenue and export duty charges.

(24) The Group's financial expenses amounted to RMB1,083,487,311, an increase of 216% over the previous year, which was mainly attributable to the increase in interest expenses of bank loans and bonds payable.

(25) The Group's investment income amounted to RMB164,638,062, an increase of 176% over the previous year, which was mainly attributable to the increase in the share of profits of associates.

(26) The Group's non-operating income amounted to RMB105,643,519, an increase of 79% over the previous year, which was mainly attributable to the increase in government subsidies received.

(27) The Group's non-operating expenses amounted to RMB140,729,779, an increase of 901% over the previous year, which was mainly attributable to the increase in loss on the disposal of fixed assets.

(28) The Group's income tax amounted to RMB220,591,429, an decrease of 36% over the previous year, which was mainly attributable to the adjustment for deferred tax arising from the change in future applicable income tax rate.

4. REVISION ANALYSIS OF SHAREHOLDERS' EQUITY ON THE FIRT-TIME ADOPTION DATE

	Note	Reconciliation statement stated in 2006 annual report	Reconciliation statement after revision
		RMB	RMB
Shareholders' equity as at 31 December 2006 (under former accounting standards)		**20,122,106,930**	**20,122,106,930**
(1) Recognition of equity component of bonds with warrants	(i)	714,253,399	714,253,399
(2) Income taxes	(ii)	10,421,000	(754,000)
(3) Change in presentation of minority interests	(i)	310,497,169	310,497,169
(4) Specific retrospective adjustment for H share listed company	(iii)	–	(373,834,809)
including: reversal of provision for furnace relining costs		–	74,499,299
adjustment of government grants from capital reserve and amortised to non-operating income by instalments		–	(448,334,108)
Shareholders' equity as at 1 January 2007 (under current accounting standards)		**21,157,278,498**	**20,772,268,689**

(i) Retrospective adjustment for items (1) and (3) have been stated in 2006 annual report after reviewed by Ernst & Young Hua Ming. Details are presented in (iii) and (vi) of Note III.26 to the financial statements.

(ii) According to the Interpretation 1 to CAS, a retrospective adjustment was made for recognition of a deferred tax liability amounting to RMB11,175,000, which was related to adjustment of furnace relining costs.

(iii) According to relevant regulation in the Interpretation 1 to CAS, H share listed company that simultaneously provided financial statements prepared under the China Accounting Standards and International Accounting Standards shall apply retrospective adjustments on all transactions or items that able to collect corresponding information from International Accounting Standards on the first-time adoption date. Details are presented in (iv) and (v) of Note III.26 to the financial statements.

5. RECONCILIATION STATEMENT OF DIFFERENCE OF NET PROFIT BETWEEN CURRENT AND FORMER ACCOUNTING STANDARDS

In accordance with "Questions and answers on information disclosure standards of listed securities companies No.7 – Preparation and disclosure of comparative financial information in transition period of former and new accounting standards" (Zheng Jian Kuai Ji Zi [2007] No.10), the Group prepared the Reconciliation Statement of Difference of Net Profit between Current and Former Accounting Standards for the disclosure of reconciling the net profit in the income statement for the year 2006. Meanwhile, as disclosed in the reconciliation below, the Group assumed the implementation of CAS 1 to CAS 37 would have been adopted from the beginning of the comparative year (i.e. 1 January 2006) and considered other differences between current and former accounting standards, except for the differences which required to be retrospectively adjusted under No.5 to No.19 of the CAS 38 "First-time Adoption of China Accounting Standards for Business Enterprises", the Group analysed the significant differences of net profit between the current accounting standards and former accounting standards when it stimulated the implementation of current accounting standards as follows:

	Amount
	RMB
Net profits in 2006 (under former accounting standards)	**2,276,585,903**
Retrospective adjustment:	
Recognition of deferred tax	74,861,000
Adjustment for government grants previously recognised in capital reserve and amortised to non-operating income by instalments	49,752,200
Change in presentation of minority interests	57,900,632
Cumulative effect of the retrospective adjustment	182,513,832
Net profits in 2006 (under current accounting standards)	**2,459,099,735**
Fully application of current standards as if it had been applied from beginning of comparative period	
Reversing impairment provision of fixed assets and construction in progress	(37,287,348)
Cumulative net profits in 2006	**2,421,812,387**

Documents Available for Inspection

1) Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.

2) Original copy of the audited accounts prepared under the PRC Accounting Standards and Systems, sealed by Ernst & Young Hua Ming and signed by Mr. Li Di and Mr. Qin Tongzhou, certified public accountants in the PRC; original copy of the audited accounts prepared under Hong Kong Financial Reporting Standards signed by Ernst & Young.

3) Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.

4) Annual report announced on the website of the Hong Kong Stock Exchange.

5) The articles of association of the Company.