



**To the shareholders of
Angang New Steel Company Limited (“the Company”)**

We have audited the accompanying Company’s consolidated balance sheet and balance sheet at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the Company’s management. Our responsibility is to express an audit opinion on these financial statements based on our audit.

We conducted our audit in accordance with China’s Independent Auditing Standards of the Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting policies used and significant estimates made by the Company’s management in the preparation of the financial statements, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China and present fairly, in all material respects, the Company’s consolidated financial position and the financial position at 31 December 2004, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People’s Republic of China

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Zheng Jun Fang

16 March 2005

Consolidated Balance Sheet

(Prepared under PRC Accounting Rules and Regulations)

31 December 2004

(Expressed in Thousand Renminbi)

Assets	<i>Note</i>	2004 Rmb'000	2003 <i>Rmb'000</i>
Current assets			
Cash at banks and in hand	6	2,748,133	2,606,976
Bills receivable	7	1,425,868	2,097,812
Trade receivables	8	641,013	84,749
Other receivables	9	11,056	18,996
Prepayments	10	217,437	593,967
Inventories	11	2,221,412	1,440,283
Deferred expenses	12	492	184
Total current assets		7,265,411	6,842,967
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Long-term equity investments	13	41,303	14,406
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Fixed assets			
Fixed assets, at cost	14	11,146,973	9,848,116
Less: Accumulated depreciation		(4,067,194)	(3,261,582)
Net book value of fixed assets		7,079,779	6,586,534
Construction in progress	15	611,746	1,206,658
Total fixed assets		7,691,525	7,793,192
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Intangible assets and other assets			
Intangible assets	16	345,072	334,995
Long-term deferred expenses	17	17	26,310
Total intangible assets and other assets		345,089	361,305
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Total assets		15,343,328	15,011,870

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Balance Sheet (Continued)

(Prepared under PRC Accounting Rules and Regulations)

31 December 2004

(Expressed in Thousand Renminbi)

Liabilities and shareholders' funds	Note	2004 Rmb'000	2003 Rmb'000
Current liabilities			
Short-term loans	18	100,000	—
Bills payable	19	220,899	1,259,594
Trade payables	20	286,744	246,669
Receipts in advance	21	1,554,986	1,735,563
Accrued payroll	22	61,938	61,181
Staff welfare payable		19,418	15,763
Accrued expenses	23	7,002	—
Taxes payable	3(d)	262,520	8,642
Other payables	24	344,094	417,586
Current portion of long-term liabilities	25	1,107,237	420,267
Total current liabilities		3,964,838	4,165,265
Long-term liabilities			
Long-term loans	26	1,244,548	1,892,733
Convertible debentures	27	—	5,604
Total long-term liabilities		1,244,548	1,898,337
Total liabilities		5,209,386	6,063,602
Shareholders' funds			
Share capital	28	2,962,942	2,962,309
Capital reserve	29	3,084,915	3,083,648
Surplus reserves (including statutory public welfare fund of Rmb562,930,000 (2003: Rmb385,297,000))	30	1,125,860	770,594
Undistributed profits (including dividend proposed after the balance sheet date of Rmb888,883,000 (2003: Rmb592,462,000))	31	2,960,225	2,131,717
Total shareholders' funds		10,133,942	8,948,268
Total liabilities and shareholders' funds		15,343,328	15,011,870

These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Balance Sheet

(Prepared under PRC Accounting Rules and Regulations)

31 December 2004

(Expressed in Thousand Renminbi)

Assets	<i>Note</i>	2004 Rmb'000	2003 <i>Rmb'000</i>
Current assets			
Cash at banks and in hand	6	2,705,059	2,580,613
Bills receivable	7	1,425,868	2,097,812
Trade receivables	8	569,082	84,749
Other receivables	9	5,653	13,883
Prepayments	10	209,670	593,962
Inventories	11	2,068,827	1,406,410
Total current assets		6,984,159	6,777,429
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Long-term equity investments	13	237,199	266,718
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Fixed assets			
Fixed assets, at cost	14	10,601,802	9,838,222
Less: Accumulated depreciation		(4,033,116)	(3,260,751)
Net book value of fixed assets		6,568,686	6,577,471
Construction in progress	15	611,316	703,121
Total fixed assets		7,180,002	7,280,592
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Intangible assets and other assets			
Intangible assets	16	305,828	313,802
Total intangible assets and other assets		305,828	313,802
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Total assets		14,707,188	14,638,541

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Balance Sheet (Continued)

(Prepared under PRC Accounting Rules and Regulations)

31 December 2004

(Expressed in Thousand Renminbi)

Liabilities and shareholders' fund	<i>Note</i>	2004 Rmb'000	2003 <i>Rmb'000</i>
Current liabilities			
Bills payable	19	220,899	1,259,594
Trade payables	20	282,135	246,669
Receipts in advance	21	1,523,443	1,736,125
Accrued payroll	22	61,938	61,181
Staff welfare payable		19,418	15,763
Taxes payable	3(d)	274,508	11,095
Other payables	24	224,202	291,242
Current portion of long-term liabilities	25	1,066,703	400,000
Total current liabilities		3,673,246	4,021,669
Long-term liabilities			
Long-term loans	26	900,000	1,663,000
Convertible debentures	27	—	5,604
Total long-term liabilities		900,000	1,668,604
Total liabilities		4,573,246	5,690,273
Shareholders' funds			
Share capital	28	2,962,942	2,962,309
Capital reserve	29	3,084,915	3,083,648
Surplus reserves (including statutory public welfare fund of Rmb562,930,000 (2003: Rmb385,297,000))	30	1,125,860	770,594
Undistributed profits (including dividend proposed after the balance sheet date of Rmb888,883,000 (2003: Rmb592,462,000))	31	2,960,225	2,131,717
Total shareholders' funds		10,133,942	8,948,268
Total liabilities and shareholders' funds		14,707,188	14,638,541

These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Income from principal operations	32	23,227,617	14,520,736
Less: Cost of sales	33	19,814,375	12,183,096
Business tax and surcharges	34	49,754	38,588
Profit from principal operations		3,363,488	2,299,052
Add: Other operating profit	35	96,434	36,691
Less: Operating expenses	36	423,192	231,034
Administrative expenses		281,900	279,623
Financial expenses	37	120,840	9,498
Operating profit		2,633,990	1,815,588
Add: Investment income	38	233	6
Non-operating income		222	1,593
Less: Non-operating expenses	39	1,702	64,404
Total profit		2,632,743	1,752,783
Less: Income tax expense	3(b)	856,406	320,204
Net profit		1,776,337	1,432,579

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Net profit		1,776,337	1,432,579
Add: Undistributed profits at the beginning of the year		2,131,717	1,281,803
Distributable profits		3,908,054	2,714,382
Less: Transfer to statutory surplus reserve	30	177,633	143,258
Transfer to statutory public welfare fund	30	177,633	143,258
Profits distributable to shareholders		3,552,788	2,427,866
Less: Transfer to discretionary surplus reserve		—	—
Dividends		592,563	296,149
Undistributed profits at the end of the year			
(including: dividend proposed after the balance sheet date of Rmb888,883,000 (2003: Rmb592,462,000))		2,960,225	2,131,717

Additional information:

Item	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
1. Proceeds from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase (or decrease) in total profits due to the changes in accounting policies	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	—	(103,000)
5. Gains (or losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2004
(Expressed in Thousand Renminbi)

	Note	2004 Rmb'000	2003 <i>Rmb'000</i>
Income from principal operations	32	23,148,417	14,520,736
Less: Cost of sales	33	19,740,857	12,183,096
Business tax and surcharges	34	49,754	38,588
Profit from principal operations		3,357,806	2,299,052
Add: Other operating profit	35	91,105	36,691
Less: Operating expenses	36	417,821	231,034
Administrative expenses		230,714	279,623
Financial expenses	37	97,387	9,498
Operating profit		2,702,989	1,815,588
Add: Investment (loss)/income	38	(68,766)	6
Non-operating income		222	1,593
Less: Non-operating expenses	39	1,702	64,404
Total profit		2,632,743	1,752,783
Less: Income tax expense	3(b)	856,406	320,204
Net profit		1,776,337	1,432,579

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Net Profit		1,776,337	1,432,579
Add: Undistributed profits at the beginning of the year		2,131,717	1,281,803
Distributable profits		3,908,054	2,714,382
Less: Transfer to statutory surplus reserve	30	177,633	143,258
Transfer to statutory public welfare fund	30	177,633	143,258
Profits distributable to shareholders		3,552,788	2,427,866
Less: Transfer to discretionary surplus reserve		—	—
Dividends		592,563	296,149
Undistributed profits at the end of the year		2,960,225	2,131,717
(including: dividend proposed after the balance sheet date of Rmb888,883,000 (2003: Rmb592,462,000))			

Additional information:

Item	2004 Rmb'000	2003 Rmb'000
1. Proceeds from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase (or decrease) in total profits due to the changes in accounting policies	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	—	(103,000)
5. Gains (or losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Cash Flow Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2004
(Expressed in Thousand Renminbi)

Note to the consolidated cash flow statement	2004 Rmb'000
Cash flows from operating activities:	
Cash received from sale of goods	26,189,967
Refund of taxes	241,414
Cash received in relation to other operating activities	3,416
Sub-total of cash inflows	26,434,797
<hr style="border-top: 1px dashed black;"/>	
Cash paid for goods	(23,442,057)
Cash paid to and on behalf of employees	(344,638)
Taxes paid	(914,042)
Cash paid in relation to other operating activities	(139,257)
Sub-total of cash outflows	(24,839,994)
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Net cash flow from operating activities	(a) 1,594,803
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Cash flows from investing activities:	
Net proceeds from the disposal of fixed assets	670
Cash received in relation to other investing activities	99,346
Sub-total of cash inflows	100,016
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Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets	(900,082)
Cash paid for acquisition of investments	(26,664)
Cash paid in relation to other investing activities	(9,628)
Sub-total of cash outflows	(936,374)
<hr style="border-top: 1px dashed black;"/>	
Net cash flow from investing activities	(836,358)
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The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Cash Flow Statement *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note to the consolidated cash flow statement	2004 Rmb'000
Cash flows from financing activities:		
Proceeds from loans		555,349
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Sub-total of cash inflows		555,349
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Repayment of loans		(420,267)
Cash paid for dividends or interest payment		(727,712)
Cash paid in relation to other financing activities		(498)
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Sub-total of cash outflows		(1,148,477)
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Net cash flow from financing activities		(593,128)
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Effect of exchange rate fluctuations on cash held		(24,160)
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Net increase in cash and cash equivalents	(c)	141,157

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Consolidated Cash Flow Statement (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

2004

Rmb'000

Notes to the consolidated cash flow statement

(a) Reconciliation of net profit to cash flows from operations:

Net profit	1,776,337
Add: Bad debt provision	212
Write back of inventory provision	(13,134)
Depreciation of fixed assets	807,302
Amortisation of intangible assets	10,511
Amortisation of long-term deferred expenses	23,591
Loss on disposal of fixed assets	1,269
Increase in deferred expenses	79
Increase in accrued expenses	6,219
Financial expenses	119,973
Investment income	(233)
Increase in inventories	(758,767)
Decrease in operating receivables	544,098
Decrease in operating payables	(922,654)

Net cash flow from operating activities	1,594,803
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(b) Non-cash transactions of investing and financing activities:

Conversion of convertible debentures to A shares	1,900
Convertible debentures A shares due within one year	3,703

(c) Net increase in cash and cash equivalents:

Cash at the end of the year	2,748,133
Less: Cash at the beginning of the year	(2,606,976)
Add: Cash equivalents at the end of the year	—
Less: Cash equivalents at the beginning of the year	—

Net increase in cash and cash equivalents	141,157
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These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Cash Flow Statement

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note to the cash flow statement	2004 Rmb'000
Cash flows from operating activities:		
Cash received from sales of goods		26,300,400
Refund of taxes		224,314
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Sub-total of cash inflows		26,524,714
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Cash paid for goods		(23,349,655)
Cash paid to and on behalf of employees		(337,893)
Taxes paid		(913,814)
Cash paid in relation to other operating activities		(126,913)
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Sub-total of cash outflows		(24,728,275)
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Net cash flow from operating activities	(a)	1,796,439
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Cash flows from investing activities:		
Net proceeds from the disposal of fixed assets		670
Cash received in relation to other investing activities		30,621
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Sub-total of cash inflows		31,291
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Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(823,702)
Cash paid for acquisition of investments		(46,664)
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Sub-total of cash outflows		(870,366)
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Net cash flow from investing activities		(839,075)
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The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Cash Flow Statement (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Note to the cash flow statement	2004 Rmb'000
Cash flows from financing activities:		
Proceeds from loans		300,000
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Sub-total of cash inflows		300,000
<hr style="border-top: 1px dashed #000;"/>		
Repayment of loans		(400,000)
Cash paid for dividends or interest payment		(707,925)
Cash paid in relation to other financing activities		(498)
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Sub-total of cash outflows		(1,108,423)
<hr style="border-top: 1px dashed #000;"/>		
Net cash flow from financing activities		(808,423)
<hr style="border-top: 1px dashed #000;"/>		
Effect of exchange rate fluctuations on cash held		(24,495)
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Net increase in cash and cash equivalents	(c)	124,446

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Cash Flow Statement (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

2004
Rmb'000

Notes to the cash flow statement

(a) Reconciliation of net profit to cash flows from operations:

Net profit	1,776,337
Add: Bad debt provision	212
Write back of inventory provision	(15,130)
Depreciation of fixed assets	774,374
Amortisation of intangible assets	7,974
Loss on disposal of fixed assets	1,269
Financial expenses	97,387
Loss on investments	68,766
Increase in inventories	(592,660)
Decrease in operating receivables	609,529
Decrease in operating payables	(931,619)

Net cash flow from operating activities	1,796,439
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(b) Non-cash transactions of investing and financing activities:

Conversion of convertible debentures to A shares	1,900
Convertible debentures A shares due within one year	3,703

(c) Net increase in cash and cash equivalents:

Cash at the end of the year	2,705,059
Less: Cash at the beginning of the year	(2,580,613)
Add: Cash equivalents at the end of the year	—
Less: Cash equivalents at the beginning of the year	—

Net increase in cash and cash equivalents	124,446
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These financial statements have been approved by the board of directors on 16 March 2005.

Liu Jie
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 77 to 125 form an integral part of these financial statements.

Notes on the Financial Statements

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

1. STATUS OF THE COMPANY

Angang New Steel Company Limited (the "Company") was formally established on 8 May 1997 as a joint stock limited company.

The Company was established as a joint stock limited company under the Company Law of the People's Republic of China ("PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole promoter, pursuant to the approval document Tigaisheng [1997] No. 62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. The Company took over the businesses of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as at 31 December 1996 as its contribution to the Company. The above net assets were converted into 1,319,000,000 shares of the Company of Rmb1.00 each.

The Company issued 890,000,000 ordinary H shares ("H shares") with a par value of Rmb1.00 each on 22 July 1997 which were subsequently listed on The Stock Exchange of Hong Kong Limited on 24 July 1997. The Company also issued 300,000,000 ordinary A shares ("A shares") with a par value of Rmb1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 1997.

On 9 January 2002, the Company entered into a joint venture agreement and a technology transfer agreement to establish ANSC-TKS Galvanizing Co. Ltd ("ANSC-TKS") with ThyssenKrupp Stahl AG ("Thyssen"). The Company holds 50% interests in ANSC-TKS, whose registered capital amounted to US\$60,000,000.

On 22 November 2004, the Company entered into a joint venture agreement with Dalian Xinchuan Heavy Industries Company Limited ("Xinchuan") to set up ANSC - Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan"). As at 31 December 2004, the registered capital of ANSC-Xinchuan amounted to Rmb40,000,000, of which Rmb20,000,000, or 50%, was injected by the Company.

The principal activities of the Company, ANSC-TKS and ANSC-Xinchuan (collectively referred to as the "Group") are the production and sale of steel billets, wire rods, thick plates, cold rolled sheets, large section steel, hot dip galvanised steel and alloy steel plates, the sub-processing of steel products, and the manufacturing, distribution and sales of structural steel.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

1. STATUS OF THE COMPANY *(continued)*

Pursuant to an agreement "Acquisition Agreement regarding 100% Equity Interests in Angang New Steel and Iron Company Limited" ("acquisition agreement") dated 29 December 2004 entered into between the Company and Angang Holding, the Company proposed to acquire the entire equity interest of Angang New Steel and Iron Company Limited which has been reorganised in accordance with Angang Holding Gangzhengfa [2004] No. 22 "Notice regarding the reorganisation of Angang New Steel and Iron Company Limited". The acquisition was approved by the independent shareholders at an extraordinary general meeting held on 28 February 2005. Further information is set out in Note 44.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of the financial statements conform with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC.

(a) Accounting period

The accounting year of the Group is from 1 January to 31 December.

(b) Preparation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the Accounting Regulations for Business Enterprises and the Interim Provisions on Consolidated Financial Statements (Caikuaizi [1995] No. 11) issued by the Ministry of Finance.

The consolidated financial statements include the financial statements of the Company and its joint ventures.

In the preparation of the consolidated financial statements, the Company consolidates the assets, liabilities, revenues, costs and expenses of its joint ventures using the proportionate consolidation method, including the Group's proportionate share of the joint ventures' assets, liabilities, revenues, costs and expenses with items of a similar nature on a line by line basis.

Material intragroup transactions, including any unrealised gains and intragroup balances, are eliminated in consolidation.

(c) Accounting basis and measurement principle

The financial statements of the Group have been prepared on an accrual basis, with the historical cost method as the measurement principle, unless otherwise stated.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Reporting currency

The reporting currency of the Group is Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the balance sheet date. Except as stated below, exchange gains and losses on foreign currency translation are dealt with in the income statement of the current period.

Exchange gains and losses directly relating to the purchase or construction of fixed assets before they are ready for their intended use (including exchange gains and losses arising from loans used to finance the construction of fixed assets) are capitalised as part of the costs of the fixed assets.

Exchange differences arise during the start-up period are aggregated into the long-term deferred expenses and are then fully charged to the income statement in the month of commencement of operations.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments of the Group which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Bad debt provision

Trade receivables showing signs of uncollectibility are identified individually and bad debt provision is then made based on the probability of being uncollectible. In respect of other trade receivables, bad debt provision is made with reference to the ageing analysis and the management's estimation based on past experience.

Bad debt provision for other receivables is determined based on the nature and corresponding collectibility.

Notes on the Financial Statements *(Continued)*

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For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories includes the costs of purchase, costs of conversion and other costs. Inventories are stated at the cost of purchase computed using the weighted average method. In addition to the actual cost for the purchase of raw materials, the cost of work in progress and finished goods also includes direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity. Except spare parts, inventory provision is provided at the difference between the cost of individual inventory item and its net realisable value. Spare parts are provided based on the management's assessment. Net realisable value is determined according to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs and related taxes necessary to make the sale.

Low value consumables, packaging and other materials are expensed when being consumed.

Inventories are recorded by perpetual method.

(i) Long-term equity investments

Long-term investments controlled or jointly controlled by the Company or over which the Company exercises significant influence are accounted for under the equity method. It is initially recorded at cost and adjusted thereafter according to the Company's share of equity interest in the invested entity.

Long-term investments that are not controlled or jointly controlled by the Company, and over which the Company does not exercise significant influence are recorded at cost. Investment income is recognised when the invested entity declares a cash dividend or profit appropriation.

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

A provision for impairment loss of long-term equity investments is made. (refer to Note 2(n)).

Notes on the Financial Statements (Continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Fixed assets and construction in progress

Fixed assets represent assets with a useful life of over one year and with a higher unit cost which are held by the Group for production and operation purpose.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment loss (refer to Note 2(n)). Construction in progress is stated in the balance sheet at cost less impairment loss (refer to Note 2(n)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Depreciation is provided over the estimated useful life of each asset on a straight-line basis. The respective estimated useful lives and residual values are as follows:

	Estimated useful life	Estimated residual value
Buildings and plants	10 to 40 years	3%
Machinery and equipment	5 to 20 years	3%
Other fixed assets	4 to 15 years	3%

Notes on the Financial Statements *(Continued)*

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(Expressed in Thousand Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (refer to Note 2(n)). Amortisation is provided on a straight-line basis over the estimated useful life, the beneficial period as specified in the related agreement or the grant period as stipulated by law. The respective amortisation periods are as follows:

	Amortisation period
Land use rights	50 years
Acquired software	3 to 10 years
Industrial technology	12 years

(l) Convertible debentures

Convertible debentures are stated at par value. Interest expense is accrued annually and is capitalised as the cost of corresponding construction in progress. Upon the completion of the construction in progress, the interest expense is charged directly to financial expenses of the same period.

Upon conversion, the carrying value of the debenture and the accrued interest is credited to the share capital and capital reserve.

(m) Pre-operating expenses

All the costs incurred during the set up period, except for that incurred for the purchase or construction of fixed assets, are initially recorded as long-term deferred expenses and then fully charged to the income statement in the month when operations commence.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

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2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment loss of assets

The carrying amounts of the Group's assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets), other than trade receivables and inventories (refer to Notes 2(g), 2(h)), are reviewed periodically in order to assess whether the recoverable amounts have decreased below the book value. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decrease has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been debited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment loss are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

Notes on the Financial Statements *(Continued)*

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2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax

Income tax is provided on an accrual basis. The income tax of the Group for the current year is calculated according to the taxable income and the applicable tax rate.

(p) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(q) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the receipt of the consideration and the return of goods, or when the revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(r) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are charged to the income statement as and when they are incurred.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Research and development costs

Research and development costs are charged to the income statement in the period as and when they are incurred.

(t) Borrowing costs

Specific borrowing costs attributable to the construction of fixed assets are capitalised as the cost of the fixed assets during the construction period until they are ready for their intended use.

Except the above borrowing costs, other borrowing costs are expensed in the income statement in the period in which they are incurred.

(u) Dividend distribution

Cash dividends are included in the income statement and profit appropriation statement when declare. The cash dividends proposed or approved after the balance sheet date but before the issuance of the financial statements are presented separately in the shareholders' funds in the balance sheet.

(v) Retirement benefits

Contributions to defined contribution pension scheme are recognised as an expense in the income statement as incurred. Further information is set out in Note 41.

(w) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control and jointly control the party or exercise significant influence over the party, or vice versa, or where the Group and the party or parties are subject to common control or common significant influence. Related parties may be individuals or enterprise.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

3. TAXATION

(a) Tax relating to sales of goods applicable to the Group includes value added tax ("VAT"). The VAT rate is 17%.

(b) Income tax

The applicable income tax rate of the Company is 33% (2003: 33%).

According to Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's joint venture, ANSC-TKS, is exempt from income tax during its first two profitable years, starting from the first year when ANSC-TKS has a profit after offsetting any previous years' losses. A 50% income tax exemption is granted to ANSC-TKS from the third profitable year to fifth profitable year. No income tax was provided by ANSC-TKS as ANSC-TKS did not make any profit in 2004.

No income tax was provided for the joint venture of the Company, ANSC-Xinchuan, as it had not begun its operations during the year.

(c) Others

The Group is subject to surcharges, including city construction and maintenance tax, education surcharge and local education surcharge, which are computed based on 7%, 3% and 1% of net VAT payable, respectively.

(d) Taxes payable

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
VAT (deductible)/payable	(10,720)	28,997	1,369	31,450
Income tax payable/(refundable)	244,082	(23,067)	244,082	(23,067)
Others	29,158	2,712	29,057	2,712
	262,520	8,642	274,508	11,095

The Group's tax payable increased as a result of increase in operating profits and decrease in tax credit approved by tax authorities as compared with the previous year.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

4. JOINT VENTURES AND ASSOCIATES

As at 31 December 2004, particulars of the joint ventures of the Company are set out below:

Name of invested company	Registered capital	% of equity held by the Company	Initial cost of investment	Principal activities
ANSC-TKS	US\$60,000,000	50%	US\$30,000,000	Production and sale of hot dip galvanised steel products
ANSC-Xinchuan	Rmb40,000,000	50%	Rmb20,000,000	Sale, processing, and distribution of steel products

As at 31 December 2004, particulars of the associates of the Company are set out below:

Name of invested company	Registered capital	% of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	Rmb48,000,000	30%	Rmb14,400,000	Sale, processing, and distribution of steel products
TKAZ (Changchun) Tailored Blanks Ltd ("TKAZ")	US\$5,000,000	39%	US\$1,950,000	Development, production and sale of tailored blanks

5. SEGMENT REPORTING

The revenue and operating profits of the Group are almost entirely attributable to the production and sales of steel products in the PRC. Certain steel products are exported to other countries and regions. Further information is set out in Note 45.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

6. CASH AT BANK AND IN HAND

The Group	2004			2003		
	Original currency '000	Exchange rate	Rmb/Rmb equivalent '000	Original currency '000	Exchange rate	Rmb/Rmb equivalent '000
Cash in hand						
Renminbi			14			8
Euro	—	11.26	4	—	10.34	2
Cash at bank						
Renminbi			1,795,694			2,066,879
HK Dollars	4,056	1.06	4,315	18,844	1.07	20,082
US Dollars	1,179	8.28	9,760	799	8.28	6,613
Euro	346	11.26	3,896	2,236	10.34	23,114
Pounds Sterling			—	19	14.68	278
Deposit with banks						
Renminbi			934,450			490,000
			2,748,133			2,606,976

The Company	2004			2003		
	Original currency '000	Exchange rate	Rmb/Rmb equivalent '000	Original currency '000	Exchange rate	Rmb/Rmb equivalent '000
Cash in hand						
Renminbi			11			8
Cash at bank						
Renminbi			1,763,278			2,041,910
HK Dollars	4,056	1.06	4,315	18,844	1.07	20,082
US Dollars	91	8.28	753	670	8.28	5,548
Euro	200	11.26	2,252	2,204	10.34	22,787
Pounds Sterling			—	19	14.68	278
Deposit with banks						
Renminbi			934,450			490,000
			2,705,059			2,580,613

As at 31 December 2004, the Company has cash balance of Rmb 990,178,000 deposited with Angang Group Financial Company Limited ("Angang Finance") (2003: Nil).

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

7. BILLS RECEIVABLE

All bills receivable held by the Group are bills of acceptance issued by banks which have not been pledged.

As at 31 December 2004, balance of bills receivable of the Group decreased as compared with the previous year mainly due to an increase in the proportion of cash sales in 2004.

Among the balance of bills receivable, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

8. TRADE RECEIVABLES

The Group	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	641,013	100	84,749	100
Less: Bad debt provision	—	—	—	—
	641,013	100	84,749	100

The Company	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	569,082	100	84,749	100
Less: Bad debt provision	—	—	—	—
	569,082	100	84,749	100

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Angang International				
Trade Company ("AITC")	512,366	—	512,366	—
Third parties	128,647	84,749	56,716	84,749
	641,013	84,749	569,082	84,749

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

8. TRADE RECEIVABLES (continued)

As at 31 December 2004, no full or substantial provision has been made for individual trade receivables as the management considers that all of them are due within one year and can be fully recovered.

During the year, the Group had no individually significant write-off or recover of trade receivables which had been fully or substantially provided for in prior years.

The increase in trade receivables compared with the previous year is mainly due to the increase in export sales in 2004. Most export sales are credit sales. Export sales in 2004 amounted to Rmb4,604,165,000 (2003: Rmb647,550,000).

Trade receivables of the Group as at 31 December 2004 are as follows:

Name of the debtor	Particulars	Amount Rmb'000	Percentage of total trade receivables %
AITC	Export sales	512,366	80
Thyssen	Sales of goods	38,311	6
China Railway Materials Shenyang Company	Sales of goods	37,078	6
ThyssenKrupp Steel North America Inc.	Sales of goods	16,130	2
Lagermex, S.A de C.V	Sales of goods	12,539	2
		616,424	96

As at 31 December 2004, the total trade receivables of the Group's five largest debtors are as follows:

	2004	2003
Amount (Rmb'000)	616,424	84,749
Percentage of total trade receivables	96%	100%

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

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(Expressed in Thousand Renminbi)

8. TRADE RECEIVABLES (continued)

The trade receivables of the Company as at 31 December 2004 are as follows:

Name of the debtor	Particulars	Amount Rmb'000	Percentage of total trade receivables %
AITC	Export sales	512,366	90
China Railway Materials Shenyang Company	Sales of goods	37,078	7
Nanjing Changjiang Disan Daqiao Jianshe Zonggongsi	Sales of goods	9,809	2
Shenyang Railway Authority Material Distribution Centre, Research & Development Department	Sales of goods	7,607	1
China Railway Materials Northeast Company Limited	Sales of goods	2,222	—
		569,082	100

As at 31 December 2004, the total trade receivables of the Company's five largest debtors are as follows:

	2004	2003
Amount (Rmb'000)	569,082	84,749
Percentage of total trade receivables	100%	100%

Among the balance of trade receivables, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

9. OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Subsidiaries of Angang Holding	719	200	719	200
Third parties	10,340	18,799	4,937	13,686
Less: Bad debt provision	(3)	(3)	(3)	(3)
	11,056	18,996	5,653	13,883

Ageing analyses of other receivables are as follows:

The Group	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	10,488	95	18,430	97
Between one and two years	141	1	—	—
Between two and three years	—	—	—	—
Over three years	430	4	569	3
	11,059	100	18,999	100
Less: Bad debt provision over three years	(3)	—	(3)	—
	11,056	100	18,996	100

The Company	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	5,085	90	13,317	96
Between one and two years	141	2	—	—
Between two and three years	—	—	—	—
Over three years	430	8	569	4
	5,656	100	13,886	100
Less: Bad debt provision over three years	(3)	—	(3)	—
	5,653	100	13,883	100

Notes on the Financial Statements (Continued)

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For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

9. OTHER RECEIVABLES (continued)

	The Group		The Company	
	2004	2003	2004	2003
Bad debt provision	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at the beginning of the year	3	160	3	160
Add: Provision for the year	212	—	212	—
Less: Written back for the year	(212)	157	(212)	157
	3	3	3	3

As at 31 December 2004, the management considers that most of the other receivables can be recovered and all debtors have the ability to repay the debts, hence, the level of bad debt provision is less than 5%.

The five largest debtors of other receivables of the Group as at 31 December 2004 are as follows:

Name of the debtor	Particulars	Amount Rmb'000	Percentage of total trade receivables %
Cockerill Mechanical Industries S.A.	Contract compensation	4,120	37
Angang Finance	Interest receivable	707	6
Bank of China, Anshan Branch	Interest receivable	658	6
The Industrial and Commercial Bank of China, Angang Branch	Interest receivable	559	5
Shenzhen Stock Exchange	Prepayment of expenses for convertible debentures	532	5
		6,576	59

As at 31 December 2004, the total other receivables of the Group's five largest debtors are as follows:

	2004	2003
Amount (Rmb'000)	6,576	11,879
Percentage of total other receivables	59%	63%

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

9. OTHER RECEIVABLES (continued)

The five largest debtors of other receivables of the Company as at 31 December 2004 are as follows:

Name of the debtor	Particulars	Amount Rmb'000	Percentage of total trade receivables %
Angang Finance	Interest receivable	707	13
Bank of China, Anshan Branch	Interest receivable	658	12
The Industrial and Commercial Bank of China, Angang Branch	Interest receivable	559	10
	Prepayment of expenses for convertible debentures	532	9
Shenzhen Stock Exchange		79	1
Shenzhen Zhengwei Chemicals Co. Ltd	Construction fees		
		2,535	45

As at 31 December 2004, the total other receivables of the Company's five largest debtors are as follows:

	2004	2003
Amount (Rmb'000)	2,535	10,902
Percentage of total receivables	45%	79%

Other receivables decreased significantly in 2004 as compared with 2003. This is mainly due to the settlement of prepaid pre-operating expenses approximately Rmb2,045,000 which is paid on behalf of ANSC-TKS, and the settlement of export tax refund of approximately Rmb5,845,000 from Anshan State Tax Bureau.

No full or substantial provision has been made on individual other receivable balances.

During the year, the Group had no individually significant write-off or recover of other receivables which had been fully or substantially provided for in prior years.

Among the balance of other receivables, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

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10. PREPAYMENTS

The Group	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	217,437	100	593,967	100
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
	217,437	100	593,967	100

The Company	2004		2003	
	Rmb'000	%	Rmb'000	%
Within one year	209,670	100	593,962	100
Between one and two years	—	—	—	—
Between two and three years	—	—	—	—
	209,670	100	593,962	100

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Prepayments to Angang New Steel and Iron Company Limited ("ANSI") for purchases	135,251	543,545	135,251	543,545
Prepayments to third parties	82,186	50,422	74,419	50,417
	217,437	593,967	209,670	593,962

Among the balance of prepayments, no balance is due from a shareholder who holds 5% or more of the Company's voting shares.

11. INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	391,675	252,877	357,446	242,186
Work in progress	291,093	166,244	291,093	166,244
Finished goods	724,798	455,217	631,453	444,190
Spare parts and low value consumables	864,308	629,541	837,301	617,386
	2,271,874	1,503,879	2,117,293	1,470,006
Less: Provision for diminution in value				
– Finished goods	(1,996)	(15,130)	—	(15,130)
– Spare parts	(48,466)	(48,466)	(48,466)	(48,466)
	2,221,412	1,440,283	2,068,827	1,406,410

Notes on the Financial Statements (Continued)

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For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

11. INVENTORIES (continued)

	The Group		The Company	
	2004	2003	2004	2003
Provision for diminution in value	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at the beginning of the year	63,596	54,282	63,596	54,282
Add: Provision for the year	1,996	15,130	—	15,130
Less: Written back for the year	15,130	5,816	15,130	5,816
Balance at the end of the year	50,462	63,596	48,466	63,596

All of the above inventories are either purchased or manufactured by the Group.

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
The cost of inventories recognised as cost of sales	19,814,375	12,183,096	19,740,857	12,183,096

The net realisable value of the inventory of which provision had been made amounted to Rmb58,925,000 (2003: Rmb36,391,000).

The balance of inventories as at 31 December 2004 increased as compared with previous year. This is mainly due to the increase in the market price of raw materials and the increase in production capacity in 2004.

12. DEFERRED EXPENSES

	2004	2003
	Rmb'000	Rmb'000
The Company	—	—
ANSC-TKS		
– Insurance expenses	328	16
– Software license fee	164	168
The Group	492	184

Insurance expenses under deferred expenses mainly represent property insurance and product liability insurance.

Notes on the Financial Statements (Continued)

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13. LONG-TERM EQUITY INVESTMENTS

The Group	Investment in associate <i>Rmb'000</i>	Other equity investment <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost of investment			
Balance at the beginning of the year	14,406	—	14,406
Additions	16,397	10,500	26,897
Deductions	—	—	—
Balance at the end of the year	30,803	10,500	41,303
Less: provision for impairment loss	—	—	—
Carrying value			
Balance at the end of the year	30,803	10,500	41,303
Balance at the beginning of the year	14,406	—	14,406

The Company	Investment joint ventures <i>Rmb'000</i>	Investment in associates <i>Rmb'000</i>	Other equity investment <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost of investment				
Balance at the beginning of the year	252,312	14,406	—	266,718
Additions	20,000	16,397	10,500	46,897
Deductions	(76,416)	—	—	(76,416)
Balance at the end of the year	195,896	30,803	10,500	237,199
Less: provision for impairment loss	—	—	—	—
Carrying value				
Balance at the end of the year	195,896	30,803	10,500	237,199
Balance at the beginning of the year	252,312	14,406	—	266,718

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

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13. LONG-TERM EQUITY INVESTMENTS *(continued)*

- (a) As at 31 December 2004, the Company's investment in joint ventures are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment <i>Rmb'000</i>
ANSC-TKS	50%	50 years	248,305
ANSC-Xinchuan	50%	50 years	20,000
			268,305
	ANSC-TKS <i>Rmb'000</i>	ANSC-Xinchuan <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost of investment			
Balance at the beginning of the year	252,312	—	252,312
Add: Additions	—	20,000	20,000
Adjustment using equity method	(68,999)	—	(68,999)
Unrealised profit of inventory sale at the end of the year	(7,417)	—	(7,417)
Balance at the end of the year	175,896	20,000	195,896
Less: provision for impairment loss	—	—	—
Carrying value			
Balance at the end of the year	175,896	20,000	195,896
Balance at the beginning of the year	252,312	—	252,312

Pursuant to an Equity Pledge Agreement entered into between the Company and Bank of China, Liaoning Branch on 20 October 2002, the Company pledged to Bank of China, Liaoning Branch all its equity interests in ANSC-TKS to secure the performance of the obligation of ANSC-TKS, i.e. to repay and settle the related debts due to Bank of China, Liaoning Branch in full and in a timely manner. Details of the arrangement are set out in Note 26.

Notes on the Financial Statements (Continued)

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13. LONG-TERM EQUITY INVESTMENTS (continued)

(b) As at 31 December 2004, the Group's and the Company's investment in associates are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment <i>Rmb'000</i>
TKAZ	39%	50 years	16,164
Angang Shenyang	30%	50 years	14,400
			30,564
	TKAZ	Angang	Total
	<i>Rmb'000</i>	Shenyang	<i>Rmb'000</i>
		<i>Rmb'000</i>	<i>Rmb'000</i>
Cost of investment			
Balance at the beginning of the year	—	14,406	14,406
Add: Additions	16,164	—	16,164
Adjustment using equity method	—	233	233
Balance at the end of the year	16,164	14,639	30,803
Less: provision for impairment loss	—	—	—
Carrying value			
Balance at the end of the year	16,164	14,639	30,803
Balance at the beginning of the year	—	14,406	14,406

(c) As at 31 December 2004, the Group's and the Company's other equity investment is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment <i>Rmb'000</i>
Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang")	7%	30 years	10,500

(d) As at 31 December 2004, the Company's total investment represents 2% (2003: 3%) of the Company's net asset value.

Notes on the Financial Statements (Continued)

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14. FIXED ASSETS

The Group	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:					
Balance at the beginning					
of the year	164,987	2,446,533	6,607,756	628,840	9,848,116
Additions	31,144	20,629	4,562	8,666	65,001
Transferred from construction					
in progress (Note 15)	22,619	124,890	958,069	132,251	1,237,829
Reclassification	—	(52,276)	34,586	17,690	—
Disposals of fixed assets	—	—	(3,247)	(726)	(3,973)
Balance at the end of the year	218,750	2,539,776	7,601,726	786,721	11,146,973
Accumulated depreciation:					
Balance at the beginning					
of the year	210	642,453	2,222,533	396,386	3,261,582
Charge for the year	3,677	98,499	645,278	60,167	807,621
Reclassification	—	(1,127)	746	381	—
Written back on disposal of fixed assets	—	—	(1,774)	(235)	(2,009)
Balance at the end of the year	3,887	739,825	2,866,783	456,699	4,067,194
Carrying value:					
Balance at the end of the year	214,863	1,799,951	4,734,943	330,022	7,079,779
Balance at the beginning of the year	164,777	1,804,080	4,385,223	232,454	6,586,534

Notes on the Financial Statements (Continued)

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14. FIXED ASSETS (continued)

The Company	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
Cost:					
Balance at the beginning of the year	164,987	2,442,681	6,607,252	623,302	9,838,222
Additions	31,144	20,629	4,562	7,961	64,296
Transferred from construction in progress (Note 15)	271	29,650	553,698	119,638	703,257
Reclassification	—	(52,276)	34,586	17,690	—
Disposals of fixed assets	—	—	(3,247)	(726)	(3,973)
Balance at the end of the year	196,402	2,440,684	7,196,851	767,865	10,601,802
Accumulated depreciation:					
Balance at the beginning of the year	210	642,439	2,222,530	395,572	3,260,751
Charge for the year	3,334	95,134	618,316	57,590	774,374
Reclassification	—	(1,127)	746	381	—
Written back on disposal of fixed assets	—	—	(1,774)	(235)	(2,009)
Balance at the end of the year	3,544	736,446	2,839,818	453,308	4,033,116
Carrying value:					
Balance at the end of the year	192,858	1,704,238	4,357,033	314,557	6,568,686
Balance at the beginning of the year	164,777	1,800,242	4,384,722	227,730	6,577,471

As at 31 December 2004, the cost of the fully depreciated fixed assets of the Group which are still in use amounted to Rmb948,466,000 (2003: Rmb652,462,000).

Part of the fixed assets are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 26.

Notes on the Financial Statements (Continued)

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15. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred for buildings, plants, machinery and equipment which have not yet put into operation.

	Amount		Including: Capitalisation of interest charges	
	The Group Rmb'000	The Company Rmb'000	The Group Rmb'000	The Company Rmb'000
Cost				
Balance at the beginning of the year	1,206,658	703,121	71,145	61,855
Additions	800,608	696,069	22,858	18,888
Transfer to fixed assets (Note 14)	(1,237,829)	(703,257)	(68,810)	(55,550)
Other transfers	(157,691)	(84,617)	—	—
Balance at the end of the year	611,746	611,316	25,193	25,193
Less: Provision for impairment loss	—	—		
Carrying value				
Balance at the end of the year	611,746	611,316		
Balance at the beginning of the year	1,206,658	703,121		

Interest charge of the Group for the year was capitalised at a rate of 5.54% (2003: 5.52%).

Notes on the Financial Statements (Continued)

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(Expressed in Thousand Renminbi)

15. CONSTRUCTION IN PROGRESS (continued)

As at 31 December 2004, the projects under construction of the Group/Company are as follows:

Project	Budget Rmb'000	Balance at 1 January 2004 Rmb'000	Additions Rmb'000	Transferred to fixed assets Rmb'000 (Note 14)	Other transfers Rmb'000	Balance at 31 December 2004 Rmb'000	Percentage of budget	Source of fund	Interests capitalised during the year Rmb'000
Upgrade of cold rolling production lines	3,820,530	604,379	241,641	(563,385)	(70,083)	212,552	79%	Equity finance and bank loans	18,888
2130 continuous cold rolling line	2,640,000	—	279,997	—	—	279,997	11%	Operating fund	—
Upgrade of continuous casting and all-purposes rolling mill	597,752	472	2,281	(2,753)	—	—	100%	Equity finance	—
Upgrade of the heavy plate rolling line	398,100	55,972	18,204	(59,642)	(14,534)	—	100%	Operating fund and bank loans	—
Technology renovation	540,000	42,298	153,946	(77,477)	—	118,767	46%	Operating fund	—
Total for the Company	7,996,382	703,121	696,069	(703,257)	(84,617)	611,316			18,888
Dalian galvanised steel production line	538,670	503,537	104,511	(534,572)	(73,074)	402	99%	Operating fund and bank loans	3,970
ANSC-Xinchuan steel product production line	349,450	—	28	—	—	28	—	Operating fund	—
Total for the Group	8,884,502	1,206,658	800,608	(1,237,829)	(157,691)	611,746			22,858

Part of the construction in progress are pledged by the Group as collaterals of the syndicated loan. Details of which are set out in Note 26.

Notes on the Financial Statements (Continued)

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16. INTANGIBLE ASSETS

The Group	Land use rights Rmb'000	Acquired software Rmb'000	Industrial technology Rmb'000	Total Rmb'000
Cost				
Balance at the beginning of the year	354,200	11,131	12,819	378,150
Additions	—	5,366	15,411	20,777
Deductions	—	—	—	—
Balance at the end of the year	354,200	16,497	28,230	398,927
Less: Accumulated amortisation				
Balance at the beginning of the year	42,926	229	—	43,155
Additions	7,107	2,062	1,531	10,700
Deductions	—	—	—	—
Balance at the end of the year	50,033	2,291	1,531	53,855
Less: Provision for impairment loss				
	—	—	—	—
Carrying value				
Balance at the end of the year	304,167	14,206	26,699	345,072
Balance at the beginning of the year	311,274	10,902	12,819	334,995

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

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16. INTANGIBLE ASSETS (continued)

The Company	Land use rights Rmb'000	Acquired software Rmb'000	Total Rmb'000
Cost			
Balance at the beginning of the year	354,200	2,601	356,801
Additions	—	—	—
Deductions	—	—	—
Balance at the end of the year	354,200	2,601	356,801
Less: Accumulated amortisation			
Balance at the beginning of the year	42,926	73	42,999
Additions	7,107	867	7,974
Deductions	—	—	—
Balance at the end of the year	50,033	940	50,973
Less: Provision for impairment loss			
	—	—	—
Carrying value			
Balance at the end of the year	304,167	1,661	305,828
Balance at the beginning of the year	311,274	2,528	313,802

Land use rights include contribution of Rmb226,800,000 made by Angang Holding and the amount of Rmb127,400,000 acquired by the Company. Land use rights are amortised over a remaining period of 43 years. Acquired software is amortised on a straight-line basis over an estimated useful life of 3 to 10 years. Industrial technology purchased by ANSC-TKS from Thyssen is amortised over its beneficial period of 12 years.

Notes on the Financial Statements (Continued)

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For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

17. LONG-TERM DEFERRED EXPENSES

	The Group Rmb'000	The Company Rmb'000
Cost		
Balance at the beginning of the year	26,310	—
Additions	2,126	—
Deductions	28,419	—
Balance at the end of the year	17	—
Net amount		
Balance at the end of the year	17	—
Balance at the beginning of the year	26,310	—

Balance at the beginning of the year represents pre-operating expenses incurred by ANSC-TKS. ANSC-TKS commenced its operation in April 2004. The pre-operating expenses incurred by ANSC-TKS has been recognised in the income statement on a lump sum basis during the year. Balance at the end of the year represents pre-operating expenses incurred by ANSC-Xinchuan.

18. SHORT-TERM LOANS

The Group	2004			2003		
	Principal Rmb'000	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged	Principal Rmb'000	Interest rate p.a.	Credit/ secured/ guaranteed/ pledged
Bank loans	100,000	5.31%	Credit	—		

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's voting shares.

Notes on the Financial Statements (Continued)

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(Expressed in Thousand Renminbi)

19. BILLS PAYABLE

The decrease in bills payable is due to the increase in cash purchases by the Group during the year. Bills payable of the Group primarily represent bank accepted bills for the purchases of raw materials and spare parts purchasing. The repayment terms are within six months.

The Group's / Company's five largest bills payable as at 31 December 2004 are as follows:

Name of the creditor	Particulars	Amount Rmb'000	Percentage of total bills payable %
Anshan Hui Feng Grass-product Factory	Purchase of goods	9,218	4
Benxi Dier Yelianchang	Purchase of goods	8,370	4
Benxi Yelianchang	Purchase of goods	7,748	4
Baogang Changzhou Yejin Jixiechang	Purchase of goods	6,439	3
Angang Min Qi Cold Rolling Welfare Factory	Purchase of goods	5,237	2
		37,012	17

As at 31 December 2004 the total bills payable of the Group's/Company's five largest creditors are as follows:

	2004	2003
Amount (Rmb'000)	37,012	1,028,047
Percentage of total bills payable	17%	82%

Among the balance of bills payable, no balance is due to a shareholder who holds 5% or more of the Company's voting shares.

Notes on the Financial Statements (Continued)

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(Expressed in Thousand Renminbi)

20. TRADE PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	225,379	194,462	220,770	194,462
Angang Holding	317	755	317	755
ANSI	49,720	32,033	49,720	32,033
Other subsidiaries of Angang Holding	11,328	19,419	11,328	19,419
	286,744	246,669	282,135	246,669

None of the trade payables of the Group as at 31 December 2004 are aged over three years.

Angang Holding holds more than 5% of the Company's voting shares.

21. RECEIPTS IN ADVANCE

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	1,325,295	1,079,553	1,293,752	1,080,115
Angang Holding	31	94	31	94
ANSI	25,656	23,962	25,656	23,962
Other subsidiaries of Angang Holding	204,004	631,954	204,004	631,954
	1,554,986	1,735,563	1,523,443	1,736,125

None of the receipts in advance of the Group as at 31 December 2004 were aged over one year.

Angang Holding holds more than 5% of the Company's voting shares.

22. ACCRUED PAYROLL

The Group's accrued payroll is composed of basic salary and performance-linked salary. The accrued payroll balance at 31 December 2004 includes Rmb37,000,000 performance-linked salary (2003: Rmb48,940,000).

Notes on the Financial Statements (Continued)

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23. ACCRUED EXPENSES

Accrued expenses mainly represent interest expenses, property tax, repair and maintenance expenses, and freight charges.

24. OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Construction costs	276,043	368,143	156,149	242,792
Freight charges	11,964	10,937	11,964	10,937
Deposit for steel shelves	27,380	17,094	27,380	17,094
Pension and unemployment insurance	811	2,200	811	2,200
Tax withheld	854	1,687	854	1,687
Staff education fund	5,798	5,346	5,798	5,346
Education surcharge and local education surcharge	15,083	1,259	15,083	1,259
Others	6,161	10,920	6,163	9,927
	344,094	417,586	224,202	291,242

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	217,109	256,222	99,991	131,937
Angang Holding	115	32	115	32
Subsidiaries of Angang Holding	126,870	161,332	124,096	159,273
	344,094	417,586	224,202	291,242

Angang Holding holds more than 5% of the Company's voting shares.

None of the other payables of the Group as at 31 December 2004 are aged over three years.

Notes on the Financial Statements (Continued)

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25. CURRENT PORTION OF LONG-TERM LIABILITIES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans	1,103,534	420,267	1,063,000	400,000
Convertible debentures	3,703	—	3,703	—
	1,107,237	420,267	1,066,703	400,000

26. LOANS

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current portion of long-term loans	1,103,534	420,267	1,063,000	400,000
Long-term loans	1,244,548	1,892,733	900,000	1,663,000
	2,348,082	2,313,000	1,963,000	2,063,000

The interest rates and terms of repayment for current portion of long-term loans are as follows:

Bank	Period	Interest rate p.a. (Note)	Secured / guaranteed	The Group		The Company	
				2004	2003	2004	2003
				Rmb'000	Rmb'000	Rmb'000	Rmb'000
Industrial and Commercial Bank of China	Due in 2005	5.49%	Guaranteed	63,000	300,000	63,000	300,000
Bank of China	Due in 2005	5.49%-5.76%	Guaranteed	1,000,000	100,000	1,000,000	100,000
Bank of China	Due in 2005	5.76%	Secured	40,534	20,267	—	—
				1,103,534	420,267	1,063,000	400,000

Notes on the Financial Statements (Continued)

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26. LOANS (continued)

The interest rates and terms of repayment for long-term loans are as follows:

Bank	Period	Interest rate p.a. (Note)	Secured / guaranteed	The Group		The Company	
				2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Industrial and Commercial Bank of China	Due in 2005	5.49%	Guaranteed	—	63,000	—	63,000
Bank of China	Due in 2005	5.49%	Guaranteed	—	1,000,000	—	1,000,000
Bank of China	Due in 2006	5.49%	Guaranteed	600,000	600,000	600,000	600,000
Bank of China	Due in 2007	5.49%	Guaranteed	300,000	—	300,000	—
Bank of China	Due in 2005 to 2014	5.76%	Secured	344,548	229,733	—	—
				1,244,548	1,892,733	900,000	1,663,000

The bank loans of the Company are mainly used for technology renovation and equipment upgrade and are guaranteed by Angang Holding.

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged its trade receivables, land use rights, construction in progress, buildings and plants, machinery and equipment with a carrying value of Rmb1,160,912,000 (2003: Rmb1,015,752,000) as at 31 December 2004 to Bank of China as collaterals of the loan.

The Company pledged to Bank of China its 50% equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

As at 31 December 2004, ANSC-TKS has drawn down Rmb810,700,000 (2003: Rmb500,000,000) from the above syndicated loan facility.

Among the above balance, no balance is due to a shareholder who holds 5% or more of the Company's shares.

(Note) The interest rates of the loans are floating based on rates quoted by the People's Bank of China.

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27. CONVERTIBLE DEBENTURES

On 15 March 2000, the Company issued convertible debentures (the "Debentures") amounting to Rmb1,500,000,000. The Debentures are listed on the Shenzhen Stock Exchange and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14 September 2000 to 13 March 2005 into A shares with a par value of Rmb1 each of the Company ("A shares") at a conversion rate of Rmb3.3 per share. The conversion rate was revised to Rmb 2.83 per share since 21 June 2004. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,197,723 A shares.

The Debentures are interest bearing at a rate of 1.2% per annum payable in arrears on 14 March each year.

By 31 December 2004, 453,942,246 A shares were converted from the Debentures of the Company with a value of Rmb1,496,447,000 and accrued interest of Rmb10,251,000, which increased the capital surplus by Rmb1,052,733,000. Upon the completion of the conversion, cash payment should be made for the odd lot convertible debentures. Up to 31 December 2004, a cash payment of Rmb23,000 was made for the odd lot convertible debentures.

28. SHARE CAPITAL

Issued and paid up capital:	The Company	
	2004 Rmb'000	2003 Rmb'000
Unlisted shares:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
Listed shares:		
753,308,652 (2003: 751,873,679) Renminbi ordinary shares ("A shares") of Rmb1 each issued at the beginning of the year	753,309	751,874
Additional 633,594 (2003: 1,434,973) A shares issued upon the conversion of convertible debentures	633	1,435
753,942,246 (2003: 753,308,652) A shares of Rmb1 each issued at the end of the year	753,942	753,309
890,000,000 (2003: 890,000,000) overseas-listed foreign invested shares of Rmb1 each ("H share")	890,000	890,000
	1,643,942	1,643,309
	2,962,942	2,962,309

All the State-owned legal person shares, A and H shares rank pari passu in all material respects.

Notes on the Financial Statements (Continued)

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29. CAPITAL RESERVE

	The Group/Company		
	At 1 January		At 31 December
	2004	Increase	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Net asset conversion	709,817	—	709,817
Write-off of water and electricity use rights	(122,733)	—	(122,733)
Proceeds from the issuance of H shares, net of expenses	594,722	—	594,722
Proceeds from the issuance of A shares, net of expenses	848,222	—	848,222
Conversion of A share convertible debentures	1,051,466	1,267	1,052,733
Write-off of trade payables	2,078	—	2,078
Receipt of fixed assets donation	76	—	76
	3,083,648	1,267	3,084,915

30. SURPLUS RESERVES

	The Group/Company		
	At 1 January	Profits	At 31 December
	2004	distribution	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Statutory surplus reserve	385,297	177,633	562,930
Statutory public welfare fund	385,297	177,633	562,930
	770,594	355,266	1,125,860

On 16 March 2005, the board of director of the Company approves the allocation of 10% of the net profit after taxation of the Company to the statutory surplus reserve. In addition, 10% of the net profit after taxation is allocated to the statutory public welfare fund.

Notes on the Financial Statements (Continued)

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31. UNDISTRIBUTED PROFITS

(a) Transfer to surplus reserves

Pursuant to a resolution passed at the Directors' meeting on 16 March 2005, the Directors proposed the allocation of 10% of the Company's net profit after taxation to each of the statutory surplus reserve and the statutory public welfare fund.

(b) Dividends

(i) Dividends approved and paid during the year

Pursuant to the shareholder's approval at the Annual General Meeting on 15 June 2004, the Company was authorised to declare cash dividend of Rmb0.2 per share (2003: Rmb0.1 per share) totalling Rmb592,563,000 (2003: Rmb296,149,000) to ordinary share shareholders.

(ii) Dividend proposed after the balance sheet date

Pursuant to a resolution passed at the Directors' meeting on 16 March 2005, the Directors proposed a cash dividend of Rmb888,883,000 (2003: Rmb592,462,000) to ordinary share shareholders. The proposed dividend has not yet been recognised as a liability on the balance sheet date.

32. INCOME FROM PRINCIPAL OPERATIONS

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Wire rods	2,778,123	1,727,071	2,778,123	1,727,071
Thick plates	4,798,125	2,768,789	4,798,125	2,768,789
Cold rolled sheets	11,020,640	6,233,339	10,941,440	6,233,339
Large section products	3,889,653	2,976,174	3,889,653	2,976,174
Steel billets	741,076	815,363	741,076	815,363
	23,227,617	14,520,736	23,148,417	14,520,736

Total sales to the five largest customers were Rmb6,112,662,000 (2003: Rmb4,221,237,000) which accounted for 26% (2003: 29%) of the total sales income of the Group for the year ended 31 December 2004.

There is an increase in the sales income of the Group in 2004 as compared with the previous year. It is mainly due to the increase in sales volume, the improvement in sales mix and the increase in product price of the Company.

Included in the Group's sales of cold rolled sheets in 2004 were sales of galvanised steel sheets and colour coating plates amounted to Rmb2,897,572,000 (2003: Nil).

Included in the Company's sales of cold rolled sheets in 2004 were sales of galvanised steel sheets and colour coating plates amounted to Rmb2,464,931,000 (2003: Nil).

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

33. COST OF SALES

	The Group		The Company	
	2004	2003	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Wire rods	2,198,968	1,476,719	2,198,968	1,476,719
Thick plates	3,269,425	1,964,154	3,269,425	1,964,154
Cold rolled sheets	10,188,147	5,515,117	10,114,629	5,515,117
Large section products	3,447,718	2,483,080	3,447,718	2,483,080
Steel billets	710,117	744,026	710,117	744,026
	19,814,375	12,183,096	19,740,857	12,183,096

34. BUSINESS TAX AND SURCHARGES

Tax rate and basis	The Group		The Company		
	2004	2003	2004	2003	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	
City construction and maintenance taxes	7% of VAT payable	31,641	24,556	31,641	24,556
Education surcharge and local education surcharge	3% and 1% of VAT payable	18,113	14,032	18,113	14,032
		49,754	38,588	49,754	38,588

35. OTHER OPERATING PROFIT

	The Group		The Company	
	2004	2003	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit from sales of packaging materials	2,026	4,857	2,026	4,857
Profit from sales of scrap materials	93,439	30,628	88,510	30,628
Others	969	1,206	569	1,206
	96,434	36,691	91,105	36,691

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

36. OPERATING EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Transportation	40,948	17,526	37,432	17,526
Packaging expenses	231,547	159,496	231,547	159,496
Export-related expenses	126,186	28,936	126,186	28,936
Advertising expenses	1,692	2,696	1,311	2,696
Sales department expenses	13,001	9,258	12,356	9,258
Others	9,818	13,122	8,989	13,122
	423,192	231,034	417,821	231,034

There is an increase in the operating expenses of the Group in 2004 as compared with the previous year. It is mainly due to the increase in sales volume, which led to an increase in packaging expenses and export related expenses.

37. FINANCIAL EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest and bills discount expenses	136,903	117,414	115,362	107,551
Less: Amount capitalised as construction in progress	(22,858)	(87,048)	(18,888)	(78,135)
Amount capitalised as pre-operating expenses	—	(950)	—	—
Net interest expenses	114,045	29,416	96,474	29,416
Net exchange difference	30,553	705	24,495	(1,690)
Less: Amount capitalised as construction in progress	643	1,033	643	1,033
Amount capitalised as pre-operating expenses	—	(2,395)	—	—
Net exchange loss / (gain)	31,196	(657)	25,138	(657)
Interest income	(24,952)	(20,947)	(24,723)	(20,947)
Bank charges	551	1,686	498	1,686
	120,840	9,498	97,387	9,498

The increase in interest income is due to increase in average bank balances and term deposits.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

38. INVESTMENT (LOSS)/INCOME

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loss from long-term equity investment in joint ventures				
– Accounted under equity method	—	—	(68,999)	—
Income from long-term equity investment in associates				
– Accounted under equity method	233	6	233	6
	233	6	(68,766)	6

There is no severe restrictions in the transfer of investment income to the Group.

39. NON-OPERATING EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loss on disposal of fixed assets	1,470	63,219	1,470	63,219
Penalties	173	42	173	42
Donation	—	1,143	—	1,143
Others	59	—	59	—
	1,702	64,404	1,702	64,404

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related party with controlling interest:

Name of enterprise	Registered address	Principal activities	Relationship with the Company	Economic nature	Legal representative
Angang Holding	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament tubes, and metal structures	Holding company	State- owned	Liu Jie

The registered capital of Angang Holding as at 31 December 2004 was Rmb10,794,160,000. It held 44.52% of the total share capital of the Company. There was no change in the registered capital of Angang Holding during the year. The changes in percentage of shares held by Angang Holding are detailed in Note 28 "Share Capital".

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
ANSI	Fellow subsidiary
AITC	Fellow subsidiary
ANSC-TKS	Joint venture
Angang Shenyang	Associate and fellow subsidiary
Other subsidiaries of Angang Holding	Follow subsidiaries

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI:

	Note	2004 Rmb'000	2003 Rmb'000
Sales (excluding business tax and surcharges)	(i)	2,297,793	1,837,745
Sales of scrap materials (excluding business tax and surcharges)	(i)	496,630	253,966
Purchases			
– Raw materials	(ii)	16,530,004	9,856,095
– Ancillary materials and spare parts	(iii)	192,064	91,407
Supply of fuel and power	(iv)	340,327	306,557
Staff welfare and other services	(v)	260,140	289,184
Interest income	(vi)	5,863	—
Material processing fee	(vii)	84,201	—

(i) Sales

The Company sold steel products and scrap materials to ANSI, Angang Shenyang and various subsidiaries of Angang Holding at selling prices not lower than the average prices charged to independent customers for the preceding month. Included in the above are sales of pipe billets totalling Rmb1,093,320,000 (2003: Rmb833,364,000).

(ii) Purchase of raw materials

The Company purchased its principal raw materials from ANSI, at prices no higher than the lowest sales prices of the preceding month charged by ANSI to independent customers and the average sales prices quoted to the Company by five independent suppliers for large quantities.

(iii) Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from ANSI, the prices of which were based on the average prices of such materials charged by ANSI to independent customers.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI: *(continued)*

(iv) Supply of fuel and power

The Company purchased fuel and power such as industrial water, recycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam from ANSI at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.

(v) Staff welfare and other services

The subsidiaries of Angang Holding provide staff welfare and other services to the Company, which include: railway and road transportation services; agency services for the purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul services; design and engineering services, product quality testing and analysis; heating supply for employees' accommodation; newspaper, telephone, fax and other media communication services and staff training. These services are charged either at the applicable State prices, market prices or at cost by the subsidiaries of Angang Holding.

(vi) Interest income

Angang Group provided financial services, including settlement and deposit taking services to the Company. Angang Holding will not charge any fee for the deposit taking services. The maximum amount of deposits will be Rmb1,000,000,000 and interest will be based on the rate offered by the People's Bank of China. As at 31 December 2004, the deposit placed at Angang Group amounted to Rmb990,178,000 (2003: Nil).

(vii) Material processing fee

The Company provided material processing services to Angang Group based on average prices charged to independent customers for similar services.

(viii) Guarantee of debentures

The issuance of Debentures amounting to Rmb1,500,000,000 on 15 March 2000 was guaranteed by Angang Holding.

(ix) Guarantee of loans

As at 31 December 2004, total amount of loans obtained by the Company from The Industrial and Commercial Bank of China and The Bank of China amounted to Rmb1,963,000,000 (2003: Rmb2,063,000,000). These bank loans were guaranteed by Angang Holding, details of which are set out in Note 26.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Details of related party transactions with Angang Holding and its subsidiaries and ANSI: *(continued)*

- (x) Acquisition of land use rights, plant and buildings

Pursuant to an agreement dated 23 March 2004, the Company acquired certain land use rights, plant and buildings from Angang Holding at a consideration of Rmb62,206,000.

- (xi) Acquisition of ANSI and the Supply of Materials and Services Agreement

On 29 December 2004, the Company agreed to acquire the entire equity interest of the reorganised ANSI from Angang Holding. The Company entered into the Supply of Materials and Services Agreement with Angang Holding on 29 December 2004, which will be effective upon the completion of the acquisition.

(d) Details of related party transactions of ANSC-TKS:

- (i) Equity investment of the Company in ANSC-TKS

The Company pledged its 50% equity interest in ANSC-TKS to Bank of China to secure the performance of the obligations of ANSC-TKS under the loan agreement.

Pursuant to the funding supporting agreement entered into with Bank of China Liaoning Branch on 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after completion of the construction projects. The commitment is limited to US\$8,000,000 and will be reduced to US\$4,000,000 after the tenth repayment date.

- (ii) Sales of products from the Company to ANSC-TKS

The Company sold products to ANSC-TKS totalling Rmb946,827,000 in 2004 (2003: Rmb25,193,000).

- (iii) Provision of construction services by Angang Holding and its subsidiaries to ANSC-TKS

Subsidiaries of Angang Holding constructed the production line for ANSC-TKS under similar terms and pricing policies for independent parties. The cost for related construction service provided in 2004 amounted to Rmb7,525,000 (2003: Rmb20,928,000) in which Rmb3,763,000 (2003: Rmb10,464,000) had been included in the consolidated financial statements of the Group.

Notes on the Financial Statements *(Continued)*

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(d) Details of related party transactions of ANSC-TKS: *(continued)*

- (iv) Provision of agency services for sale of products by the subsidiaries of Angang Holding to ANSC-TKS

During 2004, the subsidiaries of Angang Holding charged ANSC-TKS agency fees for sales of products amounted to Rmb17,219,000 (2003: Nil) under similar terms and pricing policies for independent parties. Rmb8,610,000 (2003: Nil) has been taken up in the consolidated financial statements of the Group.

- (v) Sale of finished products and purchase of raw materials to/from Thyssen

ANSC-TKS sold finished products to and purchased raw materials from Thyssen, under similar terms and pricing policies for independent parties. The sales and purchases during the year amounted to Rmb105,235,000 (2003: Nil) and Rmb16,475,000 (2003: Nil) respectively. Sales amounted to Rmb52,618,000 and purchases amounted to Rmb8,237,000 have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

- (vi) Know-how transfer and service fees to Thyssen

ANSC-TKS paid Thyssen know-how transfer and service fees totalling Rmb55,538,000 (2003: Rmb66,695,000) of which Rmb27,769,000 (2003: Rmb33,348,000) has been included in the Group's consolidated financial statements.

(e) Details of related party transactions with Angang Shenyang

- (i) Sale of products by the Company to Angang Shenyang

The Company sold products to Angang Shenyang totalling Rmb3,341,000 (2003: Rmb22,193,000).

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

40. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(f) Amounts due from/to Angang Holding, its subsidiaries and ANSI

The amounts of related party balances of the Group/Company are summarised as follows:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables	512,366	—	512,366	—
Other receivables	719	200	719	200
Prepayments	135,251	543,545	135,251	543,545
Trade payables	(61,365)	(52,207)	(61,365)	(52,207)
Receipts in advance	(229,691)	(656,010)	(229,691)	(656,010)
Other payables	(126,985)	(161,364)	(124,211)	(159,305)

41 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Anzhenfa [1998] No.28 issued by Anshan City Government, the required contribution rate from the Company to the retirement benefits scheme is 25.5%.

Pursuant to regulations issued by local labour bureau, ANSC-TKS and ANSC-Xinchuan are required to contribute 19% of total salary to retirement benefit schemes.

42. COMMITMENTS

(a) Capital commitments

At 31 December, the Group/Company had the following capital commitments:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted for				
– Construction and upgrade of production lines	458,774	263,112	458,774	112,943
– Technology transfer fee	—	15,845	—	—
– Investment in joint venture	170,000	—	170,000	—
Authorised but not contracted for				
– Construction and upgrade of production lines	3,363,421	1,370,185	3,013,971	1,338,526
	3,992,195	1,649,142	3,642,745	1,451,469

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

42. COMMITMENTS (continued)

(b) Other commitments

Pursuant to the funding supporting agreement with Bank of China Liaoning Branch dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after the completion of the construction projects.

43. NON-OPERATING ITEMS

According to "Questions and answers on the preparation of information disclosures of companies issuing public shares No. 1 – Extraordinary gain and loss (2004 amended)", non-operating items for the Group and the Company are disclosed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loss on disposal of assets	(1,269)	(61,626)	(1,269)	(61,626)
Penalty charges	(173)	(42)	(173)	(42)
Donations	—	(1,143)	—	(1,143)
Penalty income	21	—	21	—
Others	(59)	—	(59)	—
Total non-operating items	(1,480)	(62,811)	(1,480)	(62,811)
Less: tax effect of the above items	488	20,728	488	20,728
Net non-operating items	(992)	(42,083)	(992)	(42,083)

44. POST BALANCE SHEET EVENTS

(a) Very substantial acquisition

Pursuant to an acquisition agreement dated 29 December 2004 entered into between the Company and Angang Holding, the Company conditionally agreed to acquire from Angang Holding the entire equity interests of reorganised ANSI. ANSI is principally engaged in the production and sales of metal smelting, metal materials, iron and other steel products.

Notes on the Financial Statements (Continued)

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

44. POST BALANCE SHEET EVENTS (continued)

(a) Very substantial acquisition (continued)

The consideration of the acquisition is based on the net asset value of ANSI as at 31 August 2004 as assessed by a valuer. Pursuant to the valuation report of China Assets Appraisal Company Limited, an independent valuer in the PRC, the net asset value of ANSI as at 31 August 2004 amounted to approximately Rmb18,020,000,000. Pursuant to the acquisition agreement, the consideration of the acquisition is based on the net asset value of ANSI as at 31 August 2004 as assessed by the valuer, as adjusted by the net profit of ANSI between 1 September 2004 and the completion date of the acquisition and other terms as set out in the agreement.

The acquisition was approved by independent shareholders at the first extraordinary general meeting of 2005 held on 28 February 2005.

(b) Rights issue and placing of the Company's shares

The acquisition of ANSI will be financed by ways of placing and rights issue of the Company's shares. Subject to the fulfilment of the conditions as set out in the circular dated 15 January 2005, the issue by way of rights of the Company's shares and issue by way of placing of the state-owned legal person shares were approved by the independent shareholders at an extraordinary general meeting held on 28 February 2005.

45. SEGMENT REPORTING (BY LOCATION)

The Group

Category	PRC		Other countries		Total	
	2004	2003	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	18,623,452	13,873,186	4,604,165	647,550	23,227,617	14,520,736
Profit from principal operations	2,389,334	2,247,606	974,154	51,446	3,363,488	2,299,052

The Company

Category	PRC		Other countries		Total	
	2004	2003	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	18,700,093	13,873,186	4,448,324	647,550	23,148,417	14,520,736
Profit from principal operations	2,378,744	2,247,606	979,062	51,446	3,357,806	2,299,052

Details of the Provision for Impairment Losses of Assets

(Prepared under PRC Accounting Rules and Regulations)

For the year ended 31 December 2004

(Expressed in Thousand Renminbi)

	Balance at the beginning of the year <i>Rmb'000</i>	The Group		Balance at the end of the year <i>Rmb'000</i>
		Additions <i>Rmb'000</i>	Written back for the year <i>Rmb'000</i>	
1. Bad debt provision	3	212	(212)	3
Including: Other receivables	3	212	(212)	3
2. Provision for diminution				
in value of inventories	63,596	1,996	(15,130)	50,462
Including: Spare parts	48,466	—	—	48,466
Finished goods	15,130	1,996	(15,130)	1,996

	Balance at the beginning of the year <i>Rmb'000</i>	The Company		Balance at the end of the year <i>Rmb'000</i>
		Additions <i>Rmb'000</i>	Written back for the year <i>Rmb'000</i>	
1. Bad debt provision	3	212	(212)	3
Including: Other receivables	3	212	(212)	3
2. Provision for diminution				
in value of inventories	63,596	—	(15,130)	48,466
Including: Spare parts	48,466	—	—	48,466
Finished goods	15,130	—	(15,130)	—



**Report of the International Auditors to the
Shareholders of Angang New Steel Company Limited**
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 128 to 171 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 16 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Turnover	4	23,177,863	14,482,148
Cost of sales		(19,805,512)	(12,205,920)
Gross profit		3,372,351	2,276,228
Other operating income	5	106,032	37,495
Distribution and other operating expenses		(423,192)	(232,596)
Administrative expenses		(271,121)	(328,991)
Profit from operations		2,784,070	1,752,136
Net financing (costs)/income	6(a)	(119,843)	293
Income from associate		233	6
Profit from ordinary activities before taxation	6	2,664,460	1,752,435
Income tax expense	7(a)	(866,873)	(319,433)
Profit attributable to shareholders	10	1,797,587	1,433,002
Dividends attributable to the year:			
Final dividend proposed after the balance sheet date	9	888,883	592,462
Earnings per share	11		
— Basic		Rmb 0.607	Rmb 0.484
— Diluted		Rmb 0.606	Rmb 0.484

The notes on pages 135 to 171 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Property, plant and equipment	12	6,908,076	6,456,682
Intangible assets	13	26,699	12,819
Construction in progress	14	611,498	1,122,923
Lease prepayments	15	323,234	298,176
Investment in associates	17	30,803	14,406
Other investment	18	10,500	—
Deferred tax assets	7(b)	54,999	65,450
		7,965,809	7,970,456
Current assets			
Inventories	19	2,221,412	1,440,283
Amounts due from fellow subsidiaries	31(c)	304,561	487,550
Trade receivables	20	1,554,515	2,182,561
Prepayments, deposits and other receivables		105,504	134,781
Income tax recoverable		—	23,067
Deposits with banks	21	934,450	290,000
Cash and cash equivalents	22	1,813,683	2,316,976
		6,934,125	6,875,218
Current liabilities			
Trade payables	23	446,278	1,454,056
Income tax payable		244,082	—
Amount due to ultimate holding company	31(b)	463	881
Amounts due to fellow subsidiaries	31(c)	73,803	812,505
Other payables		1,661,440	1,444,578
Convertible debentures	24	3,510	—
Short term bank loans	25	1,203,534	420,267
		3,633,110	4,132,287
Net current assets		3,301,015	2,742,931
Total assets less current liabilities carried forward		11,266,824	10,713,387

Consolidated Balance Sheet (Continued)

At 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Total assets less current liabilities brought forward		11,266,824	10,713,387
Non-current liabilities			
Convertible debentures	24	—	5,269
Bank loans	25	1,244,548	1,892,733
		1,244,548	1,898,002
NET ASSETS		10,022,276	8,815,385
SHAREHOLDERS' FUNDS			
Share capital	26	2,962,942	2,962,309
Share premium		3,057,296	3,055,920
Reserves	27	974,167	619,043
Retained profits		3,027,871	2,178,113
		10,022,276	8,815,385

Approved and authorised for issue by the board of directors on 16 March 2005.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 135 to 171 form part of these financial statements.

Balance Sheet

At 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Property, plant and equipment	12	6,406,442	6,439,245
Construction in progress	14	611,470	670,914
Lease prepayments	15	301,977	276,467
Interests in joint ventures	16	195,383	234,256
Investment in associates	17	30,803	14,406
Other investment	18	10,500	—
Deferred tax assets	7(b)	54,747	56,557
		7,611,322	7,691,845
Current assets			
Inventories	19	2,068,827	1,406,410
Amounts due from fellow subsidiaries	31(c)	304,561	487,550
Trade receivables	20	1,482,584	2,182,561
Prepayments, deposits and other receivables		79,352	100,299
Income tax recoverable		—	23,067
Deposits with banks	21	934,450	290,000
Cash and cash equivalents	22	1,770,609	2,290,613
		6,640,383	6,780,500
Current liabilities			
Trade payables	23	441,669	1,454,056
Income tax payable		244,082	—
Amount due to ultimate holding company	31(b)	463	881
Amounts due to fellow subsidiaries	31(c)	71,029	810,446
Other payables		1,505,676	1,323,308
Convertible debentures	24	3,510	—
Short term bank loan	25	1,063,000	400,000
		3,329,429	3,988,691
Net current assets		3,310,954	2,791,809
Total assets less current liabilities carried forward		10,922,276	10,483,654

Balance Sheet (Continued)

At 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Total assets less current liabilities brought forward		10,922,276	10,483,654
<hr/>			
Non-current liabilities			
Convertible debentures	24	—	5,269
Bank loans	25	900,000	1,663,000
		900,000	1,668,269
<hr/>			
NET ASSETS		10,022,276	8,815,385
<hr/>			
SHAREHOLDERS' FUNDS			
Share capital	26	2,962,942	2,962,309
Share premium		3,057,296	3,055,920
Reserves	27	974,167	619,043
Retained profits		3,027,871	2,178,113
		10,022,276	8,815,385

Approved and authorised for issue by the board of directors on 16 March 2005.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 135 to 171 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
2003						
At 1 January 2003		2,960,874	3,052,752	332,853	1,327,776	7,674,255
Net profit for the year		—	—	—	1,433,002	1,433,002
Transfer for the year		—	—	286,516	(286,516)	—
Shares issued upon conversion of convertible debentures	26	1,435	3,168	(387)	—	4,216
Final dividend — 2002	9(b)	—	—	—	(296,149)	(296,149)
Deferred tax released upon the conversion of convertible debentures		—	—	61	—	61
At 31 December 2003		2,962,309	3,055,920	619,043	2,178,113	8,815,385
2004						
At 1 January 2004		2,962,309	3,055,920	619,043	2,178,113	8,815,385
Net profit for the year		—	—	—	1,797,587	1,797,587
Proposed transfer for the year		—	—	355,266	(355,266)	—
Shares issued upon conversion of convertible debentures	26	633	1,376	(158)	—	1,851
Final dividend — 2003	9(b)	—	—	—	(592,563)	(592,563)
Deferred tax released upon the conversion of convertible debentures	7(b)	—	—	16	—	16
At 31 December 2004		2,962,942	3,057,296	974,167	3,027,871	10,022,276

The notes on pages 135 to 171 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2004 Rmb'000	2003 Rmb'000
Operating activities			
Cash flows from operations	29	2,094,497	2,172,745
Interest received		25,613	21,014
Interest paid		(135,647)	(117,920)
Income tax paid		(589,257)	(392,019)
Cash flows from operating activities		1,395,206	1,683,820
Investing activities			
Capital expenditure		(746,414)	(1,256,876)
Proceeds from disposal of property, plant and equipment		670	1,593
Investment in associate		(16,164)	(14,400)
Investment in other investment		(10,500)	—
Increase in fixed deposits maturing over 3 months		(644,450)	(290,000)
Cash flows from investing activities		(1,416,858)	(1,559,683)
Financing activities			
Dividends paid		(592,563)	(296,149)
Proceeds of bank loans		555,349	975,000
Repayment of bank loans		(420,267)	(190,000)
Redemption of convertible debentures		—	(1)
Cash flows from financing activities		(457,481)	488,850
Net (decrease)/increase in cash and cash equivalents		(479,133)	612,987
Cash and cash equivalents at 1 January		2,316,976	1,702,051
Effect of exchange rate fluctuations on cash held		(24,160)	1,938
Cash and cash equivalents at 31 December	22	1,813,683	2,316,976

The notes on pages 135 to 171 form part of these financial statements.

Notes on the Financial Statements

(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

1 BACKGROUND OF THE COMPANY

Angang New Steel Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 8 May 1997 as a joint stock limited company. The Company and its joint ventures (the "Group") are principally engaged in the production and sales of cold rolled sheets, galvanised steel, wire rods, thick plates, large section steel products and steel billets.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations.

These financial statements also comply with the disclosure requirements of Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's results and the shareholders' funds under IFRS and the PRC Accounting Rules and Regulations is presented on pages 172 to 173.

IASB has issued a number of new and revised IFRS which are effective for accounting periods beginning on or after 1 January 2005. The Group has already commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost except for the carrying amount of certain property, plant and equipment (refer to note 12(d)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation

(i) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Investments

In the Company's balance sheet, an investment in an associate or a joint venture is accounted for under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of associate's or joint venture's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Company, in which case it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entities. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment in the associate or joint ventures. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Other investments represented unlisted equity securities which are stated at cost less impairment losses (refer accounting policy t).

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

- (i) Items of property, plant and equipment are stated at cost or valuation (refer to Note 12(d)) less accumulated depreciation (refer below) and impairment losses (refer accounting policy t). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.
- (ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.
- (iii) Depreciation is provided to write off the cost or valuation where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	10 to 40 years
Plant, machinery and equipment	5 to 20 years
Transportation vehicles and other related equipment	4 to 15 years

(f) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer accounting policy t). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges and exchange differences on other designated financial instruments (refer accounting policy w), during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (refer below) and impairment losses (refer accounting policy t).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 12 years.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

(i) Inventories

Inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Spare parts and tools are stated at cost less any provision for obsolescence.

(j) Cash equivalents

Cash equivalents consist of time deposits with an initial term of less than three months. Cash equivalents are stated at cost, which approximates fair value.

(k) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses (refer accounting policy t).

(l) Convertible debentures

Convertible debentures that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with both liability and equity component.

The liability component of the convertible debentures is calculated as the present value of the future interest and principal payments, discounted at a market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated net of unamortised transaction costs and unamortised discounts on convertible debentures (refer below).

The equity component is calculated as the excess of the issue proceeds over the liability component.

Transactions costs incurred on issuance of the convertible debentures are allocated to the component parts in proportion to the allocation of proceeds.

The discounts on the convertible debentures, being the amount classified as equity as referred to above, are set off against the liability component and are amortised as an interest expense on an effective interest rate method until conversion or maturity.

The transactions costs allocated to the liability component are amortised as an interest expenses on an effective interest rate method until conversion or maturity.

On conversion, the liability component, the accrued interest forfeited together with the relevant portion of the equity component constitute the consideration for the shares being issued.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding the recovery of consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(p) Net financing costs/income

Net financing costs/income comprise interest payable on borrowings, interest receivable on bank deposits, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (refer accounting policy w).

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Borrowing costs are expensed as incurred as part of the net financing costs/income, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(q) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research costs and development costs are therefore recognised as expenses in the period in which they are incurred.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit.

(t) Impairment

The carrying amounts of the Group's assets, other than inventories (refer accounting policy i) and deferred tax assets (refer accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Impairment *(continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(u) Retirement benefits

Obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. Further information is set out in note 32.

(v) Dividends

Dividends are recognised as a liability in the period which they are declared or approved.

(w) Translation of foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the income statement other than those eligible for capitalisation as construction in progress (refer to accounting policy f).

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Hedge of firm commitments and forecasted transactions

Where a financial instrument is designated as a hedge of the variability in cash flows of a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the financial instrument is recognised directly in equity. When the firm commitment or forecasted transaction results in the recognition of an asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately. Any gain or loss arising from changes in the time value of the derivative financial instrument is excluded from the measurement of hedge effectiveness and is recognised in the income statement immediately.

(y) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individual or entities.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 SEGMENT REPORTING

The Group operates principally as a single business segment for the production and sales of steel products. Segment revenue based on the geographical location of customers are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Revenue		
PRC	18,589,119	13,835,841
Other countries	4,588,744	646,307
	23,177,863	14,482,148

All of the Group's assets are in the PRC.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

4 TURNOVER

Turnover represents the aggregate of the invoiced value of goods sold, after allowances for goods returned, trade discounts, value added tax and sales surtaxes.

5 OTHER OPERATING INCOME

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Packaging materials income	2,026	4,857
Income from sales of scrap materials	93,439	30,628
Insurance compensation	9,598	—
Others	969	2,010
	106,032	37,495

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
(a) Net financing costs/(income):		
Interest and other borrowing costs	136,903	117,636
Less: Amount capitalised as construction in progress*	(23,855)	(100,203)
Net interest expenses	113,048	17,433
Net exchange difference	30,553	705
Less: Amount capitalised as construction in progress	643	1,033
Net exchange loss	31,196	1,738
Interest income	(24,952)	(21,203)
Bank charges	551	1,739
	119,843	(293)

* The borrowing costs have been capitalised at an average rate of 5.53% (2003: 5.51%) per annum for construction in progress.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

6 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(continued)*

Profit from ordinary activities before taxation is arrived at after charging/(crediting): *(continued)*

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
(b) Other items:		
Cost of inventories #	19,805,512	12,205,920
Personnel costs		
— Salaries and wages, welfare and other costs #	233,243	198,875
— Contributions to defined contribution scheme #	57,029	50,996
Total personnel costs	290,272	249,871
Auditors' remuneration	3,500	3,710
Depreciation #	806,006	543,941
Amortisation of lease prepayments	6,357	3,517
Repairs and maintenance #	228,394	259,887
Research and development costs	10,421	10,970
Loss on disposals of property, plant and equipment	1,269	61,626

Cost of inventories include Rmb931,232,000 (2003: Rmb784,896,000) relating to salaries and wages, welfare and other costs, contributions to defined contribution scheme, depreciation, and repairs and maintenance expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX

(a) Income tax expense in the consolidated income statement

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Current tax expense		
Current year	856,406	320,204
Deferred tax expense		
Originating and reversal of temporary differences (note 7(b))	10,467	(771)
Total income tax expense in consolidated income statement	866,873	319,433

The provision for PRC income tax is calculated at 33% (2003: 33%) of the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations in the PRC.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

7 INCOME TAX (continued)

(a) Income tax expense in the consolidated income statement (continued)

The reconciliation of income tax calculated at the Company's applicable tax rate with actual expense for the year is as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Profit from ordinary activities before taxation	2,664,460	1,752,435
Expected PRC income tax using the Company's tax rate of 33%	879,271	578,304
Tax exempt revenue	(9,961)	(656)
Non-deductible expenses	34,688	28,002
Additional deduction *	—	(67,236)
Tax credit *	(37,125)	(218,981)
	866,873	319,433

* Pursuant to relevant PRC tax regulations, the Company is entitled to claim an additional deduction based on 50% of approved research and development costs and a tax credit relating to purchases of equipment produced in the PRC for technological improvements.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

7 INCOME TAX (continued)

(b) Deferred taxation

(i) Deferred tax assets and (liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
The Group	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Construction in progress	—	—	(9,605)	(9,245)	(9,605)	(9,245)
Lease prepayments	64,612	66,074	—	—	64,612	66,074
Pre-operating expenses	6	8,682	—	—	6	8,682
Convertible debentures	—	—	(14)	(61)	(14)	(61)
Tax assets/(liabilities)	64,618	74,756	(9,619)	(9,306)	54,999	65,450
Set off of tax	(9,619)	(9,306)	9,619	9,306	—	—
Net tax assets	54,999	65,450	—	—	54,999	65,450

	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
The Company	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Construction in progress	—	—	(9,605)	(9,245)	(9,605)	(9,245)
Lease prepayments	64,366	65,863	—	—	64,366	65,863
Convertible debentures	—	—	(14)	(61)	(14)	(61)
Tax assets/(liabilities)	64,366	65,863	(9,619)	(9,306)	54,747	56,557
Set off of tax	(9,619)	(9,306)	9,619	9,306	—	—
Net tax assets	54,747	56,557	—	—	54,747	56,557

As described in note 27(c), land use rights are carried at cost. The surplus on the revaluation of land use rights net of deferred tax assets are reversed to the shareholders' funds.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

7 INCOME TAX (continued)

(b) Deferred taxation (continued)

(ii) Movement in temporary differences during the year:

	Balance at 1 January 2004	Recognised in income statement (note 7(a))	Recognised in equity (note 27)	Balance at 31 December 2004
The Group	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Construction in progress	(9,245)	(360)	—	(9,605)
Lease prepayments	66,074	(1,462)	—	64,612
Pre-operating expenses	8,682	(8,676)	—	6
Convertible debentures	(61)	31	16	(14)
	65,450	(10,467)	16	54,999

	Balance at 1 January 2004	Recognised in income statement	Recognised in equity (note 27)	Balance at 31 December 2004
The Company	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Construction in progress	(9,245)	(360)	—	(9,605)
Lease prepayments	65,863	(1,497)	—	64,366
Convertible debentures	(61)	31	16	(14)
	56,557	(1,826)	16	54,747

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

8 DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Directors' and supervisors' remuneration:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Fees	292	240
Salaries and other emoluments	1,526	1,414
Discretionary bonuses	—	—
Retirement scheme contributions	389	361
	2,207	2,015

Included in the directors' and supervisors' remuneration were fees of Rmb130,000 (2003: Rmb120,000) payable to independent non-executive directors during the year.

The remuneration of the directors and supervisors is within the following band:

Hong Kong dollars	Rmb equivalent	Number of directors and supervisors	
		2004	2003
0 - HK\$1,000,000	0 - Rmb1,060,000	16	16

The five highest paid individuals of the Group in 2004 and 2003 were all executive directors whose emoluments are disclosed above.

9 DIVIDENDS

(a) Dividends attributable to the year

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Final dividend proposed after the balance sheet date of Rmb30 cents per share (2003: Rmb20 cents per share)	888,883	592,462

Pursuant to a resolution passed at the directors' meeting on 16 March 2005, a final dividend of Rmb30 cents (2003: Rmb20 cents) per share totalling Rmb888,883,000 (2003: Rmb592,462,000) was approved for shareholders' approval at the Annual General Meeting.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

9 DIVIDENDS (continued)

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004 Rmb'000	2003 Rmb'000
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb20 cents per share (2003: Rmb10 cents per share)	592,563	296,149

In respect of the dividends attributable to the year ended 31 December 2003, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of shares which were issued upon the conversion of convertible debentures before the closing date of the register of members.

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders in the amount of Rmb1,797,587,000 (2003: Rmb1,433,002,000) has all been dealt with in the financial statements of the Company.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb1,797,587,000 (2003: Rmb1,433,002,000) and a weighted average number of shares outstanding during the year of 2,962,761,000 (2003: 2,961,419,000) calculated as follows:

Weighted average number of shares

(In thousands of shares)	2004	2003
Issued shares at 1 January	2,962,309	2,960,874
Effect of conversion of convertible debentures	452	545
Weighted average number of shares at 31 December	2,962,761	2,961,419

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

11 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of Rmb1,797,587,000 (2003: Rmb1,433,002,000) and a weighted average number of shares of 2,964,017,000 (2003: 2,963,219,000) after the adjustment with regard to the effects of conversion of remaining convertible debentures as follows:

Weighted average number of shares (diluted)

(In thousands of shares)	2004	2003
Weighted average number of shares at 31 December	2,962,761	2,961,419
Effect of conversion of remaining convertible debentures	1,256	1,800
Weighted average number of shares (diluted) at 31 December	2,964,017	2,963,219

The conversion of remaining convertible debentures will not affect the profit attributable to shareholders as the interest incurred was capitalised as construction in progress.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Transportation vehicles and other related equipment <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation:				
At 1 January 2004	1,481,451	6,549,785	457,687	8,488,923
Reclassification	(52,276)	34,586	17,690	—
Additions	20,629	9,928	8,666	39,223
Transfer from construction in progress (note 14)	125,262	962,095	132,784	1,220,141
Disposals	—	(3,247)	(726)	(3,973)
At 31 December 2004	1,575,066	7,553,147	616,101	9,744,314
Representing:				
Cost	913,219	6,104,270	485,363	7,502,852
Valuation — 1996	661,847	1,448,877	130,738	2,241,462
	1,575,066	7,553,147	616,101	9,744,314
Accumulated depreciation:				
At 1 January 2004	191,182	1,616,082	224,977	2,032,241
Reclassification	(1,127)	746	381	—
Charge for the year	98,499	647,340	60,167	806,006
Written back on disposal	—	(1,774)	(235)	(2,009)
At 31 December 2004	288,554	2,262,394	285,290	2,836,238
Net book value:				
At 31 December 2004	1,286,512	5,290,753	330,811	6,908,076
At 31 December 2003	1,290,269	4,933,703	232,710	6,456,682

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Transportation vehicles and other related equipment <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost or valuation:				
At 1 January 2004	1,477,599	6,540,751	452,149	8,470,499
Reclassification	(52,276)	34,586	17,690	—
Additions	20,629	4,562	7,961	33,152
Transfer from construction in progress (note 14)	30,022	557,723	120,170	707,915
Disposals	—	(3,247)	(726)	(3,973)
At 31 December 2004	1,475,974	7,134,375	597,244	9,207,593
Representing:				
Cost	814,127	5,685,498	466,506	6,966,131
Valuation — 1996	661,847	1,448,877	130,738	2,241,462
	1,475,974	7,134,375	597,244	9,207,593
Accumulated depreciation:				
At 1 January 2004	191,168	1,615,923	224,163	2,031,254
Reclassification	(1,127)	746	381	—
Charge for the year	95,134	619,182	57,590	771,906
Written back on disposal	—	(1,774)	(235)	(2,009)
At 31 December 2004	285,175	2,234,077	281,899	2,801,151
Net book value:				
At 31 December 2004	1,190,799	4,900,298	315,345	6,406,442
At 31 December 2003	1,286,431	4,924,828	227,986	6,439,245

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

- (c) All of the Group's buildings are located in the PRC.
- (d) By virtue of a document dated 31 March 1997 issued by the State-owned Assets Administration Bureau, the value of the property, plant and equipment which were taken over by the Company from its ultimate holding company, Anshan Iron & Steel Group Complex ("Angang Holding"), as at 31 December 1996 was determined at Rmb2,848,221,000. The amount was based on a valuation as required by the relevant PRC rules and regulations, carried out on the property, plant and equipment, including the land use rights as at 31 December 1996 by Zhongping Assets Appraisals Office, a firm of valuers registered in the PRC, on a depreciated replacement cost basis. This valuation was an one-off exercise which established the deemed cost of the property, plant and equipment taken over by the Company.
- (e) One of the Company's joint ventures has pledged its property, plant and equipment at a carrying amount of Rmb997,326,000 at 31 December 2004 (2003: Rmb25,426,000) to secure a syndicated loan as mentioned in note 25.

13 INTANGIBLE ASSETS

The Group	Industrial technology Rmb'000
Cost:	
Balance at 1 January 2004	12,819
Additions	15,411
Balance at 31 December 2004	28,230
Accumulated amortisation:	
Balance at 1 January 2004	—
Amortisation for the year	1,531
Balance at 31 December 2004	1,531
Net book value:	
At 31 December 2004	26,699
At 31 December 2003	12,819

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

14 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 1 January	1,122,923	2,327,558	670,914	2,097,302
Additions	708,716	1,607,941	648,471	1,382,336
	1,831,639	3,935,499	1,319,385	3,479,638
Transfer to property, plant and equipment (note 12)	(1,220,141)	(2,812,576)	(707,915)	(2,808,724)
Balance at 31 December	611,498	1,122,923	611,470	670,914
Construction in progress comprises:				
Upgrade of existing production plants	611,470	670,914	611,470	670,914
Dalian galvanised steel production line	—	452,009	—	—
ANSC-Xinchuan steel product production line	28	—	—	—
Balance at 31 December	611,498	1,122,923	611,470	670,914

One of the Company's joint ventures had pledged its construction in progress at a carrying amount of Rmb904,018,000 at 31 December 2003 to secure a syndicated loan as mentioned in note 25. The related construction in progress has been completed and transferred to property, plant and equipment during 2004.

15 LEASE PREPAYMENTS

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights of the Company and the Group range from 43 to 48 years.

One of the Company's joint ventures has pledged its land use rights at a carrying amount of Rmb42,514,000 at 31 December 2004 (2003: Rmb43,418,000) to secure a syndicated loan as mentioned in note 25.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

16 INTERESTS IN JOINT VENTURES

The Company	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Unlisted shares, at cost	268,305	248,305
Share of losses	(72,922)	(14,049)
	195,383	234,256

Details of the Company's interests in the joint ventures are set out below:

Name of company	Form of business structure	Place of incorporation and operation	Registered/ paid in capital	Proportion of equity interest		Principal activities
				Group's effective interest	held by the Company	
ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS")	Sino-foreign equity joint venture	PRC	US\$60 million	50%	50%	Production and sale of hot dip galvanised steel products
ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan")	Equity joint venture	PRC	Rmb40 million	50%	50%	Sale, processing and distribution of steel products

Included in the consolidated financial statements are the following items that represent the Group's interests in the assets and liabilities, revenues and expenses of the joint ventures.

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Non-current assets	549,870	512,867
Current assets	281,655	94,718
Non-current liabilities	(344,548)	(229,733)
Current liabilities	(291,594)	(143,596)
Net assets	195,383	234,256
Income	437,970	—
Expenses	(496,843)	(9,263)
	(58,873)	(9,263)

The Company has pledged its equity interest in ANSC-TKS to secure a syndicated loan granted to ANSC-TKS (note 25).

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

17 INVESTMENT IN ASSOCIATES

	The Group and the Company	
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Unlisted shares, at cost	30,564	14,400
Share of profit	239	6
	30,803	14,406

Details of the Company's interest in the associates are set out below:

Name of company	Form of business structure	Place of incorporation and operation	Registered capital	Proportion of equity interest		Principal activities
				Group's effective interest	held by the Company	
Angang Shenyang Steel Product Processing And Distribution Company Limited ("Angang Shenyang")	Equity joint venture	PRC	Rmb48 million	30%	30%	Sale, processing and distribution of steel products
TKAZ (Changchun) Tailored Blanks Ltd	Sino-foreign equity joint venture	PRC	US\$5 million	39%	39%	Production and sale of tailored blanks

18 OTHER INVESTMENT

	The Group and the Company	
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Unlisted equity securities	10,500	—

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

19 INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	391,675	252,877	357,446	242,186
Work in progress	291,093	166,244	291,093	166,244
Finished goods	722,802	440,087	631,453	429,060
Spare parts, tools and ancillary materials	815,842	581,075	788,835	568,920
	2,221,412	1,440,283	2,068,827	1,406,410
Inventories stated at net realisable value	58,925	36,391	—	36,391

20 TRADE RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accounts receivable	128,647	84,749	56,716	84,749
Bills receivable	1,425,868	2,097,812	1,425,868	2,097,812
	1,554,515	2,182,561	1,482,584	2,182,561

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Less than 3 months	1,164,599	1,721,799	1,092,668	1,721,799
More than 3 months but less than 12 months	389,916	460,762	389,916	460,762
	1,554,515	2,182,561	1,482,584	2,182,561

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of three months is only available for certain major customers with well-established trading records.

One of the Company's joint ventures has pledged its trade receivables at a carrying amount of Rmb143,862,000 at 31 December 2004 (2003: Nil) to secure a syndicated loan as mentioned in note 25.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

21 DEPOSITS WITH BANKS

	The Group and the Company	
	2004	2003
	Rmb'000	Rmb'000
Deposits with banks	934,450	490,000
Less: Deposits with banks with an initial term of less than three months (note 22)	—	(200,000)
	934,450	290,000

22 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank balances	1,813,683	2,116,976	1,770,609	2,090,613
Add: Deposits with banks with an initial term of less than three months (note 21)	—	200,000	—	200,000
	1,813,683	2,316,976	1,770,609	2,290,613

23 TRADE PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accounts payable	225,379	194,462	220,770	194,462
Bills payable	220,899	1,259,594	220,899	1,259,594
	446,278	1,454,056	441,669	1,454,056

The ageing analysis of trade payables is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Due on demand	191,955	160,853	191,955	160,853
Due within 3 months	147,304	749,191	142,695	749,191
Due after 3 months but within 6 months	107,019	544,012	107,019	544,012
	446,278	1,454,056	441,669	1,454,056

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

24 CONVERTIBLE DEBENTURES

	The Group and the Company	
	2004	2003
	Rmb'000	Rmb'000
Carrying amount of convertible debentures at 1 January	5,269	9,264
Conversion into A shares (note 26)	(1,851)	(4,216)
Redemptions of convertible debentures	—	(1)
Transaction costs amortised	7	19
Discount on convertible debentures amortised	85	203
Carrying amount of convertible debentures at 31 December	3,510	5,269
Less: Balance due within one year classified as current liabilities	(3,510)	—
	—	5,269

The amount of the convertible debentures initially recognised in equity is net of attributable transaction costs of Rmb2,437,000 (Rmb6,000 at 31 December 2004; Rmb9,000 at 31 December 2003).

On 15 March 2000, the Company issued convertible debentures (the "Debentures") amounting to Rmb1,500,000,000. The Debentures are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by Angang Holding. Each debenture will, at the option of the holder, be convertible from 14 September 2000 to 13 March 2005 into A shares with a par value of Rmb1 each of the Company ("A Shares") at a conversion price of Rmb3.3 per share. The conversion price was revised to Rmb2.83 per share on 21 June 2004 in accordance with the terms of the Debentures. Exercise in full of the conversion rights attaching to the Debentures would have resulted in the issue of 455,197,723 A shares.

The Debentures are interest bearing at a rate of 1.2% per annum payable in arrears on 14 March each year.

The Company may redeem in whole or in part the Debentures from 14 March 2001 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days.

The Debenture holder may require the Company to redeem all or part of the Debentures half a year before the maturity date from 14 September 2004 to 13 March 2005 if the closing price of the A shares on the Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

25 BANK LOANS

At 31 December 2004, the bank loans were repayable as follows:

	Within 1 year or on demand Rmb'000	After 1 year but within 2 years Rmb'000	After 2 years but within 5 years Rmb'000	More than 5 years Rmb'000	Sub-total Rmb'000	Total Rmb'000
Unsecured bank loans:						
— Fixed at 5.49% to 5.76%	1,063,000	600,000	300,000	—	900,000	1,963,000
The Company	1,063,000	600,000	300,000	—	900,000	1,963,000
Unsecured bank loans:						
— Fixed at 5.31%	100,000	—	—	—	—	100,000
Secured bank loan:						
— Fixed at 5.76%	40,534	40,535	121,605	182,408	344,548	385,082
The Group	1,203,534	640,535	421,605	182,408	1,244,548	2,448,082

At 31 December 2003, the bank loans were repayable as follows:

	Within 1 year or on demand Rmb'000	After 1 year but within 2 years Rmb'000	After 2 years but within 5 years Rmb'000	More than 5 years Rmb'000	Sub-total Rmb'000	Total Rmb'000
Unsecured bank loans:						
— Fixed at 5.49%	400,000	1,063,000	600,000	—	1,663,000	2,063,000
The Company	400,000	1,063,000	600,000	—	1,663,000	2,063,000
Secured bank loan:						
— Fixed at 5.76%	20,267	4,054	121,605	104,074	229,733	250,000
The Group	420,267	1,067,054	721,605	104,074	1,892,733	2,313,000

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

25 BANK LOANS (continued)

All unsecured bank loans of the Company are guaranteed by Angang Holding.

In October 2002, ANSC-TKS entered into a long-term loan facility of Rmb1,080 million (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights, construction in progress, property, plant and equipment and trade receivables of ANSC-TKS at a carrying amount of Rmb1,183,702,000 at 31 December 2004 (2003: Rmb972,862,000).

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligations of ANSC-TKS under the loan agreement.

As at 31 December 2004, the accumulated drawdown of the Syndicated Loan amounted to Rmb810,700,000 (2003: Rmb500,000,000).

26 SHARE CAPITAL

	2004 Rmb'000	2003 Rmb'000
Issued and fully paid:		
1,319,000,000 State-owned legal person shares of Rmb1 each	1,319,000	1,319,000
753,942,246 (2003: 753,308,652) A shares of Rmb1 each	753,942	753,309
890,000,000 H shares of Rmb1 each	890,000	890,000
	2,962,942	2,962,309

During the year, 633,594 (2003: 1,434,973) A shares were issued on the conversion of convertible debentures with total carrying values of Rmb2,009,000 (2003: Rmb4,603,000) made up as follows:

	2004 Rmb'000	2003 Rmb'000
Liability component (note 24)	1,851	4,216
Equity component (note 27)	158	387
	2,009	4,603

The balance of Rmb1,376,000 (2003: Rmb3,168,000) was credited to share premium account.

All the State-owned legal person, A and H shares rank pari passu in all material respects.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

27 RESERVES

	Statutory surplus reserve (note a) <i>Rmb'000</i>	Statutory public welfare fund (note a) <i>Rmb'000</i>	Convertible debenture reserve (note b) <i>Rmb'000</i>	Excess over share capital (note c) <i>Rmb'000</i>	Total <i>Rmb'000</i>
2003					
At 1 January 2003	242,039	242,039	731	(151,956)	332,853
Transfer for the year	143,258	143,258	—	—	286,516
Shares issued upon conversion of convertible debentures (note 26)	—	—	(387)	—	(387)
Deferred tax released upon the conversion of convertible debentures	—	—	61	—	61
At 31 December 2003	385,297	385,297	405	(151,956)	619,043
2004					
At 1 January 2004	385,297	385,297	405	(151,956)	619,043
Proposed transfer for the year	177,633	177,633	—	—	355,266
Shares issued upon conversion of convertible debentures (note 26)	—	—	(158)	—	(158)
Deferred tax released upon the conversion of convertible debentures (note 7(b))	—	—	16	—	16
At 31 December 2004	562,930	562,930	263	(151,956)	974,167

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

27 RESERVES *(continued)*

- (a) Under the PRC Company Law and the Company's Articles of Association, the Company's net profit after taxation as reported in the financial statements prepared in accordance with the PRC Accounting Rules and Regulations can only be distributed as dividends after allowance has been made for:
- (i) making up cumulative prior years' losses, if any;
 - (ii) allocations to the statutory surplus reserve fund of at least 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations;
 - (iii) allocations of 5% to 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations, to the Company's statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and
 - (iv) allocations to the discretionary surplus reserve subject to approval by the shareholders.
- (b) Convertible debentures reserve comprises the value of the option granted to debenture holders to convert their convertible debentures into A shares of the Company (refer note 24).
- (c) Land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed from the shareholders' funds.

28 DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As at 31 December 2004, the reserve available for distribution was Rmb2,960,225,000 (2003: Rmb2,131,717,000). Final dividend of Rmb888,883,000 (2003: Rmb592,462,000) in respect of the financial year 2004 was proposed after the balance sheet date.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

29 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit from ordinary activities before taxation to cash flows from operations

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit from ordinary activities before taxation	2,664,460	1,752,435
Interest income	(24,952)	(21,203)
Interest expenses	113,048	17,433
Income from associate	(233)	(6)
Depreciation	806,006	543,941
Amortisation of intangible assets	1,531	—
Loss on disposal of property, plant and equipment	1,269	61,626
Net exchange loss	31,196	1,738
Increase in inventories	(781,129)	(223,234)
Decrease in amounts due from fellow subsidiaries	182,989	156,148
(Increase)/decrease in accounts receivable	(43,898)	7,311
Decrease/(increase) in bills receivable	671,944	(379,768)
Increase in lease prepayments	(25,058)	(149,181)
Decrease/(Increase) in prepayments, deposits and other receivables	28,616	(8,524)
Increase/(decrease) in accounts payables	30,917	(30,532)
Decrease in bills payable	(1,038,695)	(211,402)
(Decrease)/increase in amount due to ultimate holding company	(418)	881
(Decrease)/increase in amount due to fellow subsidiaries	(738,702)	470,634
Increase in other payables	215,606	184,448
Cash flows from operations	2,094,497	2,172,745

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

30 COMMITMENTS

- (a) The Group had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	The Group		The Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Authorised and contracted for:				
— Construction projects of production lines	458,774	263,112	458,774	112,943
— Technology transfer fee	—	15,845	—	—
— Investment in a joint venture	170,000	—	170,000	—
Authorised but not contracted for:				
— Improvement projects of production lines	3,363,421	1,370,185	3,013,971	1,338,526
	3,992,195	1,649,142	3,642,745	1,451,469

- (b) Pursuant to the funding supporting agreement dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations.

Notes on the Financial Statements (Continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

31 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group, Angang Shenyang (its associate), Angang New Steel and Iron Company Limited ("ANSI") (its fellow subsidiary), and Angang Holding (its ultimate holding company) and its business undertakings ("Angang Group") during the year.

(a) Significant transactions

- (i) Significant transactions which the Company conducts with ANSI, and Angang Group in the normal course of business are as follows:

	Note	The Group and the Company	
		2004 Rmb'000	2003 Rmb'000
Sales of finished goods	(a)	2,297,793	1,837,745
Return of scrap materials	(a)	496,630	253,966
Purchases of			
— raw materials	(b)	16,530,004	9,856,095
— ancillary materials and spare parts	(c)	192,064	91,407
Utility supplies	(d)	340,327	306,557
Fees paid for welfare and other support services	(e)	260,140	289,184
Interest received	(f)	5,863	—
Material processing services	(g)	84,201	—

Notes:

- (a) The Company sold finished products and returned scrap materials to ANSI and other fellow subsidiaries for their own consumption at average prices charged to independent customers for preceding month. Included in the above are sales of pipe billet totalling Rmb1,093,320,000 (2003: Rmb833,364,000) to ANSI during the year.
- (b) The Company purchased its principal raw materials, from ANSI at prices no higher than the lowest sales prices charged by ANSI to independent customers for preceding month and the average sales prices quoted to the Company by five independent suppliers for large quantities.
- (c) The Company purchased from ANSI ancillary materials in the form of steel products and spare parts based on the average prices of such materials charged by ANSI to independent customers.
- (d) The Company purchased from ANSI utilities in the form of industrial water, re-cycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.

31 RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions *(continued)*

- (i) Significant transactions which the Company conducts with ANSI, and Angang Group in the normal course of business are as follows: *(continued)*

Notes: (continued)

- (e) Angang Group charged the Company for railway and road transportation services; agency services for purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul; design and engineering services, product quality testing and analysis services, heating supply for employees' accommodation, education facilities; newspapers, telephone, fax and other media communication services and staff training either at applicable State price, market price or at cost.
- (f) Angang Group provided financial services in the form of deposit taking and settlement services to the Company. Angang Group will not charge any fee for the deposit taking services. The maximum amount of deposits will be Rmb1,000,000,000 and interest will be based on the rate offered by the People's Bank of China. As at 31 December 2004, the deposits amounted to Rmb990,178,000 (2003: Nil).
- (g) The Company provided material processing services to Angang Group based on the average prices charged to independent customers for similar services.
- (ii) Certain fellow subsidiaries were engaged to construct the production line of the joint ventures under similar terms for third parties. Total construction costs of Rmb7,525,000 (2003: Rmb20,928,000) were incurred by the joint ventures during the year.
- (iii) The Company sold finished products amounted to Rmb3,341,000 (2003: Rmb22,193,000) to Angang Shenyang for further processing at market price.
- (iv) The Company sold finished products amounted to ANSC-TKS Rmb946,827,000 (2003: Rmb25,193,000) for further processing at market price.
- (v) Angang Group charged ANSC-TKS agency fees for sales of products amounted to Rmb17,219,000 (2003: Nil) at market price. Rmb8,610,000 (2003: Nil) has been taken up in the consolidated financial statements of the Group.
- (vi) ANSC-TKS purchased raw materials from and sold finished products to ThyssenKrupp Stahl AG ("TKSAG") (joint venturer of ANSC-TKS), at average prices charged to independent customers. The sales and purchases during the year were amounted to Rmb105,235,000 (2003: Nil) and Rmb16,475,000 (2003: Nil) respectively. Rmb52,618,000 and Rmb8,237,000 have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.
- (vii) TKSAG charged ANSC-TKS know-how transfer and service fees totalling Rmb55,538,000 (2003: Rmb66,695,000) of which Rmb27,769,000 (2003: Rmb33,348,000) has been included in the Group's consolidated financial statements.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

31 RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions *(continued)*

The Directors of the Company are of the opinion that the above transactions with related parties were entered into:

- in the ordinary and usual course of its business;
- either (a) on normal commercial terms; or (b) on terms no less favourable than those available from/to independent third parties; or where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- either in accordance with the terms of the agreement governing each such transaction or where there is no such agreement, on terms no less favourable than terms available from/to third parties

and these have been confirmed by the independent non-executive directors.

(b) Amount due to ultimate holding company

Amounts due to ultimate holding company mainly represents fees payable for support services.

The amount due to ultimate holding company is unsecured, interest free and have no fixed terms of repayment.

(c) Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries mainly represent prepayments and amounts payable for the purchase of raw materials and other services. Advances are received by the Company in respect of sales of finished goods.

The amounts due from/to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(d) Convertible debentures

The issuance of convertible debentures (note 24) amounting to Rmb1,500,000,000 on 15 March 2000 was guaranteed by Angang Holding.

(e) Bank loans

All unsecured bank loans of the Company (note 25) are guaranteed by Angang Holding.

31 RELATED PARTY TRANSACTIONS *(continued)*

(f) Equity interest in ANSC-TKS

The Company pledged its equity interest in ANSC-TKS to secure the performance of the obligation of ANSC-TKS under the agreement of the Syndicated Loan.

The Company also committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction of the galvanising plant, repay the Syndicated Loan or finance the operations. The commitment is limited to US\$8 million and will be reduced to US\$4 million after the tenth repayment date.

(g) Acquisition of land use rights, plant and buildings

Pursuant to an agreement dated 23 March 2004, the Company acquired certain land use rights, plant and buildings in the PRC from Angang Holding at a consideration of Rmb62,206,000.

(h) Acquisition of ANSI and the Supply of Materials and Services Agreement

On 29 December 2004, the Company conditionally agreed to acquire the entire equity interest of ANSI from Angang Holding (note 34). In connection with the proposed acquisition of ANSI, the Company entered into the Supply of Materials and Services Agreement with Angang Holding on 29 December 2004, which will be effective upon the completion of the acquisition.

32 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Anzhenfa [1998] No.28 issued by Anshan City Government, the required contribution from the Company to the retirement benefits scheme is 25.5% (2003: 25.5%) of the aggregate monthly salaries of all employees of the Company.

ANSC-TKS and ANSC-Xinchuan are required to contribute to the retirement benefits schemes based on 19% (2003: 19%) of the total salary in accordance to the regulations of the local labour bureaux.

All the employees of the Group are entitled to receive, on retirement, pension payments from these schemes. The Group has no other material obligation for payment of retirement benefits beyond the contributions.

33 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash, deposits with banks, amounts due from fellow subsidiaries, bills receivable and trade and other receivables. Financial liabilities of the Group include bills payable, trade and other payables, amount due to ultimate holding company, amounts due to fellow subsidiaries, convertible debentures and bank loans. The Group does not hold or issue financial instruments for trading purposes.

Notes on the Financial Statements *(Continued)*

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

33 FINANCIAL INSTRUMENTS *(continued)*

(a) Interest rate risk

The interest rates of convertible debentures and bank loans are disclosed in notes 24 and 25 respectively.

(b) Credit risk

Cash and cash equivalents

Substantial amounts of the Group's cash balances are deposited with PRC financial institutions.

Trade and other receivables

The Group requests most of its customers to pay cash or bills in full prior to delivery of goods. 36% (2003: 99%) of the Group's trade receivables relate to sales to railway companies which caused a high concentration of its receivables with railway companies. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

Amounts due from fellow subsidiaries

The terms of amounts due from fellow subsidiaries are disclosed in note 31(c).

(c) Foreign currency risk

The Group did not have a significant foreign currency risk exposure arising from its sales and raw materials purchases for production as these transactions were mainly carried out in Renminbi. However, with the increasing proportion of export sales conducted in foreign currencies, the depreciation or appreciation of foreign currencies against the Renminbi will affect the Group's results of operations.

(d) Fair value

The fair values of cash, deposits with banks, bills receivable, trade and other receivables, trade and other payables, amount due to ultimate holding company, and amounts due from/to fellow subsidiaries are not materially different from their carrying amounts.

Convertible debentures - the fair value is estimated as Rmb7,131,110 (2003: Rmb5,454,000) by reference to the market value.

The fair values of the Group's bank loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments approximate to their carrying values.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

34 POST BALANCE SHEET EVENTS

(a) Very substantial acquisition

Pursuant to an acquisition agreement dated 29 December 2004 entered into between the Company and Angang Holding, the Company conditionally agreed to acquire from Angang Holding the entire equity interest of ANSI, a fellow subsidiary of the Company. The acquisition has been approved by the independent shareholders at an extraordinary general meeting held on 28 February 2005.

The consideration of the acquisition is based on the net asset value of ANSI as at 31 August 2004 as assessed by a valuer, as adjusted by the net profit of ANSI between 1 September 2004 and the completion date and other terms as set out in the agreement. Pursuant to the valuation report of China Assets Appraisal Company Limited, an independent valuer in the PRC, the net asset value of ANSI as at 31 August 2004 amounted to approximately Rmb18,022,400,000.

(b) Rights issue and placing of the Company's shares

The acquisition of ANSI will be financed by ways of placing and rights issue of the Company's shares. Subject to the fulfilment of the conditions as set out in the circular dated 15 January 2005, the issue by way of rights of the Company's shares and issue by way of placing of the state-owned legal person shares were approved by the independent shareholders at an extraordinary general meeting held on 28 February 2005.

35 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2004 to be Angang Holding, incorporated in the PRC.

Differences between Financial Statements Prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations

	Note	The Group		The Company	
		2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Profit attributable to shareholders under IFRS		1,797,587	1,433,002	1,797,587	1,433,002
Adjustments:					
Share of loss of joint ventures, net of tax	(i)	—	—	(17,543)	13,270
Pre-operating expenses	(iii)	(26,293)	19,355	—	—
Revaluation of land use rights	(iv)	(4,536)	(4,536)	(4,536)	(4,536)
Amortisation of lease prepayments	(v)	109	451	—	—
General borrowing costs capitalised	(vi)	(997)	(12,933)	(997)	(12,933)
Write off of long outstanding accounts payable	(vii)	—	(1,913)	—	(1,913)
Receipt of donation	(viii)	—	(76)	—	(76)
Deferred tax charge	(ix)	10,467	(771)	1,826	5,765
Profit attributable to shareholders under PRC Accounting Rules and Regulations		1,776,337	1,432,579	1,776,337	1,432,579
Shareholders' funds under IFRS		10,022,276	8,815,385	10,022,276	8,815,385
Adjustments:					
Share of loss of joint ventures net of tax	(i)	—	—	513	18,056
Convertible debentures	(ii)				
— Discount on convertible debentures		(42)	(185)	(42)	(185)
— Additional borrowing costs capitalised		(7,251)	(7,157)	(7,251)	(7,157)
Pre-operating expenses	(iii)	17	26,310	—	—
Revaluation of land use rights	(iv)	195,048	199,584	195,048	199,584
Amortisation of lease prepayments	(v)	748	639	—	—
General borrowing costs capitalised	(vi)	(21,855)	(20,858)	(21,855)	(20,858)
Deferred tax	(ix)	(54,999)	(65,450)	(54,747)	(56,557)
Shareholders' funds under PRC Accounting Rules and Regulations		10,133,942	8,948,268	10,133,942	8,948,268

Differences between Financial Statements Prepared in accordance with International Financial Reporting Standards (“IFRS”) and PRC Accounting Rules and Regulations *(Continued)*

Notes:

- (i) The amount represents the difference in treatment of pre-operating expenses and land use rights between the IFRS and PRC financial statements of the joint ventures as mentioned in notes (iii) and (v) respectively.
- (ii) The amounts represent the different treatment on transaction costs and discount on convertible debentures between the IFRS and PRC financial statements.
- (iii) Pre-operating expenses are expensed when incurred under IFRS. However, in the PRC financial statements, pre-operating expenses are capitalised before the commencement of operation and will be written off when the enterprise commences operation.
- (iv) Land use rights are carried at historical cost base under IFRS. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed from shareholders' equity. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.
- (v) Land use rights are amortised on a straight-line basis over the respective periods of rights from the date of grant under IFRS. Under the PRC Accounting Rules and Regulations, land use rights are amortised when the construction work on the related land has been completed.
- (vi) Under IFRS, general borrowing costs are capitalised by applying a capitalisation rate to the expenditures on the qualifying assets. Under the PRC Accounting Rules and Regulations, general borrowing costs are charged to the income statement when incurred.
- (vii) Under IFRS, the write off of long outstanding accounts payable is recognised in the income statement. Under the PRC Accounting Rules and Regulations, long outstanding accounts payable are written off against the capital reserve.
- (viii) Under IFRS, the receipt of donation is recognised as other income in the income statement. Under the PRC Accounting Rules and Regulations, receipt of donation is accounted for as a movement in capital reserve.
- (ix) Deferred tax is provided on the IFRS adjustments at the tax rate of 33%.

Five Year Summary

A PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Principal operating revenue	23,227,617	14,520,736	10,771,077	9,490,523	9,793,150
Net profit	1,776,337	1,432,579	594,588	403,743	492,204
Total assets	15,343,328	15,011,870	12,425,350	10,237,888	9,452,195
Total liabilities	(5,209,386)	(6,063,602)	(4,619,902)	(2,799,856)	(2,284,634)
Net assets	10,133,942	8,948,268	7,805,448	7,438,032	7,167,561

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Turnover	23,177,863	14,482,148	10,746,477	9,465,247	9,767,600
Profit attributable to shareholders	1,797,587	1,433,002	598,316	366,481	491,395
Non-current assets	7,965,809	7,970,456	6,776,533	5,281,336	4,564,869
Current assets	6,934,125	6,875,218	5,517,032	4,820,586	4,922,329
Current liabilities	(3,633,110)	(4,132,287)	(3,147,046)	(2,380,651)	(2,014,162)
Net current assets	3,301,015	2,742,931	2,369,986	2,439,935	2,908,167
Total assets less current liabilities	11,266,824	10,713,387	9,146,519	7,721,271	7,473,036
Non-current liabilities	(1,244,548)	(1,898,002)	(1,472,264)	(417,529)	(253,240)
Net assets	10,022,276	8,815,385	7,674,255	7,303,742	7,219,796