MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Code: 323
A Share Code: 600808

2008 ANNUAL REPORT

Contents

IMPORTANT NOTICE

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
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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
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	:	Qi Gu Wan Zong Zi No. 340000400002545
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. On 3 December 2008, the Company's warrants matured and were delisted from 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.

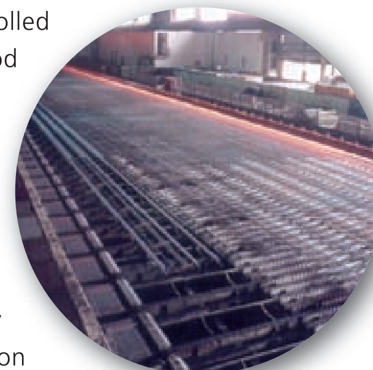
Steel Plates

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 highgrade 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 and accredited by European Union CE mark certification. 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.

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):

Item	2008
Operating income	693,524
Profit before tax	805,874
Net profit attributable to shareholders of the Company	710,234
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	626,027
Net cash flows from operating activities	8,387,795

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

Item	Amount
Loss on disposal of non-current assets	(2,788)
Subsidy income	55,705
Other non-operating income and expenses, net	(6,623)
Recognition of deferred income	66,056
Fair value gains and losses of financial assets held for trading	(1,033)
Gains on disposal of financial assets held for trading	220
Net profit from subsidaries being formed by business combination involving entities under common control from the beginning of the period to the date of combination	9,846
Income tax effect	(27,939)
Effect of net tax expenses on minority shareholders	(9,237)
Total non-recurring gains or losses, net	84,207

2. ITEMS ACCOUNTED UNDER THE FAIR VALUE METHOD (UNIT: 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	813	650	1,033
Total	1,463	813	650	1,033

3. THE GROUP'S 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	2008	2007		2006		2005		2004	
		After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment	After adjustment	Before adjustment
Operating income	**71,259,739**	50,670,879	50,645,395	35,419,347	35,410,061	32,537,088	32,528,616	27,137,085	27,133,843
Profit before tax	**805,874**	2,796,705	2,796,705	2,801,535	2,806,478	3,368,402	3,370,765	4,067,269	4,068,017
Income tax	**74,645**	220,591	220,591	347,378	347,378	415,334	415,334	460,984	460,984
Minority interests	**20,995**	100,731	100,731	57,901	57,901	40,282	40,872	12,385	12,572
Net profit attributable to shareholders of the Company	**710,234**	2,475,382	2,475,382	2,396,256	2,401,199	2,912,786	2,914,559	3,593,900	3,594,461
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**626,027**	2,485,197	2,486,120	2,351,864	2,356,807	2,894,277	2,896,049	3,545,507	3,547,279
Net cash flows from operating activities	**8,387,795**	3,624,951	3,624,951	5,282,804	5,282,804	6,170,942	6,170,942	6,102,277	6,102,277

Index item	2008	2007 After adjustment	2007 Before adjustment	2006 After adjustment	2006 Before adjustment	2005 After adjustment	2005 Before adjustment	2004 After adjustment	2004 Before adjustment
Basic earnings per share (RMB)	**0.104**	0.382	0.382	0.371	0.372	0.451	0.451	0.557	0.557
Diluted earnings per share (RMB)	**Not applicable**	0.350	0.350	0.369	0.370	0.451	0.451	0.557	0.557
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.091**	0.383	0.383	0.364	0.365	0.448	0.449	0.549	0.550
Net cash flows from operating activities per share (RMB)	**1.2256**	0.5592	0.5592	0.8184	0.8184	0.9559	0.9559	0.9453	0.9453
Return on net assets (%)									
– Fully diluted	**2.73**	10.75	10.76	11.71	11.74	15.72	15.74	21.10	21.11
– Weighted average	**3.03**	11.39	11.39	12.15	11.96	15.75	15.76	21.66	21.66
Return on net assets excluding non-recurring gains or losses (%)									
– Fully diluted	**2.41**	10.80	10.81	11.49	11.52	15.62	15.64	20.81	20.84
– Weighted average	**2.67**	11.44	11.44	11.92	11.74	15.65	15.66	21.37	21.38

Index item	At the end of 2008	At the end of 2007 After adjustment	At the end of 2007 Before adjustment	At the end of 2006 After adjustment	At the end of 2006 Before adjustment	At the end of 2005 After adjustment	At the end of 2005 Before adjustment	At the end of 2004 After adjustment	At the end of 2004 Before adjustment
Total assets	**66,144,556**	71,126,024	71,083,141	54,873,612	54,851,010	38,968,688	38,942,727	31,522,142	31,507,104
Shareholders' equity attributable to shareholders of the Company	**26,006,983**	23,017,264	23,008,971	20,470,065	20,461,772	18,527,740	18,514,504	17,034,928	17,024,727
Net assets per share attributable to shareholders of the Company (RMB)	**3.80**	3.55	3.55	3.17	3.17	2.87	2.87	2.64	2.64

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

Index item	2008	2007	2006	2005	2004
Turnover	**70,009,580**	49,052,851	34,319,874	32,083,096	26,770,055
Profit before tax	**805,874**	2,788,575	2,799,931	3,366,149	4,065,876
Income tax	**74,645**	220,591	347,378	415,334	460,984
Minority interests	**20,995**	100,731	57,901	40,872	12,572
Net profit from ordinary activities attributable to shareholders	**710,234**	2,467,253	2,394,652	2,909,943	3,592,320
Net cash flows from operating activities	**8,387,795**	3,624,951	5,282,804	5,859,943	6,413,276
Basic earnings per share (RMB)	**0.104**	0.381	0.371	0.451	0.556
Diluted earnings per share (RMB)	**Not applicable**	0.349	0.369	0.451	0.556
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.091**	0.382	0.364	0.455	0.555
Net cash flow per share from operating activities (RMB)	**1.2256**	0.5592	0.8184	0.9078	0.9935
Return on net assets (%)					
– Fully diluted	**2.73**	10.72	11.70	15.72	21.10
– Weighted average	**3.03**	11.36	12.15	15.75	21.66
Return on net assets excluding non-recurring gains or losse (%)					
– Fully diluted	**2.41**	10.77	11.50	15.88	21.05
– Weighted average	**2.67**	11.41	11.93	15.91	21.61

Index item	At the end of 2008	At the end of 2007	At the end of 2006	At the end of 2005	At the end of 2004
Total assets	**66,283,579**	70,914,865	54,716,446	38,933,765	31,195,785
Shareholders' equity attributed to shareholders of the Company	**26,006,983**	23,008,971	20,461,771	18,514,504	17,024,727
Net assets per share attributable to shareholders of the Company (RMB)	**3.80**	3.55	3.17	2.87	2.64

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.

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

Product category	Sales of 2008 Volume	Sales of 2008 Percentage (%)	Sales of 2007 Volume	Sales of 2007 Percentage (%)	Sales of 2006 Volume	Sales of 2006 Percentage (%)
Steel plates	**6,760**	**48**	5,390	41	3,220	32
Section steel	**2,480**	**17**	2,790	21	2,790	27
Wire rods	**4,630**	**33**	4,670	36	3,960	39
Train wheels and wheel rims	**260**	**2**	240	2	220	2
Total	**14,130**	**100**	13,090	100	10,190	100

5. 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	6,758,552	6,064,986	2,901,562	7,282,534	9,630	446,514	23,463,778
Increase during the year	942,129	2,822,155	106,961	710,234	–	122,190	4,703,669
Decrease during the year	–	548,782	–	985,573	57,405	48,585	1,640,345
At the end of the year	7,700,681	8,338,359	3,008,523	7,007,195	(47,775)	520,119	26,527,102

(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	6,758,552	5,684,014	372,679	2,901,562	7,282,534	9,630	446,515	23,455,486
Increase during the year	942,129	2,654,345	167,810	106,961	710,234	–	122,189	4,703,668
Decrease during the year	–	–	540,489	–	985,573	57,405	48,585	1,632,052
At the end of the year	7,700,681	8,338,359	–	3,008,523	7,007,195	(47,775)	520,119	26,527,102

Reasons for movements: (1) the increase in capital reserve was mainly due to the share premium arising from exercise of warrants of the Company; (2) the net increase in surplus reserves (including statutory public welfare fund) is based on the Group's profit for the year and the relevant statutory contribution; (3) the increase in retained profits was mainly due to increase in the Group's profit during the year; the decrease in retained profits was mainly due to the distribution of dividend for ordinary shares for year 2007 during the reporting period; (4) the decrease in exchange fluctuation reserve for the year was due to the depreciation of book currencies of the Company's overseas subsidiaries against Renminbi.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I hereby present to you the operating results of the Group for 2008.

In accordance with PRC Accounting Standards, the Group's sales income for 2008 amounted to RMB71,260 million, representing an increase of 40.63% over the previous year; net profit attributable to shareholders of the Company in 2008 amounted to RMB710 million, representing a decrease of 71.31% over the previous year. Basic earnings per share stood at RMB0.104, representing a decrease of 72.77% over the previous year. In accordance with Hong Kong Accounting Standards, the Group's sales income for 2008 amounted to RMB70,010 million, representing an increase of 42.72% over the previous year; net profit from ordinary activities attributable to shareholders of the Company in 2008 amounted to RMB710 million, down 71.21% from the previous year. Basic earnings per share stood at RMB0.104, representing a decrease of 72.70% over the previous year. The significant year-on-year decline in the Group's operating results was mainly attributable to the significant increase of imported iron ore prices, together with the provision for price decrease of inventories in the amount of approximately RMB1,796 million by the Group during the reporting period. Given the current economic circumstance and the severe excess of production capacity in the iron and steel industry, the Company is facing great challenges in its production and operation. As such, in order to assure the Company's normal operation and continuous development, the Board of Directors did not recommend the payment of cash dividend for 2008 and no capital reserve fund will be transferred to share capital.

Looking back to 2008, the impact of the US subprime credit crisis continued to spread. The regional financial crisis had evolved into a global financial crisis, which in turn triggered a global economic recession. Affected by demand, international prices of primary products such as iron ore and petroleum first saw an increase and then a decrease. Heavily hit by the domestic severe natural disasters and the global financial crisis in 2008, China's GDP for the year increased by 9%, representing a decrease of 2.4 percentage-points year-on-year. Yearly fixed asset investments of the society at-large rose 25.5% over the previous year to approximately RMB17,230 billion, with a growth rate similar to that of the previous year. Yearly investments in property developments amounted to approximately RMB3,050 billion, up 20.9% over the previous year, representing a decrease of 9.3 percentage-points year-on-year. In the first half of 2008, as the demand in the PRC's iron and steel industry was robust, steel product prices climbed month by month and production and profitability of iron and steel hit record highs. However, since late-June, impacted by the deepening of the global financial crisis and the unleashing of domestic iron and steel capacity, a slowdown in the nation's economic growth, and a significant decline in demand for steel products, the prices of steel products continued to drop. In particular, there had been a significant slump in prices after October, and consequently the iron and steel enterprises decreased their production significantly and the whole industry fell into red in the fourth quarter. *(Source: National Bureau of Statistics)*

With reference to the tremendous changes in the external environment on production and operation, the Company proactively changed the approach of its economic development, timely adjusting its production and operation strategies so as to mitigate the impact of the unfavourable factors. In early 2008, the Company strove to overcome challenges such as the tight supply of raw materials and fuels and the obstruction of distribution of steel products triggered by snowstorms, endeavouring to reduce production and operation losses. The Company pushed ahead a stable enhancement of production quality by focusing on ensuring stable and balanced production. The Company adopted the management of target planned values to enhance the output-to-input ratio. It strove to seek the best economic efficiency when market conditions improved. After October 2008, steel product prices continued to drop significantly. The five blast furnaces and part of the steel rolling production line were suspended by the Company so as to minimise loss. Meanwhile, the Company adjusted its product mix by increasing the production volume of products with higher profitability and products with better sales, endeavouring to reduce loss. In 2008, the Group produced 13,780,000 tonnes of pig iron, 15,040,000 tonnes of crude steel and 14,110,000 tonnes of steel products (among which the Company produced 12,480,000 tonnes of pig iron, 13,500,000 tonnes of crude steel and 12,640,000 tonnes of steel products), representing year-on-year increases of 8.50%, 6.21% and 6.97%, respectively. In the entire year, a total of 1,530,000 tonnes of new products was developed while 810,000 tonnes of steel products were exported.

From 17 November to 28 November 2008, the second exercise of "馬鋼 CWB1" warrants took place and net proceeds raised amounted to approximately RMB3,056 million. The proceeds raised were used to repay the principal of bank borrowings for the 5,000,000-tonne cold and hot thin-plate production project at the New Area or for settling the remaining cost of construction for the project. Such proceeds raised increased the capital of the Company and reduced its debts, thereby reducing finance costs.

As one of China's largest iron and steel producers and marketers, the Group conscientiously fulfilled its social responsibility as an enterprise in 2008. The Group emphasised production safety and environmental protection, developed a recycling economy, and enthusiastically supported social charities. Compared to the previous year, chemical consumption of oxygen decreased by approximately 838 tonnes. The water recycling rate was approximately 96.5%, while the coal gas emission rates for blast furnaces and coke furnaces were approximately 3.7% and 1.9%, respectively, and the integrated use rate of industrial solid wastes was approximately 95.4%. After the earthquake in Wenchuan, the Company actively made donations and appealed to its subsidiaries as well as mobilised staff for individual donations. Donations amounted to approximately RMB12 million. Meanwhile, the Company has satisfactorily and efficiently completed the production task assigned by the National Development and Reform Commission with regard to steel products desperately needed for the affected areas.

Looking forward to 2009, the global financial crisis will continue to spread and market demand will continue to shrink. Economic recession is likely to deepen further. The World Bank predicted last year that global economic growth in 2009 would be 2.5% but it has adjusted the growth to 0.5% this year.

Year 2009 marks the most difficult year for China's economic development since China has entered into the new century. To tackle the impact of the global financial crunch, the State regards maintaining a stable and rapid development of the economy as the prime task of its economic initiatives in 2009, while upholding the expansion of domestic demand as the strategic direction of boosting economic growth. Through implementing proactive financial policies and appropriately relaxing monetary policies, the government will push ahead strategic adjustments to the economic structure and will implement a number of industry revival plans. The iron and steel industry and its major steel-consuming industries including ship building, automobile and equipment manufacturing will benefit from the industry revival plans. Nevertheless, there is an excess of production of iron and steel, export of steel products becomes difficult, demand for iron and steel decreases and prices of steel products stay at low levels, and annual contract prices for imported iron ore have not been fixed. All these exert tremendous pressure on the production and operation of iron and steel enterprises. Therefore, year 2009 will be an extremely tough year for iron and steel enterprises.

In 2009, the operating theme of the Group is "Enhancing product quality; Strengthening internal control". The Group will fully capitalise on its existing advanced thin-plate production line, H-shaped steel production line and train wheel production line, and increase the production volume of the Company's leading products such as pipeline steel, H-shaped steel and train wheels, striving to achieve better operating results.

The Group's production targets for year 2009 are: 13,780,000 tonnes of pig iron, 15,000,000 tonnes of crude steel and 14,180,000 tonnes of steel products (among which the Company plans to produce 12,580,000 tonnes of pig iron, 13,500,000 tonnes of crude steel and 12,730,000 tonnes of steel products).

Accordingly, the Group will adopt the following measures:

- The Company will strengthen its service-oriented marketing approach to gear up with its enhanced product quality, trying every possible means to expand the market, increase the proportion of direct sales, determine production volume based on sales and fulfill sales orders.

- It will establish a new research-production-sales work system and form a research-production-sales work group for six products including high-speed train wheels, pipeline steel, electrical steel, automobile plates, home electrical appliances and stable corten steel plates and strengthen the management of each product.

- It will endeavour to commence costs reduction work and optimise the furnaces' fuel materials structure. It will reduce expenses for the period through saving administrative expenses, selling expenses and finance expenses, and will reduce costs in each procedure including procurement, production and sales.

- It will speed up recovery of funds and control capital expenditures, with a view to assuring the safety of the Company's cash flow.

- It will push ahead energy conservation and emissions reduction work and develop a recycling economy. It will boost gain from environmental protection by using the government's concessionary policies.

- It will implement the "Internal Control of Enterprises – Basic Principles" to improve the Company's internal control mechanisms and enhance the Company's internal control system.

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

15 April 2009
Maanshan City, Anhui Province, the PRC

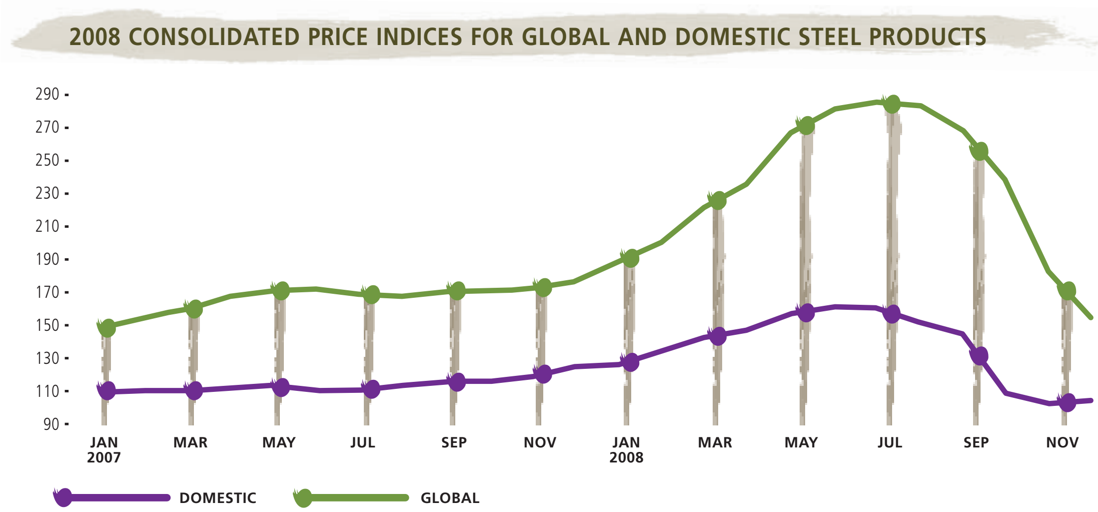
1. REVIEW OF THE OPERATING ENVIRONMENT

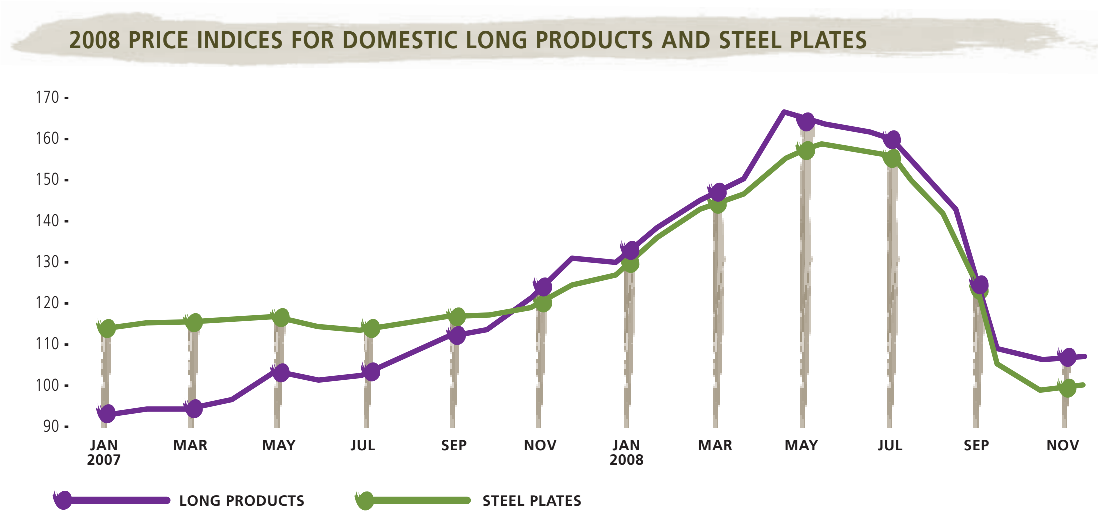
(1) The Steel Product Market

In 2008, the international steel product market saw severe fluctuations as affected by fluctuating demands for steel products. Steel product prices first rose and then declined. The year's average consolidated price index for global steel products was 234.9, representing an accumulated increase of 67.7 points over 2007 or an increase of 40.5%, of which the price index for long products increased by 44.7% and that for steel plates increased by 38.0%. The consolidated price index for global steel products at the end of 2008 was 155.2, representing a decrease of 11.9% over the end of 2007, of which the price index for long products decreased by 14.4% and that for steel plates decreased by 10.3%, representing a decrease of 46.1% as compared with the year-high of the whole year (of which the price index for long products decreased by 46.7% and that for steel plates decreased by 46.5%). For the whole year, except for the overall price level of global steel products in December being lower than that of the same period of the previous year, the overall price levels of global steel products in the remaining months were higher than those in the same period of the previous year, with the price increase of long products higher than that of steel plates.

China's national economy maintained year-on-year GDP growth rates of over 10% in the first two quarters of 2008. However, as the global financial crisis has deepened since the third quarter which led to a global economic recession, the growth of the national economy also slowed, with GDP growth dropping to 9% in the third quarter and below 7% in the fourth quarter. Major steel-consuming industries such as automobile, household electrical appliances and mechanics recorded negative growth in the third quarter and the fourth quarter. Domestic demand for iron and steel recorded negative growth for two consecutive quarters and prices of domestic steel products dropped significantly since late-June. Iron and steel enterprises reported monthly losses across the industry in October. In this regard, the State rolled out ten measures in November to boost domestic demand and implemented nine financial initiatives to promote economic development in December. These measures and initiatives restored confidence in the domestic market and prices of domestic steel products stabilised. The consolidated price index for steel products in the domestic market at the end of 2008 was 125.1, representing a decrease of approximately 57.1% over the year-high. The price index for long products at the end of 2008 was 108.5, representing a decrease of approximately 53.2% over the year-high while the price index for steel plates at the end of 2008 was 101.7, representing a decrease of approximately 59.3% over the year-high. The year's overall price levels of steel products were higher than those in 2007, with the price decrease of long products being smaller than that of steel plates. *(Source: China Iron and Steel Association)*.

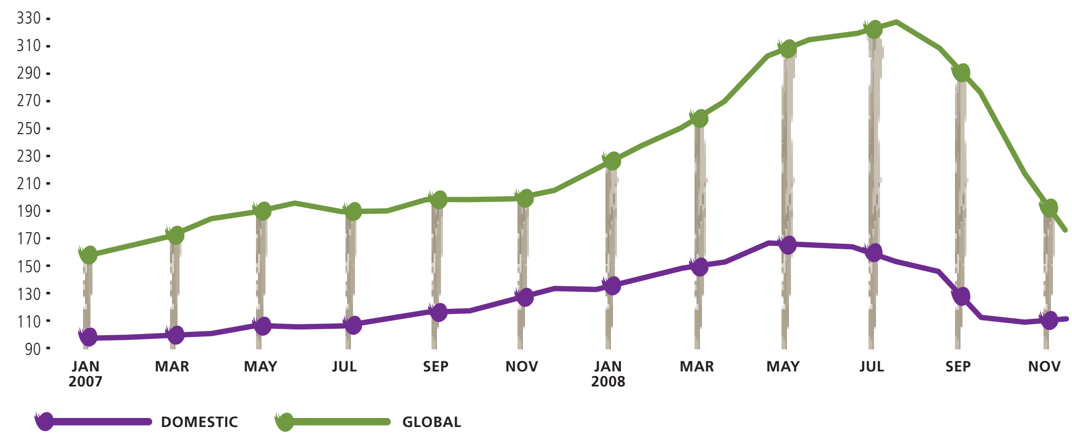
In general, steel product prices in the domestic and global markets moved in line with each other during 2008.



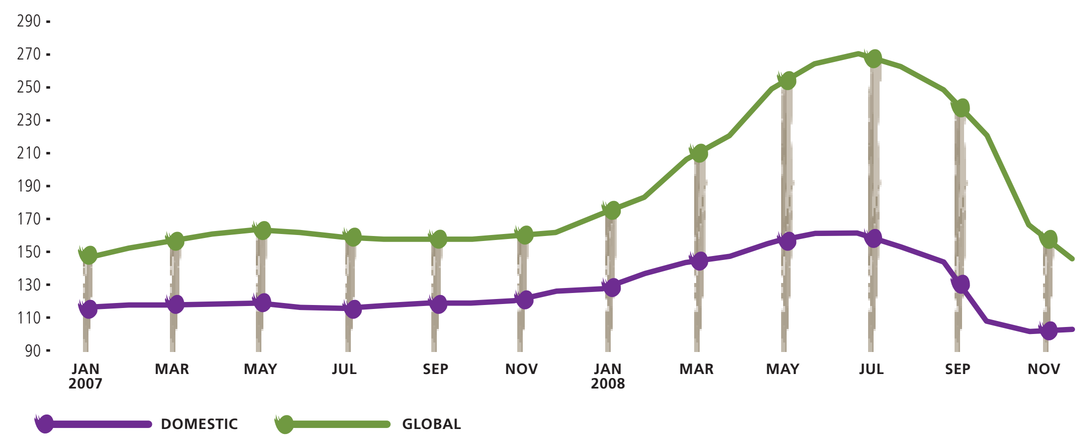


The State has adopted a series of measures to restrict the export of iron and steel products in recent years. The effect of these policies continued to expand in 2008, which was reflected in consecutive negative growth in net export volumes of iron and steel products, further exerting pressure on the domestic steel product market. Balancing imports and exports of steel products and steel billets for the whole year, there was a net crude steel export equivalent to approximately 47,630,000 tonnes, a decrease of approximately 7,250,000 tonnes or 13.21% over the previous year. *(Source: China Customs)*

2008 PRICE INDICES FOR GLOBAL AND DOMESTIC LONG PRODUCTS



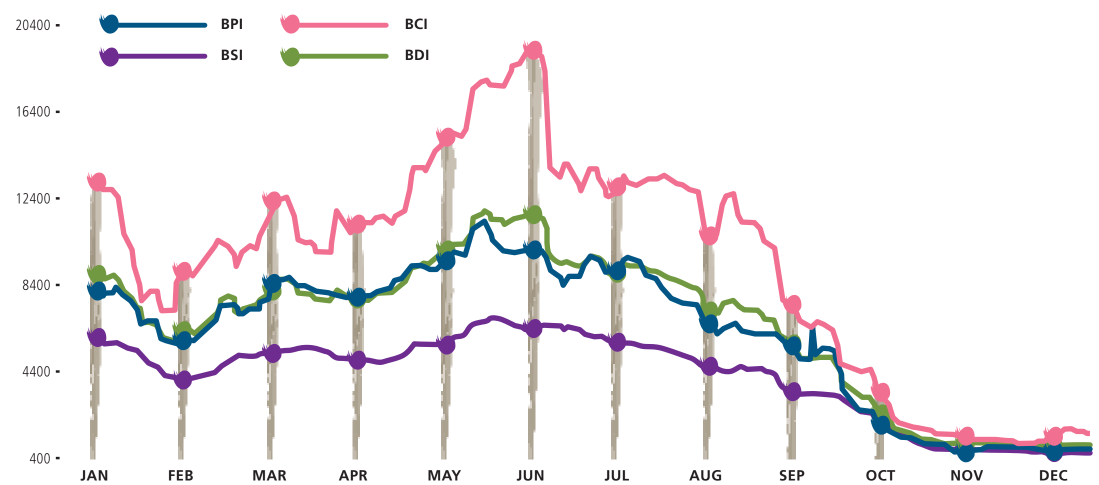
2008 PRICE INDICES FOR GLOBAL AND DOMESTIC STEEL PLATES



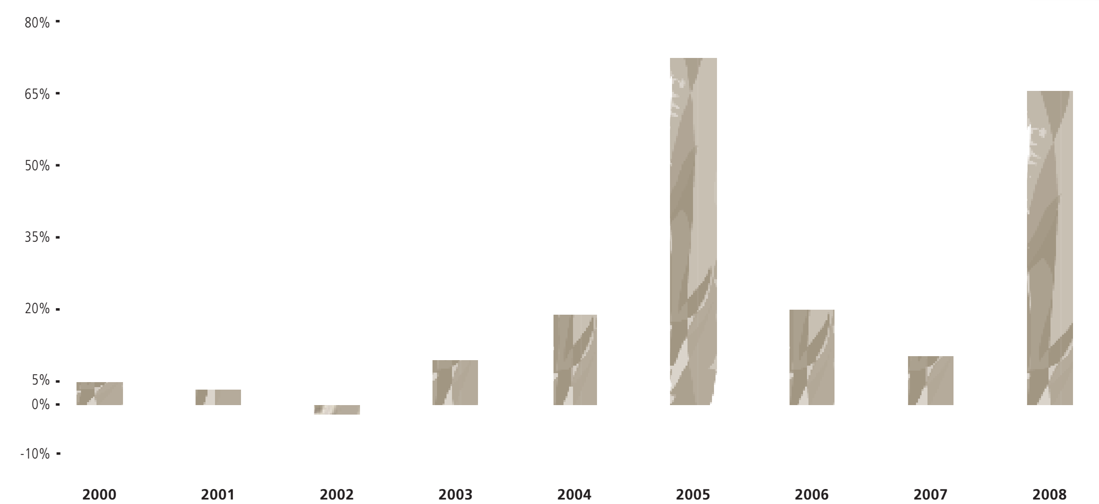
(2) The Markets of Raw Materials and Fuels

In 2008, the international long-term contract prices for iron ores increased significantly, of which prices for fine ore from Australia increased by 79.88%, prices for lump ore increased by 96.5%, prices for fine ore from southern Brazil increased by 65% and prices for fine ore from northern Brazil increased by 71%. Domestic raw materials and fuels prices also kept rising and the procurement costs for iron and steel enterprises hovered at high levels. During the reporting period, domestic large to medium iron and steel enterprises saw their procurement costs of coke increase by 86.51% year-on-year; procurement costs of injection coal increased by 60.17% year-on-year; procurement costs of metallurgical coke increased by 79.40%; procurement costs of domestic iron concentrates increased by 47.44%; and procurement costs of imported iron ore increased by 38.84%. Significant increases in raw materials and fuels prices led to substantial increases in iron and steel production costs. In 2008, manufacturing costs for steel-making and pig iron-making increased by 51.62% year-on-year, manufacturing costs for steel wires increased by 44.38% year-on-year, manufacturing costs for corrugated steel increased by 41.83% year-on-year, and manufacturing costs for medium broad belts increased by 38.64% year-on-year *(Source: China Iron and Steel Association)*.

2008 BALTIC DRY INDEX



INCREASES IN GLOBAL BENCHMARK PRICES OF IRON ORES IN RECENT YEARS



2. BASIC STRATEGIES AND MAJOR WORK

In early 2008, the Company was faced with unprecedented severe snowstorms and production was obstructed. Since late-June, especially after October, as market demand for domestic steel products dropped sharply, resulting in a rapid decline in steel product prices, there were increasing difficulties in the sales of products, and enterprises were faced with unprecedented trials in production and operation. Under such circumstances, the Company adhered to the work principle of "Swiftly changing the development mode; Significantly enhancing operating effectiveness". The Company adjusted strategies and proactively tackled challenges, endeavouring to ensure the Company's normal operation. Its major work was as follows:

- **Flexibly adjusted production strategies to tackle the snowstorms.**

  In early 2008, due to the snowstorms, the supply of certain raw materials and fuels of the Company was disrupted, the operation of blast furnaces became severely abnormal, and distribution of products was hampered. Faced with such circumstances, the Company timely adopted effective measures such as stabilising the supply of coke with reference to the supply of coal and in turn stabilising the supply of iron with reference to the supply of coke, strengthening production allocation, adjusting the furnaces' fuel materials structure, and well-coordinating the distribution of products as well as the loading and unloading of raw materials and fuels, with a view to minimising the impact of the snowstorms on production capacity. There were production shortages of approximately 170,000 tonnes of pig iron, 210,000 tonnes of crude steel and 190,000 tonnes of steel products.

- **Seized market opportunities and organised production according to product profitability.**

  After the snowstorms, the Company seized market opportunities and adjusted its production direction. The Company pushed ahead the management of target planned values with four appraisal factors of "business, technology, production and profitability" as its focus and conducted a whole-process evaluation on the monthly production operation plan according to the principle of "enhancing the output-to-input ratio". The Company enhanced resources allocation and concentrated its resources on developing high value-added products as well as increasing the output of products with higher profitability per tonne of steel. For the whole year, approximately 470,000 tonnes of pipeline steel were produced and approximately 270,000 tonnes of train wheels and wheel rims were produced.

- **Timely reduced the output of products with low profitability and strove to tackle market situations.**

  In October, due to a sharp fall in steel product prices, the Company's inventories of raw materials and fuels as well as procurement costs stood at high levels. Therefore, room for profits for certain products was nil. Facing such situations, the Company timely implemented stage-wise suspension of production of four 350-450 m^3 blast furnaces and one 1,000 m^3 blast furnace, and arranged resumption of production according to marginal contributions of products, in order to minimise losses.

- **Solidly commenced technological breakthroughs in order to enhance product quality.**

The Company regarded enhancing product quality as the major means for its transformational development. The Company strengthened the work system of research-production-sales and strengthened its efforts in market research and analysis and collecting feedback from customers. It solidly commenced 32 scientific research and development and technological breakthrough projects, thereby significantly enhancing product quality. In 2008, waste per tonne of steel products decreased by 2.97kg while the defect rate of steel products decreased by 3.25 percentage-points. The market access certificate of H-shaped steel products for all European Union markets was obtained and the "Market Expansion Award for Chinese Iron and Steel Industrial Products Development" was also obtained. Mass X80 pipeline steel was used in the State's Second West-East Pipeline Project. Train wheels products were awarded the "Best Quality Award" by General Electric Co. The Company fully carried out certification work on ISO/TS16949 certification for automobile plates and Certificate of Factory Approval issued by Overseas Classification Society for high-grade vessel plates. Besides, it officially commenced the research and development work on train wheels for train sets. A total of RMB11 million was spent by the Company on scientific research and development for the whole year.

- **Steadily pushing ahead construction of projects with key projects completed successively.**

During the reporting period, the silicon steel production line of the Company was completed and commenced production while key projects such as Phase II of the capacity enhancement project of train wheel rolling system, the Liufenhe sewage treatment project, the rotary hearth furnace project at the New Area, the reconstruction of manufacturing system of tar and light benzol refining system and the large-scale forged backup rolling line of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary of the Company, proceeded steadily stage-by-stage as scheduled. In particular, Phase II of the capacity enhancement project of the train wheel rolling system and the Liufenhe sewage treatment project were completed and commenced production in February and March 2009 respectively.

- **Strengthened foundational management of energy conservation and enhanced the environmental management system.**

  The Company included for the first time the indices of energy consumption of all procedures and of the use of regenerated energy into the assessment on the economic accountability system, and adopted the quota assessment method while charging for over-consumption on certain energies. The Company conducted monthly evaluation on energy consumption. It organised the delegation and implementation of target values for energy conservation of major work procedures as well as the research and analysis of whether energy indices could meet targets. Meanwhile, the Company has also enhanced the environmental management system by regulating environment management procedures and conducting environment management compliance assessments. In 2008, the Company obtained a total amount of approximately RMB64.98 million from the State's financial reward related to technical reform on energy conservation and from the national debt subsidies related to projects for resources conservation and environmental protection for its certain projects. These projects included the coke dry quenching and air blast dehumidification furnaces. The environmental management system of the Company was endorsed in the review process of ISO 14001 Environmental Management System. Fresh water consumption per tonne of steel amounted to 7.26 m^3 for the year, representing a decrease of 0.77m^3 year-on-year. Self-power generation accounted for 64.96% of the total power consumption.

- **Adopted customer-oriented sales approach to achieve mutual benefits and win-win situation.**

  Faced with the enormous changes in the steel product market, the Company adhered to a marketing principle of "Working hard on service, Building on system, Surpassing peers by difference". The Company stabilised the existing sales channels while expanding new direct-sales channels to increase the proportion of direct-sales of products, striving to secure orders. Meanwhile, the Company helped dealers from different places to speed up the sales of steel products. With its good corporate reputation, it expanded the scope of pledge of goods title, striving to ensure an efficient recovery of funds. In the reporting period, the market share of the Company's steel products amounted to approximately 3.3%, while the recovery rate of cash for the whole year amounted to approximately 97.8%.

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 93.29% of the Group's operating income. The iron and steel segment also accounted for 81.26% 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	66,479	61,517	7.46	41.32	45.97	a decrease of 2.95 percentage-points
Product Segment						
Steel plates	33,299	31,370	5.79	66.14	71.22	a decrease of 2.80 percentage-points
Section steels	10,863	9,726	10.47	12.83	15.97	a decrease of 2.42 percentage-points
Wire rods	18,930	17,949	5.18	30.80	33.22	a decrease of 1.73 percentage-points
Train wheels and wheel rims	2,882	1,978	31.37	22.38	36.51	a decrease of 7.10 percentage-points

(2) Geographical Analysis of the Group's Operating Income

Unit: RMB million

Region	Operating income	Year-on-year increase/(decrease) of operating income (%)
Anhui	27,865	27.28
Jiangsu	8,458	23.11
Shanghai	12,131	100.41
Zhejiang	6,839	79.41
Guangdong	4,861	27.52
Other PRC regions	5,456	58.60
Exports	5,650	17.90

During the reporting period, the Group's gross operating margin was 8.57%, a decrease of 2.76 percentage-points as compared to the corresponding period of the previous year. This was mainly attributable to the significant decrease in the sales prices of the Company's steel products and the relatively high procurement costs of major raw materials and fuels.

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

(1) Assets

As compared to the end of the previous year, financial assets held for trading decreased by 44.40%, which was mainly attributable to the decreases in stock prices of other listed companies held by the Company; bills receivable decreased by 69.79%, which was mainly attributable to a decrease in bankers' acceptance bills received in sales; trade receivables decreased by 39.58%, which was mainly attributable to a decrease in export sales with deferred payment terms; prepayments decreased by 33.81%, which was mainly attributable to a decrease in payments for raw materials and equipment purchases; other receivables increased by 69.49%, which was mainly attributable to an increase in prepayment of guarantees for import customs and taxes; held-to-maturity investments decreased by 48%, which was mainly attributable to partial withdrawal of investment; projects under construction decreased by 35.12%, which was mainly attributable to the fact that certain projects under construction achieved scheduled availability and were reclassified as fixed assets during the year; and deferred income tax assets increased by 139.19%, which was mainly attributable to an increase in provision made for assets during the year.

As compared to the end of the previous year, there were no material differences on the Group's bills receivable, trade receivables, prepayments, other receivables, inventories, held-to-maturity investments, long-term equity investments, investment properties, fixed assets, construction materials, projects under construction and intangible assets out of total assets as at the end of the reporting period.

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 all of the Company's assets.

(2) Liabilities

As compared to the end of the previous year, bills payable decreased by 41.42%, which was mainly attributable to a decrease in the amount of procurement of materials paid by acceptance bills during the year; payroll and benefits payable decreased by 42.26%, which was mainly attributable to a decrease in unpaid bonuses payables; interests payable decreased by 45.26%, which was mainly attributable to decreases in balance of loans during the year; deferred income tax liabilities decreased by 96.03%, which was mainly attributable to remaining amount of deferred income tax liabilities due to Bonds with Warrants being transferred to capital reserve during the year; other non-current liabilities decreased by 40.05%, which was mainly attributable to a transfer of payables to Holding due within one year to current liabilities; capital reserve increased by 37.48%, which was mainly attributable to second exercise of warrants during the year; and exchange fluctuation reserve decreased by 596%, which was mainly attributable to the depreciation of book currencies of the Company's overseas subsidiaries against Renminbi.

As compared to the end of the previous year, there were no material differences on the proportions of short-term loans, bills payable, accounts payable, deposits received, other payables, long-term loans and bonds payable out of total assets as at the end of the reporting period.

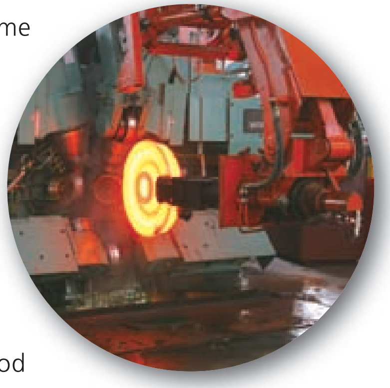
As at the end of the reporting period, payable of short-term commercial papers decreased by 100% year-on-year, which was mainly attributable to the fact that on 31 August 2007, the Company issued RMB2,000 million of short-term commercial papers with a term of 365 days. These commercial papers were due and redeemed on 2 September 2008.

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

During the reporting period, the Group's selling expenses increased by 25.73% over the previous year, which was mainly due to increases in sales volume of the Company's steel products, transportation costs and loading and unloading costs. Administrative expenses increased by 5.41% over the previous year. Financial expenses increased by 45.37% over the previous year, which was mainly attributable to the Company's certain projects under construction achieved scheduled availability and were reclassified as fixed assets during the reporting period and the relevant bank borrowings and payable bond interest expenses were no more available for capitalisation and began to be accounted as financial expenses; assets impairment losses increased by 49.92 times over the previous year, which was mainly attributable to the increase in provision for price decrease of inventories by the Company during the reporting period; non-operating expenses decreased by 92.91% over the previous year, which was mainly attributable to the decrease in loss on the disposal of fixed assets arising from the Company's disposal of part of its fixed assets during the reporting period. Minority interests decreased by 79.16%, which was mainly attributable to decreases in profits from parts of non-wholly owned subsidiaries during the year.

During the reporting period, the enterprise income tax expenses amounted to RMB75 million, representing a decrease of 66.16% over the previous year, which was mainly attributable to a decrease in total profit of the Company during the reporting period.

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



In 2008, the Group's operating income rose 40.63% over the same 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 same period of the previous year, mainly due to an expansion in production scale and a rise in raw material costs. Operating profit decreased by 75.51% over the same period of the previous year. Total profit decreased by 71.18% over the same period of the previous year while net profit attributable to equity holders of the Company decreased by 71.31% over the same period of the previous year, which were mainly due to a rise in finance costs and large provisions made for assets impairment during the reporting period.

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

In 2008, the Group realised a net profit attributable to equity holders of the Company amounting to RMB710 million, a difference of RMB7,678 million when compared to the net increase of cash flow amounting to RMB8,388 million generated from operating activities, which was mainly due to depreciation charges for fixed assets and provision for assets impairment. The amount of net increase in cash flow generated from operating activities increased by RMB4,763 million as compared to the same period of the previous year, which was mainly due to an increase in sales volume of steel products of the Company. The amount of net cash outflow from investing activities decreased by RMB3,833 million from the same period of the previous year, which was mainly due to decreases in acquisition and construction of fixed assets during the reporting period. The amount of net cash inflow from financing activities decreased by RMB10,546 million from the same 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 2008, the Group's purchase from the top five suppliers totalled RMB6,667 million, accounting for 15% of the Group's total purchase amount for the year. The Group's sale to the top five customers totalled RMB7,820 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 2008, 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 loss for the reporting period amounted to RMB3 million. As at the end of the reporting period, it had total assets amounting to RMB2,252 million and net assets of RMB644 million.

- Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary of the Company, has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net loss for the reporting period amounted to RMB130 million. As at the end of the reporting period, it had total assets amounting to RMB2,477 million and net assets of RMB34 million.

- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB80 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 RMB59 million. As at the end of the reporting period, it had total assets amounting to RMB306 million and net assets of RMB154 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 stake 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 RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB115 million and net assets of RMB69 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes 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 loss for the reporting period amounted to RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB750 million and net assets of RMB68 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 various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB25 million. As at the end of the reporting period, it had total assets amounting to RMB667 million and net assets of RMB170 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 RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB340 million and net assets of RMB133 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US$20 million, in which the Company holds a direct stake of 71%. 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 RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB494 million and net assets of RMB171 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 RMB54 million. As at the end of the reporting period, it had total assets amounting to RMB422 million and net assets of RMB149 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 RMB39 million. As at the end of the reporting period, it had total assets amounting to RMB209 million and net assets of RMB188 million.

- Maanshan Harbor Group Co., Ltd 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 RMB53 million. As at the end of the reporting period, it had total assets amounting to RMB886 million and net assets of RMB353 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 RMB137 million. As at the end of the reporting period, it had total assets amounting to RMB775 million and net assets of RMB609 million.

10. PROJECT CONSTRUCTIONS

In 2008, the Group's expenses on construction projects amounted to RMB2,704 million, representing a 74.66% decrease over the previous year.

- *Use of proceeds from the exercise of "馬鋼 CWB1" warrants*

  From 15 November to 28 November 2007, the net proceeds from the first 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 wholly used to invest in the 5,000,000-tonne cold and hot thin-plate production project, as undertaken in the fundraising prospectus. In the year 2007, approximately RMB307.12 million in fundraising proceeds was used to satisfy the construction cost for the 5,000,000-tonne thin-plate project, while approximately RMB254.3 million was used to repay the bank borrowings and interests incurred for the project. In the year 2008, approximately RMB443.36 million was used to satisfy the remaining cost of construction for the 5,000,000-tonne thin-plate project. As at 30 June 2008, all the fund raising proceeds had been used.

  From 17 November to 28 November 2008, the net proceeds from the second exercise of the "馬鋼 CWB1" warrants amounted to approximately RMB3,056 million. Upon securing the proceeds, the Company strictly enforced the specified account depositing system for fundraising proceeds, with the proceeds wholly used to invest in the 5,000,000-tonne cold and hot thin-plate production project, as undertaken in the fundraising prospectus. In the year 2008, approximately RMB346 million in fundraising proceeds was used to satisfy the remaining cost of construction for the 5,000,000-tonne thin-plate project, while the balance of RMB2,710 million was used to repay the principal of bank borrowings for the project. As at 31 December 2008, all the fundraising proceeds had been used.

(1) Use of fundraising proceeds

Unit: RMB million

Total fundraising proceeds	**4,060.78**	**Total fundraising proceeds used in the year**	**3,499.36**
		Total accumulated fund raising proceeds used	**4,060.78**

Undertaken project	Any changes to the project	Planned Investment amount	Actual Investment amount	Meeting planned progress or not	Expected income	Condition on income generated
5,000,000 tonnes cold and hot thin-plate production project	No	Not applicable	4,060.78	Yes	Not applicable	Not applicable
Total	–	–	4,060.78	–	–	–

Explanation of inability to achieve scheduled progress and expected income	Not applicable
Reason of change and explanation of the change procedures	Not applicable
Uses and appropriation of un-used fundraising proceeds	Not applicable

(2) Major Investment Projects Financed by Other than Fundraising Proceeds:

Unit: RMB million

Project name	Total investment	Construction progress
The cold-rolled silicon steel line	1,080	Completed and commenced operation
Phase II of the capacity enhancement project of train wheel rolling system	450	Completed and commenced operation in February 2009
Liufenhe sewage treatment project	90	Completed and commenced operation in March 2009
Large-scale forged backup rolling line (Note)	287	Facility in installation stage
Dezincification rotary hearth furnace project at the New Area	265	Foundation work of main facilities completed

Note: Large-scale forged backup roiling line is the key project of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary of the Company.

11. FINANCIAL POSITION AND EXCHANGE RISKS

As at 31 December 2008, the total amount of loans borrowed by the Group was RMB17,044 million, including loans for working capital of RMB1,154 million and long-term loans of RMB15,890 million. Except for foreign currency loans amounting to US$178 million and Euro1 million, all other loans were denominated in Renminbi.

Except for a US dollar loan which carried interests at LIBOR plus a fixed percentage, all other loans of the Group 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 2008, in accordance with PRC Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 59.90%. Under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) stood at 59.98%.

Other than fundraising proceeds from exercising of "Magang CWB1" Warrants, all capitals required for the Company's structural adjustment projects for the "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 RMB39,430 million.

As at 31 December 2008, the Group's cash and balances with financial institutions amounted to RMB5,951 million. Bills receivable amounted to RMB1,267 million (of which bankers' acceptance bills due within three months amounted to RMB875 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 depreciated during the reporting period, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total 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 has no direct adverse effect 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 timely 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.

Financial assets and financial liabilities held in foreign currencies

Unit: RMB million

Item	Opening balance at the beginning of the period	Fair value gains and losses for the period	Accumulated fair value changes which are accounted as equity	Impairment provisions for the period	Closing balance at the end of the period
Financial assets					
Including:					
1. Financial assets at fair value through profit or loss	–	–	–	–	–
Including derivative financial assets	–	–	–	–	–
2. Loans and receivables	883	–	–	–	1,168
3. Available-for-sale financial assets	–	–	–	–	–
4. Held-to-maturity investments	–	–	–	–	–
Sub-total	883	–	–	–	1,168
Financial liabilities	2,364	–	–	–	1,281

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

The management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. 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 values 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 at each balance sheet date.

The Group's inventories mainly include raw materials, work in progress, finished goods and spare parts. By comparing the procurement costs of these inventories and re-assessing the realisable net values, provision for price decrease of raw materials of approximately RMB1,378 million was made; provision for price decrease of work in progress of approximately RMB176 million was made; provision for price decrease of finished goods of approximately RMB217 million was made; and provision for price decrease of spare parts of approximately RMB25 million was made in 2008. Total provisions for price decreases of inventories of approximately RMB1,796 million were made during the reporting period and these provisions for price decreases affected the Company's results of operations in 2008 accordingly.

13. FAIR VALUE

• Internal control system related to measurement under fair value method

The Company sets out the procedures for measurement and disclosure of fair value based on the relevant accounting standards, and collects evidence for proving assumptions and estimates used in the measurement. The Company eventually selects an appropriate valuation method for valuation purpose. Regarding the methods of obtaining the fair value, the Company proposes a specific method for obtaining the fair value through the levels of measurement under fair value of recognised accounts. Regarding internal audit, the Company has professional personnel to handle the detailed accounting and internal audit work on fair value. Meanwhile, the Company appointed a professional institution to establish the internal control system so as to help the Company to improve certain shortcomings in the Company's internal control.

In 2008, there was only one financial asset held for trading in the Group which was stock, and this was accounted for by using market value as its fair value.

• Fair Value Gains and Losses During the Reporting Period

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 RMB1.03 million, equivalent to approximately 1.5% of the operating profit for the reporting period. The sustainability, risks and future trend of such assets do not have any material impact on the Company.

Items related to measurement under fair value method

Unit: RMB million

Item	Opening balance at the beginning of the period	Fair value gains and losses for the period	Accumulated fair value changes which are accounted as equity	Impairment provisions for the period	Closing balance at the end of the period
Financial assets					
Including:					
1. Financial assets at fair value through profit or loss	1.46	1.03	–	–	0.81
Including: derivative financial assets	–	–	–	–	–
2. Available-for-sale financial assets	–	–	–	–	–
Sub-total	1.46	1.03	–	–	0.81
Financial liabilities	–	–	–	–	–
Investment properties	–	–	–	–	–
Biological assets for production	–	–	–	–	–
Others	–	–	–	–	–
Total	1.46	1.46	–	–	0.81

14. CHANGES IN THE PRODUCTION AND OPERATING ENVIRONMENT IN 2009 AND COPING STRATEGIES

- **Changes in the domestic and foreign operating environment**

Currently, the impact of the global financial crisis is still spreading, leading the global economy to continue its downturn and demand to continue shrinking in 2009. In 2009, the expected objectives of China's national economy and social development are: a domestic GDP growth rate of around 8%; an increase of around 4% in consumption prices, and a further optimisation of the economic structure. In this regard, the State has positioned the expansion of domestic demand as the main focus of maintaining stable development of the national economy. Through various methods including tax reductions, tax rebates and tax credits, the State will relieve the tax burden of enterprises and residents so as to boost consumption power, thereby enhancing economic vitality. Meanwhile, the State will adopt proactive and effective property policies and measures to restore market confidence and to stabilise market investments, in order to promote a stable development of the property industry and to boost the investment demand of enterprises and consumption demand of residents accordingly. The government will increase its investments in the construction of people's livelihood projects, energy saving and environmental protection, and ecological environment developments, and will carry out adjustment and revival plans for key industries including ship building, iron and steel, automobile and equipment manufacturing, with a view to maintaining a rapid growth of investment, enhancing the investment structure as well as expanding the appetite of enterprises.

In 2009, the domestic iron and steel industry will implement an industry revival plan. The State will push ahead a restructuring of enterprises and enhance the industry's deployment by means of tax reduction and exemption and assets transfer. The State will also increase investments in infrastructure and key projects so as to increase the stability factors of the iron and steel market. Meanwhile, the State will also rectify the order of circulation of steel products in the market, and establish a risk-sharing system for production and sales in order to eliminate unstable factors of the iron and steel market. However, the major domestic steel-consuming industries experience a significant decrease in demand at the present stage; the export environment for steel products has continued to worsen; import of iron ore and the international shipping market have faced uncertainties and instabilities; and the imbalance between unleased capacity of new advanced iron and steel productions and eliminated capacity of obsolete ones has escalated. Accordingly, uncertainties in production and operation of iron and steel enterprises have increased, which increased the difficulties in operation for enterprises.

- **Coping measures of the Company**

In the new year, with reference to the actual condition, the Company will regard the enhancement of product quality as the key task for its continued transformational development. The Company will refine measures, strengthen management as well as striving to eliminate the impact of changes in the operating environment on the Company. The major strategies are as follows:

a. ***Enhancing product quality.*** The Company will carry out a comprehensive review on the status and problems of product quality. With the combination of technology innovation and management innovation, the Company will coordinate the synchronisation between product improvement and quality enhancement as well as the consistency between product research and development and mass production, so as to manage the relationships between product and quality as well as between product and profitability. The Company will clearly define the direction for optimising the Company's product mix in order to ensure the Company's products will suit market demands.

b. ***Strengthening the service-oriented marketing approach.*** The Company will improve technical service in its marketing work by establishing a "product customer relations manager" system. The system could timely trace customers' needs, help customers to solve actual problems arising from application of our products, and set customers' satisfaction as the criteria for evaluating the Company's performance on enhancing product quality. In addition, the Company will integrate marketing channels by flexibly selecting honest, reliable and well-established dealers and developing strategic customers, with a view to establishing a long-term and stable marketing channel as well as eliminating the risk of decreased market demand.

c. ***Achieving stable and smooth production.*** The Company will work hard on each part of the production procedures, allocate resources efficiently, and strengthen the work-according to-regulations production mode. The Company will also ensure safe, stable and economical operations of equipment and the public and auxiliary system, thereby reducing various unstable factors which will affect production. The Company will strive to realise long-cycle safe production characterised by a priority on product quality, and minimise the impact of temporary changes in the operating environment on production.

d. ***Reducing costs in all production processes.*** The Company will establish a dynamic and optimised adjusting model covering technical and economic indices and operating index through broadening the scope of specific cost-saving targets. Such model enables the specific cost-saving targets are done in a regulated, proceduralised and systematised manner. It also enables the formation of a long-standing mechanism covering meeting targets, unearthing potential, improvement and enhancement, with a view to improving the indices and thus enhancing profitability as well as reducing production costs.

e. ***Reducing procurement and logistics costs.*** The Company will step up efforts in the analysis of supply and demand in the raw materials and fuels market. Based on the production situation, the Company will rationally control inventory and reduce procurement costs taking into account the market trends of raw materials and fuels. The Company will keep abreast of the international shipping dynamics, improve the transportation plan for imported iron ore, and strengthen the effective connection of logistics flows, thereby reducing external logistics costs of the Company. It will also enhance inter-factory logistics flows and reduce duplication in order to enhance operation efficiency of logistics flows, thereby reducing internal logistics costs of the Company.

f. ***Assuring reasonable cash flow.*** The Company will step up efforts in recovering funds and avoiding capital risks. It will capitalise on the information system to strengthen the management of inventory and reduce use of funds. With reference to the government's adjusted credit policies and the changes in exchange rates and interest rates, the Company will broaden its financing channels and enhance its debt structure so as to lower capital costs. It will further strengthen external investments and its control on investments, with a view to ensuring a safe level for the Company's cash flows.

g. ***Strengthening efforts in energy conservation and emissions reduction.*** By improving production technology and enhancing furnaces' fuel materials structure, the Company will achieve a balance of materials in the entire process, thereby enhancing the integrated use of resources and reducing consumption of materials, especially high-priced raw materials and fuels. Meanwhile, the Company will strengthen energy management by pushing ahead the contracted energy management system. It will launch key projects including those on the use of residue heat and power and on energy conservation monitoring, as well as commencing the energy management optimisation model and the research on power grid's quality breakthrough.

h. ***Establishing a sound internal control system.*** According to the schedule of establishing a sound internal control system as approved by the Board of Directors of the Company, the Company will evaluate internal control risks and enhance the relevant internal control system. It will also complete the preparation of the "Internal Control Manual" and will implement it in the second half of this year.

15. LONG-TERM STRATEGIES OF THE COMPANY

Taking a long-term perspective, we believe that the fundamental trend of China's economy to maintain continued rapid growth will remain unchanged. This provides a basic assurance to the Company's rapid development. The prevailing trend of economic globalisation is irreversible, thereby providing the Company with an enormous global market and providing opportunities for the Company's continued development. After two rounds of structural adjustments of the "Tenth Five-Year Plan" and the "Eleventh Five-Year Plan", the Company has achieved an across-the-board upgrade of its product structure of "steel plates, section steel, wire rods and train wheels", thereby creating a favourable condition for seizing development opportunities by the Company.

In order to establish itself as a modern corporation with international competitiveness, the Company will enhance product quality and strengthen internal management, with a view to enhancing profitability with a production capacity of 18 million tonnes and enhancing its overall competitiveness. The Company will further improve its ancillary technology at the New Area based on the State's policies and changes in the macro-economic environment. The Company will also further strengthen its strategic alliance and cooperation with upstream and downstream enterprises including iron ore, coal, railway, automobile, household electrical appliances and equipment manufacturing, with a view to ensuring stable operation for the Company and further enhancing efficiency and profitability of its operations. With effective control and prevention of risks, the Company will seek opportunities to step into the international market so as to build itself into a strong and outstanding company.

1. DAILY WORK OF BOARD OF DIRECTORS

(1) Description of the Board of Directors' Meetings in 2008 and Details of the Resolutions:

- On 3 January 2008, the Company held the seventeenth 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 the SSE and the Hong Kong Stock Exchange on 4 January 2008.

- On 17 April 2008, the Company held the eighteenth 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 the SSE and the Hong Kong Stock Exchange on 18 April 2008.

- On 29 April 2008, the Company held the nineteenth 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 the SSE and the Hong Kong Stock Exchange on 30 April 2008.

- On 14 July 2008, the Company held the twentieth 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 the SSE and the Hong Kong Stock Exchange on 15 July 2008.

- On 14 August 2008, the Company held the twenty-first 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 the SSE and the Hong Kong Stock Exchange on 15 August 2008.

- On 31 August 2008, the Company held the first meeting of the sixth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 2 September 2008.

- On 14 October 2008, the Company held the second meeting of the sixth session of the Board of Directors. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 15 October 2008.

(2) Implementation of the resolutions of the Shareholders' Meetings by the Board of Directors

- Pursuant to the resolution passed at the 2008 annual general meeting, the Board of Directors determined the fees for the accounting firms' work on 2007 annual audit and execution of discussion processes and completed the implementation of the 2007 profit distribution plan.

- Pursuant to the mandate granted by the 2006 first extraordinary general meeting, the Board of Directors completed the relevant work regarding the second exercise of "馬鋼 CWB1" warrants between 17 November 2008 and 28 November 2008.

(3) Discharge of Duties by the Audit Committee of the Board of Directors during the Reporting Period

Pursuant to the "Work Rules for the Audit Committee of the Board of Directors" and the "Work Regulations of Annual Report for the Audit Committee of the Board of Directors", during the process of preparing and disclosing the Company's 2008 annual report and during the year of 2008, all members of the Audit Committee have communicated sufficiently with the external accounting firms responsible for auditing the Company's financial reports. The Audit Committee has also conscientiously discharged their duties of reviewing and monitoring the Company's finances and internal control. Discharge of duties by the Audit Committee are as follows:

- *Discharge of duties by the Audit Committee during 2008*

  In 2008, the Audit Committee held eight meetings and all members attended such meetings. The meetings were chaired by Mr. Wong Chun Wa. Major details of the meetings are as follows:

  a. Sufficient negotiations with the external auditors were carried out, and the audit plan for the 2007 financial reports of the Company was confirmed.

  b. The 2007 annual accounts, 2008 first quarterly accounts, 2008 interim accounts and 2008 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.

  c. An audit was conducted on the status of the Company's external guarantees as at 31 December 2007 and 30 June 2008 and it was determined that the Company's aggregate external guarantee amounts and external guarantee amounts for the current period were all less than 50% of the Company's net assets under the consolidated financial statements for the latest fiscal year.

d. The connected transactions between the Company and Holding during 2007 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 2007 pursuant to the Sale and Purchase of Ore Agreement did not exceed the cap amounts for the Hong Kong Stock Exchange's exemption.

e. The planning and Finance department's report on the execution of the Company's internal control system in the first half of 2008 was heard and it was determined that the Company's internal control and risk management procedures were effective.

f. It was agreed that the Company would pay a fee aggregating RMB5.75 million to Ernst & Young Hua Ming and Ernst & Young for their annual audit and execution of discussion processes for year 2007 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 the year of 2008.

g. Mr. Wong Chun Wa, an Independent Director, was elected as the Chairman of the Audit Committee of the sixth session of the Board of Directors of the Company.

h. Adequate discussion with the external accounting firms were carried out, and the audit plan for the 2008 financial reports of the Company was confirmed.

i. The Company was debriefed by the external accounting firms on the change in the information technology environment of the Company and it determined that the SAP system can reasonably assure the truthfulness of the 2008 financial reports of the Company.

- *Communication between the Audit Committee and the external accounting firms during the process of preparing and disclosing the Company's 2008 annual report:*

a. On 23 December 2008, the Audit Committee held a meeting by way of correspondence, discussed with the external accounting firms and determined the schedule of the auditing work for the Company's 2008 financial report.

b. On 26 February 2009, the Audit Committee held a meeting by way of correspondence, conscientiously reviewing the 2008 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 auditors' report according to the agreed schedule.

c. On 25 March 2009, 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.

d. On 14 April 2009, after the external accounting firms had submitted the preliminary auditors' opinion, the Audit Committee held another meeting to communicate with the accounting firms on issues arising from the review process. The Audit Committee has also reviewed the Company's 2008 financial and accounting statements and formed a written opinion. In addition, the Audit Committee has 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 2008 remunerations and 2009 re-appointment of the Company's external accounting firms. It was agreed that the above documents be submitted to the Board of Directors for approval.

The convocation, convocation procedures, voting and resolutions of all meetings of the Audit Committee were in compliance with the requirements of the relevant laws, regulations, the articles of association of the Company and the "Work Rules for the Audit Committee". In 2008, all members of the Audit Committee faithfully fulfilled the obligation of confidentiality regarding the matters deliberated at the committee meeting pursuant to relevant regulations and no unauthorised disclosure of the relevant information was found.

(4) Discharge of Duties by the Remuneration Committee of the Board of Directors during the Reporting Period

In 2008, the Remuneration Committee held two meetings and all members attended such meetings. The meetings were chaired by Mr. Su Yong. Major details of the meetings are as follows:

a. In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of the Company" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations as well as completion of operation targets, together with a reference to respective scopes of work and major duties for the relevant directors and senior management, the Remuneration Committee conducted appraisals on 2007 operating performance 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 2008 for consideration. The Board of Directors approved the 2007 remunerations for the relevant directors and senior management according to the mandate granted by the general meeting.

b. Considered and approved the Report on the Performance of Duties by the Remuneration Committee for the year of 2007.

c. Mr. Su Yong, an Independent Director, was elected as Chairman of the Remuneration Committee of the sixth session of the Board of Directors of the Company.

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

In 2008, all members of the Remuneration Committee faithfully fulfilled the obligation of confidentiality regarding the matters deliberated at the committee meeting pursuant to the relevant regulations and no unauthorised disclosure of the relevant information was found.

(5) Discharge of Duties by the Nomination Committee of the Board of Directors during the Reporting Period

In 2008, the Nomination Committee held one meeting and all committee members attended the meeting in person. At the meeting, the resolution on the candidate for Chairman of the committee was discussed and all committee members unanimously elected independent director Mr. Hui Leung Wah as Chairman of the committee.

The convocation, convocation procedures, voting and resolutions of the meeting of the Nomination Committee were in compliance with requirements of the relevant laws, regulations and the articles of association of the Company. All members of the Nomination Committee faithfully fulfilled the obligation of confidentiality regarding the matters deliberated at the committee meeting and no unauthorised disclosure of the relevant information was found.

2. PROFIT DISTRIBUTION

- ***Distribution of cash dividend of the Company in the past 3 years***

(unit: RMB million)

Year of distribution of dividend	Amount of cash dividend (tax inclusive)	Net profit attributable to shareholders of the Company	Ratio of cash dividend to net profit (%)
2005	1,033	2,913	35.46
2006	839	2,396	35.02
2007	879	2,475	35.52

- Profit distribution proposal for the current period: The Board of Directors of the Company did not recommend the payment of a final cash dividend for year 2008 and no capital reserve fund will be transferred to share capital.

  As audited by the domestic and international auditors, the Company's net profit amounted to RMB866.69 million under PRC Accounting Standards and RMB735.29 million under Hong Kong Accounting Standards for the year 2008. After appropriating 10% as the Company's statutory reserves, together with the retained profit as at the beginning of 2008 and minuses the 2007 cash dividend distribution in the amount of RMB878.61 million, profit available for distribution to shareholders as at the end of 2008 amounted to RMB6,582.84 million under PRC Accounting Standards and RMB6,283.15 million under Hong Kong Accounting Standards. In accordance with the articles of association of the Company, the Company distributed after-tax profits based on the lower of the profit amounts reported in the two financial statements respectively under PRC Accounting Standards and Hong Kong Accounting Standards. As a result, profit available for distribution to shareholders for year 2008 should be RMB6,283.15 million. Given the current economic circumstance and the severe excess of production capacity in the iron and steel industry, the Company is facing great challenges in its production and operation. As such, in order to assure the Company's normal operation and continuous development, the Board of Directors did not recommend the payment of cash dividend for 2008 and no capital reserve fund will be transferred to share capital. The retained profit of the Company will be carried forward to year 2009.

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

Pursuant to the requirements stated in the Circular Zheng Jian Fa [2003] Document No.56 issued by the CSRC, Ernst & Young Hua Ming has issued the "Specific Statement on the Funds Receivables from the Controlling Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties". In the opinion of the auditors, as at 31 December 2008, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, there were no 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.

4. SPECIFIC STATEMENT AND INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON ACCUMULATED EXTERNAL GUARANTEES AND EXTERNAL GUARANTEES FOR THE PERIOD OF THE COMPANY

In accordance with the relevants requirements of the CSRC, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all are independent directors of the Company, conducted conscientious audit on the Company's external guarantees accumulated up to the year 2008 as well as for the period, which are stated as follows:

The Company's balance of accumulated external guarantees in 2008 amounted to RMB3,814 million, representing approximately 14.67% of the Company's net assets in the consolidated accounting statements as at the end of 2008, down 8.38 percentage-points year-on-year. During the reporting period, no new external guarantees were incurred by the Company and the balance of external guarantees saw a decrease of RMB1,491 million year-on-year.

The independent directors issued opinions as follows:

The Company's balance of accumulated external guarantees in 2008 recorded a decrease of approximately 28.11% over the same period of the previous year. The Company shall continue to strengthen management and proactively monitor guarantee risks. For new external guarantees incurred from now onward, the Company shall continue to conduct scrutiny and disclosure procedures in strict compliance with the relevant requirements in relation to the businesses to be provided guarantees.

5. OTHER MATTERS

(1) For information analysed by business segments as at 31 December 2008, please refer to Note 6 to the accounting statements prepared under PRC Accounting Standards and Note 4 to the financial statements prepared under Hong Kong Accounting Standards.

(2) The Group's profit for the year ended 31 December 2008 and the Group's operating status as at that date are set out in the accounting statements prepared under PRC Accounting Standards and the financial statements prepared under Hong Kong Accounting Standards.

(3) Fixed Assets

Details of changes in fixed assets of the Company and the Group for the year ended 31 December 2008 are set out in Note 6 (11) to the accounting statements prepared under PRC Accounting Standards 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 2008, 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 2008 are set out in the statement of changes in equity prepared under PRC Accounting Standards and Note 37 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 fifth session of the Board of Directors, has resigned as he reached retirement age. His resignation was approved by the Board of Directors on 1 March 2008. The term of office for Mr. Zhu was from 31 August 2005 to 3 January 2008. The replacement of Mr. Hui Zhigang as Director of the fifth session of the Board of Directors was approved at the 2008 first extraordinary general meeting and his term of office is from 19 February 2008 to 31 August 2008. The terms of office for other directors and supervisors of the fifth sessions of the Board of Directors and the Supervisory Committee are from 31 August 2005 to 31 August 2008.

As the terms of office of the fifth sessions of the Board of Directors and the Supervisory Committee expired on 31 August 2008, the 2008 second extraordinary general meeting elected the sixth sessions of the Board of Directors and the Supervisory Committee of the Company. Director Mr. Gu Zhanggen has resigned as he reached retirement age. His resignation was approved by the Board of Directors on 21 January 2009. His term of office is from 31 August 2008 to 21 January 2009. The terms of office of other directors and supervisors of the sixth sessions of the Board of Directors and the Supervisory Committee are from 31 August 2008 to 31 August 2011. The elected directors and supervisors entered into service contracts with the Company for terms which are the same as their respective 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 and 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

Dear shareholders,

Entrusted by the Supervisory Committee of the Company and pursuant to the relevant requirements of the Company Law and the articles of association of the Company, I hereby report to you the major work of the Supervisory Committee in 2008.

1. MEETINGS OF THE SUPERVISORY COMMITTEE

According to working needs, the Supervisory Committee held seven meetings in 2008. On the premise of timely and thoroughly understanding of the Company's production, operation and financial positions, the Supervisory Committee approved resolutions on the relevant matters after conscientious reviews. Major matters discussed at the meetings include:

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

(2) Considering and approving the resolution on increasing the registered capital of the Company and "Amendments to the Articles of Association of Maanshan Iron & Steel Company Limited".

(3) Discussing and approving the late-stage structural adjustment plan of the Company's "Eleventh Five-year Plan".

(4) Considering and approving resolutions on disposals of fixed assets of the Company, write-off of bad debts and changes in impairment provisions for assets.

(5) Reviewing whether the deliberation process of the Company's connected transactions, relevant investment acts were in compliance with relevant laws, regulations and the articles of association of the Company and whether the investment projects were beneficial for the Company's development.

(6) Considering and approving the report on the use of fundraising proceeds by the Company from exercising warrants.

(7) Considering and approving the "2007 Work Report of the Supervisory Committee" and the "Report on the Performance of Duties of Supervisors Representing Staff" and determining the annual emoluments of the relevant supervisors based on their respective appraisals and in accordance with the annual aggregate emoluments for supervisors as approved at the general meeting.

2. INDEPENDENT OPINIONS OF SUPERVISORY COMMITTEE ON THE RELEVANT MATTERS OF THE COMPANY IN 2008

(1) Operations in Compliance with the Law

In 2008, the Board of Directors of the Company operated in strict compliance with the requirements of "Company Law", the "Code of Corporate Governance for Listed Companies" and the articles of association of the Company. A series of significant decisions made by the Board of Directors were regulated in procedures, and were lawful and valid. The Board of Directors was able to conscientiously execute each resolution approved at the general meeting and timely completed the tasks resolved at the general meeting. Directors and the senior management of the Company conscientiously exercised their authorities and discharged their duties within the scopes authorised by the Board of Directors, and strictly compiled with the requirements of the State's laws and regulations and the articles of association of the Company. In order to further regulate the management, the Board of Directors enhanced the internal control system of the Company based on the existing one, with a view to strengthening the Company's risk-prevention ability. The Board of Directors did not only respect and protect the Company's interests, but also actively protecting the interests of the shareholders as a whole. In 2008, the Supervisory Committee did not discover any breaches on laws, regulations and articles of association of the Company or acts by directors and senior management of the Company that damaged the interests of the Company and its shareholders.

(2) Operations of the Company

Impacted by the global financial crisis during the year, the Company faced unprecedented challenges in its production and operation. The Company adhered to the work principle of "Swiftly changing the development mode; Significantly enhancing operating effectiveness". Confronted with the rapidly-changing market environment, the Company timely adopted coping measures including restricting and stabilising production, advancing product quality, reducing costs and enhancing efficiency, stepping up efforts in sales and marketing, and enhancing the management of capital flows. The Company has also flexibly adjusted its production and operation strategies, proactively and decisively tackling challenges, thus maintaining the normal operation of the Company amid extremely tough circumstances, thereby laying a foundation for ensuring that the work objectives for various work in 2008 were achieved. As the realisable net value of the Company's inventories was lower than the inventory costs, provision for assets impairment was made in accordance with accounting standards. The Supervisory Committee was 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 reflected the financial position and operating results of the Company.

(3) Fundraising and Use of Proceeds of the Company

Fundraising proceeds from the second exercise of "Magang CWB1 Warrants" in November 2007 and November 2008 were used under arrangement according to the plan for use of fundraising proceeds as undertaken in the fundraising prospectus. The fundraising proceeds in the specified accounts had been completely used at the end of 2008. The fundraising and use of proceeds of the Company 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 investment projects implemented by the Company during the year were in the interests of its shareholders and complied with the spirit of the resolutions approved at the shareholders' general meetings. Such projects are beneficial to the protection of the interests of the shareholders and the sustainable development of the Company, without prejudicing the interests of the Company and its shareholders.

(5) Connected transactions of the Company

The Supervisory Committee supervised and audited the connected transactions during the year and was of the view that the Company has strictly controlled the transaction amount of the connected transactions; that the connected transactions were conducted according to a principle of openness, fairness and impartiality, and the decision-making process of the transactions was in compliance with the requirements of the State's relevant laws and regulations and the articles of association of the Company. The prices on the connected transactions were fair and no acts that damaged the interests of the Company and its shareholders were found.

(6) Swaps in Equity Interests and Assets of the Company

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

In 2009, the Supervisory Committee will adhere to the objectives and work tasks of the Company's production and operation while continuing to explore and enhance the work mechanisms and operation system of the Supervisory Committee, with a view to making the work of the Supervisory Committee more systematic and regulated. With financial supervision as the core of work, the Supervisory Committee will strengthen its supervision and management duties, and pay close attention to the Company's production, operation and economic operation as well as the Company's consistent enforcement of the relevant laws, regulations and compliance with the articles of association of the Company and resolutions approved at the shareholders' general meetings. Meanwhile, the Supervisory Committee will conduct inspection of the discharge of duties by the directors and senior management. The Supervisory Committee will also strengthen its own development, emphasise its quality enhancement and practically safeguard the interests of shareholders, so as to contribute to the stable and healthy development of the Company.

Zhang Xiaofeng
Chairman of the Supervisory Committee

15 April 2009

In accordance with the requirements of relevant laws and regulations, the Company has set up a corporate governance structure, with check and balance capability, 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 "Rules Governing the Listing of Stocks" newly revised by the SSE.

1. CODE ON CORPORATE GOVERNANCE PRACTICES

In 2008, 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 2008, 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 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 Minzu University of China 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, regulations and regulatory documents within and outside the PRC. The names of all directors were published in the Company's correspondence 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 therefore of the opinion that the four independent directors are all independent.

Attendance of Directors at board meetings in 2008:

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
Executive Director					
Gu Jianguo	7	6	1	0	100
Gu Zhanggen	7	6	1	0	100
Su Jiangang	7	7	0	0	100
Gao Haijian	7	7	0	0	100
Hui Zhigang	6	5	1	0	100
Non-executive Director					
Zhao Jianming	7	7	0	0	100
Independent Non-executive Director					
Wong Chun Wa	7	7	0	0	100
Su Yong	7	5	2	0	100
Hui Leung Wah	7	7	0	0	100
Han Yi	7	6	1	0	100

Chairman and General Manager

The positions of the Company's 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 business 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, from 31 August 2008 to 31 August 2011.

Performance of duties by Independent Directors

In 2008, the Company's independent 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 endeavoured to attend 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, de facto controllers, or other units or individuals who have conflict of interests with 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 Company's independent 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, accumulated external guarantees and external guarantees for the period, 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, including mainly:

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

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

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

– To decide 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 three committees under the Board of Directors, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Please refer to "1) 4. Audit Committee", "1) 5. The Remuneration Committee of the Board of Directors" and "1) 6. Nomination Committee" of this section for the major duties of the committees.

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

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

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

– 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 decide on the rewards and penalty, promotions and demotions, increase or decrease of salaries, appointments, 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 regular meetings annually, and notifies directors about the time and date, location and agenda of a regular board meeting 14 days in advance so as to ensure all directors could attend the meetings. The directors were given opportunities to raise matters for discussion and such matters will be included in the agendas of the regular meetings. 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. When the Board of Directors voted for connected transactions, 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 meetings.

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

(2) Remuneration of the Directors, Supervisors and Senior Management

Directors' remuneration

The annual aggregate remuneration of all directors of the fifth session of the Company's Board of Directors shall not exceed RMB4.3 million (taxes inclusive) during their terms of office. Each of the independent directors receives a fixed annual remuneration of not more than RMB50,000 (taxes inclusive). 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

The annual aggregate remuneration of all the supervisors of the fifth session of the Company's Supervisory Committee shall not exceed RMB1 million (taxes inclusive) during their terms of office. Each of the independent supervisors receives a fixed annual remuneration of not more than RMB37,500 (taxes inclusive). 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 as 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 shareholder(s) severally or jointly holding more than 5% of the issued shares of the Company. Candidates for independent directors are nominated by the Company's Board of Directors, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

The nomination of a director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an independent director, the Board of Directors will give its opinion on the nominee's qualifications and independence of holding the position of independent director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for independent directors to the SSE.

On 3 January 2008, Mr. Zhu Changqiu, the Company's former Director and General Manager, resigned as he had reached retirement age. Considering the fact that Mr. Hui Zhigang, 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 on the nomination of Mr. Hui as a candidate for director. Given the fifth session of the Board of Directors would expire on 31 August 2008, the Board of Directors held a special meeting on 14 July 2008 to discuss the candidates for directors for the sixth session of the Board of Directors. Details of the candidates' profiles were published in due course in the 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 sixth session of the Board of Directors comprises Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all of whom are 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 change of external auditors;

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

– To be responsible for the communication 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) The Remuneration Committee of the Board of Directors

The Remuneration Committee of the fifth session of the Board of Directors comprises independent directors including Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi and directors including Mr. Su Jiangang and Mr. Zhao Jianming. Mr. Su Yong is Chairman of the Committee. On 31 August 2008, the first meeting of the sixth session of the

Board of Directors elected independent directors Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi as members of the new session of the Remuneration Committee of the Board of Directors, with Mr. Su Yong as Chairman of the Committee. According to the formulated work regulations, the major duties 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 the procedures of formulating 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 that none of the directors nor their associates could decide on their own remuneration;

– Other responsibilities as delegated by the Board of Directors.

(6) Nomination Committee

On 31 August 2008, the first meeting of the sixth session of the Board of Directors approved to set up the Nomination Committee of the Board of Directors which comprises independent directors Mr. Hui Leung Wah, Mr. Wong Chun Wah, Mr. Su Yong, Mr. Han Yi, Company Chairman Mr. Gu Jianguo and Company Vice Chairman Mr. Gu Zhanggen, with Mr. Hui Leung Wah as Chairman of the Committee. On 21 January 2009, Mr. Gu Zhanggen resigned from his position as a member of the Nomination Committee as he has reached retirement age. The major duties of the Committee are as follows:

– To evaluate regularly the structure and number of members of the Board of Directors, and the skills, knowledge and experience needed for directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board of Directors on any prospective changes;

– To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board of Directors;

– To seek candidates for Directors, General Manager and Secretary to the Board of Directors, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board of Directors according to the Company's needs after reviewing their qualifications and abilities, and makes recommendations to the Board of Directors in this regard;

– To examine the independence of Independent Directors; and

– To make recommendations to the Board of Directors on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board of Directors.

(7) Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for year 2008. They have audited the enclosed 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 RMB650,000 represented the fee for execution of discussion processes. Both the audit fee and the fee for execution of discussion processes were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2008, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Group for 15 consecutive years. Mr. Li Di and Ms. Zhao Ning were the certified public accountants who have signed the Company's 2008 auditors' report. Mr. Li Di has provided auditing services to the Company for two consecutive years. As for Ms. Zhao Ning, it was her first time to provide auditing services to the Company.

In addition, Ernst & Young Hua Ming provided verification service for the increase of registered capitals and share capitals of the Company as at 21 January 2009 and issued the "Capital Verification Report". The fee was RMB100,000. 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$13,800.

(8) Internal Control

- *Status of Internal Control*

The five main factors considered by the Company in establishing and implementing its internal control system include internal environment, risk evaluation, control activities, information and communication and internal supervision. The internal control system encompasses the whole process of production operation and management which includes monetary capitals, procurement and payment, external investments, construction projects, sales and payment collection, costs and expenses, external guarantees, connected transactions, preparation of financial reports, budget management, information system and information disclosure. The system ensures orderly conduct of various work of the Company and forms a regulated management system, giving effective identification and control over operating risks. Meanwhile, the Company amends the Company's existing management system from time to time pursuant to the requirements of laws, regulations and regulatory documents and the changes in the actual condition of the Company, so as to ensure that the internal management system of the Company is effective all the time.

The Enterprise Management Department of the Company is responsible for organising and coordinating the establishment and implementation of internal control. The Procurement, Sales and Financial Departments of the Company and its subsidiaries are the main executors of the internal control system. The Audit Department is responsible for supervising the execution of the internal control system 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.

On 15 April 2009, the fourth meeting of the sixth session of the Board of Directors considered and approved the "Self-assessment Report on Internal Control of the Company by the Board of Directors of Maanshan Iron & Steel Company Limited" and confirmed that the internal control and risk management procedures of the Company and its subsidiaries in 2008 were effective.

- *Further enhanced internal control system and plan*

Five ministries of the Central Government including the Ministry of Finance jointly published the "Internal Control of Enterprises – Basic Principles" on 28 June 2008, setting out more specific requirements on the establishment of the internal control system of listed companies. In this regard, the Company repeatedly invited experts to provide trainings to the management, persons-in-charge of the respective departments and other relevant personnel of the Company as well as conducting preliminary evaluations on the status of the existing internal control of the Company. The Board of Directors of the Company considered and approved the "Opinions on the Implementation of the 'Internal Control of Enterprises – Basic Principles' to Establish an Internal Control System of the Company" on 21 January 2009, requiring the Company to complete the preparation of the Internal Control Manual before 30 June 2009. The Company has appointed Deloitte Touche Tohmatsu to help the Company to enhance and implement the internal control system so as to ensure that the Company could enhance the internal control system as scheduled.

(9) 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 two extraordinary general meeting notices in 2008 and the annual general meeting notice in 2007 that A-share holders holding the Company's A-shares as at the market closing in the afternoon 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 meetings after completing the registration procedures for attending the meetings.

The two extraordinary general meetings in 2008 were attended in person and chaired by the Company's Chairman. The 2007 annual general meeting was attended and chaired by the Vice Chairman upon a written appointment by the Chairman. During the reporting period, Mr. Su Jiangang, the Company's Director, General Manager and the person-in-charge of financial operations, and Mr. Gao Haijian, the Director, Deputy General Manager and the Secretary to the Board of Directors attended the general meetings in person and adequately prepared for answering questions of shareholders' concern. At the general meetings, the chairmen of the meetings proposed individual resolutions for each actually independent matter.

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 to the results of voting by poll, the chairman of the meeting shall announce the approval of the proposed resolution at the meeting and shall record such items in the meeting minutes as the final proof. If the chairman of the meeting has any doubts on the resolutions submitted for approval, he/she may conduct a count of votes. If the chairman of the meeting does not conduct a count of votes, attended shareholders or proxies who disagree with the results announced by the chairman of the meeting are entitled to request a count of votes immediately after the announcement of voting results. The chairman of the meeting shall immediately conduct a count of votes. If a count of votes 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. If any shareholder requests the Company for copies of the relevant meeting minutes, the Company can send such copies within 7 days upon receiving the relevant reasonable fees.

(10) Other Provisions as Set Out in the Code Apart from the Above

During the reporting period, the Company's directors acknowledged their responsibilities on preparing for the Company's 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 year 2008. The Board of Directors did not have any contrary opinion and the relevant resolution was considered and approved at the 2007 annual general meeting held on 17 June 2008.

2. INFORMATION ON SPECIFIC ACTIVITIES RELATED TO CORPORATE GOVERNANCE

During the reporting period, in order to enhance corporate governance standards, the Company conducted a comprehensive self-assessment on the rectifications of the matters set out in the "Report on Rectifications of Corporate Governance for the year 2007", and formulated a detailed work plan for pushing forward specific activities related to corporate governance in accordance with the requirements of relevant documents including "Notice Regarding Announcements of Specific Activities Related to Corporate Governance (Gong Gao[2008] No.27) (《關於公司治理專項活動公告的通知》(公告〔2008〕27號)) issued by the CSRC. According to the requirements of the work plan, the Company has deepened its efforts in specific activities related to corporate governance.

(1) Implemented Rectification Measures so as to Consolidate the Result of Specific Activities Related to Corporate Governance of Listed Companies for 2007

- Further strengthened the management of the Company's information disclosure of the Company so as to enhance the Company's transparency. While continuing to dedicate efforts in centralised management and implementation at every level in relation to information disclosure, the Company abided by the principle of honesty and trustworthiness and communicated with investors through a number of ways such as roadshow presentations, enthusiastically receiving visitors, answering phone enquiries, and teleconferencing. Accordingly, the Company was able to actively disclose operating and management information which is disclosable according to laws, thereby doing its utmost in offering assistance for investors to make rational judgment and decision. On April 2008, capitalising on the opportunity of annual results and first quarterly results announcements, the Company took the initiative to hold activities including on-site presentations, roadshows and teleconferences. These activities increased the understanding of the Company by domestic and overseas investors and relevant parties from the securities market, and provided a wealth of disclosable information to investors and the public for them to acquire an objective, impartial, accurate and comprehensive understanding of the Company.

- Proactively explored and enhanced the medium to long term incentive system which combines incentive and control. Except for independent directors, an annual salary system is adopted for the remaining directors and senior management who receive annual remunerations from the Company. Taking into account the performance of the Company and personal contribution of the directors and senior management, the Remuneration Committee of the Board of Directors conduct appraisals and propose a distribution plan 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. The annual aggregate remunerations for directors who receive annual remunerations from the Company shall be implemented within the annual aggregate remunerations for directors approved at the general meeting. Except for independent supervisors, the annual remunerations of other supervisors who receive annual remunerations from the Company 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. Independent directors and independent supervisors receive fixed amounts of annual remunerations from the Company each year during their terms of office. The Company adopts a similar annual salary system for middle management and senior technical chiefs. Taking into account of four aspects, namely "ethics", "ability", "diligence" and "performance", the Company sets the assessment standards and conducts a three-dimensional appraisal, including supervisor's assessment, peer assessment and staff representative's assessment. The appraisal result will be consolidated with the Company's management of these staff and appropriately linked with the allocation of remunerations to the relevant staff. In May 2008, on the basis of summarising the performance appraisal on middle management and seeking opinions of frontline staff, the Company amended and enhanced the existing method for performance appraisal and set out new methods for performance appraisal for middle management.

(2) Deepened Efforts in Pushing Forward the Specific Activities Related to Corporate Governance during the Reporting Period

- Further regulated connected transactions, established an effectiveness-sustaining system to prevent the substantial shareholder from appropriating funds of the Company and enhanced the relevant accountability system. The Company conscientiously inspected the management method related to connected transactions between the Company and Holding, the controlling shareholder. The Company also further enhanced the effectiveness-sustaining system to prevent the substantial shareholder and its subsidiaries from appropriating funds of the Company and prejudiced the interests of the Company as well as enhancing the relevant accountability system.

- Further enhanced the information disclosure system and improved the quality of information disclosure. The Company conscientiously inspected and summarised the implementation and operation of the Administrative Measures for Information Disclosure revised in July 2007. On this basis, the Company combined the "Rules Governing the Listing of Stocks" newly revised by the SSE and enhanced the Administrative Measures for Information Disclosure of the Company on a continuous basis. Newly revised Administrative Measures for Information Disclosure was implemented following the second approval at the sixth session of the Board of Directors on 14 October 2008.

- Fully leveraged the functions of the special committees of the Board of Directors and independent directors as well as set up the Nomination Committee of the Board of Directors. The Nomination Committee of the sixth session of the Board of Directors was formed by way of election at the first meeting of the sixth session of the Board of Directors on 31 August 2008. The Committee comprises independent directors Mr. Hui Leung Wah, Mr. Wong Chun Wah, Mr. Su Yong, Mr. Han Yi, and executive directors Mr. Gu Jianguo and Mr. Gu Zhanggen, with independent director Mr. Hui Leung Wah as Chairman of the Committee.

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 such as the Company's 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 structure. The Board of Directors and the Supervisory Committee have been operating independently. Other internal departments are not 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.

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Current Directors

Mr. Gu Jianguo, aged 56, 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 has also held the office of Secretary of the Party Committee of Magang (Group) Holding Company Limited and of the Company since 5 January 2009. 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. Su Jiangang, aged 54, 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 has been General Manager of the Company since January 2008. Mr. Su is also a Director of Maanshan Iron & Steel (HK) Limited, Director of MG Trading and Development GmbH, and Director and Vice Chairman of Jiyuan Shi JinMa Coke Co., Ltd. Mr. Su held 3,886 shares in the Company.

Mr. Zhao Jianming, aged 55, Director of the Company. Mr. Zhao was appointed Deputy General Manager of the Company and Deputy 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 Deputy Secretary of the Party Committee of Magang (Group) Holding Company Limited.

Mr. Gao Haijian, aged 52, 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 became Secretary to the Board of Directors of the Company on 3 January 2008.

Mr. Hui Zhigang, aged 55, 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 Chairman of Maanshan Harbour Group Co., Ltd.

Current Independent Directors

Mr. Wong Chun Wa, aged 35, 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 became 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 has been Independent Director of the Company since 31 August 2005.

Mr. Su Yong, aged 54, 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. He has been Independent Director of the Company since 31 August 2005. Mr. Su also serves as Independent Director of Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Baosight Software Co. Ltd and Shanghai International Airport Co. Ltd.

Mr. Hui Leung Wah, aged 46, 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 has been an Independent Director of the Company since 31 August 2005.

Mr. Han Yi, aged 45, Independent Director of the Company. Mr. Han was appointed Professor of the School of Law and Advisor of master degree students of Anhui University from May 2002 to June 2008. From September 2004 to May 2007, Mr. Han joined the programme for postdoctoral fellows at Renmin University of China. He was appointed Professor of the School of Law of Minzu University of China in June 2008. Mr. Han is a Professor of the School of Law and Advisor of master degree students at Zhongnan University of Finance and Political Law. He has been an Independent Director of the Company since 31 August 2005.

Resigning Directors

Mr. Gu Zhanggen, aged 62, 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 Director and Vice Chairman 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. Mr. Gu has ceased to be Deputy General Manager and Secretary of the Party Committee of Magang (Group) Holding Company Limited, and Secretary of the Party Committee of the Company since 5 January 2009. Mr Gu has also ceased to be Director and Vice Chairman of the Company since 21 January 2009. Mr. Gu held 3,886 shares in the Company.

Current Supervisors

Mr. Zhang Xiaofeng, aged 47, Chairman of the Supervisory Committee of the Company. Mr. Zhang was appointed Director of the Publicity Department (United Front Work Department) in July 1997 and Chairman of the Labor Union of Magang (Group) Holding Company Limited and the Company in August 2008. Mr. Zhang has ceased to be Director of the Publicity Department (United Front Work Department) since September 2008, and has been Chairman of the Supervisory Committee of the Company since 31 August 2008.

Mr. Fang Jinrong, aged 45, 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.

Mr. Liu Xianli, aged 54, a Supervisor of the Company. Mr. Liu was appointed Secretary of the Party Committee of the Hot-rolled Plate Factory of the Company in February 2004, and as Secretary of the Party Committee and Deputy Factory Manager of First General Steel Making and Rolling Factory in March 2005. Mr. Liu was appointed Manager of the Enterprise Management Department of the Company in February 2006. He has been a Supervisor of the Company on 31 August 2008.

Current Independent Supervisors

Madam Cheng Shaoxiu, aged 66, 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 from September 1999 to August 2005. She has been an Independent Supervisor of the Company since 31 August 2005. Madam Cheng also serves as Deputy General Manager of Anhui Zhongxing Jiyuan Information Technology Company (安徽省中興繼遠信息技術股份有限公司).

Madam An Qun, aged 46, 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 has been an Independent Supervisor of the Company since 31 August 2005.

Resigning Supervisors

Mr. Li Kezhang, aged 61, Chairman of the Supervisory Committee of the Company. 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. He has ceased to be Chairman of the Supervisory Committee since 31 August 2008.

Mr. Dou Qingxun, aged 59, 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. He has ceased to be Supervisor of the Company since 31 August 2008.

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. The term of office of members of the Board of Directors and Supervisory Committee is from 31 August 2008 to 31 August 2011.

Current Senior Management

Mr. Shi Xiongliang, aged 56, 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 of the Company in June 2001.

Mr. Ding Yi, aged 45, Deputy General Manager of the Company. Mr. Ding was appointed Assistant to General Manager of the Company in January 2002 and Deputy General Manager of the Company in January 2004. Mr. Ding was also a Chairman of Maanshan BOC-Ma Steel Gases Company Limited.

Resigning Senior Management

Mr. Wan Hon Kau, aged 36, 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. He has ceased to be qualified accountant of the Company since 31 August 2008.

All current senior management members of the Company were appointed by the sixth session of the Board of Directors of the Company and the term of office is from 31 August 2008 to 31 August 2011.

Save as disclosed above, as at 31 December 2008, 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 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 of the Company 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 2008 are listed as follows (Unit: RMB'000):

Name	Position	Annual emoluments (tax inclusive)
Gu Jianguo	Chairman	675
Gu Zhanggen (note)	Vice Chairman	675
Su Jiangang	Director and General Manager	674
Gao Haijian	Director, Deputy General Manager and Secretary to the Board of Directors	540
Hui Zhigang	Director and Deputy General Manager	540
Shi Xiongliang	Deputy General Manager and Chief Engineer	540
Ding Yi	Deputy General Manager	539
Wan Hon Kau (note)	Qualified Accountant	153

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 annuities credited to personal accounts, in which such annuities were paid by the corporation during 2008 in accordance with the pension scheme of the Company.

The annual salaries of the directors and senior management of the Company in 2008 decreased by approximately 20% as compared to 2007.

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 shareholders' general meeting. Details of the emoluments received by non-independent supervisors from the Company in 2008 are listed as follows (Unit: RMB'000):

Name	Position	Annual Emoluments (tax inclusive)
Li Kezhang (note)	Chairman of the Supervisory Committee	360
Zhang Xiaofeng	Chairman of the Supervisory Committee	180
Dou Qingxun (note)	Supervisor	133
Liu Xianli	Supervisor	85

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

The above-mentioned emoluments received by non-independent supervisors from the Company include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2008 in accordance with the pension scheme of the Company.

In 2008, 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 a allowance for independent director of RMB50,000 (tax inclusive; RMB40,000 tax exclusive) each from the Company. Madam Cheng Shaoxiu and Madam An Qun, both 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, director and Mr. Fang Jinrong, supervisor, received their emoluments at Holding, respectively.

In 2008, the total salary for directors, supervisors and senior management who received emoluments or allowances from the Company amounted to RMB5,369,000 (tax inclusive).

3. PERSONNEL MOVEMENT

The sixth sessions of the Board of Directors and of the Supervisory Committee were elected at the 2008 second extraordinary general meeting of the Company on 31 August 2008. Directors Mr. Gu Jianguo, Mr. Gu Zhanggen, Mr. Su Jiangang, Mr. Zhao Jianming, Mr. Gao Haijian, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi were re-elected, among whom Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi were still appointed as independent directors of the Company. Supervisors Ms. Cheng Shaoxiu and Ms. An Qun were re-elected as independent supervisors of the Company.

As the terms of office for Mr. Li Kezhang and Mr. Dou Qingxun expired, Mr. Li Kezhang has ceased to be Staff-represented Supervisor and Chairman of the Supervisory Committee of the Company, and Mr. Dou Qingxun has ceased to be Staff-represented Supervisor of the Company. On 22 August 2008, Mr. Zhang Xiaofeng and Mr. Liu Xianli were elected as Staff-represented Supervisors of the sixth session of the Supervisory Committee of the Company at the joint meeting of the Labour Representatives General Assembly.

Mr. Gu Jianguo and Mr. Gu Zhanggen were elected as Chairman and Vice Chairman respectively of the current session of the Board of Directors at the first meeting of the sixth session of the Board of Directors of the Company. Mr. Zhang Xiaofeng was elected as Chairman of the current session of the Supervisory Committee at the first meeting of the sixth session of the Supervisory Committee of the Company.

The term of office for the former qualified accountant, Mr. Wan Hon Kau, expired on 31 August 2008, and the Company will no longer open a position of qualified accountant.

Mr. Gu Zhanggen has reached retirement age. After getting approval at the third meeting of the sixth session of the Board of Directors, Mr. Gu ceased to be Director, Vice Chairman and member of the Nomination Committee of the Board of Directors since 21 January 2009.

There was no new appointment or removal of other senior management.

4. EMPLOYEES

As at the end of 2008, the Company had a total of 43,014 employees, of whom 39,031 were workers at production lines, 376 were sales representatives, 4,224 were technicians, 283 were financial staff and 3,324 were managerial staff. There were 11.04% of employees who had postgraduate qualifications or above. The number of resigned or retired staff for whom the Company was responsible for pensions amounted to 21,550.

Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

(1) Table on Share Movements

During the reporting period, the second exercise of "馬鋼 CWB1" warrants was completed and the 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	Increase/ decrease in holdings by substantial shareholders (±)	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions	3,830,571,658	56.68	–	–	–	–	55,857,927	55,857,927	3,886,429,585	50.47
1. State-owned shares	3,830,560,000	56.68	–	–	–	–	–	–	3,830,560,000	49.47
2. State-owned legal person shares	–	–	–	–	–	–	55,857,927	55,857,927	55,857,927	0.73
3. Other domestic shares										
Including:										
Shares owned by domestic legal persons	–	–	–	–	–	–	–	–	–	–
Shares owned by domestic natural persons	11,658	0.0002	–	–	–	–	–	–	11,658	0.0002
4. Foreign owned shares										
Including:										
Shares owned by foreign legal persons	–	–	–	–	–	–	–	–	–	–
Shares owned by foreign natural persons	–	–	–	–	–	–	–	–	–	–
II. Shares not subject to selling restrictions	2,927,980,058	43.32	942,129,470	–	–	–	–55,857,927	886,271,543	3,814,251,601	49.53
1. RMB-denominated ordinary shares	1,195,050,058	17.68	942,129,470	–	–	–	–55,857,927	886,271,543	2,081,321,601	27.03
2. Domestic listed foreign shares	–	–	–	–	–	–	–	–	–	–
3. Foreign listed foreign shares	1,732,930,000	25.64	–	–	–	–	–	–	1,732,930,000	22.50
4. Others	–	–	–	–	–	–	–	–	–	–
III. Total number of shares	6,758,551,716	100	942,129,470	–	–	–	–	942,129,470	7,700,681,186	100

Note: The second exercise of "馬鋼 CWB1" warrants took place.

(2) Table on Movement of Shares with Selling Restrictions

Unit: Shares

Name of shareholder	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	Reasons for selling restrictions	Date of relief of selling restrictions
Magang (Group) Holding Company Limited	3,830,560,000	–	–	3,830,560,000	State Share Reform	Not applicable
		–	55,857,927	55,857,927	Implementation of the plan of increase in holding	Not applicable
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	3,830,571,658	–	55,857,927	3,886,429,585	–	–

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:15-16 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 the SSE. After the adjustment, the exercise price of the warrants became RMB3.33 per share. On 10 July 2008, 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 the SSE. After the adjustment, the exercise price of the warrants became RMB3.26 per share.

(2) The Exercise of "馬鋼 CWB1" Warrants

The first exercise of "馬鋼 CWB1" warrants took place on 15-16 November 2007, 19-23 November 2007, 26-28 November 2007. 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.

The second exercise of "馬鋼 CWB1" warrants took place on 17-21 November 2008, 24-28 November 2008. Under this exercise, 942,129,470 warrants were successfully exercised. After the exercise, the Company's total number of shares increased from 6,758,551,761 shares to 7,700,681,186 shares, while 19,618,814 unsuccessfully exercised warrants were written off in accordance with the regulations.

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 446,090 shareholders, including 444,547 A share holders and 1,543 H share holders.

- *Shareholding of the 10 largest shareholders*

Name of the shareholder	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,417,927	3,886,417,927	0
HKSCC (Nominees) Limited	Foreign shareholder	22.13	1,704,107,997	0	Not applicable
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.68	51,998,801	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	0.53	40,499,848	0	Unknown
中國建設銀行－上投摩根中國優勢證券投資基金	Others	0.40	30,899,851	0	Unknown
中國工商銀行－諾安股票證券投資基金	Others	0.28	21,191,238	0	Unknown
招商銀行股份有限公司－上證紅利交易型開放式指數證券投資基金	Others	0.24	18,780,658	0	Unknown
楊成社	Others	0.21	16,000,000	0	Unknown
中國銀行－嘉實滬深300指數證券投資基金	Others	0.20	15,221,851	0	Unknown
中國建設銀行－工銀瑞信精選平衡混合型證券投資基金	Others	0.19	15,000,000	0	Unknown

- *Shareholding of the 10 largest shareholders without selling restrictions*

Name of shareholder	Number of shares held without selling restrictions	Type of shares
HKSCC (Nominees) Limited	1,704,107,997	Overseas-listed foreign shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	51,998,801	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	40,499,848	RMB-denominated ordinary shares
中國建設銀行－上投摩根中國優勢證券投資基金	30,899,851	RMB-denominated ordinary shares
中國工商銀行－諾安股票證券投資基金	21,191,238	RMB-denominated ordinary shares
招商銀行股份有限公司－上證紅利交易型開放式指數證券投資基金	18,780,658	RMB-denominated ordinary shares
楊成社	16,000,000	RMB-denominated ordinary shares
中國銀行－嘉實滬深300指數證券投資基金	15,221,851	RMB-denominated ordinary shares
中國建設銀行－工銀瑞信精選平衡混合型證券投資基金	15,000,000	RMB-denominated ordinary shares
中融國際信託有限公司	12,710,883	RMB-denominated ordinary shares

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

There was no connected relationship between Magang (Group) Holding Company Limited ("Holding") and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). 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.

As at the end of the reporting period, Holding held a total of 3,886,417,927 shares of the Company, including 3,830,560,000 A shares of the Company on behalf of the State. During the period from 12 September 2008 to 31 December 2008, Holding increased a total of 55,857,927 A shares of the Company via the trading system of the SSE. Holding was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. Holding 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 1,704,107,997 H 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 2008 and 31 March 2009, 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.

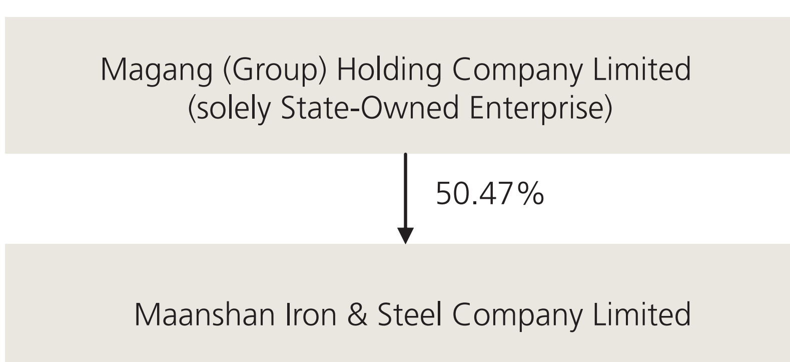
(2) Save as disclosed above, details of the holders of the Company's H Shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2008 were as follows:

Name of shareholder	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 (%)
Morgan Stanley	Interests of entities controlled by substantial shareholders	236,834,006 (Long position)	13.67
		63,826,000 (Short position)	3.68
JP Morgan Chase & Co.	Note 1	124,872,851 (Long position)	7.21
	Actual owner	5,781,000 (Short position)	0.33
	Custodian	81,120,000 (Lending pool)	4.68
UBS AG	Note 2	86,652,674 (Long position)	5.00
		25,952,000 (Short position)	1.50

Note 1: JP Morgan Chase & Co. has a long position of 124,872,851 shares of the Company, including 31,198,851 shares as the actual owner, 12,554,000 shares as investment manager, 81,120,000 shares as a custodian.

Note 2: UBS AG has a long position of 86,652,674 shares of the Company, including 61,916,674 shares as the actual owner, 17,004,000 shares as an entity entitled to guaranteed interests in the shares and 7,732,000 shares in the form of interests held by legal entities controlled by the substantial shareholder; it also has a short position of 25,952,000 shares, including 18,880,000 shares as the actual owner, 7,072,000 shares in the form of interests held by legal entities controlled by the substantial shareholder.

(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 with selling restrictions	Number of shares held with selling restrictions	Time of listing and trading	Additional listed and tradable shares	Selling restrictions
Magang (Group) Holding Company Limited	3,886,417,927	Not applicable	Not applicable	Note
Gu Jianguo	3,886	Not applicable	Not applicable	Directors are subject to selling restrictions during their terms of office and the restrictions will be relieved six months after their cessation of terms of office.
Gu Zhanggen	3,886	22 July 2009	3,886	
Su Jiangang	3,886	Not applicable	Not applicable	

Note: After the implementation of the State Share Reform on 31 March 2006, 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.

Holding implemented the shares acquisition plan for the first time via the trading system of the SSE on 12 September 2008. Meanwhile, Holding undertook that: it would continue to acquire A shares of the Company via the trading system of the SSE within 12 months from the date of publishing the shares acquisition announcement (i.e. 12 September 2008). The accumulated acquisition ratio will not exceed 2% of the total share capital of the Company (i.e. the issued share capital of the Company as at 12 September 2008). It will not sell the shares of the Company it held during the implementation of the continuous acquisition plan and during the statutory period. As at the latest practicable date for the publication of this report, i.e. 31 March 2009, the latest batch of shares acquired by of Holding was acquired on 31 December 2008.

Relevant Details of "06 Magang 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 holder	Number of bonds held
Ping An Insurance (Group) Company of China, Ltd.	649,892,000
China Pacific Life Insurance Co., Ltd.	549,146,000
China Life Reinsurance Co., Ltd.	383,595,000
中國大地財產保險股份有限公司	300,000,000
泰康人壽保險股份有限公司－分紅－團體分紅-019L-FH001滬	298,244,000
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. During the reporting period, there were no material changes in the profitability, asset condition and credit condition of holding, the guarantor.

Shareholders' General Meetings

In 2008, the Company held three shareholders' general meetings.

1. FIRST EXTRAORDINARY GENERAL MEETING

On 19 February 2008, the Company held the 2008 first extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. The "Replacement of Mr. Hui Zhigang as a Director of the fifth session of the Board of Directors of Company" was considered and approved at the meeting.

The above matters were published in Shanghai Securities News, and the websites of the SSE and the Hong Kong Stock Exchange on 20 February 2008.

2. ANNUAL GENERAL MEETING

On 17 June 2008, the Company held 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 2007, the audited financial statements and the profit distribution plan for 2007, the appointment of Ernst & Young Hua Ming and Ernst & Young as auditors of the Company for 2007 and the authorisation to the Board of Directors to determine their remuneration were approved at the meeting. The Company's late-stage structural adjustment programme of the the "Eleventh Five-year Plan" was approved as well.

The above matters were published in Shanghai Securities News, and the websites of the SSE and the Hong Kong Stock Exchange on 18 June 2008.

3. SECOND EXTRAORDINARY GENERAL MEETING

On 31 August 2008, the Company held the 2008 second extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Directors of the sixth session of the Board and the supervisors of the sixth session of the Supervisory Committee were elected at the meeting and the remunerations of the directors and supervisors of the sixth session were determined.

The above matters were published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 2 September 2008.

1. SIGNIFICANT LITIGATIONS AND ARBITRATIONS

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

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

3. As at the end of the reporting period, save for 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: shares; amount: RMB'000):

Item No.	Type of Securities	Securities 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	585	35,000	356	43.8%	(229)
2	Stock	601390	China Railway Group	158	33,000	179	22.0%	21
3	Stock	601898	China Coal Energy	202	12,000	77	9.5%	(125)
4	Stock	601186	China Railway Construction Corporation Limited	182	20,000	201	24.7%	19
Other securities investments held at the end of the reporting period				–	–	–	–	–
Gain/loss from disposal of securities investments during the reporting period				–	–	–	–	–
Total				1,127	–	813	100%	(314)

4. 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 during the reporting period.

5. CONNECTED TRANSACTIONS

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 parties after negotiation, and shall not be higher than the weighted average ex factory price per tonne charged by the top three independent suppliers supplying the largest amounts of iron ore to the Company in the previous year of the contracting year for the similar type of iron ore supplied to the Company.

The price of limestone purchased every year by the Company from Holding will be determined from time to time by both parties after negotiation, and shall not be higher than the weighted average ex factory price charged by the top three independent suppliers supplying the largest amounts of limestone to the Company in the previous year of the contracting year for the similar type of limestone supplied to the Company.

The payment made by the Company to Holding in respect of the Sale and Purchase of Ore Agreement from 1 January 2008 to 31 December 2008 was as follows (RMB'000):

	Amount paid	**Proportion of transaction of the same category** (%)
Purchase of iron ore	1,897,182	21.52

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 RMB2,587,371,400.

(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	4,932	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	39,276	5.56
Payment by the Company for fixed assets and construction services	131,652	4.87
Payment by the Company to Holding for other services	245,467	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 1.81% of the audited net tangible asset value of the Company for the year ended 31 December 2008 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 2008 have been approved by the Board of Directors of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange have not been exceeded. Ernst & Young, the auditors of the Company, has executed discussion processes for such financial information and issued reports regarding such execution.

- **Transaction on equity transfer between the Company and Holding**

  On 29 October 2007, the Board of Directors of the Company, taking into account of the need to develop assets into leadership positions and to capitalise on the advantage of the Company's iron and steel assets, agreed on Anhui Masteel Holly Industries Co. Ltd. ("Masteel Holly", a controlling subsidiary of the Company's acquisition of 75% equity interest in Anhui Masteel Auto-Parking Equipment with Artificial Intelligent Co., Ltd. ("Masteel Auto-Parking") held by Holding by means of cash. Huapu Certified Public Accountants and Jiangxi Zhonglei Certified Appraisal Co. Ltd. (江西中磊資產評估有限公司) were appointed by Masteel Holly to conduct financial review and asset appraisal on Masteel Auto-Parking respectively. The audited and recognised book value of net assets of Masteel Auto-Parking amounted to approximately RMB11.19 million while the assessed and recognised net asset value of Masteel Auto-Parking amounted to be approximately RMB20.90 million. The net asset value of Masteel Auto-Parking was finally determined to be approximately RMB20.90 million. The total consideration for the acquisition of 75% equity interest payable by Masteel Holly was approximately RMB15.68 million. During the reporting period, Masteel Holly had completed the acquisition and the acquisition had no material effects on the operating results and financial position of the Company.

  The Independent Directors consider that the terms of the above transaction are in compliance with normal commercial requirements. The terms are fair and reasonable, in line with the Company's overall development strategies and are in the interests of the Company and its shareholders as a whole.

- As at 31 December 2008, save for ordinary business transactions and dividends due to Holding, there is no amount due to or from the Company and connected parties.

  Liabilities and loans to/from connected parties

  Unit: RMB'000

Related parties	Funds provided to connected parties		Funds provided by connected parties to the Company	
	Total amount	Balance amount	Total amount	Balance amount
Magang (Group) Holding Company Limited	–	–	700,000	1,095,946
Other related parties	–	–	–	–
Total	–	–	700,000	1,095,946

Including: The total amount and balance amount of funds provided from the Company to the controlling shareholder and its subsidiaries during the reporting period were zero.

- **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 2008.

6. 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.

7. External guarantees provided by the Company as at the end of the reporting period

Unit: RMB million

External guarantees provided by the Company (excluding guarantees for subsidiaries)

Guaranteed entity	Date of incurrence	Guarantee amount	Type of guarantee	Guarantee period	Completed or not	Guarantee for connected parties (Yes or No)
Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Total guarantee amount during the reporting period	0
Balance of guarantees during the reporting period (A)	0

Guarantees provided by the Company for subsidiaries

Total guarantee amount for subsidiaries during the reporting period	0
Balance of guarantees for subsidiaries at the end of the reporting period (B)	3,814

Total guarantee amount provided by the Company (including guarantees for subsidiaries)

Total guarantee amount (A+B)	3,814
Total guarantee amount as a percentage of net assets of the Company	14.67%
Including:	
Guarantee amount provided for shareholders, the de facto controller and connected parties (C)	0
Guarantee amount provided directly or indirectly for entities with gearing (assets-liabilities) ratio exceeding 70% (D) (Note)	3,800
Total guarantee amount exceeding 50% of net assets (E)	0
Total amount of the three guarantees mentioned above (C+D+E)	3,800

Note: The gearing (assets-liabilities) ratio of Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary of the Company, exceeded 70%. The Company's guarantees provided to it amounted to RMB3,800 million for banking facilities, which amounts have been fully utilised.

The guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB57 million, which amount has not been utilised; and to Anhui Masteel K. Wah New Building Materials Co., Ltd., a controlled subsidiary, amounting to RMB14 million, which amount has been fully utilised.

The afore-mentioned guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of Directors beforehand. The guarantees for Ma Steel International Trade and Economic Corporation and Maanshan Iron & Steel (HK) Limited were only provided for the specified import items designated by the Company, that were loans needed 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 issuing 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 tax payment security deposit regarding imported ores. The guarantees for Anhui Masteel K. Wah New Building Materials Co., Ltd. were only provided for land construction and the purchase of equipment. All the guarantees were not applicable for investments in properties, stocks, bonds, funds, or external investments, provision of guarantees for external parties, provisions of loans to external parties, or grants to external parties.

8. Undertakings by the Company or shareholders with a shareholding of more than 5% (including 5%).

In the process of the Company's 2006 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.

Holding acquired 13,760,000 A shares of the Company for the first time via the trading system of the SSE on 12 September 2008, representing 0.2% of the then issued share capital of the Company. Meanwhile, Holding undertook that: It would continue to acquire A shares of the Company via the trading system of the SSE within 12 months from the date of publishing of the announcement of increase in holding of shares (i.e. 12 September 2008). The accumulated acquisition ratio would not exceed 2% of the total share capital of the Company (i.e. the then issued share capital of the Company) (including the shares acquired that time) and that it would not sell the shares of the Company it held during the implementation of the continuous acquisition plan and during the statutory period.

As at 31 December 2008, Holding acquired a total 55,857,927 A shares of the Company, representing 0.73% of the issued share capital of the Company during the first acquisition. Such number of shares did not exceed 2% of the issued share capital of the Company during the first acquisition. Nor did Holding sell the shares of the Company it held. It completely carried out these undertakings.

Save for the afore-mentioned undertakings, there were no undertakings which may incur significant impact on the Company's operating results and financial position made during, or already made but extending into, the reporting period, by the Company or shareholders holding 5% or more of the Company's shares, and no extension of shares lock-up undertakings was reported.

9. During the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, the 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. INCOME TAX

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.

As at the reporting date, the Company had not received any documents from taxation authorities for pursuing the difference in income tax of the Company in previous years.

In addition, the Company has adopted the corporate income tax rate of 25% pursuant to the "The Corporate Income Tax Law of the People's Republic of China" since 1 January 2008.

11. INDEX OF INFORMATION DISCLOSURES ON NEWSPAPERS

No.	Announcement title	Newspaper and page number	Date of announcement
1	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
2	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
3	Notice of 2008 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page D12, Shanghai Securities News	4 January 2008
4	Announcement on Resolution Passed at the 2008 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page D10, Shanghai Securities News	20 February 2008
5	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
6	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
7	Announcement on Adjustment to the Applicable Income Tax Rate for 2007 of Maanshan Iron & Steel Company Limited	Page D95, Shanghai Securities News	18 April 2008
8	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008
9	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008
10	Notice of Annual General Meeting of Maanshan Iron & Steel Company Limited	Page D132, Shanghai Securities News	30 April 2008

No.	Announcement title	Newspaper and page number	Date of announcement
11	Announcement on Resolutions Passed at the 2007 Annual General Meeting of Maanshan Iron & Steel Company Limited	Page D6, Shanghai Securities News	18 June 2008
12	Announcement on the Implementation of the 2007 Dividend Distribution of Maanshan Iron & Steel Company Limited	Page D5, Shanghai Securities	4 July 2008
13	Indicative Announcement on the Adjustment to the Exercise Price of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page D5, Shanghai Securities News	4 July 2008
14	Announcement on the Adjustment to the Exercise Price of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C7, Shanghai Securities News	10 July 2008
15	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page C2, Shanghai Securities News	15 July 2008
16	Announcement on Resolutions of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page C2, Shanghai Securities News	15 July 2008
17	Notice of 2008 Second Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page C2, Shanghai Securities News	15 July 2008
18	Announcement on Rectification of Specific Activities Related to Corporate Governance of Listed Companies of Maanshan Iron & Steel Company Limited	Page C43, Shanghai Securities News	18 July 2008
19	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page C71, Shanghai Securities News	15 August 2008
20	Announcement on Resolutions of the Nineteenth Meeting of the Fifth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page C71, Shanghai Securities News	15 August 2008
21	Announcement on Resolutions Passed at the 2008 Second Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Page C8, Shanghai Securities News	2 September 2008
22	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page C8, Shanghai Securities News	2 September 2008
23	Announcement on Resolutions of the First Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page C8, Shanghai Securities News	2 September 2008
24	Announcement on Increase in Holding of Shares of the Company by the Company's Controlling Shareholder of Maanshan Iron & Steel Company Limited	Page 13, Shanghai Securities News	13 September 2008
25	Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page C4, Shanghai Securities News	15 October 2008

No.	Announcement title	Newspaper and page number	Date of announcement
26	Special Indicative Announcement on the Last Trading Day of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C51, Shanghai Securities News	28 October 2008
27	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C7, Shanghai Securities New	4 November 2008
28	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C12, Shanghai Securities News	5 November 2008
29	First Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page B6, Shanghai Securities News	6 November 2008
30	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C11, Shanghai Securities News	7 November 2008
31	Announcement on Interest Payment of "06 馬鋼債" of Maanshan Iron & Steel Company Limited	Page C11, Shanghai Securities News	7 November 2008
32	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page A11, Shanghai Securities News	10 November 2008
33	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Cover Page 11, Shanghai Securities News	11 November 2008
34	Second Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C5, Shanghai Securities News	12 November 2008
35	Special Indicative Announcement on the Last Trading Day of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C5, Shanghai Securities News	12 November 2008
36	Indicative Announcement on the Termination of Listing of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C5, Shanghai Securities News	12 November 2008
37	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C10, Shanghai Securities News	13 November 2008
38	Special Indicative Announcement on the Last Trading Day of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C10, Shanghai Securities News	13 November 2008
39	Third Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of of Maanshan Iron & Steel Company Limited	Page C7, Shanghai Securities News	14 November 2008

No.	Announcement title	Newspaper and page number	Date of announcement
40	Indicative Announcement on the Termination of Listing of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C7, Shanghai Securities News	14 November 2008
41	Special Indicative Announcement on the Last Trading Day of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C7, Shanghai Securities News	14 November 2008
42	Indicative Announcement on the Termination of Listing of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page B3, Shanghai Securities News	20 November 2008
43	Special Indicative Announcement on the 2008 Exercise of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C11, Shanghai Securities News	26 November 2008
44	Announcement on the Status of the Implementation of the Continuous Acquisition Plan by the Company's Controlling Shareholder of Maanshan Iron & Steel Company Limited	Page C5, Shanghai Securities News	27 November 2008
45	Clarification Announcement of Maanshan Iron & Steel Company Limited	Page C5, Shanghai Securities News	27 November 2008
46	Announcement on the 2008 Exercise Results of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page A14, Shanghai Securities News	1 December 2008
47	Announcement on the Termination of Listing of "馬鋼 CWB1" Warrants of Maanshan Iron & Steel Company Limited	Page C11, Shanghai Securities News	2 December 2008
48	Announcement on Share Movements of Maanshan Iron & Steel Company Limited	Page C11, Shanghai Securities News	2 December 2008
49	Announcement on the Rating Tracking of "06 馬鋼債"of Maanshan Iron & Steel Company Limited	Page C15, Shanghai Securities News	3 December 2008
50	Announcement on Entering into Three Parties Regulatory Agreement on Depositing Fundraising Proceeds in Designated Account of Maanshan Iron & Steel Company Limited	Page 25, Shanghai Securities News	13 December 2008

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

Independent Auditors' Report

ERNST & YOUNG
安 永

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 94 to 188, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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
15 April 2009

Consolidated Income Statement

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	4, 5	**70,009,580**	49,052,851
Cost of sales		**(65,777,650)**	(43,478,583)
Gross profit		**4,231,930**	5,574,268
Other income and gains	5	**314,969**	316,229
Selling and distribution costs		**(1,145,342)**	(919,079)
Administrative expenses		**(951,063)**	(1,025,157)
Other expenses		**(3,684)**	(132,831)
Finance costs	7	**(1,840,304)**	(1,156,199)
Share of profits and losses of:			
A jointly-controlled entity		**68,564**	34,306
Associates		**130,804**	97,038
PROFIT BEFORE TAX	6	**805,874**	2,788,575
Tax	10	**(74,645)**	(220,591)
PROFIT FOR THE YEAR		**731,229**	2,567,984
Attributable to:			
Equity holders of the parent	11	**710,234**	2,467,253
Minority interests		**20,995**	100,731
		731,229	2,567,984
DIVIDEND	12	**–**	878,612
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**10.38 cents**	38.06 cents
Diluted		**N/A**	34.90 cents

Consolidated Balance Sheet

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**40,769,496**	41,315,357
Construction in progress	15	**2,754,591**	4,021,499
Investment properties	16	**1,206**	1,240
Prepaid land premiums	17	**1,765,348**	1,516,155
Other intangible asset	18	**85,191**	120,822
Investment in a jointly-controlled entity	20	**304,279**	268,306
Investments in associates	21	**501,964**	414,725
Available-for-sale financial assets	22	**102,917**	102,917
Held-to-maturity investments	23	**–**	5,599
Deferred tax assets	24	**612,250**	90,486
Total non-current assets		**46,897,242**	47,857,106
CURRENT ASSETS			
Inventories	25	**9,702,503**	9,550,481
Construction contracts	26	**145,555**	75,688
Trade and bills receivables	27	**1,893,983**	5,209,674
Prepayments, deposits and other receivables	28	**1,543,755**	1,928,496
Tax recoverable		**145,702**	–
Held-to-maturity investments	23	**2,939**	–
Equity investments at fair value through profit or loss	29	**813**	1,463
Pledged time deposits	30	**513,720**	768,081
Cash and cash equivalents	30	**5,437,367**	5,523,876
Total current assets		**19,386,337**	23,057,759
CURRENT LIABILITIES			
Trade and bills payables	31	**8,574,266**	9,472,551
Other payables and accruals	32	**8,549,471**	9,742,997
Interest-bearing bank and other borrowings	33	**1,377,579**	6,081,841
Tax payable		**–**	111,819
Provisions	35	**24,856**	40,546
Total current liabilities		**18,526,172**	25,449,754
NET CURRENT ASSETS/(LIABILITIES)		**860,165**	(2,391,995)
TOTAL ASSETS LESS CURRENT LIABILITIES		**47,757,407**	45,465,111

Consolidated Balance Sheet (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**47,757,407**	45,465,111
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**15,666,296**	16,577,952
Bonds with warrants	33, 34	**4,992,975**	4,828,762
Deferred income		**563,549**	590,426
Provisions	35	**7,485**	12,485
Total non-current liabilities		**21,230,305**	22,009,625
Net assets		**26,527,102**	23,455,486
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	36	**7,700,681**	6,758,552
Equity component of bonds with warrants		**–**	372,679
Reserves	37(a)	**18,306,302**	14,999,128
Proposed final dividend	12	**–**	878,612
		26,006,983	23,008,971
Minority interests		**520,119**	446,515
Total equity		**26,527,102**	23,455,486

Gu Jianguo
Director

Su Jiangang
Director

Consolidated Statement Of Changes In Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

		Attributable to equity holders of the parent												
	Notes	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 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	37	–	–	–	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 and 1 January 2008		**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**
Profit for the year		–	–	–	–	–	–	–	–	710,234	–	710,234	20,995	731,229
Transfer from/(to) reserves	37	–	–	–	91,184	–	9,087	6,690	–	(106,961)	–	–	–	–
Final 2007 dividend declared		–	–	–	–	–	–	–	–	–	(878,612)	(878,612)	–	(878,612)
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(48,585)	(48,585)
Adjustment for deferred tax liability of bonds with warrants	24	–	–	167,810	–	–	–	–	–	–	–	167,810	–	167,810
Issue of shares	34	942,129	2,654,345	(540,489)	–	–	–	–	–	–	–	3,055,985	–	3,055,985
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	–	101,194	101,194
Exchange realignment		–	–	–	–	–	–	–	(57,405)	–	–	(57,405)	–	(57,405)
At 31 December 2008		**7,700,681**	**8,338,359***	**–**	**2,928,527***	**–***	**45,729***	**34,267***	**(47,775)***	**7,007,195***	**–**	**26,006,983**	**520,119**	**26,527,102**

* These reserve accounts comprise the consolidated reserves of RMB18,306,302,000 (2007: RMB14,999,128,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**805,874**	2,788,575
Adjustments for:			
Finance costs	7	**1,840,304**	1,156,199
Share of profits and losses of a jointly-controlled entity		**(68,564)**	(34,306)
Share of profits and losses of associates		**(130,804)**	(97,038)
Bank interest income	5, 6	**(115,653)**	(52,798)
Gain on disposal of equity investments at fair value through profit or loss	5, 6	**(220)**	(282)
Dividend income from available-for-sale financial assets	5, 6	**(290)**	(8,463)
Depreciation	6	**4,565,548**	3,256,266
Depreciation of investment properties	6	**34**	55
Recognition of prepaid land premiums	6	**40,040**	38,496
Amortisation of a mine participation right	6	**4,179**	5,096
Recognition of deferred income	5, 6	**(66,056)**	(52,795)
Fair value (gains)/losses on equity investments at fair value through profit or loss	5, 6	**1,033**	(720)
Gain on disposal of available-for-sale financial assets	5, 6	**–**	(24,549)
Loss on disposal of items of property, plant and equipment, net	6	**2,789**	136,650
Write-down of inventories to net realisable value	6	**1,707,562**	40,334
Provision/(reversal of provision) for doubtful debts, net	6	**690**	(5,052)
Foreign exchange gains, net	6	**(172,813)**	(58,457)
		8,413,653	7,087,211
Increase in inventories		**(1,849,502)**	(3,079,365)
Increase in construction contracts		**(69,867)**	(24,569)
(Increase)/decrease in trade and bills receivables		**3,310,345**	(3,975,686)
(Increase)/decrease in prepayments, deposits and other receivables		**269,958**	(409,585)
Increase/(decrease) in trade and bills payables		**(20,460)**	1,145,058
Increase/(decrease) in other payables and accruals		**(959,523)**	3,290,066
Decrease in provisions for pension benefits and housing subsidies		**(20,690)**	(19,784)
Cash generated from operations		**9,073,914**	4,013,346
Income tax paid		**(686,119)**	(388,395)
Net cash inflow from operating activities		**8,387,795**	3,624,951

Consolidated Cash Flow Statement (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**8,387,795**	3,624,951
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**115,653**	52,798
Proceeds from disposal of equity investments at fair value through profit or loss		**727**	674
Dividend income from equity investments at fair value through profit or loss		**12**	–
Dividend income from available-for-sale financial assets		**290**	8,463
Dividend income from a jointly-controlled entity		**32,591**	–
Dividend income from associates		**39,065**	16,327
Government subsidies granted for specific projects		**39,180**	78,320
Purchases of items of property, plant and equipment, construction in progress and other intangible assets		**(3,523,358)**	(6,999,870)
Purchases of prepaid land premiums		**(285,685)**	(61,659)
Proceeds from disposal of items of property, plant and equipment		**18,693**	50,749
Proceeds from retrieval of held-to-maturity investments		**2,660**	2,660
Investments in equity investments at fair value through profit or loss		**(902)**	(1,135)
Investments in available-for-sale financial assets		**–**	(91,467)
Investments in associates		**–**	(4,500)
Proceeds from disposal of available-for-sale financial assets		**–**	29,916
Acquisition of a subsidiary	38	**(14,098)**	–
Decrease/(increase) in pledged time deposits		**253,936**	(237,477)
Net cash outflow from investing activities		**(3,321,236)**	(7,156,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**19,326,545**	16,516,241
Repayment of bank and other borrowings		**(24,754,929)**	(10,358,331)
Proceeds from exercising warrants	36	**3,071,343**	1,009,828
Costs associated with the conversion of warrants into ordinary shares	36	**(15,358)**	(5,049)
Capital contribution by minority shareholders		**101,194**	60,553
Interest paid		**(1,712,551)**	(1,421,295)
Dividend paid		**(1,080,794)**	(344,087)
Dividend paid to minority shareholders		**(48,585)**	(25,266)
Net cash inflow/(outflow) from financing activities		**(5,113,135)**	5,432,594

Consolidated Cash Flow Statement (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(46,576)**	1,901,344
Cash and cash equivalents at beginning of year		**5,523,876**	3,629,568
Effect of foreign exchange rate changes, net		**(39,933)**	(7,036)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,437,367**	5,523,876
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	30	**5,437,367**	5,523,876

Balance Sheet

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**38,877,703**	39,741,474
Construction in progress	15	**2,572,902**	3,792,906
Investment properties		**18,809**	19,214
Prepaid land premiums	17	**1,269,926**	1,214,768
Investments in subsidiaries	19	**1,118,244**	899,450
Investment in a jointly-controlled entity	20	**234,000**	234,000
Investments in associates	21	**263,276**	263,276
Available-for-sale financial assets	22	**102,917**	102,917
Held-to-maturity investments	23	**–**	5,599
Deferred tax assets	24	**603,267**	90,335
Total non-current assets		**45,061,044**	46,363,939
CURRENT ASSETS			
Inventories	25	**8,845,460**	8,238,787
Construction contracts	26	**145,555**	75,688
Trade and bills receivables	27	**2,020,994**	5,221,264
Prepayments, deposits and other receivables	28	**1,621,749**	1,639,886
Tax recoverable		**141,960**	–
Held-to-maturity investments	23	**2,939**	–
Equity investments at fair value through profit or loss	29	**813**	1,463
Pledged time deposits	30	**6,000**	–
Cash and cash equivalents	30	**4,362,314**	3,665,370
Total current assets		**17,147,784**	18,842,458
CURRENT LIABILITIES			
Trade and bills payables	31	**6,937,043**	7,696,708
Other payables and accruals	32	**7,996,926**	8,316,238
Interest-bearing bank and other borrowings	33	**846,000**	5,009,660
Tax payable		**–**	41,922
Provisions	35	**24,856**	40,546
Total current liabilities		**15,804,825**	21,105,074
NET CURRENT ASSETS/(LIABILITIES)		**1,342,959**	(2,262,616)
TOTAL ASSETS LESS CURRENT LIABILITIES		**46,404,003**	44,101,323

Balance Sheet (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**46,404,003**	44,101,323
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	**15,654,324**	16,563,408
Bonds with warrants	33, 34	**4,992,975**	4,828,762
Deferred income		**562,504**	590,426
Provisions	35	**7,485**	12,485
Total non-current liabilities		**21,217,288**	21,995,081
Net assets		**25,186,715**	22,106,242
EQUITY			
Issued capital	37	**7,700,681**	6,758,552
Equity component of bonds with warrants		**–**	372,679
Reserves	37(b)	**17,486,034**	14,096,399
Proposed final dividend	12	**–**	878,612
Total equity		**25,186,715**	22,106,242

Gu Jianguo
Director

Su Jiangang
Director

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 also 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, 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred at the date of exchange, 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 interpretations and amendments to 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 interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets (continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys 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 has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	*Improving Disclosures about Financial Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	*Embedded Derivatives*[5]
HKAS 1 (Revised)	*Presentation of Financial Statements*[2]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfer of Assets From Customers*[6]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for transfers on or after 1 July 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

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 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Jointly-controlled entity

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

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's investment in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Associates

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 contract assets, 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.

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 an 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 an 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 least at each balance sheet date.

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

Construction in progress

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

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

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

Residual values, useful lives and the 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.

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 in this joint venture purchased a mine participation right in Australia in the form of a sub-lease for a term of 25 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Mine participation right (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

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 financial assets 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.

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. These 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Financial liabilities including trade and other payables 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.

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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial liabilities

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

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

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Construction contracts *(continued)*

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

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

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

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

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

Provisions

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

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

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants

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

Revenue recognition

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

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

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

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

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

(e) 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 in 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Dividends

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

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

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 based on an evaluation of the terms and conditions of the arrangements, 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.

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 at each balance sheet date.

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

Estimation uncertainty *(continued)*

Provision for inventories under net realisable value

The management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. 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 at each balance sheet date.

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 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 estimates and judgements 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 affect the income tax and tax provision in the period in which the differences are 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 judgement 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.

No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

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:

	2008	2007
	RMB'000	RMB'000
Revenue		
Sale of goods	**70,009,580**	49,052,851
Other income and gains		
Bank interest income	**115,653**	52,798
Trading of iron ore	**57,992**	56,377
Dividend income from available-for-sale financial assets	**290**	8,463
Gain on disposal of equity investments at fair value through profit or loss	**220**	282
Gain on disposal of available-for-sale financial assets	**–**	24,549
Subsidies income	**55,705**	49,075
Fair value gains on equity investments at fair value through profit or loss	**–**	720
Recognition of deferred income	**66,056**	52,795
Others	**19,053**	71,170
	314,969	316,229

6. PROFIT BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold*		**65,777,650**	43,478,583
Depreciation	14	**4,565,548**	3,256,266
Depreciation of investment properties	16	**34**	55
Recognition of prepaid land premiums	17	**40,040**	38,496
Amortisation of a mine participation right**	18	**4,179**	5,096
Provision/(reversal of provision) for doubtful debts, net#		**690**	(5,052)
Auditors' remuneration		**5,750**	5,750
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
Wages and salaries		**2,089,108**	1,925,041
Welfare and benefits		**649,694**	866,170
Pension scheme contributions		**471,558**	443,479
		3,210,360	3,234,690
Contingent rents under operating leases in respect of land and buildings		**36,250**	36,250
Foreign exchange differences:			
Foreign exchange gains, net		**(172,813)**	(83,257)
Less: Foreign exchange gains capitalised in construction in progress		**–**	24,800
		(172,813)	(58,457)
Loss on disposal of items of property, plant and equipment, net		**2,789**	136,650
Net rental income		**(1,250)**	(1,250)
Bank interest income		**(115,653)**	(52,798)
Dividend income from available-for-sale financial assets		**(290)**	(8,463)
Gain on disposal of equity investments at fair value through profit or loss		**(220)**	(282)
Gain on disposal of available-for-sale financial assets		**–**	(24,549)
Fair value (gains)/losses on equity investments at fair value through profit or loss		**1,033**	(720)
Recognition of deferred income##		**(66,056)**	(52,795)

6. PROFIT BEFORE TAX *(CONTINUED)*

Notes:

* Included in the cost of inventories sold for the year is a provision against inventories of RMB1,707,562,000 (2007: RMB40,334,000).

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

The provision and reversal of provision for doubtful debts, is included in "Other expenses" on the face of the consolidated income statement.

Various government grants have been received for the construction of specific projects and is 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	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans, other loans and bonds with warrants wholly repayable within five years	**1,840,304**	1,591,418
Less: Interest capitalised in construction in progress	**–**	(435,219)
	1,840,304	1,156,199

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	
	2008	2007
	RMB'000	RMB'000
Fees	**274**	220
Other emoluments:		
Salaries, allowances and benefits in kind	**676**	673
Performance related bonuses	**3,157**	4,071
Pension scheme contributions	**29**	30
	3,862	4,774
	4,136	4,994

(a) Independent directors and independent supervisors

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

	2008	2007
	RMB'000	RMB'000
Independent directors		
Mr. Wong Chun Wa	**50**	40
Mr. Su Yong	**50**	40
Mr. Hui Leung Wah	**50**	40
Mr. Han Yi	**50**	40
	200	160
Independent supervisors		
Ms. Cheng Shaoxiu	**37**	30
Mr. An Qun	**37**	30
	74	60
	274	220

There were no other emoluments payable to the independent directors and independent supervisors during the year (2007: 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
2008					
Executive directors					
Mr. Gu Jianguo	**–**	**108**	**562**	**5**	**675**
Mr. Gu Zhanggen	**–**	**108**	**562**	**5**	**675**
Mr. Su Jiangang	**–**	**108**	**562**	**4**	**674**
Mr. Gao Haijian	**–**	**87**	**449**	**4**	**540**
Mr. Hui Zhigang	**–**	**87**	**449**	**4**	**540**
	–	**498**	**2,584**	**22**	**3,104**
Supervisors					
Mr. Li Kezhang	**–**	**57**	**300**	**3**	**360**
Mr. Dou Qingxun	**–**	**55**	**76**	**2**	**133**
Mr. Zhang Xiaofeng	**–**	**29**	**150**	**1**	**180**
Mr. Liu Xianli	**–**	**37**	**47**	**1**	**85**
	–	**178**	**573**	**7**	**758**
	–	**676**	**3,157**	**29**	**3,862**
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
	–	498	3,353	23	3,874
Supervisors					
Mr. Li Kezhang	–	87	583	4	674
Mr. Dou Qingxun	–	88	135	3	226
	–	175	718	7	900
	–	673	4,071	30	4,774

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2007: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2007: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: one) non-director, non-supervisor, highest paid employee for the year are as follows:

Group

	2008 **RMB'000**	2007 RMB'000
Salaries, allowances and benefits in kind	**87**	87
Performance related bonuses	**449**	583
Pension scheme contributions	**4**	4
	540	674

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000 (2007: Nil to RMB1,000,000).

10. TAX

	2008 **RMB'000**	2007 RMB'000
Group:		
Current – Mainland China		
Charge for the year	**414,752**	385,367
Overprovision in prior years	**(10,285)**	–
Current – Hong Kong	**5,157**	6,752
Current – Elsewhere	**18,975**	14,985
Deferred (note 24)	**(353,954)**	(186,513)
Total tax charge for the year	**74,645**	220,591

The corporate income tax ("CIT") for the Company for the current year has been provided at the rate of 25% (2007: 33%) on the assessable profits according to the relevant tax rules and regulations.

10. TAX *(CONTINUED)*

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 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% prior to 2007. 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 Company's subsidiaries, a jointly-controlled entity and associates in the mainland of the PRC is calculated at rates ranging from 15% to 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. Certain of them 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.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**805,874**		2,788,575	
Tax at the applicable tax rate	**201,469**	**25**	920,230	33
Effect of different tax rates for specific provinces or enacted by local authority of subsidiaries	**(1,655)**	**–**	(25,457)	(1)
Expenses not deductible for tax	**45,041**	**6**	12,048	–
Adjustments in respect of current tax of previous periods	**(10,285)**	**(1)**	–	–
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in the PRC*	**(84,888)**	**(11)**	(334,379)	(12)
Other tax concessions	**(49,394)**	**(6)**	(139,192)	(5)
Tax relief granted	**(12,890)**	**(2)**	(20,665)	(1)
Income not subject to tax	**(127)**	**–**	(83,041)	(3)
Effect on deferred tax arising from changes in tax rates	**–**	**–**	(65,462)	(2)
Profits and losses attributable to a jointly-controlled entity and associates	**(50,303)**	**(6)**	(43,491)	(1)
Tax losses not recognised	**37,677**	**4**	–	–
Tax charge at the Group's effective rate	**74,645**	**9**	220,591	8

* The amount represents a tax concession, approved by the Maanshan City local tax bureau, in respect of the purchases of PRC manufacturing plant, machinery and equipment. The tax concession is calculated as 40% of purchases of PRC manufactured plant, machinery and equipment 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 RMB42,977,000 (2007: RMB49,566,000), 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 2008 includes a profit of RMB735,290,000 (2007: RMB2,016,357,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDEND

	2008	2007
	RMB'000	RMB'000
Proposed final – Nil (2007: RMB13 cents) per ordinary share	–	878,612

The board of directors do not recommend the payment of any dividends for the year ended 31 December 2008.

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 of RMB710,234,000 (2007: RMB2,467,253,000), and the weighted average of 6,843,730,545 (2007: 6,482,717,278) ordinary shares in issue during the year.

The diluted earning per shares amount for the year ended 31 December 2008 has not been disclosed as there was no potential ordinary shares existed as at 31 December 2008.

The calculation of diluted earnings per share amounts for the year ended 31 December 2007 was based on the profit for that year attributable to ordinary equity holders of the parent of RMB2,467,253,000 and 7,069,011,660 ordinary shares representing the aggregate of 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.

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 2008				
At 1 January 2008:				
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
At 1 January 2008, net of accumulated depreciation and impairment	14,567,572	26,603,926	143,859	41,315,357
Additions	17,535	71,325	3,053	91,913
Acquisition of a subsidiary (note 38)	9,308	3,236	112	12,656
Transfers from construction in progress (note 15)	1,519,980	2,389,287	27,333	3,936,600
Depreciation provided during the year (note 6)	(1,090,490)	(3,424,807)	(50,251)	(4,565,548)
Reclassifications	7,329	(4,863)	(2,466)	–
Disposals/write-off	(4,274)	(15,518)	(1,690)	(21,482)
At 31 December 2008, net of accumulated depreciation and impairment	15,026,960	25,622,586	119,950	40,769,496
At 31 December 2008:				
Cost	20,263,273	39,137,340	428,963	59,829,576
Accumulated depreciation and impairment	(5,236,313)	(13,514,754)	(309,013)	(19,060,080)
Net carrying amount	15,026,960	25,622,586	119,950	40,769,496

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 2007				
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)*

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2008				
At 1 January 2008:				
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
At 1 January 2008, net of accumulated depreciation and impairment	13,838,436	25,776,348	126,690	39,741,474
Additions	–	–	–	–
Transfers from construction in progress (note 15)	1,421,004	2,106,561	27,037	3,554,602
Depreciation provided during the year	(1,049,128)	(3,304,868)	(46,153)	(4,400,149)
Reclassifications	7,329	(4,863)	(2,466)	–
Disposals/write-off	(3,821)	(13,169)	(1,234)	(18,224)
At 31 December 2008, net of accumulated depreciation and impairment	14,213,820	24,560,009	103,874	38,877,703
At 31 December 2008:				
Cost	19,345,034	37,800,488	397,828	57,543,350
Accumulated depreciation and impairment	(5,131,214)	(13,240,479)	(293,954)	(18,665,647)
Net carrying amount	14,213,820	24,560,009	103,874	38,877,703

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 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

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

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of RMB21,303,000 (2007: RMB24,658,000) 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 RMB1,632,211,000 (2007: RMB1,537,917,000) have 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 2008		
Cost:		
At 1 January 2008	**4,021,499**	**3,792,906**
Additions	**2,669,432**	**2,334,598**
Acquisition of a subsidiary (note 38)	**260**	**–**
Transfers to property, plant and equipment (note 14)	**(3,936,600)**	**(3,554,602)**
At 31 December 2008	**2,754,591**	**2,572,902**
Accumulated impairment:		
At 1 January 2008 and 31 December 2008	**–**	**–**
At 31 December 2008, net of accumulated impairment	**2,754,591**	**2,572,902**
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

16. INVESTMENT PROPERTIES

	2008 **RMB'000**	2007 RMB'000
Carrying amount at 1 January	**1,240**	3,559
Transfers to prepaid land premiums (note 17)	**–**	(2,264)
Depreciation provided during the year (note 6)	**(34)**	(55)
Carrying amount at 31 December	**1,206**	1,240

The Group's investment properties are situated in the PRC and are held under medium term leases.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

17. PREPAID LAND PREMIUMS

Group

	2008 **RMB'000**	2007 RMB'000
Carrying amount at 1 January	**1,516,155**	1,457,468
Additions	**285,685**	94,919
Transfers from investment properties (note 16)	**–**	2,264
Acquisition of a subsidiary (note 38)	**3,548**	–
Recognised during the year (note 6)	**(40,040)**	(38,496)
Carrying amount at 31 December	**1,765,348**	1,516,155

Company

	2008 **RMB'000**	2007 RMB'000
Carrying amount at 1 January	**1,214,768**	1,228,645
Additions	**86,133**	16,000
Recognised during the year	**(30,975)**	(29,877)
Carrying amount at 31 December	**1,269,926**	1,214,768

The leasehold lands are held under a medium term lease and are situated in the PRC.

18. OTHER INTANGIBLE ASSET

Group

	Mine participation right	
	2008	2007
	RMB'000	RMB'000
Carrying amount at 1 January	**120,822**	113,507
Additions	**–**	12,411
Amortisation provided during the year (note 6)	**(4,179)**	(5,096)
Exchange realignment	**(31,452)**	–
Carrying amount at 31 December	**85,191**	120,822
At the end of year:		
Cost	**96,603**	131,514
Accumulated amortisation	**(11,412)**	(10,692)
Net carrying amount	**85,191**	120,822

19. INVESTMENTS IN SUBSIDIARIES

Company

	2008	2007
	RMB'000	RMB'000
Unlisted investments, at cost	**1,118,244**	899,450

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (notes ii, iv)	PRC	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)	PRC	RMB80,000,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects; provision of construction supervision and contract services
MG Control Technique Company Limited (notes i, iv)	PRC	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)	PRC	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 share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Maanshan Iron & Steel (HK) Limited ("Masteel HK")	Hong Kong	HKD4,800,000	80	20	Trading of steel and iron ore; and provision of steel trading agency services and transportation services
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes ii, iv)	PRC	RMB35,000,000	70	30	Processing and sale of metallic products; processing of 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 ore 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)	PRC	RMB50,000,000	100	–	Import of machinery and raw materials; and export of steel 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 share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Ma Steel (Cihu) Processing and Distribution Co., Ltd. (notes i, iv)	PRC	RMB30,000,000	–	92	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") (notes ii)	PRC	RMB30,000,000	71	–	Production and sale of packing materials for steel and other products; provision of on-site packing services; 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)	PRC	RMB1,000,000	90	–	Provision of equipment inspection and technical consultancy services; and equipment inspection work

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 share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iv)	PRC	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
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (notes i, iv)	PRC	RMB500,000,000	71	–	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products; 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, and construction services; leasing properties; provision of construction services; and repair and maintenance of used equipment

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 share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (notes ii, iv)	PRC	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)	PRC	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)
Maanshan Used Vehicle Trading Center Co., Ltd. ("Used Vehicle Trading") (notes i, iv)	PRC	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)	PRC	USD30,000,000	51	–	Developing, processing manufacturing and sale of steel roller; provision of after-sale services and technical 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 share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Wuhu) Material Technique Co., Ltd. ("Wuhu Technique") (notes i, iv)	PRC	RMB150,000,000	71	–	Provision of storage and transportation services for automobiles related metal components; trading and processing steel products; and provision of related consultancy services
Anhui Masteel Stereoscopic Auto-Parking Equipments Company Limited ("Masteel Auto-Parking") (notes ii, iii, iv)	PRC	USD2,500,000	–	78.25	Development, production, installation and sale of automatic parking equipment, storage equipment, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters; and provision of related integration and consulting services

Notes:

(i) Registered as limited companies under PRC law

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

(iii) Newly acquired during the year

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

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

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**234,000**	234,000
Share of net assets	**304,279**	268,306	**–**	–
	304,279	268,306	**234,000**	234,000

The Group's trade receivable and payable balances, prepayments, deposits and other receivables 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")	PRC	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:

	2008	2007
	RMB'000	RMB'000
Assets	**775,212**	877,327
Liabilities	**(166,654)**	(340,716)
Revenue	**445,778**	293,382
Net profit	**137,127**	68,611

21. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**263,276**	263,276
Share of net assets	**501,964**	414,725	**–**	–
	501,964	414,725	**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 registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke") (note i)	PRC	36	Production and sale of coke, tar, benzene and coal gas
Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke") (note i)	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic") (note i)	PRC	20	Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services

21. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Name	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Maanshan Harbour Group Co., Ltd ("Maanshan Harbour") (note i)	PRC	45	Loading/unloading and cargo forwarding agency services; storage, transportation of cargo and division/merge of cargo in containers; provision of general services to ships, repair and manufacture of spare parts of ships
Anhui All-monitor Automobile Tranmission System Co., Ltd ("Anhui All-monitor Tranmission System") (notes i)	PRC	31.95	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services

Note:

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

The above equity interests in the associates are held by the Company, except for the equity interests in 奧馬特變速系統 which are held through Holly Industrial, a non-wholly owned subsidiary of the Company.

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

	2008 RMB'000	2007 RMB'000
Assets	**4,459,008**	3,832,958
Liabilities	**(3,092,823)**	(2,737,271)
Revenue	**4,708,351**	2,744,219
Net profit	**371,296**	291,718

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company

	2008 RMB'000	2007 RMB'000
Unlisted equity investments, at cost	**102,917**	102,917

The above unlisted equity investments of the Group and the Company are not stated at fair value but at cost, because they do not have 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

	2008 RMB'000	2007 RMB'000
Debt investments	**2,939**	5,599

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 collectible 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

Year 2008

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 2008	37,479	32,793	30,438	56,570	95,424	6,058	258,762
Deferred tax credited/(charged) to the income statement during the year (note 10)	(14,096)	400,866	(8,635)	(35,344)	(4,918)	22,294	360,167
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2008	23,383	433,659	21,803	21,226	90,506	28,352	618,929

Deferred tax liabilities

	Bonds with warrants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	(167,810)	(466)	(168,276)
Deferred tax credited directly to equity (Note)	167,810	–	167,810
Deferred tax charged to the income statement during the year (note 10)	–	(6,213)	(6,213)
Gross deferred tax liabilities recognised in the consolidated balance sheet at 31 December 2008	–	(6,679)	(6,679)
Net deferred tax assets recognised in the consolidated balance sheet at 31 December 2008			612,250

24. DEFERRED TAX *(CONTINUED)*

Year 2007

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	(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

Year 2008

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 2008	37,479	32,793	30,438	56,570	95,424	5,621	258,325
Deferred tax credited/ (charged) to the income statement during the year	(14,096)	400,866	(8,635)	(35,344)	(4,918)	7,069	344,942
Gross deferred tax assets recognised in the balance sheet at 31 December 2008	23,383	433,659	21,803	21,226	90,506	12,690	603,267

Deferred tax liabilities

	Bonds with warrants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	(167,810)	(180)	(167,990)
Deferred tax credited directly to equity (Note)	167,810	–	167,810
Deferred tax credited to the income statement during the year	–	180	180
Gross deferred tax liabilities recognised in the balance sheet at 31 December 2008	–	–	–
Net deferred tax assets recognised in the balance sheet at 31 December 2008			603,267

24. DEFERRED TAX *(CONTINUED)*

Year 2007

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 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	(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 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)*

Note: Pursuant to the "Circular of the Ministry of Finance and the State Administration of Taxation on the Issues of Enterprise Income Tax Policies Relevant to the Implementation of the Enterprise Accounting Standards", effective interest expense on the Bonds with Warrants is tax deductible upon accrual if the effective interest rate does not exceed the rate of bank borrowing in the same period. Accordingly, after giving due consideration to the estimated effective interest expenses over the remaining years of the financial instrument, the carrying amount of the deferred tax related to the Bonds with Warrants was recorded as part of the Company's "Reserve – Equity Component of Bonds with Warrants" during the year ended 31 December 2008.

At 31 December 2008, the Group had unrecognised deferred tax assets, in respect of tax credits arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credits amounting to RMB158.14 million and RMB6 million, respectively, which have not been recognised.

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**5,314,200**	4,866,757	**5,005,680**	4,485,055
Work in progress	**856,153**	738,365	**793,704**	717,022
Finished goods	**1,006,814**	1,684,709	**609,604**	853,403
Spare parts	**2,525,336**	2,260,650	**2,436,472**	2,183,307
	9,702,503	9,550,481	**8,845,460**	8,238,787

At 31 December 2008, the carrying amount of the Group's inventories, which were pledged as securities for the Group's trading facilities for the issuance of bank bills, amounted to RMB329,306,000 (2007: RMB786,930,000), as further detailed in note 31 to the financial statements.

26. CONSTRUCTION CONTRACTS

Group and Company

	2008 RMB'000	2007 RMB'000
Gross amount due from contract customers	**145,555**	75,688
Contract costs incurred to date plus recognised profits less recognised losses	**218,883**	490,435
Less: Progress billings	**(73,328)**	(414,747)
	145,555	75,688

At 31 December 2008, retentions held by customers for contract work included in the Group's trade receivables amounted to RMB16 million (2007: RMB7 million).

27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade receivables	**646,543**	1,032,731	**857,104**	1,570,463
Bills receivable	**1,267,255**	4,194,298	**1,180,972**	3,667,209
	1,913,798	5,227,029	**2,038,076**	5,237,672
Impairment	**(19,815)**	(17,355)	**(17,082)**	(16,408)
	1,893,983	5,209,674	**2,020,994**	5,221,264

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**187,614**	946,862	**680,803**	1,523,572
Four to six months	**354,234**	12,770	**68,390**	7,092
Seven to twelve months	**57,782**	41,895	**76,863**	11,428
One to two years	**25,753**	12,852	**12,967**	10,925
Two to three years	**483**	539	**494**	351
Over three years	**862**	458	**505**	687
	626,728	1,015,376	**840,022**	1,554,055
Bills receivable	**1,267,255**	4,194,298	**1,180,972**	3,667,209
	1,893,983	5,209,674	**2,020,994**	5,221,264

Bills receivable will mature within one year.

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**17,355**	40,939	**16,408**	40,440
Acquisition of a subsidiary	**1,005**	–	**–**	–
Impairment losses recognised	**781**	448	**–**	–
Amount written off as uncollectible	**674**	(18,441)	**674**	(18,441)
Impairment losses reversed	**–**	(5,591)	**–**	(5,591)
At 31 December	**19,815**	17,355	**17,082**	16,408

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 RMB26,312,000 (2007: RMB70,390,000). 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither overdue nor impaired	**1,844,402**	5,156,639	**1,991,179**	5,176,983
Overdue less than six months	**25,313**	52,100	**27,174**	43,567
Overdue over six months	**24,268**	935	**2,641**	714
	1,893,983	5,209,674	**2,020,994**	5,221,264

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 RMB4,066,000 (2007: RMB9,773,000) and nil (2007: RMB19,405,000), respectively. These balances principally arose from normal trading activities.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**1,107,261**	1,672,057	**1,573,543**	1,576,389
Deposits and other receivables	**443,564**	263,461	**55,137**	70,428
	1,550,825	1,935,518	**1,628,680**	1,646,817
Impairment	**(7,070)**	(7,022)	**(6,931)**	(6,931)
	1,543,755	1,928,496	**1,621,749**	1,639,886

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**7,022**	26,173	**6,931**	26,173
Acquisition of a subsidiary	**139**	–	**–**	–
Impairment losses recognised	**–**	91	**–**	–
Amount written off as uncollectible	**–**	(19,242)	**–**	(19,242)
Impairment losses reversed	**(91)**	–	**–**	–
At 31 December	**7,070**	7,022	**6,931**	6,931

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither overdue nor impaired	**435,253**	246,536	**47,446**	58,325
Overdue less than six months	**1,200**	8,495	**535**	5,128
Overdue over six months	**41**	1,408	**225**	44
	436,494	256,439	**48,206**	63,497

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

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

Other receivables that were overdue but not impaired relate to a number of independent individuals 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 prepayments, deposits and other receivables are amount due from Holding and its subsidiaries and the Group's jointly-controlled entity of nil (2007: RMB28,081,000) and nil (2007: RMB104,000), respectively.

29. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group and Company

	2008	2007
	RMB'000	RMB'000
Listed equity investments in the PRC	**813**	1,463

The above equity investments at 31 December 2008 and 2007 were classified as held for trading.

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB**	RMB
Cash and bank balances	**5,437,367**	5,463,876	**4,362,314**	3,665,370
Time deposits	**513,720**	828,081	**6,000**	–
	5,951,087	6,291,957	**4,368,314**	3,665,370
Less: Pledged time deposits for				
– Trade facilities	**(496,655)**	(763,881)	**(6,000)**	–
– Performance bonds	**(17,065)**	(4,200)	**–**	–
	(513,720)	(768,081)	**(6,000)**	–
Cash and cash equivalents in the balance sheets	**5,437,367** *	5,523,876*	**4,362,314**	3,665,370

* The balances represented the cash and cash equivalents in the consolidated cash flow statements.

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

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB5,094,173,000 (2007: RMB5,970,712,000). 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 of the PRC, 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.

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**8,464,041**	9,111,984	**6,896,229**	7,681,098
One to two years	**63,044**	353,317	**38,499**	8,924
Two to three years	**44,530**	5,911	**914**	5,361
Over three years	**2,651**	1,339	**1,401**	1,325
	8,574,266	9,472,551	**6,937,043**	7,696,708

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 RMB65,682,000 (2007: RMB84,258,000), RMB58,947,000 (2007: RMB54,513,000) and RMB47,250,000 (2007: RMB146,457,000), respectively. These balances principally arose from normal trading activities.

At 31 December 2008, the carrying amounts of the Group's inventories and time deposits, which were pledged to secure the Group's trading facilities for the issuance of bank bills, amounted to RMB329,306,000 (2007: RMB786,930,000) and RMB496,655,000 (2007: RMB763,881,000), respectively, as further detailed in notes 25 and 30 to the financial statements.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**2,933,495**	3,113,357	**2,783,928**	2,859,617
Advanced from customers	**5,615,976**	6,629,640	**5,212,998**	5,456,621
	8,549,471	9,742,997	**7,996,926**	8,316,238

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 RMB1,226,029,000 (2007: RMB1,425,801,000). These balances principally arose from normal trading activities.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective contractual interest rate (%)	Maturity	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Current						
Bank loans – unsecured	**4.78-7.47**	**2009**	**766,000**	1,265,817	**242,000**	200,000
Current portion of long–term bank loans – unsecured	**–**	**–**	**–**	2,809,660	**–**	2,809,660
Current portion of long–term bank loans – secured	**0.25-7.47**	**2009**	**217,197**	–	**216,000**	–
Short–term commercial paper – unsecured	**–**	**–**	**–**	2,000,000	**–**	2,000,000
Other loans – unsecured	**6.42**	**2009**	**388,000**	–	**388,000**	–
Other loans – secured	**7.47**	**2009**	**6,382**	6,364	**–**	–
			1,377,579	6,081,841	**846,000**	5,009,660
Non-current						
Bank loans – unsecured	**2.4-5.29**	**2010-2011**	**5,784,426**	12,577,952	**5,784,426**	12,563,408
Bank loans – secured	**0.25-5.35**	**2010-2019**	**7,398,470**	–	**7,386,498**	–
Other loans – unsecured	**5.65-6.42**	**2011**	**2,483,400**	4,000,000	**2,483,400**	4,000,000
			15,666,296	16,577,952	**15,654,324**	16,563,408
Bonds with warrants (note 34)	**4.43**	**2011**	**4,992,975**	4,828,762	**4,992,975**	4,828,762
			20,659,271	21,406,714	**20,647,299**	21,392,170
			22,036,850	27,488,555	**21,493,299**	26,401,830
Analysed into:						
Bank loans repayable:						
Within one year			**983,197**	4,075,477	**458,000**	3,009,660
In the second year			**1,017,197**	567,322	**1,016,000**	566,000
In the third to fifth years, inclusive			**12,158,517**	12,001,375	**12,154,924**	11,997,408
Beyond five years			**7,182**	9,255	**–**	–
			14,166,093	16,653,429	**13,628,924**	15,573,068
Other borrowings repayable:						
Within one year			**394,382**	2,006,364	**388,000**	2,000,000
In the second year			**–**	–	**–**	–
In the third to fifth years, inclusive			**7,476,375**	8,828,762	**7,476,375**	8,828,762
			7,870,757	10,835,126	**7,864,375**	10,828,762
			22,036,850	27,488,555	**21,493,299**	26,401,830

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

Certain of the bank and other borrowings of RMB13,102,498,000 (2007: RMB15,640,000,000) and RMB13,169,000 (2007: RMB15,866,000) are guaranteed by Holding and Sinosteel Trading Company, an independent third party, respectively.

Certain bank loans of RMB60,000,000 in aggregate (2007: Nil) were lent by from Holding through entrust loan arrangement with the Industrial and Commercial Bank of China, with annual interest rates ranging from 5.589% – 6.723%. The loans are repayable in 2009.

Except for bank and other borrowings of RMB1,216,106,000 (2007: RMB2,026,728,000) and RMB13,169,000 (2007: RMB15,866,000) which are denominated in the 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 RMB6,382,000 (2007: RMB6,364,000) are granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. Certain of the aforesaid other loans are secured by the pledge of certain of the Group's equipment with an aggregate net book value of RMB21,303,000 (2007: RMB24,658,000).

Other interest rate information:

Group

	2008		2007	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	RMB'000	**RMB'000**	RMB'000	RMB'000
Current				
Bank loans – unsecured	**721,000**	**45,000**	1,240,495	24,000
Current portion of long-term bank loans – unsecured	**–**	**–**	1,250,522	1,560,460
Current portion of long-term bank loans – secured	**217,197**	**–**	–	–
Short-term commercial paper – unsecured	**–**	**–**	2,000,000	–
Other loans – unsecured	**388,000**	**–**	–	–
Other loans – secured	**6,382**	**–**	6,364	–
Non-current				
Bank loans – unsecured	**1,773,201**	**4,011,225**	4,078,544	8,499,408
Bank loans – secured	**948,470**	**6,450,000**	–	–
Other loans – unsecured	**2,483,400**	**–**	4,000,000	–
Bonds with warrants	**4,992,975**	**–**	4,828,762	–

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

Company

	2008		2007	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**242,000**	**–**	200,000	–
Current portion of long–term bank loans – unsecured	**–**	**–**	1,249,200	1,560,460
Current portion of long–term bank loans – secured	**216,000**	**–**	–	–
Short–term commercial paper – unsecured	**–**	**–**	2,000,000	–
Other loans – unsecured	**388,000**	**–**	–	–
Non-current				
Bank loans – unsecured	**1,773,201**	**4,011,225**	4,064,000	8,499,408
Bank loans – secured	**936,498**	**6,450,000**	–	–
Other loans– unsecured	**2,483,400**	**–**	4,000,000	–
Bonds with warrants	**4,992,975**	**–**	4,828,762	–

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 were 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 and 10 July 2008, the conversion price has been adjusted to RMB3.33 and RMB3.26, respectively, each.

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 shares at a conversion price of RMB3.33. After the first exercise period was completed, the equity component of bonds with warrants of RMB117,511,000 had been transferred to the capital reserve account accordingly.

34. BONDS WITH WARRANTS *(CONTINUED)*

During the year, the second (final) exercise period of the warrants took place on 17 November 2008 to 28 November 2008. A total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A shares at a conversion price of RMB3.26. After the second exercise period was completed, the remaining equity component of bonds with warrants of RMB540,489,000 has been transferred to the capital reserve account accordingly.

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 2008 is arrived at as follows:

	RMB'000
Nominal value of bonds with warrants issued	5,500,000
Equity component	(733,019)
Direct transaction costs attributable to the liability component	(125,584)
Liability component at the issue date	4,641,397
The carrying amount at 1 January 2007	4,672,376
Interest expense	233,386
Less: Interest paid	(77,000)
The carrying amount at 31 December 2007 and 1 January 2008	**4,828,762**
Interest expense	**241,213**
Less: Interest paid	**(77,000)**
The carrying amount at 31 December 2008	**4,992,975**

35. PROVISIONS

Group and Company

	Pension benefits for early retired employees RMB'000	Housing subsidies RMB'000	Total RMB'000
At 1 January 2008	**19,485**	**33,546**	**53,031**
Amounts utilised during the year	**(7,000)**	**(13,690)**	**(20,690)**
At 31 December 2008	**12,485**	**19,856**	**32,341**
Portion classified as current liabilities	**(5,000)**	**(19,856)**	**(24,856)**
Non-current portion	**7,485**	**–**	**7,485**

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. SHARE CAPITAL

Group and Company

	2008 RMB'000	2007 RMB'000
Issued and fully paid:		
State owned shares	**3,830,560**	3,830,560
Individual A shares of RMB1.00 each	**2,137,191**	1,195,062
H shares of RMB1.00 each	**1,732,930**	1,732,930
	7,700,681	6,758,552

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, 942,129,470 warrants were exercised for 942,129,470 individual A shares of RMB3.26 per share for a total cash proceeds, after expenses of RMB15,358,000, of RMB3,055,985,000.

Up to the date of approval of the financial statements, the change in the Company's registered capital is in progress.

37. 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 97 of the financial statements.

(b) Company

	Capital reserve account RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 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)	–
Issue of shares	819,038	–	–	819,038
Proposed final 2007 dividend	–	–	(878,612)	(878,612)
At 31 December 2007 and 1 January 2008	**5,684,014**	**2,777,853**	**5,634,532**	**14,096,399**
Profit for the year	**–**	**–**	**735,290**	**735,290**
Transfer from/(to) reserves	**–**	**86,669**	**(86,669)**	**–**
Issue of shares	**2,654,345**	**–**	**–**	**2,654,345**
At 31 December 2008	**8,338,359**	**2,864,522**	**6,283,153**	**17,486,034**

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.

37. RESERVES *(CONTINUED)*

(b) Company *(continued)*

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB86.7 million (2007: RMB213.2 million) to the SR. This represents 10% of the Company's profit after tax of RMB867 million (2007: RMB2,132 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 RMB4.5 million (2007: RMB28.4 million), RMB9.1 million (2007: RMB13.6 million) and RMB6.7 million (2007: RMB9.2 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 the China Accounting Standards and regulations, and the amount determined in accordance with Hong Kong Financial Reporting Standards.

As at 31 December 2008, the Company had retained profits of RMB6,283 million (31 December 2007: RMB5,635 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of the amount determined under the China Accounting Standards and regulations and the amount determined under Hong Kong Financial Reporting Standards, available for distribution by way of cash or in kind.

As at 31 December 2008, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of RMB8.34 billion (2007: RMB6.06 billion) standing to the credit of the Company's capital reserve account, as determined under the China Accounting Standards and regulations, was available for distribution by way of future capitalisation issue.

38. BUSINESS COMBINATIONS

On 4 May 2008, Holly Industrial acquired a 75% equity interest in Masteel Auto-Parking, a 25% owned associate of the Group, from Holding at a cash consideration of RMB15,678,000. Further details of Masteel Auto-Parking are set out in note 19 to these financial statements.

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

	Notes	2008 RMB'000
Property, plant and equipment, net	14	**12,656**
Construction in progress	15	**260**
Prepaid land premiums	17	**3,548**
Inventories		**10,082**
Trade and bills receivables		**17,898**
Prepayments, deposits and other receivables		**1,586**
Cash and cash equivalents		**1,580**
Trade payables		**(2,074)**
Interest-bearing bank and other borrowings		**(20,000)**
Other payables and accruals		**(4,655)**
Tax payable		**23**
		20,904
Less: Reclassification of interest in an associate		**(5,226)**
		15,678
Satisfied by cash		**15,678**

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

	RMB'000
Cash consideration	**(15,678)**
Cash and cash equivalents acquired	**1,580**
Net outflow of cash and cash equivalents in respect of the aforesaid acquisition	**(14,098)**

38. BUSINESS COMBINATIONS *(CONTINUED)*

Upon the aforesaid acquisition, Masteel Auto-Parking's contributions to the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 was not significant.

Had the combination taken place at the beginning of the year, the Group's consolidated revenue and consolidated profit attributable to equity holders of the parent for the year would have been RMB70,013 million and RMB710 million, respectively.

39. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**3,814,000**	5,305,000

As at 31 December 2008, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB14,000,000 (2007: RMB814,495,000).

(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).

40. OPERATING LEASE ARRANGEMENTS

The Group has leased its investment properties in note 16 to the financial statements under an operating lease arrangement with BOC-Ma Steel, the Group's jointly-controlled entity, for 18 years. The periodic rent is fixed during the operating lease period.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

Group

	2008	2007
	RMB'000	RMB'000
Within one year	**1,250**	1,250
In the second to fifth years, inclusive	**5,000**	5,000
After five years	**11,408**	12,658
	17,658	18,908

41. CAPITAL COMMITMENTS

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

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for	**19,367,543**	3,157,701	**19,194,986**	2,961,230
Contracted, but not provided for	**811,231**	556,524	**596,690**	422,200
	20,178,774	3,714,225	**19,791,676**	3,383,430

41. CAPITAL COMMITMENTS *(CONTINUED)*

(b) The Group's and Company's commitments for capital contributions in respect of an associate and subsidiaries, respectively, at the balance sheet date were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for	**9,000**	9,000	**62,742**	286,788

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

Group

	2008	2007
	RMB'000	RMB'000
Authorised, but not contracted for	**766**	778

42. 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	2008 RMB'000	2007 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	**1,897,182**	1,848,362
Fees paid for welfare, support services and other services	(ii), (iii)	**205,934**	188,849
Rental expenses	(iii)	**36,250**	36,250
Agency fee paid	(iii)	**3,283**	4,912
Purchases of items of property, plant and equipment and construction services	(iii)	**131,652**	211,009
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(39,276)**	(64,675)
Sale of steel and other by-products	(iii)	**(4,932)**	(5,760)
Acquisition of subsidiaries	(iv)	**15,678**	–
Financial cost	(v)	**2,718**	–
Transactions with associates of the Company:			
Purchases of coke	(iii)	**1,408,992**	1,047,313
Loading expenses	(iii)	**158,848**	133,783
Transactions with the jointly-controlled entity of the Company:			
Rental income	(iii)	**(1,250)**	(1,250)
Fee received for the supply of electricity	(iii)	**(258,574)**	(140,901)
Purchase of gas products	(iii)	**521,561**	297,468
Compensation income	(vi)	**–**	(10,500)

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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 service agreements entered into between the Company and Holding.

(iii) These transactions were conducted on terms mutually agreed between the Group and the related parties.

(iv) Pursuant to an agreement entered into between Holly Industrial and Holding dated 4 May 2008, Holly Industrial purchased a 75% equity interest in Masteel Auto-Parking from Holding at a consideration of RMB15,678,000.

(v) Certain bank loans of RMB60,000,000 in aggregate (2007: Nil) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and annual interest rates ranging from 5.589% – 6.723%.

(vi) The amount was charged based on the period of delay for 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 amounting to RMB13.1 billion (2007: RMB15.6 billion) as at the balance sheet date at nil consideration, as further detailed in note 33 to the financial statements.

(c) Other loans totalling RMB6.4 million (2007: RMB6.4 million) are granted by Profit Access Investments Limited, a minority shareholder of a subsidiary of the Company, as further detailed in note 33 to the financial statements.

(d) Details on balances with Holding and its subsidiaries, the Group's jointly-controlled entity and associates are set out in notes 27, 28, 31 and 32 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	2008 RMB'000	2007 RMB'000
Short term employee benefits	**5,057**	6,979
Post-employment benefits	**37**	42
Total compensation paid to key management personnel	**5,094**	7,021

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

The above transactions with Holding and its subsidiaries in respect of items (a) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATERGORY

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

2008

Financial assets

	Group				
	Financial assets at fair value through profit or 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	–	2,939	–	–	2,939
Available-for-sale financial assets	–	–	–	102,917	102,917
Trade and bills receivables	–	–	1,893,983	–	1,893,983
Financial assets included in prepayments, deposits and other receivables	–	–	436,494	–	436,494
Equity investments at fair value through profit or loss	813	–	–	–	813
Pledged time deposits	–	–	513,720	–	513,720
Cash and cash equivalents	–	–	5,437,367	–	5,437,367
	813	2,939	8,281,564	102,917	8,388,233

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	8,574,266
Financial liabilities included in other payables and accruals	2,121,042
Bonds with warrants	4,992,975
Interest-bearing bank and other borrowings	17,043,875
Provisions	32,341
	32,764,499

43. 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)*

2007 — Group

Financial assets

	Financial assets at fair value through profit or 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 financial assets	–	–	–	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 or 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

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	9,472,551
Financial liabilities included in other payables and accruals	3,113,357
Bonds with warrants	4,828,762
Interest-bearing bank and other borrowings	22,659,793
Provisions	53,031
	40,127,494

43. 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)*

2008

Financial assets

	Company				
	Financial assets at fair value through profit or 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	–	2,939	–	–	2,939
Available-for-sale financial assets	–	–	–	102,917	102,917
Trade and bills receivables	–	–	2,020,994	–	2,020,994
Financial assets included in prepayments, deposits and other receivables	–	–	48,206	–	48,206
Equity investments at fair value through profit or loss	813	–	–	–	813
Pledged time deposits	–	–	6,000	–	6,000
Cash and cash equivalents	–	–	4,362,314	–	4,362,314
	813	2,939	6,437,514	102,917	6,544,183

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	6,937,043
Financial liabilities included in other payables and accruals	1,991,769
Bonds with warrants	4,992,975
Interest-bearing bank and other borrowings	16,500,324
Provisions	32,341
	30,454,452

43. 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)*

2007 — Company

Financial assets

	Financial assets at fair value through profit or 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 financial assets	–	–	–	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 or 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

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	7,696,708
Financial liabilities included in other payables and accruals	2,859,617
Bonds with warrants	4,828,762
Interest-bearing bank and other borrowings	21,573,068
Provisions	53,031
	37,011,186

44. 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 directors 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.

As at 31 December 2008, 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
2008		
United States dollar	**50**	**(1,606)**
RMB	**50**	**(50,925)**
United States dollar	**(50)**	**1,606**
RMB	**(50)**	**50,925**
2007		
United States dollar	50	(6,099)
RMB	50	(44,320)
United States dollar	(50)	6,099
RMB	(50)	44,320

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

Foreign currency risk

The businesses of the Group are principally located in the PRC. While most of the transactions are conducted in RMB, certain of its sales, purchases and borrowings were denominated in the United States dollar, Euro and Japanese Yen. Fluctuations of the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

As at 31 December 2008, 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 the 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
2008		
United States dollar	**5**	**(1,442)**
Euro	**5**	**(169)**
Japanese Yen	**5**	**(9,255)**
United States dollar	**(5)**	**1,442**
Euro	**(5)**	**169**
Japanese Yen	**(5)**	**9,255**
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

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

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.

With respect to credit risk arising from the other major financial assets of the Group, which comprise bills receivable, held-to-maturity investment, available-for-sale financial assets, 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 39 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 58% (2007: 39%) 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 notes 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 commitments over the next year in accordance with its strategic plan. In the opinion of the directors of the Company, most of the borrowings that mature within one year are able to be renewed and the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

44. 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 contractual undiscounted payments, was as follows:

Group

	2008					
	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	**77,000**	**77,000**	**5,577,000**	**–**	**–**	**5,731,000**
Interest-bearing bank and other borrowings	**2,182,969**	**1,809,377**	**6,693,983**	**8,742,729**	**7,235**	**19,436,293**
Trade and bills payables	**8,574,266**	**–**	**–**	**–**	**–**	**8,574,266**
Other payables	**2,121,041**	**–**	**–**	**–**	**–**	**2,121,041**
Provisions	**24,856**	**2,893**	**641**	**2,641**	**1,310**	**32,341**

	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	77,000	77,000	77,000	5,577,000	–	5,808,000
Interest-bearing bank and other borrowings	7,132,628	1,603,488	1,814,362	15,757,835	9,335	26,317,648
Trade and bills payables	9,472,551	–	–	–	–	9,472,551
Other payables	3,113,357	–	–	–	–	3,113,357
Provisions	40,546	4,214	2,893	2,900	2,478	53,031

44. 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 contractual undiscounted payments, was as follows: *(continued)*

Company

	2008					
	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	**77,000**	**77,000**	**5,577,000**	**–**	**–**	**5,731,000**
Interest-bearing bank and other borrowings	**1,651,360**	**1,808,152**	**6,692,759**	**8,740,292**	**–**	**18,046,563**
Trade and bills payables	**6,937,043**	**–**	**–**	**–**	**–**	**6,937,043**
Other payables	**1,991,769**	**–**	**–**	**–**	**–**	**1,991,769**
Provisions	**24,856**	**2,893**	**641**	**2,641**	**1,310**	**32,341**

	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	77,000	77,000	77,000	5,577,000	–	5,808,000
Interest-bearing bank and other borrowings	6,060,411	1,602,131	1,813,009	15,755,137	–	25,230,688
Trade and bills payables	7,696,708	–	–	–	–	7,696,708
Other payables	2,859,617	–	–	–	–	2,859,617
Provisions	40,546	4,214	2,893	2,900	2,478	53,031

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

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 shareholders' value.

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 for managing capital during the years ended 31 December 2008 and 2007.

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, 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

	2008	2007
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**17,043,875**	22,659,793
Trade and bills payables	**8,574,266**	9,472,551
Other payables	**2,121,042**	3,113,357
Liability component of bonds with warrants	**4,992,975**	4,828,762
Less: Cash and cash equivalents	**(5,437,367)**	(5,523,876)
Pledged time deposits	**(513,720)**	(768,081)
Net debt	**26,781,071**	33,782,506
Equity attributable to equity holders	**26,006,983**	23,008,971
Total capital	**26,006,983**	23,008,971
Capital and net debt	**52,788,054**	56,791,477
Gearing ratio	**51%**	59%

45. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER CHINA ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS

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

No difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under the China According Standards and Hong Kong Financial Reporting Standards during the reporting period.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2009.

Report of the Auditors

Ernst & Young Hua Ming (2009) Shen Zi No. 60438514_A05

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 2008, 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 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 2008, 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

Zhao Ning
Chinese Certified Public Accountant

15 April 2009

Consolidated Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2008
Renminbi Yuan

ASSETS	Note VI	2008	2007 (restated)
CURRENT ASSETS:			
Cash and bank balances	1	**5,951,087,213**	6,293,537,191
Financial assets held for trading	2	**813,250**	1,462,770
Bills receivable	3	**1,267,254,719**	4,194,297,474
Trade receivables	4	**626,727,102**	1,037,224,713
Prepayments	5	**1,107,261,236**	1,672,835,435
Other receivables	6	**436,494,366**	257,539,176
Inventories	7	**9,838,058,341**	9,629,944,412
Non-current assets due within one year	8	**2,938,870**	–
Total current assets		**19,240,635,097**	23,086,841,171
NON-CURRENT ASSETS:			
Held-to-maturity investments	9	**–**	5,598,870
Long term equity investments	10	**909,160,061**	781,448,790
Investment properties	11	**1,205,850**	1,240,303
Fixed assets	12	**40,769,495,822**	41,328,227,114
Construction materials		**476,672,223**	512,588,681
Construction in progress	13	**2,277,918,588**	3,510,765,654
Intangible assets	14	**1,850,539,277**	1,640,550,796
Deferred tax assets	15	**618,928,724**	258,762,170
Total non-current assets		**46,903,920,545**	48,039,182,378
TOTAL ASSETS		**66,144,555,642**	71,126,023,549

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Consolidated Balance Sheet (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2008
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note VI	**2008**	2007 (restated)
CURRENT LIABILITIES:			
Short term loans	18	**1,154,000,000**	1,284,495,217
Bills payable	19	**1,049,125,831**	1,790,845,160
Short term commercial papers	20	**–**	2,000,000,000
Accounts payable	21	**7,525,140,482**	7,688,764,859
Deposits received	22	**5,615,976,320**	6,633,408,854
Payroll and benefits payable	23	**197,384,329**	341,871,394
Taxes payable	24	**666,749,301**	609,863,471
Interests payable		**44,099,563**	80,563,315
Dividends payable	25	**1,101,575,013**	1,303,757,138
Other payables	26	**802,838,050**	933,429,649
Non-current liabilities due within one year	27	**223,579,337**	2,817,346,333
Total current liabilities		**18,380,468,226**	25,484,345,390
NON-CURRENT LIABILITIES:			
Long term loans	28	**15,666,296,218**	16,577,951,605
Bonds payable	29	**4,992,975,444**	4,828,761,588
Deferred income	30	**563,549,396**	590,425,767
Deferred tax liabilities	15	**6,678,903**	168,275,911
Other non-current liabilities	31	**7,485,033**	12,485,032
Total non-current liabilities		**21,236,984,994**	22,177,899,903
Total liabilities		**39,617,453,220**	47,662,245,293
SHAREHOLDERS' EQUITY:			
Share capital	32	**7,700,681,186**	6,758,551,716
Capital reserve	33	**8,338,358,399**	6,064,985,987
Surplus reserves	34	**3,008,523,500**	2,901,562,765
Retained profits	35	**7,007,195,285**	7,282,533,393
Including: cash dividend proposed by directors		**–**	878,611,723
Exchange fluctuation reserve		**(47,775,207)**	9,629,706
Equity attributable to equity holders of the parent		**26,006,983,163**	23,017,263,567
Minority interests	36	**520,119,259**	446,514,689
Total shareholder's equity		**26,527,102,422**	23,463,778,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**66,144,555,642**	71,126,023,549

The accompanying notes from page 205 to page 322 form an integral part of the financial statements
The financial statements from page 191 to page 322 are signed by persons below

Company Representative:	Chief Accountant:	Head of Accounting
Gu Jianguo	**Su Jiangang**	**Guan Yagang**
15 April 2009	15 April 2009	15 April 2009

Consolidated Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Note VI	**2008**	2007 (restated)
Revenue	37	**71,259,739,377**	50,670,878,762
Less: Cost of sales		**65,154,401,331**	44,928,041,837
Business taxes and surcharges	38	**778,052,466**	628,268,236
Selling expenses		**367,289,708**	292,119,451
Administrative expenses		**1,092,817,467**	1,036,715,486
Financial expenses	39	**1,575,913,707**	1,084,033,646
Assets impairment losses	40	**1,796,584,712**	35,281,201
Add: Gain/(loss) on fair value changes		**(1,033,080)**	719,870
Investment income	41	**199,877,256**	164,638,062
Including: share of profits of associates and a jointly controlled entity		**199,367,579**	131,343,987
Operating profit		**693,524,162**	2,831,776,837
Add: Non-operating income	42	**122,326,177**	105,663,519
Less: Non-operating expenses	43	**9,976,147**	140,735,637
Including: loss on disposal of non-current assets		**2,788,556**	136,649,892
Profit before tax		**805,874,192**	2,796,704,719
Less: Income tax	44	**74,644,736**	220,591,429
Net profit		**731,229,456**	2,576,113,290
Including: Net profit attributable to the entity prior to the business combination under common control		**9,846,023**	–
Attributable to:			
Equity holders of the parent		**710,234,350**	2,475,382,229
Minority interests		**20,995,106**	100,731,061
EARNINGS PER SHARE			
Basic	45	**10.38 cents**	38.18 cents
Diluted		**N/A**	35.02 cents

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Consolidated Statement of Changes in Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Attributable to equity holders of the parent							
	Share capital (Note VI.32)	Capital reserve (Note VI.33)	Surplus reserves (Note VI.34)	Retained profits (Note VI.35)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. 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
Add: Adjustment attributable to business combination under common control	–	8,293,083	–	–	–	8,293,083	–	8,293,083
2. At 1 January 2008	6,758,551,716	6,064,985,987	2,901,562,765	7,282,533,393	9,629,706	23,017,263,567	446,514,689	23,463,778,256
3. Increase/(decrease) during the year								
(i) Net profit	–	–	–	710,234,350	–	710,234,350	20,995,106	731,229,456
(ii) Gains or losses recognised directly in equity								
(a) Adjustment of deferred tax liability arising from bonds with warrants	–	167,809,603	–	–	–	167,809,603	–	167,809,603
(b) Exchange fluctuation reserve	–	–	–	–	(57,404,913)	(57,404,913)	–	(57,404,913)
(c) Adjustment attributable to business combination under common control	–	(8,293,083)	–	–	–	(8,293,083)	–	(8,293,083)
Sub-total (i) and (ii)	–	159,516,520	–	710,234,350	(57,404,913)	812,345,957	20,995,106	833,341,063
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	942,129,470	2,113,855,892	–	–	–	3,055,985,362	101,194,034	3,157,179,396
(b) Others	–	–	–	–	–	–	–	–
(iv) Profit appropriation								
(a) Transfer to surplus reserves	–	–	106,960,735	(106,960,735)	–	–	–	–
(b) Dividend declared	–	–	–	(878,611,723)	–	(878,611,723)	(48,584,570)	(927,196,293)
(v) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
4. At 31 December 2008	7,700,681,186	8,338,358,399	3,008,523,500	7,007,195,285	(47,775,207)	26,006,983,163	520,119,259	26,527,102,422

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Consolidated Statement of Changes in Equity (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2007 (restated)
Renminbi Yuan

	Attributable to equity holders of the parent							
	Share capital (Note VI.32)	Capital reserve (Note VI.33)	Surplus reserves (Note VI.34)	Retained profits (Note VI.35)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. 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
Add: Adjustment attributable to business combination under common control	–	8,293,083	–	–	–	8,293,083	–	8,293,083
2. At 1 January 2007	6,455,300,000	5,458,731,877	2,637,160,200	5,918,872,526	–	20,470,064,603	310,497,169	20,780,561,772
3. Increase/(decrease) during the year								
(i) Net profit	–	–	–	2,475,382,229	–	2,475,382,229	100,731,061	2,576,113,290
(ii) Gains or losses recognised directly in equity								
(a) Adjustment of deferred tax liability arising from bonds with warrants	–	(95,273,247)	–	–	–	(95,273,247)	–	(95,273,247)
(b) Exchange fluctuation reserve	–	–	–	–	9,629,706	9,629,706	–	9,629,706
Sub-total (i) and (ii)	–	(95,273,247)	–	2,475,382,229	9,629,706	2,389,738,688	100,731,061	2,490,469,749
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	303,251,716	701,527,357	–	–	–	1,004,779,073	60,553,126	1,065,332,199
(b) Others	–	–	–	–	–	–	–	–
(iv) Profit appropriation								
(a) Transfer to surplus reserves	–	–	264,402,565	(264,402,565)	–	–	–	–
(b) Dividend declared	–	–	–	(839,189,000)	–	(839,189,000)	(25,266,667)	(864,455,667)
(c) Transfer to employee bonus and welfare fund	–	–	–	(8,129,797)	–	(8,129,797)	–	(8,129,797)
(v) Transfers within shareholders' equity	–	–	–	–	–	–	–	–
4. At 31 December 2007	6,758,551,716	6,064,985,987	2,901,562,765	7,282,533,393	9,629,706	23,017,263,567	446,514,689	23,463,778,256

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Consolidated Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Note VI	**2008**	2007 (restated)
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**89,188,260,792**	60,495,620,344
Refunds of taxes		**43,508,000**	26,192,100
Cash received relating to other operating activities	46	**12,761,806**	26,656,555
Sub-total of cash inflows		**89,244,530,598**	60,548,468,999
Cash paid for goods and services		**(72,196,971,884)**	(49,500,444,692)
Cash paid to and on behalf of employees		**(3,368,536,415)**	(3,211,773,368)
Cash paid for all taxes		**(4,867,711,244)**	(3,904,413,363)
Cash paid relating to other operating activities	46	**(423,516,227)**	(306,886,524)
Sub-total of cash outflows		**(80,856,735,770)**	(56,923,517,947)
Net cash flows from operating activities	47	**8,387,794,828**	3,624,951,052
2. Cash flows from investing activities:			
Cash received from retrieval of investments		**3,387,455**	33,250,191
Cash received from investment income		**187,609,526**	77,588,288
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**18,693,909**	50,747,608
Cash received due to decrease in pledged deposits, net		**253,936,158**	–
Cash received relating to other investing activities	46	**39,180,000**	78,320,000
Sub-total of cash inflows		**502,807,048**	239,906,087
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(3,809,043,196)**	(7,061,527,038)
Cash paid for acquisitions of investments		**(16,579,330)**	(97,102,520)
Cash paid due to increase in pledged deposits, net		**–**	(237,477,305)
Sub-total of cash outflows		**(3,825,622,526)**	(7,396,106,863)
Net cash flows from investing activities		**(3,322,815,478)**	(7,156,200,776)

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Consolidated Cash Flow Statement (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Note VI	2008	2007 (restated)
3. Cash flows from financing activities:			
Cash received from borrowings		**19,326,546,259**	16,516,241,222
Cash received from capital contribution		**3,157,179,396**	1,065,332,199
Including: capital contribution by minority shareholders received by subsidiaries		**101,194,034**	60,553,126
Sub-total of cash inflows		**22,483,725,655**	17,581,573,421
Cash repayments of borrowings		**(24,754,928,770)**	(10,358,331,162)
Cash paid for distribution of dividend or profits and for interest expenses		**(2,841,931,992)**	(1,790,648,046)
Including: dividend paid to minority shareholders by subsidiaries		**(48,584,570)**	(25,266,667)
Sub-total of cash outflows		**(27,596,860,762)**	(12,148,979,208)
Net cash flows from financing activities		**(5,113,135,107)**	5,432,594,213
4. Effect of foreign exchange rate changes on cash		**(39,932,963)**	(7,036,260)
5. Net increase/(decrease) in cash and cash equivalents		**(88,088,720)**	1,894,308,229
Add: Balance of cash and cash equivalents at beginning of year		**5,525,455,966**	3,631,147,737
6. Balance of cash and cash equivalents at end of year	48	**5,437,367,246**	5,525,455,966

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2008
Renminbi Yuan

ASSETS	Note XV	2008	2007
CURRENT ASSETS:			
Cash and bank balances		**4,368,314,406**	3,665,369,814
Financial assets held for trading		**813,250**	1,462,770
Bills receivable		**1,180,972,207**	3,667,209,079
Trade receivables	1	**840,021,187**	1,554,054,832
Prepayments		**1,573,542,503**	1,576,389,197
Other receivables	2	**48,206,022**	63,496,847
Inventories	3	**8,991,015,193**	8,314,475,335
Non-current assets due within one year		**2,938,870**	–
Total current assets		**17,005,823,638**	18,842,457,874
NON-CURRENT ASSETS:			
Held-to-maturity investments		**–**	5,598,870
Long term equity investments	4	**2,018,118,616**	1,667,922,886
Investment properties		**18,809,133**	19,214,182
Fixed assets		**38,877,703,976**	39,741,473,656
Construction materials		**434,169,176**	432,590,795
Construction in progress		**2,138,731,681**	3,360,315,305
Intangible assets		**1,269,925,611**	1,214,768,182
Deferred tax assets		**603,267,351**	258,324,901
Total non-current assets		**45,360,725,544**	46,700,208,777
TOTAL ASSETS		**62,366,549,182**	65,542,666,651

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Balance Sheet (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2008
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	2008	2007
CURRENT LIABILITIES:		
Short term loans	**630,000,000**	200,000,000
Bills payable	**20,000,000**	63,000,000
Short term commercial papers	**–**	2,000,000,000
Accounts payable	**6,917,042,896**	7,633,708,228
Deposits received	**5,212,997,409**	5,456,620,794
Payroll and benefits payable	**136,423,372**	297,925,673
Taxes payable	**650,199,891**	529,786,745
Interests payable	**43,853,466**	80,432,389
Dividends payable	**1,101,575,013**	1,303,757,138
Other payables	**734,772,103**	730,183,167
Non-current liabilities due within one year	**216,000,000**	2,809,660,000
Total current liabilities	**15,662,864,150**	21,105,074,134
NON-CURRENT LIABILITIES:		
Long term loans	**15,654,324,200**	16,563,408,200
Bonds payable	**4,992,975,444**	4,828,761,588
Deferred income	**562,504,397**	590,425,767
Deferred tax liabilities	**–**	167,989,571
Other non-current liabilities	**7,485,033**	12,485,033
Total non-current liabilities	**21,217,289,074**	22,163,070,159
Total liabilities	**36,880,153,224**	43,268,144,293
SHAREHOLDERS' EQUITY:		
Share capital	**7,700,681,186**	6,758,551,716
Capital reserve	**8,338,358,399**	6,056,692,904
Surplus reserves	**2,864,520,805**	2,777,851,769
Retained profits	**6,582,835,568**	6,681,425,969
Including: cash dividend proposed by directors	**–**	878,611,723
Total shareholder's equity	**25,486,395,958**	22,274,522,358
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**62,366,549,182**	65,542,666,651

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Note XV	**2008**	2007
Revenue	6	**75,148,069,659**	51,362,704,242
Less: Cost of sales		**69,713,506,492**	46,523,363,747
Business taxes and surcharges		**748,551,737**	594,614,981
Selling expenses		**350,915,918**	274,171,003
Administrative expenses		**847,471,805**	850,802,245
Financial expenses		**1,296,859,062**	1,008,929,593
Assets impairment losses	7	**1,664,503,803**	34,742,535
Add: Gain/(loss) on fair value changes		**(1,033,080)**	719,870
Investment income	8	**313,324,057**	220,252,203
Including: share of profits associates and a jointly controlled entity		**203,058,158**	131,867,977
Operating profit		**838,551,819**	2,297,052,211
Add: Non-operating income		**75,898,971**	75,331,885
Less: Non-operating expenses		**7,150,580**	137,836,013
Including: loss on disposal of non-current assets		**1,497,324**	135,194,611
Profit before tax		**907,300,210**	2,234,548,083
Less: Income tax		**40,609,852**	102,649,290
Net profit		**866,690,358**	2,131,898,793

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Statement of Changes in Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2008	**6,758,551,716**	**6,056,692,904**	**2,777,851,769**	**6,681,425,969**	**22,274,522,358**
2. Increase/(decrease) during the year					
(i) Net profit	–	–	–	**866,690,358**	**866,690,358**
(ii) Gains or losses recognised directly in equity					
(a) Adjustment of deferred tax liability arising from bonds with warrants	–	**167,809,603**	–	–	**167,809,603**
Sub-total (i) and (ii)	–	**167,809,603**	–	**866,690,358**	**1,034,499,961**
(iii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	**942,129,470**	**2,113,855,892**	–	–	**3,055,985,362**
(b) Others	–	–	–	–	–
(iv) Profits appropriation					
(a) Transfer to surplus reserves	–	–	**86,669,036**	**(86,669,036)**	–
(b) Dividend declared	–	–	–	**(878,611,723)**	**(878,611,723)**
(c) Others	–	–	–	–	–
(v) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2008	**7,700,681,186**	**8,338,358,399**	**2,864,520,805**	**6,582,835,568**	**25,486,395,958**

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Statement of Changes in Equity (Continued)

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

	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					
(i) Net profit	–	–	–	2,131,898,793	2,131,898,793
(ii) Gains or losses recognised directly in equity					
(a) Adjustment of deferred tax liability arising from bonds with warrants	–	(95,273,247)	–	–	(95,273,247)
Sub-total (i) and (ii)	–	(95,273,247)	–	2,131,898,793	2,036,625,546
(iii) Capital contribution and withdrawal by shareholders					
(a) Capital contribution by shareholders	303,251,716	701,527,357	–	–	1,004,779,073
(b) Others	–	–	–	–	–
(vi) Profits appropriation					
(a) Transfer to surplus reserves	–	–	213,189,879	(213,189,879)	–
(b) Dividend declared	–	–	–	(839,189,000)	(839,189,000)
(c) Others	–	–	–	–	–
(v) 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 205 to page 322 form an integral part of the financial statements

Company Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

		Note XV	**2008**	2007
1.	Cash flows from operating activities:			
	Cash received from sale of goods or rendering of services		**90,024,045,119**	57,562,850,206
	Cash received relating to other operating activities		**9,897,601**	22,537,021
	Sub-total of cash inflows		**90,033,942,720**	57,585,387,227
	Cash paid for goods and services		**(74,182,216,748)**	(48,039,618,162)
	Cash paid to and on behalf of employees		**(3,201,011,059)**	(2,903,686,973)
	Cash paid for all taxes		**(4,340,091,733)**	(3,561,957,939)
	Cash paid relating to other operating activities		**(233,958,135)**	(238,292,773)
	Sub-total of cash outflows		**(81,957,277,675)**	(54,743,555,847)
	Net cash flows from operating activities	9	**8,076,665,045**	2,841,831,380
2.	Cash flows from investing activities:			
	Cash received from retrieval of investments		**3,387,455**	33,250,191
	Cash received from investment income		**267,742,649**	125,164,368
	Net cash received from disposal of fixed assets, intangible assets and other long term assets, net		**16,709,479**	31,435,725
	Cash received relating to other investing activities		**38,080,000**	78,320,000
	Sub-total of cash inflows		**325,919,583**	268,170,284
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(3,042,663,242)**	(6,789,012,658)
	Cash paid for acquisitions of investments		**(219,695,610)**	(197,240,183)
	Cash paid due to increase in pledged deposits, net		**(6,000,000)**	–
	Sub-total of cash outflows		**(3,268,358,852)**	(6,986,252,841)
	Net cash flows from investing activities		**(2,942,439,269)**	(6,718,082,557)

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

Company Cash Flow Statement (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2008
Renminbi Yuan

		Note XV	**2008**	2007
3.	Cash flows from financing activities:			
	Cash received from capital contribution		**3,055,985,362**	1,004,779,073
	Cash received from borrowings		**16,892,143,515**	15,377,094,100
	Sub-total of cash inflows		**19,948,128,877**	16,381,873,173
	Cash repayments of borrowings		**(21,791,703,883)**	(10,018,446,771)
	Cash paid for distribution of dividend or profits and for interest expenses		**(2,584,949,377)**	(1,621,828,860)
	Sub-total of cash outflows		**(24,376,653,260)**	(11,640,275,631)
	Net cash flows from financing activities		**(4,428,524,383)**	4,741,597,542
4.	Effect of foreign exchange rate changes on cash		**(8,756,801)**	(8,969,839)
5.	Net increase in cash and cash equivalents		**696,944,592**	856,376,526
	Add: Balance of cash and cash equivalents at beginning of year		**3,665,369,814**	2,808,993,288
6.	Balance of cash and cash equivalents at end of year		**4,362,314,406**	3,665,369,814

The accompanying notes from page 205 to page 322 form an integral part of the financial statements

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited 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. 340000400002545. 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 (collectively known as 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 was RMB6,455,300,000, and the number of shares were 6,455,300,000, which included state-owned share with selling restrictions of 3,830,560,000 shares, domestic legal person share of 87,810,000 shares, domestic natural person share of 10,000 shares, ordinary A share of 803,990,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1.

During the year 2007 and 2008, among the total number of warrants of 1,265,000,000 attached to the Company's bonds with warrants of 1,245,381,186 warrants were being exercised by certain holders in exchange for the Company's ordinary A share. After exercising, the Company's registered capital became RMB7,700,681,186.

As at 31 December 2008, the Company had issued 7,700,680,000 shares in total, including state-owned share with selling restrictions of 3,830,560,000 shares, state-owned legal person share of 55,860,000 shares, domestic natural person share of 10,000 shares, ordinary A share of 2,081,320,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note VI.32 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 company of the Group is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

II. BASIS OF PREPARATION

The financial statements are prepared in accordance with the "China Accounting Standards for Business Enterprises – General Principal" and 38 specific accounting standards issued by the Ministry of Finance (the "MOF") in February 2006 and application guidance, interpretations and other related regulations issued later on (collectively known as the "CAS").

The financial statements are prepared based on an ongoing basis.

Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company as of 31 December 2008, and the results of their operations and their cash flows for the year then ended.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The financial information of the Company and the Group stated in the financial statements in 2008 is prepared based on the below principal accounting policies and accounting estimates in accordance with the CAS.

1. Accounting year

The accounting year of the Company 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 Company'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.

3. Basis of accounting and measurement

The company'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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

4. Business combinations *(continued)*

Business combination involving entities not under common control (continued)

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.

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 2008. Subsidiary is a company or entity that controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All significant intercompany transactions and balances within the Group are fully 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. In preparing consolidated financial statements, the adjustments shall be made to related items of prior year's financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

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 into functional currencies at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in the 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 into 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 the income statement or capital reserve.

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 the 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 in the balance sheet. When overseas business is disposed of, exchange fluctuation reserve of the oversea business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the 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, finished goods, construction contract 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 valued consumables and packing materials are charged to the 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 in the 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 the income statement.

Inventories are accounted for using perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and 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 the 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 the 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 category basis for raw materials, and on an individual basis for finished goods.

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 when the Group can control the investee, or the investee 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. 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 investee 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. The cost method is applied for long term equity investments in the financial statements of the Company when the investee are controlled by the Company.

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 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. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference been charged to the 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. 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 is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee 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 is disposed of, the difference between the carrying amount and the actual proceeds received should be charged to income statement. For Long term equity investments under equity method, the amount recognised in the equity previously shall be transferred to the income statement upon its disposal.

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 the income statement.

The Group accounts for investment properties under cost method in subsequent measurement. 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 the 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.

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	Estimated residual value	Annual depreciation rate
Buildings and structures	10 – 20 year	3%	4.9 – 9.7%
Plant, machinery and equipment	10 year	3%	9.7%
Transportation vehicles and equipment	5 year	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 is recognised based on the actual construction expenditures incurred. It consists of all types of expenditures necessarily to be 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 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 the 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.

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 (either a part of financial asset or a part of a group of similar financial assets) will be derecognised when and only when:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) It retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an "transfer arrangement"; or

(3) It transfers the contractual rights to receive the cash flows of the financial asset in a manner that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

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 difference is recognised in the income statement.

Classification and measurement of financial assets

The Company classifies its financial assets into four categories when recognised initially, 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 recognised initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the 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 Company as at fair value through profit or loss 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 (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the 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 Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the 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 unquoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised, impaired, or amortised.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

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 Company 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 as 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 periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognised in the income statement.

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 Company classifies its financial liabilities, when recognised initially, as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the 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 Company as fair value through profit or loss 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 (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Classification and measurement of financial liabilities (continued)

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 amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation in accordance with CAS 14 *"Revenue"*.

Bonds with warrants

The Group evaluates the terms of the issuance of bonds with warrants to determine whether it contains both a liability and an equity component. The issued bonds with warrants contain both a liability and an equity component. On initial recognition, it should be bifurcated the liability and equity component and accounted for them separately. In the bifurcation, the liability component shall be initially recognised and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. 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. The portion of the transaction costs relating to the liability components is recognised as part of the liability and amortised in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognised as part of the equity and is not remeasured in subsequent years.

The issuance of bonds with warrants contain both a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognised as derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

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 the 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 the income statement when objective evidence of impairment exists. For assets that are individually insignificant, the Group includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. 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.

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 the 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

15. Financial instruments *(continued)*

Impairment of financial assets (continued)

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 the 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 the 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 the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement.

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 the 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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. Borrowing costs *(continued)*

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.

The capitalisation of borrowing costs commences when:

(1) Expenditures for the assets are being incurred;

(2) Borrowing costs are incurred;

(3) 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 methods:

(1) 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.

(2) 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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.

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 the 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

17. Impairment of assets *(continued)*

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.

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:

(1) the obligation is a present obligation assumed by the Group;

(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

Provisions 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

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.

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.

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 as finance lease. All the other leases are termed as operating leases.

Operating lease as lessor

Operating lease rentals are charged to 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 the income statement.

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contribution into the Annuity Plan and charged to the income statement.

Termination benefits are recognised as liabilities and charged to the 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 the 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 the 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 the current period. Taxable profit is the profit for the current 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. Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgment, 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 judgments, which have significant effect on the amounts recognised in the financial statements:

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

24. Significant accounting judgments and estimates *(continued)*

Judgements (continued)

Operating lease – as lessor

The Group has entered into operating leases on its investment properties. 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 according to lease contract.

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)*

24. Significant accounting judgments and estimates *(continued)*

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in note VI.16 to the financial statements.

Development Costs

Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

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.

Estimation inf Useful lives 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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

24. Significant accounting judgments and estimates *(continued)*

Estimation uncertainty (continued)

Estimation of inventories under net realisable value

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

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

Income tax

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

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 5% – 13%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.

IV. TAX *(CONTINUED)*

(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) Real estate tax

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

(7) Corporate income tax

According to the New Corporate Income Tax Law became effective on 1 January 2008, the Company and certain of its subsidiaries were subject to corporate income tax rate at 25% on their assessable profit. Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rate ranged from 18% to 25% an enjoy the "Two years exempted and subsequent three years with 50% reduction" tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax rate at 15%. Other subsidiaries located in elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

IV. TAX *(CONTINUED)*

(7) Corporate income tax *(continued)*

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.

(8) Others

In accordance with tax laws and other relevant regulations.

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Name of investee	Place of incorporation and registration	Registered capital 2008.12.31	Investment cost 2008.12.31 RMB Equivalent	Percentage of equity held% 2008.12.31 directly	Percentage of equity held% 2008.12.31 indirectly	Percentage of equity held% 2007.12.31 directly	Percentage of equity held% 2007.12.31 indirectly	Percentage of vote right% 2008.12.31	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	RMB80,000,000	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	(ii)
MG Control Technique Company Limited ("MG Control Technique")	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 communication systems	(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	10,333,358	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)

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

Name of investee	Place of incorporation and registration	Registered capital 2008.12.31	Investment cost 2008.12.31 RMB Equivalent	Percentage of equity held% 2008.12.31 directly	2008.12.31 indirectly	2007.12.31 directly	2007.12.31 indirectly	Percentage of vote right% 2008.12.31	Principal activities	Note
Subsidiaries (continued)										
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) Limted ("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)
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	355,000,000	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	(iii)

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

Name of investee	Place of incorporation and registration	Registered capital 2008.12.31	Investment cost 2008.12.31 RMB Equivalent	Percentage of equity held% 2008.12.31 directly	2008.12.31 indirectly	2008.12.31 directly	2008.12.31 indirectly	Percentage of vote right% 2008.12.31	Principal activities	Note
Subsidiaries (continued)										
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)	(i)
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique")	Anhui, PRC	RMB150,000,000	106,500,000	71	–	71	–	71	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	(iv)
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller")	Anhui, PRC	USD30,000,000	44,134,686	51	–	51	–	51	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	(v)
Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading")	Anhui, PRC	RMB500,000	500,000	100	–	100	–	100	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	(i)
Auhui Masteel Stereoscopic Auto-Parking Equipments Company Limited ("Masteel Auto-Parking")	Anhui, PRC	USD2,500,000	20,177,600	–	100	–	100	100	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	(vi)
Associates										
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Henan, PRC	RMB222,220,000	80,000,000	36	–	40	–	36	Production and sale of coke, tar, benzene and coal gas	(vii)
Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke")	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	
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic")	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	
Maanshan Harbor Group Co., Ltd ("Maanshan Harbor")	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	

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

Name of investee	Place of incorporation and registration	Registered capital 2008.12.31	Investment cost 2008.12.31 RMB Equivalent	Percentage of equity held% 2008.12.31 directly	indirectly	2008.12.31 directly	indirectly	Percentage of vote right% 2008.12.31	Principal activities	Note
Associates (continued)										
Auhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System")	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	
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 2007 and 2008, 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) During the reporting period, the registered capital of Design & Research Institute was increased from RMB50,000,000 to RMB80,000,000 by converting retained profits of RMB28,300,000 and surplus reserve of RMB1,700,000. The change of registered capital has been examined by Auhui Xin Rong Certified Public Accountants (安徽興永會計事務所), which stated that the percentage of equity held by the Company remained the same.

(iii) During the reporting period, the 2nd installment of registered capital was paid up by the Company of RMB117,505,000, and together with the other venturer, Hefei Industrial Investment Holding Company, in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by Zhong Lei Certified Public Accountants (中磊會計師事務所) till 31 December 2008.

(iv) During the reporting period, the 2nd installment of registered capital was paid up by the Company of RMB79,875,000, and together with other venturers, Cherry Automobile Company Limited (奇瑞汽車有限公司) and Foshan Shun De District Shun Feng Material Supply Co., Ltd. (佛山市順德區順豐物資供應有限公司), in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by Auhui Hua Shen Certified Public Accountants (安徽華審會計師事務所) till 31 December 2008.

(v) During the reporting period, the 2nd installment of registered capital was paid up by the Company of US$3,060,000 (equalled to RMB21,413,880), and together with the other venturer, United Electronic (Steel) Hong Kong Co., Ltd. (聯合電鋼(香港)有限公司), in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by Auhui Rong Da Xin Certified Public Accountants (安徽永達信會計師事務所) till 31 December 2008.

V. SUBSIDIARIES, JOINTLY-CONTROLLED ENTITY AND ASSOCIATES *(CONTINUED)*

(vi) The subsidiary was acquired through a business combination under common control. Further details are stated in Note VI.49 to the financial statements.

(vii) During the reporting period, the registered capital of Jiyuan JinMa Coke was increased by Jiyuan Shi JinMa XingYe Investment Co., Ltd of RMB22,220,000 after agreement with all shareholders. The paid up capital contributed by Jiyuan Shi JinMa XingYe Investment Co., Ltd has been examined by Jiyuan Shi YangGuang CPA Firm before 31 December 2008. The percentage of shares held by the Company decreased from 40% to 36% after the capital injection.

Except items (vi), the extent of consolidation is consistent with previous year.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	2008			2007 (restated)		
	Original currency	**Year end exchange rate**	**RMB equivalents**	Original currency	Year end exchange rate	RMB equivalents
Cash on hand						
– RMB	**–**	**–**	**277,947**	–	–	244,125
Balances with financial institutions						
– RMB	**–**	**–**	**4,587,054,180**	–	–	5,183,954,571
– HKD	**418,017**	**0.8819**	**368,626**	405,264	0.9364	379,932
– USD	**103,604,980**	**6.8346**	**708,333,348**	16,438,016	7.3046	120,072,983
– EUR	**3,381,665**	**9.6590**	**32,663,503**	2,468,810	10.6669	26,334,550
– JPY	**102,119**	**0.0757**	**7,725**	1,051,044,601	0.0641	67,334,122
– AUD	**23,053,340**	**4.7135**	**108,661,917**	15,584,748	6.4050	99,820,683
			5,437,089,299			5,497,896,841
Others						
– RMB	**–**	**–**	**506,841,147**	–	–	788,092,305
– USD	**1,000,000**	**6.8346**	**6,878,820**	1,000,000	7.3046	7,303,920
			513,719,967			795,396,225
Total			**5,951,087,213**			6,293,537,191

As at 31 December 2008, the Group's cash and bank balances amounting to RMB513,719,967 have been pledged to banks as securities (31 December 2007: RMB768,081,225), Further details of the transaction are included in Note 17.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

1. Cash and bank balances *(continued)*

As at 31 December 2008, the Group has cash and bank balances amounting to RMB167,984,437 have been deposited outside the PRC.

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. Financial assets held for trading

	2008	2007
Equity instruments held for trading	**813,250**	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.

3. Bills receivable

	2008	2007
Bank acceptance bills	**1,257,132,110**	4,194,297,474
Commercial acceptance bills	**10,122,609**	–
Total	**1,267,254,719**	4,194,297,474

At 31 December 2008, certain of the Group's short-term loans were acquired from bills receivables discounted amounted to RMB264,000,000 (2007: Nil).

As at 31 December 2008 and 31 December 2007, 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)*

4. Trade receivables

The Group's trade receivables were interest– free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analysed below:

	2008	2007 (restated)
Within one year	**599,627,729**	1,024,264,885
One to two years	**26,435,972**	12,967,994
Two to three years	**2,534,476**	1,108,762
Over three years	**17,944,416**	17,243,068
	646,542,593	1,055,584,709
Less: Provisions for bad debts	**19,815,491**	18,359,996
Total	**626,727,102**	1,037,224,713

Trade receivables balance is analysed as follows:

	2008				2007 (restated)			
	Balance	**Ratio**	**Provision for bad debts**	**Ratio**	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**568,063,437**	**88%**	**(14,858,489)**	**3%**	978,735,818	93%	(14,184,569)	1%
Other insignificant	**78,479,156**	**12%**	**(4,957,002)**	**6%**	76,848,891	7%	(4,175,427)	5%
Total	**646,542,593**	**100%**	**(19,815,491)**		1,055,584,709	100%	(18,359,996)	

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. Trade receivables *(continued)*

The following balances are denominated in foreign currencies:

	2008			2007		
	Original currency	**Year end exchange rate**	**RMB equivalents**	Original currency	Year end exchange rate	RMB equivalents
USD	**44,496,349**	**6.8346**	**304,114,750**	75,775,420	7.3046	553,509,135
EUR	**733,235**	**9.6590**	**7,082,315**	334,076	10.6669	3,563,553
AUD	**–**	**–**	**–**	794,331	6.4050	5,087,711
Total			**311,197,065**			562,160,399

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

Reason	**2008**	2007
Bankrupt or liquidated debtors	**–**	12,801,734
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	**673,920**	4,452,111
Total	**(673,920)**	18,440,644

	2008	2007
Top five largest customers	**377,062,376**	398,733,665
Percentage to total receivables	**58%**	38%
Years of overdue	**1 year**	1 year

As at 31 December 2008 and 31 December 2007, 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 statements.

The movement of bad debts provisions for trade receivables for the year 2008 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

5. Prepayments

An aged analysis of the prepayments is as follows:

	2008		2007(restated)	
	Balance	**Ratio**	Balance	Ratio
Within one year	**1,007,783,093**	**91%**	1,537,141,102	91%
One to two years	**75,070,765**	**7%**	76,173,349	5%
Two to three years	**16,392,370**	**1%**	11,512,770	1%
Over three years	**8,015,008**	**1%**	48,008,214	3%
Total	**1,107,261,236**	**100%**	1,672,835,435	100%

Prepayments aged over one year were mainly attributable to the delay in raw materials supply.

As at 31 December 2008 the balance of prepayments did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties; and as at 31 December 2007, the balance of prepayments did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests. Further details of the balance due from related parties are stated in Note VIII.5 to the financial statements.

6. Other receivables

An aged analysis of the other receivables is as follows:

	2008	2007 (restated)
Within one year	**422,659,984**	255,030,828
One to two years	**13,964,450**	3,012,684
Two to three years	**407,034**	83,380
Over three years	**6,533,395**	6,573,930
	443,564,863	264,700,822
Less: Provisions for bad debts	**7,070,497**	7,161,646
Total	**436,494,366**	257,539,176

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. Other receivables *(continued)*

Other receivables balance is analysed as follows:

	2008				2007 (restated)			
			Provision for				Provision for	
	Balance	**Ratio**	**bad debts**	**Ratio**	Balance	Ratio	bad debts	Ratio
Individually significant	**396,727,329**	**89%**	**(2,400,000)**	**1%**	184,050,439	70%	(3,688,268)	2%
Other insignificant	**46,837,534**	**11%**	**(4,670,497)**	**10%**	80,650,383	30%	(3,473,378)	4%
Total	**443,564,863**	**100%**	**7,070,497**		264,700,822	100%	(7,161,646)	

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

Reason	**2008**	2007
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**–**	19,241,834

	2008	2007
Top five largest customers	**385,004,759**	184,050,439
Percentage to total receivables	**87%**	70%
Years of overdue	**1-3 years**	1-3 years

As at 31 December 2008 and 31 December 2007, 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 2008 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. Inventories

	2008	2007 (restated)
Raw materials	**6,704,118,978**	4,870,532,171
Spare parts	**2,549,839,462**	2,382,957,761
Finished goods	**1,244,809,706**	1,694,504,749
Work in progress	**999,629,025**	738,364,782
Construction contract	**145,555,456**	75,688,341
	11,643,952,627	9,762,047,804
Less: Provisions for inventories	**1,795,894,286**	132,103,392
Total	**9,848,058,341**	9,629,944,412

As at 31 December 2008, the inventories with carrying amount of RMB329,306,462 (31 December 2007: RMB786,930,000) were restricted to use. Please refer to Note 17 for details.

The movement of impairment provision against inventories for the year 2008 is disclosed in Note 16.

8. Non-current liabilities due within one year

	2008	2007
Held-to-maturity investments (note 9)	**2,938,870**	–

9. Held-to-maturity investments

	2008	2007
Debt investments	**–**	5,598,870
Less: Impairment for held-to-maturity investments	**–**	–
Total	**–**	5,598,870

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

9. Held-to-maturity investments *(continued)*

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 for held-to-maturity investments for the year 2008 is disclosed in Note 16.

10. Long term equity investments

	2008	2007 (restated)
Long term equity investments under equity method:		
Jointly-controlled entity (i)	**304,278,936**	268,305,755
Associates (ii)	**501,963,765**	410,225,675
Long term equity investments under cost method:		
Other equity investments (iii)	**102,917,360**	102,917,360
	909,160,061	781,448,790
Less: Impairment for long term equity investments	**–**	–
Total	**909,160,061**	781,448,790

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

The movement of impairment provision for long term equity investments for the year 2008 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(i) Jointly-controlled entity

2008

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: *Cash dividend received during the year*	Closing balance
BOC-Ma Steel	234,000,000	268,305,755	68,563,648	(32,590,467)	*(32,590,467)*	304,278,936
Less: Impairment		–	–	–	–	–
		268,305,755	68,563,648	(32,590,467)		304,278,936

2007

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: *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) Jointly-controlled entity (continued)

Major financial information of a jointly-controlled entity:

Name of investee	2008 Total assets	Total liabilities	Revenue	Net profit
BOC-Ma Steel	775,211,985	166,654,113	445,778,479	137,127,296

(ii) Associates

Name of investee	2008 Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: *Cash dividend received during the year*	Closing balance
Jiyuan JinMa Coke	80,000,000	132,550,015	64,707,809	(27,475,696)	*(27,475,696)*	169,782,128
Tengzhou Shenglong Coke	66,776,000	109,624,049	38,830,063	–	–	148,454,112
Shanghai Iron and Steel Electronic	4,000,000	18,609,113	7,056,179	(10,000,000)	*(10,000,000)*	15,665,292
Maanshan Harbor	112,500,000	136,466,488	23,900,459	(1,590,145)	*(1,590,145)*	158,776,802
All-monitor Transmission System	13,500,000	12,976,010	(3,690,579)	–	–	9,285,431
		410,225,675	130,803,931	(39,065,841)		501,963,765
Less: Impairment		–	–	–		–
Total		410,225,675	130,803,931	(39,065,841)		501,963,765

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(ii) Associates (continued)

		2007 (restated)				
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: *Cash dividend received during the year*	Closing balance
Jiyuan JinMa Coke	80,000,000	109,116,860	34,466,633	(11,033,478)	*(11,033,478)*	132,550,015
Tengzhou Shenglong Coke	66,776,000	76,834,581	32,789,468	–	–	109,624,049
Shanghai Iron and Steel Electronic	4,000,000	8,204,437	14,404,676	(4,000,000)	*(4,000,000)*	18,609,113
Maanshan Harbor	112,500,000	121,858,527	15,901,445	(1,293,484)	*(1,293,484)*	136,466,488
All-monitor Transmission System	13,500,000	9,000,000	4,500,000	(523,990)	–	12,976,010
		325,014,405	102,062,222	(16,850,952)		410,225,675
Less: Impairment		–	–	–		–
Total		325,014,405	102,062,222	(16,850,952)		410,225,675

Major financial information of associates are presented below:

	2008			
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit/(loss)**
Jiyuan JinMa Coke	**1,294,255,346**	**847,569,134**	**2,774,611,235**	**169,759,823**
Tengzhou Shenglong Coke	**919,038,448**	**455,119,349**	**1,636,713,754**	**121,343,947**
Shanghai Iron and Steel Electronic	**1,334,394,837**	**1,256,068,376**	**52,990,759**	**35,280,894**
Maanshan Harbour	**886,107,815**	**533,270,478**	**243,954,206**	**53,112,131**
All-monitor Transmission System	**32,430,353**	**796,063**	**81,026**	**(8,201,287)**

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. Long term equity investments *(continued)*

(iii) Other equity investments

			2008		
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing Balance**
Henan Long Yu Energy Co., Ltd	**10,000,000**	**10,000,000**	**–**	**–**	**10,000,000**
China 17th Metal Construction Co., Ltd	**2,700,000**	**2,700,000**	**–**	**–**	**2,700,000**
Shanghai Luo Jing Ore Dock Co., Ltd	**88,767,360**	**88,767,360**	**–**	**–**	**88,767,360**
Others	**1,450,000**	**1,450,000**	**–**	**–**	**1,450,000**
		102,917,360	**–**	**–**	**102,917,360**
Less: Impairment		**–**	**–**	**–**	**–**
Total		**102,917,360**	**–**	**–**	**102,917,360**

			2007		
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing Balance
Henan Long Yu Energy Co., Ltd	10,000,000	10,000,000	–	–	10,000,000
Tangshan Iron and Steel Co., Ltd	4,559,109	4,559,109	–	(4,559,109)	–
Shanghai Chlor-Alkali Chemical Co. Ltd	807,926	807,926	–	(807,926)	–
China 17th Metal Construction Co., Ltd	2,700,000	–	2,700,000	–	2,700,000
Shanghai Luo Jing Ore Dock Co., Ltd	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)*

11. Investment properties

Cost method for subsequent measurement:

2008

	Land use rights
Cost:	
At 1 January 2008	**1,722,642**
Accumulated depreciation:	
At 1 January 2008	**482,339**
Provided during the year	**34,453**
At 31 December 2008	**516,792**
Impairment:	
At 1 January 2008 and 31 December 2008	**–**
Net carrying amount:	
At 31 December 2008	**1,205,850**
At 1 January 2008	**1,240,303**

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)*

The movement of impairment provision for investment properties for the year 2008 is disclosed in Note 16.

The investment property was leased by the jointly-controlled entity of the Group (BOC-Ma Steel) as operating lease.

12. Fixed assets

2008

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost:				
At 1 January 2008 (restated)	18,694,226,788	36,843,272,020	425,513,996	55,963,012,804
Additions	17,533,903	71,343,462	3,053,798	91,931,163
Transferred from constructions in progress (Note 13)	1,519,980,216	2,389,286,811	27,332,664	3,936,599,691
Reclassifications	41,326,517	(37,887,795)	(3,438,722)	–
Disposal	(9,794,873)	(128,674,346)	(23,498,399)	(161,967,618)
At 31 December 2008	20,263,272,551	39,137,340,152	428,963,337	59,829,576,040
Accumulated depreciation:				
At 1 January 2008 (restated)	4,112,003,551	10,150,581,840	281,524,655	14,544,110,046
Provided during the year	1,090,580,307	3,424,930,218	50,269,156	4,565,779,681
Reclassifications	33,997,459	(33,024,730)	(972,729)	–
Disposal	(5,521,185)	(113,156,455)	(21,807,513)	(140,485,153)
At 31 December 2008	5,231,060,132	13,429,330,873	309,013,569	18,969,404,574
Impairment:				
At 1 January 2008 and 31 December 2008	5,252,400	85,423,244	–	90,675,644
Net carrying amount:				
At 31 December 2008	15,026,960,019	25,622,586,035	119,949,768	40,769,495,822
At 1 January 2008 (restated)	14,576,970,837	26,607,266,936	143,989,341	41,328,227,114

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Fixed assets *(continued)*

2007 (restated)

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost:				
At 1 January 2007	9,406,742,804	20,559,486,081	395,389,360	30,361,618,245
Additions	903,033	99,409,187	14,848,614	115,160,834
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	18,694,226,788	36,843,272,020	425,513,996	55,963,012,804
Accumulated depreciation:				
At 1 January 2007	3,282,724,260	7,974,453,737	248,573,625	11,505,751,622
Provided during the year	744,789,329	2,467,430,094	44,678,800	3,256,898,223
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	4,112,003,551	10,150,581,840	281,524,655	14,544,110,046
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	14,576,970,837	26,607,266,936	143,989,341	41,328,227,114
At 1 January 2007	6,118,766,144	12,499,609,100	146,815,735	18,765,190,979

As at 31 December 2008, the cost of fully depreciated fixed assets which are still in use amounted to approximately RMB3,320 million and the net carrying amount amounted to approximately RMB100 million.

As at 31 December 2008, the Group has no intention to dispose of any fixed assets or held any fixed asset that were being temporarily idle.

As at 31 December 2008, certain of the equipments with a net carrying amount of approximately RMB21.30 million (31 December 2007: approximately RMB24.66 million) were restricted to use. Further details of the transaction are included in Note 17.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. Fixed assets *(continued)*

As at 31 December 2008, certificates of ownership in respect of the Group's buildings with a net carrying amount of RMB1,632.11 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 for fixed assets for the year 2008 is disclosed in Note 16.

13. Construction in progress

2008

Name of projects	Budget cost RMB'000	Opening balance (restated) RMB	Additions during the year RMB	Transferred to fixed assets (Note 12) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Products Quality Project	10,253,542	193,731,279	70,572,780	(90,173,924)	174,130,135	Internally generated funds	2~100
2. Energy-saving and Environment Protection Project	1,372,461	387,841,071	451,392,104	(337,930,847)	501,302,328	Internally generated funds	3~100
3. Equipment Advancement and other modification projects	27,053,182	2,778,742,955	1,811,053,022	(3,126,496,759)	1,463,299,218	Internally generated funds	7~100
Including: borrowing costs capitalised	-	*2,061,270*	-	*(2,061,270)*	-		
4. Other Projects	N/A	150,450,349	370,734,719	(381,998,161)	139,186,907	Internally generated funds	N/A
		3,510,765,654	2,703,752,625	(3,936,599,691)	2,277,918,588		
Less: Impairment		-	-	-	-		
Total		3,510,765,654	2,703,752,625	(3,936,599,691)	2,277,918,588		

The capitalised rates ranged from 1.4% to 6.723% in 2007. The Group has no capitalised borrowing costs using in construction in progress in the year 2008.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Construction in progress *(continued)*

2007 (restated)

Name of projects	Budget cost RMB'000	Opening balance (restated) RMB	Additions during the year RMB	Transferred to fixed assets (Note 12) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Products Quality Project	9,748,242	1,945,452,060	975,411,151	(2,727,131,932)	193,731,279	Internally generated funds and loans from financial institution	90-100
Including: borrowing costs capitalised	*57,061,560*	*43,789,623*	*(100,851,183)*	–			
2. Energy-saving and Environment	1,107,169	293,507,834	149,303,237	(54,970,000)	387,841,071	Internally generated funds Protection Project	15~100
3. Equipment Advancement and other modification porjects	27,613,878	16,416,496,081	8,814,005,259	(22,451,758,385)	2,778,742,955	Internally generated funds and loans from financial institution	33~100
Including: borrowing costs capitalised	*479,802,271*	*366,629,471*	*(844,370,472)*	*2,061,270*			
4. Other Projects	N/A	77,465,174	731,295,882	(658,310,707)	150,450,349	Internally generated funds	N/A
		18,732,921,149	10,670,015,529	(25,892,171,024)	3,510,765,654		
Less: Impairment		–	–	–	–		
Total		18,732,921,149	10,670,015,529	(25,892,171,024)	3,510,765,654		

The movement of impairment provision for construction in progress for the year 2008 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Intangible assets

2008

	Land use rights	Mining right	Total
Cost:			
At 1 January 2008 (restated)	1,818,338,850	131,514,909	1,949,853,759
Additions	285,684,585	–	285,684,585
Exchange realignment	–	(34,911,834)	(34,911,834)
At 31 December 2008	2,104,023,435	96,603,075	2,200,626,510
Accumulated depreciation:			
At 1 January 2008 (restated)	298,610,353	10,692,610	309,302,963
Provided during the year	40,064,795	4,179,103	44,243,898
Exchange realignment	–	(3,459,628)	(3,459,628)
At 31 December 2008	338,675,148	11,412,085	350,087,233
Impairment:			
At 1 January 2008 and 31 December 2008	–	–	–
Net carrying amount:			
At 31 December 2008	1,765,348,287	85,190,990	1,850,539,277
At 1 January 2008 (restated)	1,519,728,497	120,822,299	1,640,550,796

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. Intangible assets *(continued)*

2007 (restated)

	Land use rights	Mining right	Total
Cost:			
At 1 January 2007	1,720,998,101	119,103,568	1,840,101,669
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	1,818,338,850	131,514,909	1,949,853,759
Accumulated depreciation:			
At 1 January 2007	259,880,194	5,597,062	265,477,256
Provided during the year	38,571,864	5,095,548	43,667,412
Transferred from investment properties (Note 11)	158,295	–	158,295
At 31 December 2007	298,610,353	10,692,610	309,302,963
Impairment:			
At 1 January 2007 and 31 December 2007	–	–	–
Net carrying amount:			
At 31 December 2007	1,519,728,497	120,822,299	1,640,550,796
At 1 January 2007	1,461,117,907	113,506,506	1,574,624,413

The movement of impairment provision for intangible assets for the year 2008 is disclosed in Note 16.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15. Deferred tax assets/liabilities

Recognised deferred tax assets:

	2008	2007
Opening balance	**258,762,170**	134,565,000
Credited to the income statement during the year	**360,166,554**	124,197,170
Closing balance	**618,928,724**	258,762,170

Breakdown	2008	2007
Impairment provisions of assets	**433,658,638**	32,792,775
Sales incentive	**90,506,134**	95,424,297
Repair and maintenance expenses	**23,383,465**	37,478,684
Pre-operation expenses	**21,802,909**	30,437,786
Salary payable	**21,226,376**	56,570,101
Government grants	**9,490,268**	–
Others	**18,860,934**	6,058,527
Total	**618,928,724**	258,762,170

At 31 December 2008, the Group had unrecognised deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB37,677,492 and unused tax losses of RMB155 million which will be expired in 2013 and tax credit arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credit amounting to RMB158.14 million and RMB6 million, respectively, which have not been recognised.

The group has not recognized the deferred tax assets related to the above deductible temporary differences and unused tax losses, because it is not highly probable that future taxable profit will be available to be utilized.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15. Deferred tax assets/liabilities *(continued)*

Recognised deferred tax liabilities:

	2008	2007
Opening balance	**168,275,911**	135,319,000
Debited directly to equity (Note)	**(167,809,603)**	95,273,247
Credited to the income statement during the year	**6,212,595**	(62,316,336)
Closing balance	**6,678,903**	168,275,911

Breakdown	**2008**	2007
Bonds with warrants	**–**	167,809,603
Others	**6,678,903**	466,308
Total	**6,678,903**	168,275,911

Note: Pursuant to the "Circular of the Ministry of Finance and the State Administration of Taxation on the Issues of Enterprise Income Tax Policies Relevant to the Implementation of the Enterprise Accounting Standards", effective interest expense on the Bonds with Warrants is tax deductible upon accrual if the effective interest rate does not exceed the rate of bank borrowing in the same period. Accordingly, after giving due consideration to the estimated effective interest expenses over the remaining years of the financial instrument, the carrying amount of the deferred tax related to the Bonds with Warrants was recorded as part of the Company's "Reserve – Equity Component of Bonds with Warrants" during the year ended 31 December 2008.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. Assets impairment provisions

	2008					
	Opening Balance (restated)	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	25,521,642	781,575	(91,149)	–	673,920	26,885,988
Including: Trade receivables	18,359,996	781,575	–	–	673,920	19,815,491
Other receivables	7,161,646	–	(91,149)	–	–	7,070,497
Provisions for inventories	132,103,392	1,795,894,286	–	(88,332,339)	(43,771,053)	1,795,894,286
Including: Raw Materials	–	1,389,919,170	–	–	–	1,389,919,170
Work in Process	–	143,476,078	–	–	–	143,476,078
Finished goods	9,795,364	237,995,235	–	(9,795,364)	–	237,995,235
Spare parts	122,308,028	24,503,803	–	(78,536,975)	(43,771,053)	24,503,803
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	248,300,678	1,796,675,861	(91,149)	(88,332,339)	(43,097,133)	1,913,455,918

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. Assets impairment provisions *(continued)*

	2007 (restated)					
	Opening Balance (restated)	Increase during the year	Decrease during the year Reversal	Decrease during the year Write-back	Decrease during the year Write-off	Closing balance
Provisions for bad debts	68,256,422	538,666	(5,590,968)	–	(37,682,478)	25,521,642
Including: Trade receivables	41,944,091	447,517	(5,590,968)	–	(18,440,644)	18,359,996
Other receivables	26,312,331	91,149	–	–	(19,241,834)	7,161,646
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	250,701,955	45,712,169	(10,430,968)	–	(37,682,478)	248,300,678

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. Restricted assets

2008

	Opening Balance	Increase during the year	Decrease during the year	Closing Balance	Note
Cash and balances with financial institutions	**768,081,225**	**–**	**(254,361,258)**	**513,719,967**	(i)
Inventories	**786,930,000**	**–**	**(457,623,538)**	**329,306,462**	(ii)
Fixed assets	**24,658,000**	**–**	**(3,355,000)**	**21,303,000**	(iii)
Total	**1,579,669,225**	**–**	**(715,339,796)**	**864,329,429**	

2007

	Opening Balance	Increase during the year	Decrease during the year	Closing Balance
Cash and balances with financial institutions	531,136,660	236,944,565	–	768,081,225
Inventories	121,914,383	665,015,617	–	786,930,000
Fixed assets	28,013,000	–	(3,355,000)	24,658,000
Total	681,064,043	901,960,182	(3,355,000)	1,579,669,225

(i): As at 31 December 2008, the Group's cash and bank balances amounting to RMB513,719,967 have been pledged to banks as securities for issue of bank acceptance bills and for the Company's subsidiaries.

(ii): As at 31 December 2008, the Group's inventories amounting to RMB329,306,462 have been pledged to banks as securities for issue of bank acceptance bills for the Company's subsidiaries.

(iii): As at 31 December 2008, certain of the Group's equipments with a net carrying amount of approximately RMB21,303,000 were pledged to secure a loan granted by Profit Access Investments Limited.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18. Short term loans

	2008			2007 (restated)		
Types of loans	Original currency	Year and exchange rate	RMB equivalents	Original currency	Year and exchange rate	RMB equivalents
Unsecured loans						
– RMB	–	–	**1,154,000,000**	–	–	484,000,000
Trust receipt loans						
– USD	–	–	–	109,587,824	7.3046	800,495,217
Total			**1,154,000,000**			1,284,495,217

The interest rates of the above short term loans ranged from 4.779% – 7.47% per annum.

19. Bills payable

	2008	2007
Bank acceptance bills	**1,049,125,831**	1,710,845,160
Commercial acceptance bills	**–**	80,000,000
Total	**1,049,125,831**	1,790,845,160

As at 31 December 2008 and 31 December 2007, 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.

20. Short term commercial papers

	2008	2007
Name		
Short term commercial papers	**–**	2,000,000,000

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

20. Short term commercial papers *(continued)*

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.

21. Accounts payable

The following balances were denominated in foreign currencies:

	2008			2007		
	Original currency	**Year end exchange rate**	**RMB equivalents**	Original currency	Year end exchange rate	RMB equivalents
USD	**222,419**	**6.8346**	**1,520,145**	3,174,284	7.3046	23,186,875
EUR	**4,382,221**	**9.6590**	**42,327,870**	18,147,367	10.6669	193,576,144
AUD	**8,697**	**4.7135**	**40,995**	20,106	6.4050	128,782
JPY	**185,212,000**	**0.0757**	**14,011,288**	1,629,876,700	0.0641	104,416,421
Total			**57,900,298**			321,308,222

The accounts payable are interest free and are normally settled within three months.

As at 31 December 2008 and 31 December 2007, 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.

22. Deposits received

The ageing of deposits received is within one year.

As at 31 December 2008 and 31 December 2007, 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.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

23. Payroll and benefits payable

2008	**Opening balance**	**Increase during the year**	**Payment during the year**	**Closing balance**
Salaries, bonus and subsidies	**182,620,249**	**2,093,285,374**	**(2,190,738,458)**	**85,167,165**
Welfare (including: employee bonus and welfare fund)	**21,416,510**	**163,114,198**	**(158,059,968)**	**26,470,740**
Social insurance	**100,121,105**	**661,747,770**	**(727,650,800)**	**34,218,075**
Housing fund	**20,544,237**	**169,367,462**	**(158,640,123)**	**31,271,576**
Labour union fee and employee education fee	**8,649,045**	**65,851,985**	**(63,716,642)**	**10,784,388**
Supplementary pension scheme	**8,520,248**	**70,682,561**	**(69,730,424)**	**9,472,385**
Total	**341,871,394**	**3,224,049,350**	**(3,368,536,415)**	**197,384,329**

2007 (restated)	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	145,612,912	2,071,056,137	(2,034,048,800)	182,620,249
Welfare (including: employee bonus and welfare fund)	68,124,566	161,927,943	(208,635,999)	21,416,510
Social insurance	58,926,358	767,070,473	(725,875,726)	100,121,105
Housing fund	10,938,025	117,438,203	(107,831,991)	20,544,237
Labour union fee and employee education fee	8,635,130	66,258,304	(66,244,389)	8,649,045
Supplementary pension scheme	5,645,346	72,011,365	(69,136,463)	8,520,248
Total	297,882,337	3,255,762,425	(3,211,773,368)	341,871,394

As at 31 December 2008, the balance of payroll and benefits payable included performance-based wages amounting to RMB84,905,503 (31 December 2007: RMB152,233,352).

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

24. Taxes payable

	2008	2007 (restated)
VAT	**747,769,536**	366,856,346
Corporate income tax	**(145,701,795)**	111,818,886
City construction and maintenance tax	**45,956,655**	49,414,421
Flood prevention fund	**–**	40,550,737
Other taxes	**18,724,905**	41,223,081
Total	**666,749,301**	609,863,471

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

25. Dividends payable

	2008	**Reason**	2007
The Holding	**1,095,945,600**	**Unpaid**	1,297,972,800
Other shareholders	**5,629,413**	**Unpaid**	5,784,338
Total	**1,101,575,013**		1,303,757,138

The 2007 profit appropriation plan of the Company has been approved in the 2007 annual general meeting held on 12 June 2008.

As at 31 December 2008 and 31 December 2007, 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)*

26. Other payables

	2008	2007 (restated)
Sales incentive	**362,024,537**	381,697,189
Payable to construction, maintenance and inspection fee	**202,655,328**	249,746,731
Service fees payable	**36,004,373**	28,029,773
Withholding individual income taxes	**21,015,706**	19,228,723
Housing subsidy	**19,856,129**	33,546,450
Retirement benefits payable to early retired employees	**5,000,000**	7,000,000
Payables to a minority shareholder	**–**	145,672,000
Technology project fees received	**48,946,244**	14,414,403
Others	**107,335,733**	54,094,380
Total	**802,838,050**	933,429,649

As at 31 December 2008 and 31 December 2007, 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 RMB58,983,409 were aged over one year which was mainly due to unsettled construction, maintenance and inspection fee.

27. Non-current liabilities due within one year

	2008	2007
Long term loans (Note 28)	**223,579,337**	2,817,346,333

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28. Long term loans

Lenders	2008 Original currency		2008 RMB equivalent	2007 Original currency		2007 RMB equivalent	Maturity date	Annual interest rate	Conditions of borrowings
Industrial and Commercial Bank of China ("ICBC")	RMB	–	1,500,000,000	RMB	–	2,100,000,000	2011-2012	5.346	Guaranteed by Holding
	RMB	–	300,000,000	RMB	–	550,000,000	2011	4.86/4.536	Unsecured
China Construction Bank ("CCB")	RMB	–	1,300,000,000	RMB	–	1,460,000,000	2010-2011	5.103/Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	–	113,200,000	RMB	–	513,200,000	2011	2.4/4.86	Unsecured
Bank of China	RMB	–	2,200,000,000	RMB	–	2,830,000,000	2011-2012	Central Bank benchmark rate less 10%	Guaranteed by Holding
	RMB	–	760,000,000	RMB	–	300,000,000	2011	4.536/4.86	Unsecured
	–	–	–	USD	20,000,000	146,092,000	N/A	N/A	N/A
	EUR	1,363,415	13,169,220	EUR	1,487,361	15,865,533	2009-2019	0.25	Guaranteed by Sinosteel Trading Company
Agricultural Bank of China	RMB	–	1,000,000,000	RMB	–	2,520,000,000	2011-2012	5.346	Guaranteed by Holding
	RMB	–	800,000,000	–	–	–	2011	5.103/4.779	Unsecured
Huishang Bank	RMB	–	550,000,000	RMB	–	350,000,000	2011	5.103	Unsecured
China CITIC Bank	–	–	–	RMB	–	400,000,000	N/A	N/A	N/A
	–	–	–	USD	50,000,000	365,230,000	N/A	N/A	N/A
China Merchants Bank	RMB	–	100,000,000	RMB	–	400,000,000	2011	4.779	Unsecured
	–	–	–	USD	50,000,000	365,230,000	N/A	N/A	N/A
The Export-import Bank of China	RMB	–	514,000,000	RMB	–	580,000,000	2009-2012	3.51/3.78	Guaranteed by Holding
	RMB	–	700,000,000	RMB	–	400,000,000	2011	5.022	Unsecured
	USD	130,000,000	888,498,000	USD	–	–	2011	5.285	Guaranteed by Holding
	USD	47,000,000	321,226,200	USD	47,000,000	343,316,200	2011	LIBOR(6 months)+0.8	Unsecured
Bank of Communications	RMB	–	200,000,000	RMB	–	500,000,000	2009	5.184	Guaranteed by Holding
	RMB	–	800,000,000	–	–	–	2011	5.913/5.508/4.374	Unsecured
Industrial Bank	RMB	–	400,000,000	RMB	–	500,000,000	2010-2011	Central Bank benchmark rate less 10%/4.536	Unsecured

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28. Long term loans *(continued)*

	2008			2007					
Lenders	Original currency		RMB equivalent	Original currency		RMB equivalent	Maturity date	Annual interest rate	Conditions of borrowings
Shanghai Pudong Development Bank	RMB	-	600,000,000	RMB	–	200,000,000	2011	4.536/4.374	Unsecured
Rural Cooperative Bank	RMB	-	40,000,000	RMB	–	–	2011	Central Bank benchmark rate less 10%	Unsecured
Shenzhen Development Bank	-	-	-	RMB	–	150,000,000	N/A	N/A	N/A
China Everbright Bank	RMB	-	300,000,000	RMB	–	400,000,000	2010	4.536	Unsecured
Zhonghai Trust & Investment Co., Ltd	-	-	-	RMB	–	2,000,000,000	N/A	N/A	N/A
ITIC Trust & Investment Co., Ltd	-	-	-	RMB	–	2,000,000,000	N/A	N/A	N/A
Hefei Xingtai Trust & Investment Co., Ltd	RMB	-	999,850,000	–	–	–	2011	5.7816	Unsecured
Jiaoyin Trust & Investment Co., Ltd	RMB	-	1,000,000,000	–	–	–	2011	5.65	Unsecured
Guoyuan Trust & Investment Co., Ltd	RMB	-	483,550,000	–	–	–	2011	5.976/6.4242	Unsecured
Profit Access Investment Company Limited	USD	726,000	6,382,135	USD	726,000	6,364,205	2009	7.47	Pledged of fixed assets
Less: Long term loans due within one year (note 27)			223,579,337			2,817,346,333			
			15,666,296,218			16,577,951,605			

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 6.8346 (2007: 7.3046) and 9.6590 (2007: 10.6669) respectively.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

29. Bonds payable

	2008	2007
Opening balance	**4,828,761,588**	4,672,376,376
Interest expense	**241,213,856**	233,385,212
Interest paid	**(77,000,000)**	(77,000,000)
Closing balance	**4,992,975,444**	4,828,761,588

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 and 10 July 2008, the conversion price has been deducted to RMB3.33 and RMB3.26 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. The second exercise period of the warrants took place on 17 November 2008 to 28 November 2008. A total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.26. Since then, the exercise of these warrants was entirely completed.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable of RMB77 million 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)*

30. Deferred income

	2008	2007
Opening balance	**590,425,767**	564,900,631
Increase during the year	**39,180,000**	78,320,000
Amortised during the year (Note 42)	**(66,056,371)**	(52,794,864)
Closing balance	**563,549,396**	590,425,767

The deferred income represents the government subsidies received for specific projects.

31. Other non-current liabilities

	2008	2007
Retirement benefits payable to early retired employees	**7,485,033**	12,485,032
Total	**7,485,033**	12,485,032

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32. Share capital

Up to 31 December 2008, the Company had issued and fully paid share capital amounting to RMB7,700,681,186, with each share having a face value of RMB1. The types and structure of share capital are as follows:

	At 1 January 2008		Increase/(decrease) during the year			At 31 December 2008	
	Number of shares	Percentage	Issue of shares (i)	Others (ii)	Sub-total	Number of shares	Percentage
a. Shares with selling restriction							
1. State-owned shares	3,830,560,000	56.68%	–	–	–	3,830,560,000	49.74%
2. State-owned legal person shares	–	–	–	55,857,927	55,857,927	55,857,927	0.73%
3. Other domestically owned shares	11,658	–	–	–	–	11,658	–
Including: Shares owned by domestic natural persons	11,658	–	–	–	–	11,658	–
Sub-total	3,830,560,000	56.68%	–	55,857,927	55,857,927	3,886,429,585	50.47%
b. Shares without selling restriction							
1. A shares	1,195,050,058	17.68%	942,129,470	(55,857,927)	886,271,543	2,081,321,601	27.03%
2. H shares	1,732,930,000	25.64%	–	–	–	1,732,930,000	22.50%
Sub-total	2,927,980,058	43.32%	942,129,470	(55,857,927)	886,271,543	3,814,251,601	49.53%
c. Total	6,758,551,716	100.00%	942,129,470	–	942,129,470	7,700,681,186	100.00%

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32. Share capital *(continued)*

	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	87,821,658	1.36%	(87,810,000)	–	(87,810,000)	11,658	–
Including: Shares owned by domestic legal persons	87,810,000	1.36%	(87,810,000)	–	(87,810,000)	–	–
Shares owned by domestic natural persons	11,658	–	–	–	–	11,658	–
Sub-total	3,918,381,658	60.70%	(87,810,000)	–	(87,810,000)	3,830,571,658	56.68%
b. Shares without selling restriction							
1. A shares	803,988,342	12.45%	87,810,000	303,251,716	391,061,716	1,195,050,058	17.68%
2. H shares	1,732,930,000	26.85%	–	–	–	1,732,930,000	25.64%
Sub-total	2,536,918,342	39.30%	87,810,000	303,251,716	391,061,716	2,927,980,058	43.32%
c. Total	6,455,300,000	100.00%	–	303,251,716	303,251,716	6,758,551,716	100.00%

(i) The increase in share capital was due to the second exercise period of the warrants took place in 2008. A total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share 942,129,470 shares. Ernst & Young Hua Ming Certified Public Accountants have verified the capital contributions and issued the capital verification report (2009) no. 60438514_A01.

(ii) The Holding acquired 55,857,927 ordinary A shares and undertook that it would not sell the shares of the Company it held during the implementation of the Continuous Acquisition Plan and during the statutory period.

(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)*

33. Capital reserve

2008	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**5,684,013,428**	**2,654,344,971**	**–**	**8,338,358,399**
Other capital reserve				
Business combination under common control	**8,293,083**	**–**	**(8,293,083)**	**–**
Equity component of bonds with warrants	**372,679,476**	**167,809,603**	**(540,489,079)**	**–**
Total	**6,064,985,987**	**2,822,154,574**	**(548,782,162)**	**8,338,358,399**

2007 (restated)	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	4,864,975,395	819,038,033	–	5,684,013,428
Other capital reserve				
Business combination under common control	8,293,083	–	–	8,293,083
Equity component of bonds with warrants	585,463,399	–	(212,783,923)	372,679,476
Total	5,458,731,877	819,038,033	(212,783,923)	6,064,985,987

Note: During the year, 942,129,470 bonds with warrants were exercised. The net cash proceeds of RMB2,113,855,892 after deducting the face value of the corresponding A shares was recorded in capital reserve as share premium. Upon the exercise of warrants, the equity component of bonds with warrants of RMB540,489,079 has been transferred to capital reserves as share premium accordingly.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

34. Surplus reserves

	Statutory reserve (i)	Reserve fund (ii)	Enterprise expansion fund (ii)	Total
At 1 January 2007	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
Transferred within surplus reserves	–	–	–	–
At 31 December 2007	**2,837,343,938**	**36,641,828**	**27,576,999**	**2,901,562,765**
Increased during the year	**91,183,306**	**9,087,371**	**6,690,058**	**106,960,735**
At 31 December 2008	**2,928,527,244**	**45,729,199**	**34,267,057**	**3,008,523,500**

(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 PRC accounting standards 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) 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 and the reserve 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 RMB86,669,036 (2007: RMB213,189,879) 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 RMB91,183,306 (2007: RMB28,380,146), RMB9,087,371 (2007: RMB13,594,860) and RMB6,690,058 (2007: RMB9,237,680), respectively.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

35. Retained profits

	2008	2007
Retained profits at beginning of year	**7,282,533,393**	5,918,872,526
Add: Consolidated net profit for the year	**710,234,350**	2,475,382,229
Less: Transfer to SR	**91,183,306**	241,570,025
Transfer to reserve fund	**9,087,371**	13,594,860
Transfer to enterprise expansion fund	**6,690,058**	9,237,680
Transfer to employee bonus and welfare fund	**–**	8,129,797
Ordinary share dividend payable (i)	**878,611,723**	839,189,000
Retained profits at end of year	**7,007,195,285**	7,282,533,393
Including: Cash dividend proposed by directors (ii)	**–**	878,611,723

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 2006 was approved by the Company's shareholders at the annual general meeting held 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.

Final dividend in respect of 2007 was approved by the Company's shareholders at the annual general meeting held on 17 June 2008. Based on the number of shares of 6,758,551,716 in issue as at 31 December 2007, a final dividend of RMB0.13 (including tax) per share and in aggregate, a total of RMB878,611,723 payable to shareholders was recognised as a liability.

(ii) According to the fourth director's meeting of the Company in the year held on 15 April 2009, the board of directors of the Company do not recommend the payment of any dividends for the year ended 31 December 2008.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

36. Minority interests

Minority interests of the Group's major subsidiaries are as followings:

	2008	2007
Ma Steel (Hefei)	**186,794,420**	139,745,101
Design & Research Institute	**51,135,247**	41,357,107
MS (Yangzhou) Processing	**48,390,177**	51,464,415
Ma Steel (Guangzhou)	**46,944,689**	56,633,719
Wuhu Technique	**43,390,917**	10,875,000
Ma Steel Roller	**41,642,335**	21,683,256
Holly Industrial	**41,345,144**	56,162,531
Ma Steel (Jinhua)	**28,151,386**	34,312,517
Anhui Masteel K. Wah	**20,750,765**	16,038,589
MS (Hefei) Processing	**8,306,622**	13,277,330
Others	**3,267,557**	4,965,124
Total	**520,119,259**	446,514,689

37. Revenue and cost of sales

Revenue is stated as follows:

	2008	2007 (restated)
Principle operating income	**70,009,580,470**	49,078,334,962
Other operating income	**1,250,158,907**	1,592,543,800
Total	**71,259,739,377**	50,670,878,762
Total revenue of top five largest customers	**7,819,971,464**	5,337,423,631
Percentage to total revenue	**11%**	11%

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

37. Revenue and cost of sales *(continued)*

Principal operating income and principal cost of sales are stated as follows:

	2008		2007 (restated)	
	Principal operating income	**Principal cost of sales**	Principal operating income	Principal cost of sales
Sale of steel products	**65,973,162,367**	**61,022,513,639**	46,499,051,443	41,630,253,105
Sale of steel billets	**503,876,660**	**492,999,927**	540,503,827	512,638,181
Sale of coke by-products	**795,179,392**	**606,518,135**	537,416,454	392,957,093
Sale of pig iron	**1,513,067**	**1,066,942**	2,273,128	1,920,706
Others	**2,735,848,984**	**1,858,657,428**	1,499,090,110	921,502,017
Total	**70,009,580,470**	**63,981,756,071**	49,078,334,962	43,459,271,102

38. Business taxes and surcharges

	2008	2007 (restated)
Export duty	**347,605,198**	220,460,569
City construction and maintenance tax	**268,695,775**	248,950,026
Education surcharges	**109,648,170**	106,692,868
Local education surcharges	**36,558,647**	35,564,289
Other taxes	**15,544,676**	16,600,484
Total	**778,052,466**	628,268,236

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in Note IV to the financial statements.

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

39. Financial expenses

	2008	2007 (restated)
Interest expenses	**1,840,303,678**	1,591,417,797
Less: Interest income	**115,652,826**	52,798,147
Less: Interest capitalisation	**–**	435,219,094
Exchange gain or loss, net	**(172,812,827)**	(83,257,040)
Less: Capitalisation of exchange gain or loss	**–**	(24,800,000)
Others	**24,075,682**	39,090,130
Total	**1,575,913,707**	1,084,033,646

40. Assets impairment loss

	2008	2007
Provision/(reversal of provision) for bad debts	**690,426**	(5,052,302)
Including: Trade receivables	**781,575**	(5,143,451)
Other receivables	**(91,149)**	91,149
Provision for inventories	**1,795,894,286**	40,333,503
Provision of held-to-maturity investments	**–**	–
Provision of long term equity investments	**–**	–
Provision of investment properties	**–**	–
Provision of fixed assets	**–**	–
Provision of construction in progress	**–**	–
Provision of intangible assets	**–**	–
Total	**1,796,584,712**	35,281,201

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

41. Investment income

	2008	2007
Long term equity investments income under equity method	**199,367,579**	131,343,987
Long term equity investments income under cost method	**289,541**	8,463,179
Gain on disposal of long term equity investments	**–**	24,549,046
Other investment income	**220,136**	281,850
Total	**199,877,256**	164,638,062

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

42. Non-operating income

	2008	2007
Amortisation of deferred income (Note 30)	**66,056,371**	52,794,864
Subsidies income (Note)	**55,705,200**	49,075,007
Others	**564,606**	3,793,648
Total	**122,326,177**	105,663,519

Note: Details of subsidies income are stated as follows:

	2008	2007
Refunds of taxes (i)	**43,508,000**	26,192,100
Specific subsidies granted by government	**9,897,600**	20,000,000
Others	**2,299,600**	2,882,907
Total	**55,705,200**	49,075,007

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. Non-operating income *(continued)*

Note: *(continued)*

(i) 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 refund must be utilised for the business development.

43. Non-operating expenses

	2008	2007
Loss on the disposal of non-current assets	**2,788,556**	136,649,892
Others	**7,187,591**	4,085,745
Total	**9,976,147**	140,735,637

44. Income tax

	2008	2007
Current income tax expense	**428,598,695**	407,104,935
Deferred tax income	**(353,953,959)**	(186,513,506)
Total	**74,644,736**	220,591,429

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

44. Income tax *(continued)*

Relationship between income tax and profit before tax:

	2008	2007
Profit before tax	**805,874,193**	2,796,704,719
Tax at the applicable tax rate of 25% (2007: 33%) (Note 1)	**201,468,549**	922,912,557
Effect of different tax rates of subsidiaries	**(1,655,020)**	(25,457,000)
Expenses not deductible for tax	**45,040,666**	9,365,436
Adjustments in respect of current tax of previous periods	**(10,284,819)**	–
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in PRC (Note 2)	**(84,888,195)**	(334,379,142)
Other tax concessions	**(62,283,794)**	(159,857,158)
Income not subject to tax	**(126,928)**	(83,040,572)
Effect on deferred tax arising from changes in tax rates	**–**	(65,461,622)
Tax losses not recognised	**37,677,494**	–
Profits and losses attributable to a jointly-controlled entity and associates	**(50,303,217)**	(43,491,070)
Tax charge at the Group's effective rate	**74,644,736**	220,591,429

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Note 2: The amount represents the increase in CIT in 2008 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)*

45. 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.

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

	2008	2007
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**710,234,350**	2,475,382,229

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

45. Earnings per share *(continued)*

	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)	**6,843,730,545**	6,482,717,278
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**N/A**	586,294,382
Weighted average number of ordinary shares in issue after adjustment	**N/A**	7,069,011,660

Note: During the year, a total of 942,149,470 warrants were exercised by certain holders in exchange for the Company's A share and as a result, there were 7,700,681,186 ordinary shares in issue during the year. Consequently, the adjusted shares were used for calculating earnings per share for 2008.

46. Cash received/paid relating to other operating/investing activities

The main cash flows are as follows:

	2008	2007
Cash received relating to other operating activities		
Specific subsidies granted by government	**9,897,600**	20,000,000
Others	**2,864,206**	6,656,555
Total	**12,761,806**	26,656,555

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

46. Cash received/paid relating to other operating/investing activities *(continued)*

	2008	2007
Cash paid relating to other operating activities		
Supporting services	**109,560,000**	99,560,000
Security expenses	**59,660,200**	59,020,264
Packing fee	**37,207,710**	17,629,007
Flood prevention fund	**32,464,784**	39,521,679
Repair and maintenance expenses	**30,206,130**	28,267,774
Environmental improvement fee	**28,672,134**	26,983,090
Research and development fee	**26,771,886**	1,613,827
Others	**98,973,383**	34,290,883
Total	**423,516,227**	306,886,524
Cash received relating to other investing activities		
Government subsidies granted for specific projects	**39,180,000**	78,320,000

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

47. Cash flows from operating activities:

	2008	2007
Net profit	**731,229,456**	2,576,113,290
Add: Provision/(reversal of provision) for bad debts	**690,426**	(5,052,302)
Provision for inventories	**1,795,894,286**	40,333,503
Depreciation of fixed assets	**4,565,779,681**	3,256,898,223
Amortisation of investment properties	**34,453**	54,641
Amortisation of intangible assets	**44,243,898**	43,667,412
Amortisation of deferred income	**(66,056,371)**	(52,794,864)
Loss on disposal of non-current assets	**2,788,556**	136,649,892
Financial expenses	**1,551,838,025**	1,044,943,516
Investment income	**(199,877,256)**	(164,638,062)
(Gain)/loss on fair value changes	**1,033,080**	(719,870)
Increase in deferred tax assets	**(360,166,554)**	(124,197,170)
Increase/(decrease) in deferred tax liabilities	**6,212,595**	(62,316,336)
Increase in inventories	**(2,014,008,215)**	(3,103,375,252)
Decrease/(increase) in receivables from operating activities	**3,594,223,043**	(4,401,556,839)
Increase/(decrease) in payables from operating activities	**(1,266,064,275)**	4,440,941,270
Net cash flows from operating activities	**8,387,794,828**	3,624,951,052

48. Cash and cash equivalents

	2008	2007
Cash		
Including: Cash on hand	**277,947**	244,125
Balances with financial institutions without restriction	**5,437,089,299**	5,497,896,841
Others balances without restriction	**–**	27,315,000
Cash equivalents	**5,437,367,246**	5,525,455,966

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

49. Business combination under common control

On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interests in Masteel Auto-Parking from Holding at a cash consideration of RMB15,677,600. Masteel Auto-Parking is mainly engaged in manufacture and sale of parking equipment. The business combination, in which both Holly Industrial and Masteel Auto-Parking are ultimately controlled by Holding before and after, and that control is not transitory, is referred to business combination under common control. The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being combined at the combination date.

The assets and liabilities of Masteel Auto-Parking at the date of combination and previous accounting period were set out below:

	Combination Date	**31 December 2007**
Cash and bank balances	1,579,683	1,579,683
Trade receivables	17,898,637	21,848,559
Prepayments	1,021,788	778,466
Other receivables	563,912	1,100,813
Inventories	10,082,173	3,775,512
Fixed assets	12,655,533	12,869,688
Construction in progress	260,016	120,570
Intangible assets	3,548,059	3,573,403
Short term loans	(20,000,000)	(20,000,000)
Accounts payable	(2,073,731)	(7,058,955)
Deposits received	(4,588,401)	(3,768,445)
Payroll and benefits payable	(143,907)	(26,429)
Taxes payable	23,055	(174,977)
Interests payable	(36,450)	(40,095)
Other payables	113,100	(3,520,349)
Net assets	20,903,467	11,057,444
Net assets in business combination under common control	15,677,600	8,293,083
Difference of acquiring the entity under common control	–	
Cost of business combination	15,677,600	

VI. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

49. Business combination under common control *(continued)*

The operating results and cash flows of Masteel Auto-Parking for the period from beginning date of the accounting period to combination date are as follows:

	Period from 1 January 2008 till 4 May
Operating Income	3,686,039
Net profit	9,846,023

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 Company;

2) the subsidiaries of the Company;

3) the fellow subsidiaries of the Company;

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

1. Recognition criteria of related party *(continued)*

4) able to jointly control the Company;

5) able to exercise significant influence over the Company;

6) jointly-controlled entities of the Group;

7) associates of the Group;

8) major individual investors of the Company and a close member of his/her family;

9) a member of key management personnel of the Company or the parent and a close member of his/her family;

10) the entities controlled, jointly controlled or significantly influenced by major individual investors of the Company, key management personnel of the Company 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	50.47%	50.47%	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
Masteel (Group) Holding Co., Ltd Tao Chong Ming Company	Controlled by Holding
Masteel (Group) Holding Co., Ltd Zai Jiu Ye Service Branch	Controlled by Holding
Masteel (Group) Holding Co., Ltd Cable TV Center	Controlled by Holding
Masteel (Group) Holding Co., Ltd Communication Technology Service Center	Controlled by Holding
Masteel (Group) Holding Co., Ltd Masteel Newspaper Office	Controlled by Holding
Masteel Group Construction Co., Ltd	Controlled by Holding
Masteel Group Road and Bridge Construction Co., Ltd	Controlled by Holding
Masteel Group Li Sheng Co., Ltd	Controlled by Holding
Masteel Group Industry Development Co., Ltd	Controlled by Holding
Masteel Group Nan Shan Mining Co., Ltd	Controlled by Holding
Masteel Group Gu Shan Mining Co., Ltd	Controlled by Holding
Masteel Group Design and Research Institute Co., Ltd	Controlled by Holding
Masteel Group Kang Tei Land Development Co., Ltd	Controlled by Holding
Masteel Group Kang Tei Property Co., Ltd	Controlled by Holding
Masteel Group Kang Tei Building and Installing Industry Co., Ltd	Controlled by Holding
Maanshan Shen Ma Metal Co., Ltd	Controlled by Holding
Anhui BRC & Masteel Weldmesh Co., Ltd	Controlled by Holding
Maanshan Yong Gu Screw Product Co., Ltd	Controlled by Holding
Maanshan Jiang Hua Commodity Concrete Co., Ltd	Controlled by Holding
Masteel Group Steel Scrap Integrated Utilization Co., Ltd	Controlled by Holding
Chaohu Shi Masteel Wu Ding Shan Mining Co., Ltd	Controlled by Holding
Maanshan Shi Fa Metal Industry and Trading CO., Ltd	Controlled by Holding
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd	Controlled by Holding
Maanshan Bo Li Construction Supervising Co., Ltd	Controlled by Holding
Masteel Group Power and Machinery Installation Co., Ltd	Controlled by Holding
Masteel Group Mapping Co., Ltd	Controlled by Holding
Maanshan Masteel Yan Tu Consturction Survey Mining Co., Ltd	Controlled by Holding
Masteel Group Chu Jiang Holiday Tour Co., Ltd	Controlled by Holding
Huang Shan Tai Bai Shan Shan Zhaung	Controlled by Holding
Anhui Masteel Advanced Technician Institute	Controlled by Holding
Anhui Metal Technology Institute	Controlled by Holding
Anhui Masteel Luo He Mining Co., Ltd	Controlled by Holding
Maanshan Hua Xin Metal Products Co., Ltd	Controlled by Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd	Controlled by Holding
Jiyuan JinMa Coke	Associate of the Group
Tengzhou Shenglong Coke	Associate of the Group
Maanshan Harbor Co., Ltd	Associate of the Group
BOC-Ma Steel	Jointly-controlled entity 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:

		2008		2007	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Notes	***RMB***	***%***	*RMB*	*%*
Transactions with Holding and its subsidiaries:					
Purchases of iron ore	(i)	**1,897,181,531**	**22**	1,848,361,933	32
Fees paid for welfare, support services and other services	(ii), (iii)	**205,934,281**	**100**	188,849,149	100
Rental expenses	(iii)	**36,250,000**	**100**	36,250,000	100
Agency fee paid	(iii)	**3,283,350**	**100**	4,911,500	100
Purchases of fixed assets and construction services	(iii)	**131,651,725**	**5**	211,009,092	2
Fees received for the supply of utilities, services and other consumable goods	(iii)	**39,275,695**	**6**	64,674,829	12
Sale of steel products and related by products	(iii)	**4,932,076**	**–**	5,760,344	–
Payroll of key management personnel	(iv)	**5,094,097**	**100**	7,020,559	100
Interest Expense	(v)	**2,718,054**	**–**	353,565	–
Business combination under common control	(vi)	**15,677,600**	**100**	–	–
Transactions with associates of the Group:					
Purchases of coke	(vii)	**1,408,991,568**	**35**	1,047,312,594	54
Loading expenses	(vii)	**158,847,603**	**12**	133,783,361	15
Transactions with a Jointly-controlled entity of the Group:					
Rental income	(viii)	**1,250,000**	**100**	1,250,000	95
Fee received for the supply of electricity	(viii)	**258,573,916**	**59**	140,900,781	11
Purchase of gas products	(viii)	**521,560,820**	**100**	297,467,681	100
Compensation income	(ix)	**–**	**–**	10,500,000	100

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: *(continued)*

(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 August 2008 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) During the year, total compensation (including monetary benefits, benefits in kind and others similar benefits) paid to key management personnel of the Group was RMB5,094,097 (2007: RMB7,020,559).

(v) Certain bank loans of RMB60,000,000 in aggregate (2007: RMB20,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and annual interest rates ranging from 5.589% – 6.723%.

(vi) On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interests in Masteel Auto-Parking from Holding. Further details are included in Note VI.49 to the financial statements.

(vii) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

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

(ix) The penalty was based on delaying the supply of gas to the Company by reference to the Supply of Gas Contract entered into with the Company in 2007.

The above transactions (i), (ii), (iii), (vii) and (viii) were carried out in the normal course of business of the Group and related parties.

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. (2) Holding has guaranteed certain bank loans of the Group and bonds with warrants amounting approximately to RMB13.1 billion (2007: approximately to RMB15.6 billion) as at the balance sheet date at nil consideration. The details are disclosed in Note VI.28 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

	2008	2007
Prepayments:		
Holding and its subsidiaries		
Maanshan Shen Ma Metal Co., Ltd	–	27,596,420
Others entities controlled by Holding	–	484,263
Total	–	28,080,683
Associates and a Jointly-controlled entity of the Group BOC-Ma Steel	–	104,167

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. Receivable from/payable to related parties *(continued)*

	2008	2007
Accounts payable:		
Holding and its subsidiaries		
Masteel Group Construction Co., Ltd	**31,460,834**	61,077,554
Masteel Group Road and Bridge Construction Co., Ltd	**3,952,551**	15,957,440
Holding	**2,533,954**	504,395
Others entities controlled by Holding	**27,734,695**	6,718,298
Total	**65,682,034**	84,257,687
Associates and a Jointly-controlled entity of the Group		
BOC-Ma Steel	**58,946,695**	54,513,048
Jiyuan JinMa Coke	**31,789,555**	127,204,676
Maanshan Harbor	**14,342,794**	17,172,371
Tengzhou Shenglong Coke	**1,117,732**	2,080,065
Total	**106,196,776**	200,970,160
Trade receivables:		
Holding and its subsidiaries		
Maanshan Jiang Hua Commodity Concrete Co., Ltd	**3,965,303**	2,860,925
Masteel Group Construction Co., Ltd	**–**	5,551,142
Masteel Group Kang Tei Land Development Co., Ltd	**–**	1,149,811
Others entities controlled by Holding	**101,113**	211,396
Total	**4,066,416**	9,773,274
Associates and a Jointly-controlled entity of the Group		
BOC-Ma Steel	**–**	19,404,958

VIII. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. Receivable from/payable to related parties *(continued)*

	2008	2007
Deposits received:		
Holding and its subsidiaries		
Masteel Group Gu Shan Mining Co., Ltd	**85,991,652**	48,005,461
Anhui BRC & Masteel Weldmesh Co., Ltd	**40,985,721**	18,353,205
Holding	**364,303**	59,653,996
Others entities controlled by Holding	**2,741,811**	1,815,736
Total	**130,083,487**	127,828,398
Dividends payable:		
Holding	**1,095,945,600**	1,297,972,800

IX. CONTINGENT LIABILITIES

1. Guarantee

As at 31 December 2008, the Company had provided guarantees amounting to approximately RMB3,814 million (31 December 2007: approximately RMB5,305 million) to banks for trading facilities granted to certain subsidiaries.

2. Difference of corporate income tax

As detailed in Note IV.(7) 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.

	2008	2007
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,250,000
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	**13,907,534**	15,157,534
Total	**17,657,534**	18,907,534

XI. COMMITMENTS

1. The commitments of the Group as at the balance sheet date were as follows:

	2008 **RMB'000**	2007 RMB'000
Capital commitments		
Authorised, but not contracted for	**19,367,543**	3,157,701
Contracted, but not provided for	**811,231**	556,524
Total	**20,178,774**	3,714,225
Investment commitments		
Contracted, but not fully contributed	**9,000**	9,000

2. Share of the commitments of the Jointly-controlled entity by the Group (not included in Note 1 above) were as follows:

	2008 **RMB'000**	2007 RMB'000
Capital commitments		
Authorised, but not contracted for	**766**	778

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

The Group's principal financial instruments comprise interest-bearing bank, bonds with warrants, other borrowings and cash and bank balances. 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 and accounts payable etc., 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.

1. Classification of financial instruments

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

2008

Financial Assets

	Financial assets at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
Cash and balances with financial institutions	–	–	5,951,087,213	–	5,951,087,213
Financial assets held for trading	813,250	–	–	–	813,250
Bill receivables	–	–	1,267,254,719	–	1,267,254,719
Trade receivables	–	–	626,727,102	–	626,727,102
Other receivables	–	–	436,494,366	–	436,494,366
Non-current assets due within one year	–	2,938,870	–	–	2,938,870
Total	813,250	2,938,870	8,281,563,400	–	8,285,315,520

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

1. Classification of financial instruments *(continued)*

2008 (continued)

Financial Liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	–	1,154,000,000	1,154,000,000
Bills payable	–	1,049,125,831	1,049,125,831
Accounts payable	–	7,525,140,482	7,525,140,482
Payroll and benefits payable	–	197,384,329	197,384,329
Interests payable	–	44,099,563	44,099,563
Dividends payable	–	1,101,575,013	1,101,575,013
Other payables	–	802,838,050	802,838,050
Non-current liabilities due within one year	–	223,579,337	223,579,337
Long term loans	–	15,666,296,218	15,666,296,218
Bonds payable	–	4,992,975,443	4,992,975,443
Other non-current liabilities	–	7,485,033	7,485,033
Total	–	32,764,499,299	32,764,499,299

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

1. Classification of financial instruments *(continued)*

2007

Financial Assets

	Financial assets at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
Cash and balances with financial institutions	–	–	6,293,537,191	–	6,293,537,191
Financial assets held for trading	1,462,770	–	–	–	1,462,770
Bill receivables	–	–	4,194,297,474	–	4,194,297,474
Trade receivables	–	–	1,037,224,713	–	1,037,224,713
Other receivables	–	–	257,539,176	–	257,539,176
Held-to-maturity investments	–	5,598,870	–	–	5,598,870
Total	1,462,770	5,598,870	11,782,598,554	–	11,789,660,194

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

1. Classification of financial instruments *(continued)*

2007 (continued)

Financial Liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	–	1,284,495,217	1,284,495,217
Bills payable	–	1,790,845,160	1,790,845,160
Short term commercial papers	–	2,000,000,000	2,000,000,000
Accounts payable	–	7,688,764,859	7,688,764,859
Payroll and benefits payable	–	341,871,394	341,871,394
Interests payable	–	80,563,315	80,563,315
Dividends payable	–	1,303,757,138	1,303,757,138
Other payables	–	933,429,649	933,429,649
Non-current liabilities due within one year	–	2,817,346,333	2,817,346,333
Long term loans	–	16,577,951,605	16,577,951,605
Bonds payable	–	4,828,761,588	4,828,761,588
Other non-current liabilities	–	12,485,032	12,485,032
Total	–	39,660,271,290	39,660,271,290

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

2. 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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances 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 Group 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.

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 25% (2007: 22%) and 58% (2007: 39%) of the Group's trade receivables were due from the Group's largest customer and five largest customers.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

2. Credit risk *(continued)*

As at 31 December, the aged analysis of the Group's financial assets that are not considered to be impaired is as follows:

2008

			Overdue nor impaired	
	Total	**Neither overdue nor impaired**	**Less than six months**	**Over six months**
Trade receivables	**626,727,102**	**577,145,366**	**25,313,382**	**24,268,354**
Bills receivable	**1,267,254,719**	**1,267,254,719**	**–**	**–**
Other receivables	**436,494,366**	**435,252,966**	**1,199,784**	**41,616**
Non-current assets due within one year	**2,938,870**	**2,938,870**	**–**	**–**

2007

			Overdue nor impaired	
	Total	Neither overdue nor impaired	Less than six months	Over six months
Trade receivables	1,037,224,713	964,004,207	57,254,851	15,965,655
Bills receivable	4,194,297,474	4,194,297,474	–	–
Other receivables	257,539,176	245,769,146	8,863,649	2,906,381
Non-current assets due within one year	5,598,870	5,598,870	–	–

As at 31 December 2008, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related 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 significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

3. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maternity of financial instruments and estimated operating cash flow of the Company into consideration.

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

2008

Financial Assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and balances with financial institutions	5,951,087,213	–	–	–	–	5,951,087,213
Financial assets held for trading	813,250	–	–	–	–	813,250
Bills receivable	1,267,254,719	–	–	–	–	1,267,254,719
Trade receivables	646,542,593	–	–	–	–	646,542,593
Other receivables	443,564,863	–	–	–	–	443,564,863
Non-current Assets due within one year	2,938,870	–	–	–	–	2,938,870

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

3. Liquidity risk *(continued)*

2008 (continued)

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	1,154,000,000	–	–	–	–	1,154,000,000
Bills payable	1,049,125,831	–	–	–	–	1,049,125,831
Trade payables	7,525,140,482	–	–	–	–	7,525,140,482
Payroll and benefits payable	197,384,329	–	–	–	–	197,384,329
Interests payable	44,099,563	–	–	–	–	44,099,563
Dividends payable	1,101,575,013	–	–	–	–	1,101,575,013
Other payables	802,838,050	–	–	–	–	802,838,050
Non-current Liabilities due within one year	223,579,337	–	–	–	–	223,579,337
Long term loans	805,389,536	1,809,377,656	6,693,981,763	8,742,728,650	7,236,502	18,058,714,107
Bonds payable	77,000,000	77,000,000	5,577,000,000	–	–	5,731,000,000
Other non-current liabilities	–	2,892,964	1,910,313	1,844,675	981,967	7,629,919

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

3. Liquidity risk *(continued)*

2007

Financial Assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and balances with financial institutions	6,293,537,191	–	–	–	–	6,293,537,191
Financial assets held for trading	1,462,770	–	–	–	–	1,462,770
Bills receivable	4,194,297,474	–	–	–	–	4,194,297,474
Trade receivables	1,055,584,709	–	–	–	–	1,055,584,709
Other receivables	264,700,822	–	–	–	–	264,700,822
Held-to-maturity investments	2,660,000	2,938,870	–	–	–	5,598,870

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	1,284,495,217	–	–	–	–	1,284,495,217
Bills payable	1,790,845,160	–	–	–	–	1,790,845,160
Short term commercial papers	2,000,000,000	–	–	–	–	2,000,000,000
Trade payables	7,688,764,859	–	–	–	–	7,688,764,859
Payroll and benefits payable	341,871,394	–	–	–	–	341,871,394
Interests payable	80,563,315	–	–	–	–	80,563,315
Dividends payable	1,303,757,138	–	–	–	–	1,303,757,138
Other payables	933,429,649	–	–	–	–	933,429,649
Non-current liabilities due within one year	2,817,346,333	–	–	–	–	2,817,346,333
Long term loans	1,050,786,996	1,603,488,034	1,814,362,247	15,757,833,993	9,335,117	20,235,806,387
Bonds payable	77,000,000	77,000,000	77,000,000	5,577,000,000	–	5,808,000,000
Other non-current liabilities	–	4,214,043	2,892,964	3,427,000	1,309,935	11,843,962

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

4. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The main market risk the Company exposed to is interest rate risk and foreign currency risk.

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's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligations with a floating interest rate.

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).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
2008		
RMB	**0.5**	**(50,925,000)**
USD	**0.5**	**(1,606,000)**
RMB	**(0.5)**	**50,925,000**
USD	**(0.5)**	**1,606,000**
2007		
RMB	0.5	(44,320,000)
USD	0.5	(6,099,000)
RMB	(0.5)	44,320,000
USD	(0.5)	6,099,000

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

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 foreign currency risk of the Group were mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency) and its net investment arising from overseas subsidiaries.

The Group was facing transactional foreign currency risk. Such risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has 6% (2007: 9%) of the sales amount were generated from sale of the operating units which transacted in currencies other than their functional currencies.

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.

The carrying amount and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in Note VI.1, 4, 21, 27 and 28 to the financial statements respectively.

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 the 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).

XII. FINANCIAL INSTRUMENTS AND RISK ANALYSIS *(CONTINUED)*

Foreign currency risk (continued)

	Increase/ (decrease) in Exchange rate	Increase/ (decrease) in profit before tax
2008		
Depreciation of RMB to USD	**5**	**(1,442,000)**
Depreciation of RMB to Euro	**5**	**(169,000)**
Depreciation of RMB to Japanese Yen	**5**	**(9,255,000)**
Appreciation of RMB to USD	**(5)**	**1,442,000**
Appreciation of RMB to Euro	**(5)**	**169,000**
Appreciation of RMB to Japanese Yen	**(5)**	**9,255,000**
2007		
Depreciation of RMB to USD	5	(9,364,000)
Depreciation of RMB to Euro	5	(841,000)
Depreciation of RMB to Japanese Yen	5	(28,942,000)
Appreciation of RMB to USD	(5)	9,364,000
Appreciation of RMB to Euro	(5)	841,000
Appreciation of RMB to Japanese Yen	(5)	28,942,000

XIII. POST BALANCE SHEET EVENTS

Up to the date of approval of the financial statements, the Company has no post balance sheet event that require to be disclosed.

XIV. COMPARATIVE AMOUNTS

As the Group exercised the business combination involving entities under common control (Details please refer to Note VI.49). Certain comparative amounts have been restated to comply with presentation requirements 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:

	2008	2007
Within one year	**826,056,700**	1,542,092,337
One to two years	**12,966,706**	10,925,223
Two to three years	**493,596**	920,542
Over three years	**17,586,516**	16,525,141
	857,103,518	1,570,463,243
Less: Provisions for bad debts	**17,082,331**	16,408,411
Total	**840,021,187**	1,554,054,832

Trade receivables balance is analysed as follows:

	2008				2007			
	Balance	**Ratio**	**Provision for bad debts**	**Ratio**	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**497,801,875**	**58%**	**(14,858,489)**	**3%**	1,530,563,390	97%	(14,184,569)	1%
Other insignificant	**359,301,643**	**42%**	**(2,223,842)**	**1%**	39,899,853	3%	(2,223,842)	6%
Total	**857,103,518**	**100%**	**(17,082,331)**		1,570,463,243	100%	(16,408,411)	

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. Trade receivables *(continued)*

The following balances are denominated in foreign currencies:

	2008 Original currency	2008 Exchange rate	2008 RMB equivalents	2007 Original currency	2007 Exchange rate	2007 RMB equivalents
USD	**5,903,044**	**6.8346**	**40,344,943**	71,357,021	7.3046	521,234,495

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

Reason	2008	2007
Bankrupt or liquidated debtors	**–**	12,801,734
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	**673,920**	4,452,111
Total	**(673,920)**	18,440,644

	2008	2007
Top five largest customers	**598,211,522**	793,465,585
Percentage to total receivables	**70%**	51%
Years of overdue	**1 year**	1 year

The movement of bad debts provisions for trade receivables for the year 2008 is disclosed in Note 5.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. Other receivables

The ageing of other receivables is analysed below:

	2008	2007
Within one year	**35,450,910**	63,453,239
One to two years	**13,077,473**	338,748
Two to three years	**159,998**	80,988
Over three years	**6,448,554**	6,554,785
	55,136,935	70,427,760
Less: Provisions for bad debts	**6,930,913**	6,930,913
Total	**48,206,022**	63,496,847

Other receivables balance is analysed as follows:

	2008				2007			
	Balance	**Ratio**	**Provision for bad debts**	**Ratio**	Balance	Ratio	Provision for bad debts	Ratio
Individually significant	**14,694,877**	**27%**	**(2,400,000)**	**16%**	23,822,132	34%	(3,688,268)	15%
Other insignificant	**40,442,058**	**73%**	**(4,530,913)**	**11%**	46,605,628	66%	(3,242,645)	7%
Total	**55,136,935**	**100%**	**(6,930,913)**		70,427,760	100%	(6,930,913)	

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. Other receivables *(continued)*

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

Reason	2008	2007
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	–	19,241,834

	2008	2007
Top five largest customers	17,874,470	24,782,132
Percentage to total receivables	32%	35%
Years of overdue	1-3 years	1-3 years

The movement of bad debts provisions for other receivables for the year 2008 is disclosed in Note 5.

3. Inventories

	2008	2007
Raw materials	6,392,007,022	4,157,471,704
Spare parts	2,460,975,962	2,633,198,178
Finished goods	719,800,677	863,198,675
Work in progress	937,179,879	792,710,170
Construction contract	145,555,456	–
	10,655,518,996	8,446,578,727
Less: Provisions for inventories	1,664,503,803	132,103,392
Total	8,991,015,193	8,314,475,335

The movement of impairment provision against inventories for the year 2008 is disclosed in Note 5.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments

	2008	2007
Long term investments under equity method		
Jointly controlled entity (i)	**304,278,936**	268,305,755
Associates (ii)	**492,678,334**	397,249,665
Long term investments under cost method		
Subsidiaries (iii)	**1,118,243,986**	899,450,106
Other equity investments (iv)	**102,917,360**	102,917,360
	1,221,161,346	1,667,922,886
Less: Impairment	**–**	–
Total	**2,018,118,616**	1,667,922,886

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 for long term investments for the year 2008 is disclosed in Note 5.

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments *(continued)*

(i) Jointly controlled entity

2008

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
BOC-Ma Steel	**234,000,000**	**268,305,755**	**68,563,648**	**(32,590,467)**	***(32,590,467)***	**304,278,936**
Less: Impairment		–	–	–	–	–
		268,305,755	**68,563,648**	**(32,590,467)**		**304,278,936**

2007

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: 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

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments *(continued)*

(i) ***Jointly controlled entity*** *(continued)*

Major financial information of a jointly controlled entity:

	2008			
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit**
BOC-Ma Steel	**775,211,985**	**166,654,113**	**445,778,479**	**137,127,296**

(ii) ***Associates***

	2008					
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	***Including: Cash dividend received during the year***	**Closing balance**
Jiyuan JinMa Coke	**80,000,000**	**132,550,015**	**64,707,809**	**(27,475,696)**	***(27,475,696)***	**169,782,128**
Tengzhou Shenglong Coke	**66,776,000**	**109,624,049**	**38,830,063**	**–**	**–**	**148,454,112**
Shanghai Iron and Steel Electronic	**4,000,000**	**18,609,113**	**7,056,179**	**(10,000,000)**	***(10,000,000)***	**15,665,292**
Maanshan Harbour	**112,500,000**	**136,466,488**	**23,900,459**	**(1,590,145)**	***(1,590,145)***	**158,776,802**
		397,249,665	**134,494,510**	**(39,065,841)**		**492,678,334**
Less: Impairment		**–**	**–**	**–**		**–**
Total		**397,249,665**	**134,494,510**	**(39,065,841)**		**492,678,334**

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments *(continued)*

(ii) ***Associates*** *(continued)*

			2007			
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
Jiyuan JinMa Coke	80,000,000	109,116,860	34,466,633	(11,033,478)	*(11,033,478)*	132,550,015
Tengzhou Shenglong Coke	66,776,000	76,834,581	32,789,468	–	–	109,624,049
Shanghai Iron and Steel Electronic	4,000,000	8,204,437	14,404,676	(4,000,000)	*(4,000,000)*	18,609,113
Maanshan Harbor	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

Major financial information of associates:

		2008		
Name of investee	**Total assets**	**Total liabilities**	**Revenue**	**Net profit/(loss)**
Jiyuan JinMa Coke	**1,294,255,346**	**847,569,134**	**2,774,611,235**	**169,759,823**
Tengzhou Shenglong Coke	**919,038,448**	**455,119,349**	**1,636,713,754**	**121,343,947**
Shanghai Iron and Steel Electronic	**1,334,394,837**	**1,256,068,376**	**52,990,759**	**35,280,894**
Maanshan Harbor	**886,107,815**	**533,270,478**	**243,954,206**	**53,112,131**

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments *(continued)*

(iii) Subsidiaries

Name of investee	Initial investment cost	Opening balance	2008 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	117,505,000	–	355,000,000
MS (Hefei) Processing	73,200,000	73,200,000	–	–	73,200,000
MS (Yangzhou) Processing	116,462,300	116,462,300	–	–	116,462,300
Ma Steel Roller	22,720,806	22,720,806	21,413,880	–	44,134,686
Used Vehicle Trading	500,000	500,000	–	–	500,000
Wuhu Technique	26,625,000	26,625,000	79,875,000	–	106,500,000
		899,450,106	218,793,880	–	1,118,243,986
Less: Impairment		–	–	–	–
Total		899,450,106	218,793,880	–	1,118,243,986

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. Long term equity investments *(continued)*

(iii) ***Subsidiaries*** *(continued)*

			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)*

4. Long term equity investments *(continued)*

(iv) Other equity investments

2008

Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Henan Long Yu Energy Co., Ltd	**10,000,000**	**10,000,000**	**–**	**–**	**10,000,000**
China 17th Metal Construction Co., Ltd	**2,700,000**	**2,700,000**	**–**	**–**	**2,700,000**
Shanghai Luo Jing Ore Dock Co., Ltd	**88,767,360**	**88,767,360**	**–**	**–**	**88,767,360**
Others	**1,450,000**	**1,450,000**	**–**	**–**	**1,450,000**
		102,917,360	**–**	**–**	**102,917,360**
Less: Impairment		**–**	**–**	**–**	**–**
Total		**102,917,360**	**–**	**–**	**102,917,360**

2007

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Henan Long Yu Energy Co., Ltd	10,000,000	10,000,000	–	–	10,000,000
Tangshan Iron and Steel Co., Ltd	4,559,109	4,559,109	–	(4,559,109)	–
Shanghai Chlor-Alkali Chemical Co., Ltd	807,926	807,926	–	(807,926)	–
China 17th Metal Construction Co., Ltd	2,700,000	–	2,700,000	–	2,700,000
Shanghai Luo Jing Ore Dock Co., Ltd	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

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. Assets impairment provisions

2008

	Opening Balance (restated)	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	23,339,324	–	–	–	673,920	24,013,244
Including: Trade receivables	16,408,411	–	–	–	673,920	17,082,331
Other receivables	6,930,913	–	–	–	–	6,930,913
Provisions for inventories	132,103,392	1,664,503,803	–	(88,332,339)	(43,771,053)	1,664,503,803
Including: Raw Materials	–	1,386,327,171	–	–	–	1,386,327,171
Work in Process	–	143,476,078	–	–	–	143,476,078
Finished goods	9,795,364	110,196,751	–	(9,795,364)	–	110,196,751
Spare parts	122,308,028	24,503,803	–	(78,536,975)	(43,771,053)	24,503,803
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	246,118,360	1,664,503,803	–	(88,332,339)	(43,097,133)	1,779,192,691

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. Assets impairment provisions *(continued)*

2007

	Opening Balance (restated)	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back	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)*

6. Revenue and cost of sales

Revenue is stated as follows:

	2008	2007
Principal operating income	**68,976,694,106**	49,989,576,471
Other operating income	**6,171,375,553**	1,373,127,771
Total revenue	**75,148,069,659**	51,362,704,242
Five largest customers	**13,842,272,781**	5,038,041,063
Percentage to total revenue	**18%**	10%

Principal operating income and principal cost of sales are stated as follows:

	2008		2007	
	Principal operating income	Principal cost of sales	Principal operating income	Principal cost of sales
Sale of steel products	**65,495,433,424**	**60,858,758,633**	47,144,279,999	42,812,506,945
Sale of steel billets	**503,876,660**	**497,571,647**	540,503,827	517,648,815
Sale of coke by-products	**795,179,392**	**610,862,824**	540,484,600	396,818,622
Sale of pig iron	**1,513,067**	**1,066,942**	2,273,128	1,920,706
Others	**2,180,691,563**	**1,631,863,074**	1,762,034,917	1,506,920,374
Total	**68,976,694,106**	**63,600,123,120**	49,989,576,471	45,235,815,462

XV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

7. Assets impairment losses

	2008	2007
Reversal of provisions for bad debts	**–**	(5,590,968)
Including: Trade receivables	**–**	(5,590,968)
Other receivables	**–**	–
Provisions for inventories	**1,664,503,803**	40,333,503
Impairment of held-to-maturity investments	**–**	–
Impairment of long term equity investments	**–**	–
Impairment of investment properties	**–**	–
Impairment of fixed assets	**–**	–
Impairment of construction in progress	**–**	–
Impairment of intangible assets	**–**	–
Total	**1,664,503,803**	34,742,535

8. Investment income

	2008	2007
Long term equity investments income under equity method	**203,058,158**	131,867,977
Long term equity investments income under cost method	**110,045,763**	63,553,330
Gain on disposal of long term equity investments	**–**	24,549,046
Other investment income	**220,136**	281,850
Total	**313,324,057**	220,252,203

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)*

9. Cash flows from operating activities:

		2008	2007
Net profit		**866,690,358**	2,131,898,793
Add:	Reversal of provisions for bad debts	**–**	(5,590,968)
	Provisions for inventories	**1,664,503,803**	40,333,503
	Depreciation of fixed assets	**4,400,148,926**	3,133,551,746
	Depreciation of investment properties	**405,049**	405,048
	Amortisation of intangible assets	**30,975,200**	29,876,432
	Amortisation of deferred income	**(66,001,370)**	(52,794,864)
	Loss on disposal of non-current assets	**1,497,324**	135,194,611
	Financial expenses	**1,286,271,306**	984,288,392
	Investment income	**(313,324,057)**	(220,252,203)
	(Gain)/loss on fair value change	**1,033,080**	(719,870)
	Increase in deferred tax assets	**(344,942,450)**	(123,759,901)
	Decrease in deferred tax liabilities	**(179,968)**	(62,602,676)
	Increase in inventories	**(2,341,043,661)**	(2,278,881,681)
	Decrease/(increase) in receivables from operating activities	**3,171,690,497**	(4,190,436,106)
	Increase/(decrease) in payables from operating activities	**(281,058,992)**	3,321,321,124
Net cash flows from operating activities		**8,076,665,045**	2,841,831,380

XVI. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 15 April 2009.

According to the Article of Association of the Company, the financial statements will submit to the shareholders' meeting for approval.

Appendix Supplementary Information

31 December 2008
Renminbi Yuan

1. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER CAS AND HKFRS

No difference exists on shareholders' equity and net profit recorded in the consolidated financial statements prepared under the CAS and HKFRS.

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2008

	Return on net assets (%)		**Earnings per share (RMB)**	
	Fully Diluted	**Weighted Average**	**Basic**	**Diluted**
Net profit attributable to equity holders of the parent	**2.73**	**3.03**	**0.104**	**N/A**
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**2.41**	**2.67**	**0.091**	**N/A**

2007 (restated)

	Return on net assets (%)		Earnings per share (RMB)	
	Fully Diluted	Weighted Average	Basic	Diluted
Net profit attributable to equity holders of the parent	10.75	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

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)*

	2008	2007 (restated)
Non-recurring gains or losses items		
Loss on disposal of non-current assets	**(2,788,556)**	(136,649,892)
Subsidies income	**55,705,200**	49,075,007
Amortisation of deferred income	**66,056,371**	52,794,864
Other non-operating income and expense items	**(6,622,985)**	(292,097)
Gain/(Loss) on fair value changes	**(1,033,080)**	719,870
Gain on disposal of financial assets held for trading	**220,136**	281,850
Net profit attributable to the subsidiary accounted for under business combination under common control for the period from beginning date of the year to combination date	**9,846,023**	–
	121,383,109	(34,070,398)
Less: Income tax effect	**27,938,897**	(29,010,056)
Non-recurring gains or losses attributable to minority shareholders	**9,237,086**	4,754,224
Net effect of non-recurring gains or losses	**84,207,126**	(9,814,566)
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	**710,234,350**	2,475,382,229
Less: Net effect of non-recurring gains or losses	**84,207,126**	(9,814,566)
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**626,027,224**	2,485,196,795

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) 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 financial assets held for trading amounted to RMB813,250, a decrease of 44% over the previous year, which was mainly attributable to the decrease in the fair value of held for trading equity instruments.

(2) The Group's bills receivable amounted to RMB1,267,254,719, a decrease of 70% over the previous year, which was mainly attributable to the decrease in receipt of bank acceptance bills when sell of goods.

(3) The Group's trade receivables amounted to RMB626,727,102, a decrease of 40% over the previous year, which was mainly attributable to the decrease in export sales with credit terms.

(4) The Group's prepayments amounted to RMB1,107,261,236, a decrease of 34% over the previous year, which was mainly attributable to the decrease in purchase of raw materials and equipments.

(5) The Group's other receivables amounted to RMB436,494,366, an increase of 69% over the previous year, which was mainly attributable to the increase in prepayments for import customs and taxes.

(6) The Group's non-current assets due within one year amounted to RMB2,938,870, an increase of 100% over the previous year, which was mainly attributable to the held-to maturity investments due in 2009.

(7) The Group's held-to-maturity investments amounted to zero, a decrease of 100% over the previous year, which was mainly attributable to transfer to account non-current assets due within one year.

(8) The Group's construction in progress amounted to RMB2,277,918,588, a decrease of 35% over the previous year, which was mainly attributable to certain assets were ready for its intended use and transferred to fixed assets.

(9) The Group's deferred tax assets amounted to RMB618,928,724, an increase of 139% over the previous year, which was mainly attributable to the increase of asset provision.

3. VARIANCE ANALYSIS *(CONTINUED)*

(10) The Group's bills payable amounted to RMB1,049,125,831, a decrease of 41% over the previous year, which was mainly attributable to less bank acceptance bills were issued to meet the payment for materials purchase.

(11) The Group's short term commercial papers amounted to zero, a decrease of 100% over the previous year, which was mainly attributable to the issued short term commercial papers were matured during the year.

(12) The Group's payroll and benefits payable amounted to RMB197,384,329, a decrease of 42% over the previous year, which was mainly attributable to the decrease in unsettled staff bonus.

(13) The Group's interest payable amounted to RMB44,099,563, a decrease of 45% over the previous year, which was mainly attributable to the decrease balance of loans.

(14) The Group's non-current liabilities due within one year amounted to RMB223,579,337, a decrease of 92% over the previous year, which was mainly attributable to the decrease in long term loans due within one year.

(15) The Group's deferred tax liabilities amounted to RMB6,678,903, a decrease of 96% over the previous year, which was mainly attributable to remaining amount of the deferred tax liabilities arising from the bonds with warrants being transferred to capital reserves.

(16) The Group's other non-current liabilities amounted to RMB7,485,033, a decrease of 40% over the previous year, which was mainly attributable to the payables to Holding due within one year, being transferred into the current liability.

(17) The Group's capital reserve amounted to RMB8,338,358,399, an increase of 38% over the previous year, which was mainly attributable to the payables to Holding due within one year, being transferred into the current liability.

(18) The Group's exchange fluctuation reserve amounted to RMB(47,775,207), a decrease of 596% over the previous year, which was mainly attributable to depreciation of the functional currencies of the overseas subsidiaries against RMB.

(19) The Group's revenue and Cost of sales amounted to RMB71,259,739,377 and RMB65,154,401,331 respectively, an increase of 41% 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.

3. VARIANCE ANALYSIS *(CONTINUED)*

(20) The Group's financial expenses amounted to RMB1,575,913,707, an increase of 45% over the previous year, which was mainly attributable to the increase in interest expenses of bank loans and bonds payable.

(21) The Group's assets impairment losses amounted to RMB1,796,584,712, an increase of 4992% over the previous year, which was mainly attributable to the increase 4353% in provision for inventories.

(22) The Group's non-operating expenses amounted to RMB9,976,147, a decrease of 93% over the previous year, which was mainly attributable to the decrease in loss on the disposal of fixed assets.

(23) The Group's income tax amounted to RMB74,644,736, a decrease of 66% over the previous year, which was mainly attributable to the decrease in profit before tax.

(24) The Group's minority interests amounted to RMB20,995,106, a decrease of 79% over the previous year, which was mainly attributable to the decrease in net profit of certain non-wholly owned subsidiaries.

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, sealed by Ernst & Young Hua Ming and signed by Mr. Li Di and Ms. Zhao Ning, 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.