Notes to Financial Statements

(Prepared under Hong Kong accounting standards)
31 December 2005

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and the recovery forward contract, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 36, 37, and 38, HKFRSs 3 and 5, and HK(SIC)-Int 21 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

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

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land held for own use was stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the leasehold interest in land of the Group and the Company is classified as an operating lease, because the title of the land is not expected to pass to the Group and the Company by the end of lease term, and is reclassified from property, plant and equipment to prepaid land premiums. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the balance sheets of the Group and the Company for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group and the Company classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB16,817,000 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group and the Company classified its investments in debt securities as long term investments, which were intended to be held to maturity and were stated at amortised cost with gains and losses recognised in the income statement when investments are derecognised or impaired. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB13,579,000 are designated as held-to-maturity investments under the transitional provisions of HKAS 39 and accordingly are stated at amortised cost with gains and losses recognised in the income statement when investments are derecognised or impaired, as well as through the amortisation process.

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

(b) HKAS 32 and HKAS 39 – Financial Instruments (continued)

In prior years, the Group and the Company classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group and the Company at 1 January 2005 in the amount of RMB13,568,000 are designated as equity instruments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity and debt securities. Comparative amounts have been reclassified for presentation purposes.

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

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

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

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

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

Jointly-controlled entity

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

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

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

Associates

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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

Impairment of assets

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

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

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

Related parties

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Construction in progress

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

Intangible assets

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

Mine participation right

The Group has 10% interest in an Australian unincorporated joint venture in which the Group does not have joint control or is not in a position to exercise significant influence. The participants of this joint venture purchased a mine participation right in Australia in the form of sub-lease for 25 years.

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

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its debt investments and equity investments, other than subsidiaries, associates and a jointly-controlled entity, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in unlisted debt and equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities, or the comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Investments in dated debt securities which are intended to be held to maturity are stated at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for impairment in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the income statement in period in which they arise.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets (Applicable to the year ended 31 December 2005)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (Applicable to the year ended 31 December 2005) (continued)

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (Applicable to the year ended 31 December 2005) (continued)

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

Derecognition of financial assets (Applicable to the year ended 31 December 2005)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (Applicable to the year ended 31 December 2005)

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

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

Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as the recovery forward contract to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of the recovery forward contract is calculated by reference to market values for similar instruments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005) (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as a fair value hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (Applicable to the year ended 31 December 2005) (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

Construction contracts

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

Pension benefits

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

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

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

2.5 SIGNIFICANT ACCOUNTING ESTIMATES

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

Useful lives and impairment of property, plant and equipment

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

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

Impairment of receivables

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

Provision for obsolete inventories under net realisable value

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

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

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2.5 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Income tax

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

3. SEGMENT INFORMATION

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2005 **RMB'000**	2004 RMB'000 (Restated)
Revenue		
Sale of goods	**32,083,096**	26,770,055
Other income and gains		
Interest income	**22,103**	24,236
Recognition of deferred income	**48,498**	38,379
Trading of iron ores	**90,859**	8,500
Others	**32,973**	59,436
	194,433	130,551

(Prepared under Hong Kong accounting standards)
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5. PROFIT BEFORE TAX

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

	Notes	**2005 RMB'000**	2004 RMB'000 (Restated)
Cost of inventories sold (note i)		**27,369,971**	20,809,548
Depreciation	13	**2,064,539**	1,789,443
Recognition of prepaid land premiums	14	**21,092**	21,047
Amortisation of a mine participation right (note ii)	16	**1,115**	–
Provision/(reversal of provision) for doubtful debts, net (note iii)		**554**	(18,194)
Auditors' remuneration		**5,027**	5,110
Staff costs (excluding directors' and supervisors' remuneration (note 7)):			
Wages and salaries		**1,497,463**	1,311,835
Welfare and benefits		**471,540**	418,427
Pension scheme contributions		**368,228**	273,766
		2,337,231	2,004,028
Contingent rents under operating leases in respect of land and buildings		**36,250**	36,250
Foreign exchange differences:			
Foreign exchange losses/(gains), net		**(156,927)**	226,140
Less: Foreign exchange differences capitalised in construction in progress		**2,184**	(28,957)
		(154,743)	197,183
Loss on disposal of items of property, plant and equipment, net		**19,114**	11,078
Reversal of impairment provision for property, plant and equipment (note iii)		**–**	(15,412)
Gross rental income		**(1,250)**	–
Bank interest income		**(22,103)**	(24,236)
Dividend income from an available-for-sale equity investment		**(5,281)**	(1,105)
Recognition of deferred income (note iv)		**(48,498)**	(38,379)

5. PROFIT BEFORE TAX (continued)

Notes:

(i) Included in the cost of inventories sold for the year is a provision against inventories of approximately RMB75,464,000 (2004: approximately RMB10,402,000).

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

(iii) The provision/(reversal of provision) for doubtful debts, net and the reversal of impairment provision for property, plant and equipment are included in "Other operating income/(expenses), net" on the face of the consolidated income statement.

(iv) Various government grants have been received for the construction of specific projects and included in deferred income in the balance sheet. Upon completion of the construction of specific projects and the transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	Group	
	2005	2004
	RMB'000	RMB'000
Interest on bank loans and other loans wholly repayable within five years	**457,908**	260,676
Less: Interest capitalised in construction in progress	**(95,438)**	(35,392)
	362,470	225,284

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7. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2005	2004
	RMB'000	RMB'000
Fees	**180**	180
Other emoluments:		
Salaries, allowances and benefits in kinds	**701**	730
Performance related bonuses	**3,743**	3,689
Pension scheme contributions	**40**	8
	4,484	4,427
	4,664	4,607

(Prepared under Hong Kong accounting standards)
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7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent directors and independent supervisors

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

	2005	2004
	RMB'000	RMB'000
Independent Directors		
Ms. Cheng Shaoxiu	**30**	30
Mr. Wu Junnian	**30**	30
Mr. Shi Jianjun	**30**	30
Mr. Chan Yuk Sing	**30**	30
Mr. Wong Chun Wa	**–**	–
Mr. Su Yong	**–**	–
Mr. Hui Leung Wah	**–**	–
Mr. Han Yi	**–**	–
	120	120
Independent Supervisors		
Mr. Wang Xiaoxin	**20**	20
Mr. Jiang Yulin	**20**	20
Ms. Tang Xiaoqing	**20**	20
Ms. Cheng Shaoxiu	**–**	–
Mr. An Qun	**–**	–
	60	60
	180	180

There were no other emoluments payable to the independent directors and independent supervisors during the year (2004: Nil).

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7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and Supervisors

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

(Prepared under Hong Kong accounting standards)
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7. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and Supervisors (continued)

	Fees	Salaries, allowances and benefits in kinds	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2004					
Executive directors					
Mr. Gu Jianguo	–	108	579	1	688
Mr. Gu Zhanggen	–	108	579	1	688
Mr. Zhu Changqiu	–	108	579	1	688
Mr. Shi Zhaogui	–	–	–	–	–
Mr. Zhao Jianming	–	–	–	–	–
Mr. Su Jiangang	–	87	463	1	551
Mr. Gao Haijian	–	87	463	1	551
	–	498	2,663	5	3,166
Supervisors					
Mr. Gao Jinsheng	–	87	463	1	551
Mr. Li Kezhang	–	87	463	1	551
Mr. Dou Qingxun	–	58	100	1	159
	–	232	1,026	3	1,261
	–	730	3,689	8	4,427

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

8. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2004: five) directors and supervisors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2004: nil) non-director or supervisor, highest paid employee for the year are as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**87**	–
Performance related bonuses	**489**	–
Pension scheme contributions	**5**	–
	581	–

The number of non-director and supervisor, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	2004
Nil to RMB1,000,000	**1**	–

9. TAX

	2005	2004
	RMB'000	RMB'000
Group:		
Current – Mainland China		
Charge for the year	**377,121**	441,331
(Overprovision)/underprovision in prior years	**52,424**	(1,061)
Current – Hong Kong	**808**	989
Current – Elsewhere	**3,422**	–
Deferred (note 22)	**(18,441)**	19,725
Total tax charge for the year	**415,334**	460,984

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9. TAX (continued)

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

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

	Group			
	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before tax	**3,366,149**		4,065,876	
Tax at the applicable tax rate	**504,922**	**15**	609,881	15
Tax relief granted	**(31,137)**	**(1)**	(9,943)	–
Income not subject to tax	**(12,170)**	**–**	(7,988)	–
Expenses not deductible for tax	**2,593**	**–**	7,861	–
Tax concessions in respect of purchases of PRC manufacturing plant, machinery and equipment *	**(19,914)**	**(1)**	(110,333)	(3)
Other tax concessions	**(89,793)**	**(2)**	(36,713)	(1)
Adjustments in respect of current tax of previous periods	**52,424**	**1**	(1,061)	–
Effect of different tax rates of subsidiaries	**8,409**	**–**	9,280	–
Tax charge at the Group's effective rate	**415,334**	**12**	460,984	11

(Prepared under Hong Kong accounting standards)

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9. TAX (continued)

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

The share of tax attributable to associates amounting to RMB6,313,000 (2004: Nil) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately RMB2,677,000,000 (2004: approximately RMB3,520,406,000) (note 35(b)).

11. DIVIDEND

	2005	2004
	RMB'000	RMB'000
Proposed final – RMB16 cents per ordinary share (2004: RMB22 cents)	**1,032,848**	1,420,166

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of approximately RMB2,909,943,000 (2004: approximately RMB3,592,320,000) and 6,455,300,000 (2004: 6,455,300,000) ordinary shares in issue during the year.

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

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	8,415,688	16,382,167	618,572	25,416,427
Accumulated depreciation and impairment	(2,451,585)	(4,754,470)	(347,725)	(7,553,780)
Net carrying amount	5,964,103	11,627,697	270,847	17,862,647
At 1 January 2005, net of accumulated depreciation and impairment	5,964,103	11,627,697	270,847	17,862,647
Additions	2,550	17,489	12,457	32,496
Acquisition of businesses (note 36)	28,170	21,706	4,520	54,396
Transfers from construction in progress (note 15)	565,731	1,900,295	77,957	2,543,983
Depreciation provided during the year	(458,780)	(1,553,189)	(52,570)	(2,064,539)
Reclassifications	(139,181)	269,901	(130,720)	–
Disposals/write-off	(30,452)	(12,479)	(1,360)	(44,291)
At 31 December 2005, net of accumulated depreciation and impairment	5,932,141	12,271,420	181,131	18,384,692
At 31 December 2005:				
Cost	8,690,543	18,806,495	415,791	27,912,829
Accumulated depreciation and impairment	(2,758,402)	(6,535,075)	(234,660)	(9,528,137)
Net carrying amount	5,932,141	12,271,420	181,131	18,384,692

(Prepared under Hong Kong accounting standards)
31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000 (Restated)
31 December 2004				
At 1 January 2004:				
Cost	8,074,446	11,223,930	505,361	19,803,737
Accumulated depreciation and impairment	(2,034,252)	(3,716,585)	(298,722)	(6,049,559)
Net carrying amount	6,040,194	7,507,345	206,639	13,754,178
At 1 January 2004, net of accumulated depreciation and impairment	6,040,194	7,507,345	206,639	13,754,178
Additions	7,948	16,429	28,567	52,944
Acquisition of a subsidiary (note 36)	26,452	13,888	800	41,140
Transfers from construction in progress (note 15)	730,866	5,027,203	73,947	5,832,016
Reversal of impairment provision during the year recognised in the income statement	7,009	8,403	–	15,412
Write-off of impairment provision	20,189	47,909	–	68,098
Depreciation provided during the year	(436,708)	(1,300,118)	(52,617)	(1,789,443)
Reclassifications	(373,703)	358,754	14,949	–
Disposals/write-off	(58,144)	(52,116)	(1,438)	(111,698)
At 31 December 2004, net of accumulated depreciation and impairment	5,964,103	11,627,697	270,847	17,862,647
At 31 December 2004:				
Cost	8,415,688	16,382,167	618,572	25,416,427
Accumulated depreciation and impairment	(2,451,585)	(4,754,470)	(347,725)	(7,553,780)
Net carrying amount	5,964,103	11,627,697	270,847	17,862,647

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	8,323,344	16,320,808	611,400	25,255,552
Accumulated depreciation and impairment	(2,443,561)	(4,747,397)	(344,749)	(7,535,707)
Net carrying amount	5,879,783	11,573,411	266,651	17,719,845
At 1 January 2005, net of accumulated depreciation and impairment	5,879,783	11,573,411	266,651	17,719,845
Additions	2,121	5,375	7,654	15,150
Acquisition of businesses (note 36)	28,170	21,706	4,520	54,396
Transfers from construction in progress (note 15)	533,402	1,850,999	77,654	2,462,055
Depreciation provided during the year	(453,913)	(1,543,120)	(50,854)	(2,047,887)
Reclassifications	(136,166)	267,778	(131,612)	–
Disposals/write-off	(30,452)	(12,286)	(1,008)	(43,746)
At 31 December 2005, net of accumulated depreciation and impairment	5,822,945	12,163,863	173,005	18,159,813
At 31 December 2005:				
Cost	8,568,666	18,682,182	403,905	27,654,753
Accumulated depreciation and impairment	(2,745,721)	(6,518,319)	(230,900)	(9,494,940)
Net carrying amount	5,822,945	12,163,863	173,005	18,159,813

(Prepared under Hong Kong accounting standards)
31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000 (Restated)
31 December 2004				
At 1 January 2004:				
Cost	8,058,884	11,208,231	499,986	19,767,101
Accumulated depreciation and impairment	(2,029,256)	(3,711,447)	(296,146)	(6,036,849)
Net carrying amount	6,029,628	7,496,784	203,840	13,730,252
At 1 January 2004, net of accumulated depreciation and impairment	6,029,628	7,496,784	203,840	13,730,252
Additions	407	5,292	27,458	33,157
Transfers from construction in progress (note 15)	694,249	5,000,414	73,635	5,768,298
Reversal of impairment provision during the year recognised in the income statement	7,009	8,403	–	15,412
Write-off of impairment provision	20,189	47,909	–	68,098
Depreciation provided during the year	(434,294)	(1,297,761)	(51,808)	(1,783,863)
Reclassifications	(379,261)	364,312	14,949	–
Disposals/write-off	(58,144)	(51,942)	(1,423)	(111,509)
At 31 December 2004, net of accumulated depreciation and impairment	5,879,783	11,573,411	266,651	17,719,845
At 31 December 2004:				
Cost	8,323,344	16,320,808	611,400	25,255,552
Accumulated depreciation and impairment	(2,443,561)	(4,747,397)	(344,749)	(7,535,707)
Net carrying amount	5,879,783	11,573,411	266,651	17,719,845

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At the balance sheet date, certain of the Group's equipment with an aggregate net book value of approximately RMB30,762,000 were pledged to secure a loan granted by Profit Access Investments Limited. Further details of the transaction are included in note 31 to the financial statements.

At the balance sheet date, certificate of ownership in respect of the Group's building with a net book value of RMB24,000,000 had not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificate.

14. PREPAID LAND PREMIUMS

Group

	2005 **RMB'000**	2004 RMB'000 (Restated)
Carrying amount at 1 January:		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**1,135,710**	863,809
As restated	**1,135,710**	863,809
Additions	**23,183**	287,796
Acquisition of a subsidiary (note 36)	**–**	5,152
Recognised during the year	**(21,092)**	(21,047)
Carrying amount at 31 December	**1,137,801**	1,135,710

Company

	2005 **RMB'000**	2004 RMB'000 (Restated)
Carrying amount at 1 January:		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**1,106,687**	839,456
As restated	**1,106,687**	839,456
Additions	**6,188**	287,796
Recognised during the year	**(20,595)**	(20,565)
Carrying amount at 31 December	**1,092,280**	1,106,687

The leasehold land is held under a medium term lease and is situated in the PRC.

14. PREPAID LAND PREMIUMS (continued)

At the balance sheet date, certificates of ownership in respect of certain of the Group's land use rights with an aggregate net book value of approximately RMB305,053,000 has not been issued by the relevant government authorities. The directors represented that the Group is in the process of obtaining the relevant certificates.

The leasehold land with a carrying amount of approximately RMB1,240,000 was leased to a jointly-controlled entity of the Company, Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC – Ma Steel") under an operating lease arrangement (2004: Nil). Further details of which are included in note 38 to the financial statements.

15. CONSTRUCTION IN PROGRESS

	Group	**Company**
	RMB'000	RMB'000
	(Restated)	(Restated)
31 December 2005		
Cost:		
At beginning of year	**2,116,098**	**2,056,417**
Additions	**7,928,760**	**7,845,025**
Acquisition of businesses (note 36)	**49,855**	**49,855**
Transfers to property, plant and equipment (note 13)	**(2,543,983)**	**(2,462,055)**
At 31 December 2005	**7,550,730**	**7,489,242**
Accumulated impairment:		
At beginning of year and 31 December 2005	**74,000**	**74,000**
At 31 December 2005, net of impairment	**7,476,730**	**7,415,242**
31 December 2004		
Cost:		
At beginning of year	3,297,573	3,326,312
Additions	4,648,787	4,498,403
Acquisition of a subsidiary (note 36)	1,754	–
Transfers to property, plant and equipment (note 13)	(5,832,016)	(5,768,298)
At 31 December 2004	2,116,098	2,056,417
Accumulated impairment:		
At beginning of year and 31 December 2004	74,000	74,000
At 31 December 2004, net of impairment	2,042,098	1,982,417

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16. INTANGIBLE ASSET

Group

	Mine participation right RMB'000
Cost at 1 January 2005	–
Additions	110,150
Amortisation provided during the year	(1,115)
At 31 December 2005	109,035
At 31 December 2005:	
Cost	110,150
Accumulated amortisation	(1,115)
Net carrying amount	109,035

17. INVESTMENTS IN SUBSIDIARIES

Company

	2005 RMB'000	2004 RMB'000
Unlisted investments, at cost	395,447	331,547

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (note ii)	PRC	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services
Design & Research Institute of Maanshan Iron & Steel Company Limited (note i)	PRC	RMB20,490,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects
MG Control Technique Company Limited (note i)	PRC	RMB8,000,000	93.75	4.18	Design of automation systems; purchase, installation and repair of automation, computer and communication systems
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") (note ii)	PRC	US$4,290,000	70	–	Production, sale and transportation of slag products and provision of related consultancy services
Maanshan Iron & Steel (HK) Limited	Hong Kong	HK$4,800,000	80	20	Trading of steel and iron ores, and provision of steel trading agency services and transportation services

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (note ii)	PRC	RMB35,000,000	70	30	Processing and sale of metallic products, processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)
Maanshan Iron & Steel (Australia) Proprietary Limited	Australia	AUD21,737,900	100	–	Production and sale of iron ores through an unincorporated joint venture
MG Trading and Development GmbH	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products and provision of technology services
Ma Steel International Trade and Economic Corporation (note i)	PRC	RMB50,000,000	100	–	Import of machinery and raw materials and export of steel products
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)") (note i)	PRC	RMB12,000,000	–	80	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage and after-sales services
Anhui Masteel Holly Packing Co., Ltd. (note ii)	PRC	RMB30,000,000	71	–	Provision of packing materials for steel and other products; production and sale of metallic products, plastic, chemicals, paper and wood products; provision of consultancy services, equipment production, transportation and on-site packing services

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/paid-up registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd (notes i, iii)	PRC	RMB1,000,000	90	–	Provision of equipment inspection and technical consultancy services, equipment services and equipment inspection work
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iii)	PRC	RMB120,000,000	75	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sales services

Notes:

(i) Registered as limited companies under the PRC law

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

(iii) Newly incorporated during the year

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

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Unlisted investments, at cost	**–**	–	**234,000**	–
Share of net assets	**234,000**	–	**–**	–
	234,000	–	**234,000**	–

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

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

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

The financial information of the jointly-controlled entity as at 31 December 2005 shared by the Group is presented as follows:

	RMB'000
Non-current assets	219,195
Current assets	14,952
Current liabilities	(147)
Net assets	234,000

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

19. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Unlisted investments, at cost	**–**	–	**255,608**	150,976
Share of net assets	**268,060**	150,018	**–**	–
	268,060	150,018	**255,608**	150,976

19. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the Company's associates are as follows:

Name	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Company	Principal activities
濟源市金馬焦化有限公司(「濟源市金馬焦化」) (note ii)	PRC	40	Production and sale of coke, tar, benzene and coal gas
滕州盛隆煤焦化有限公司(「滕州盛隆煤焦化」) (note ii)	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services
馬鞍山市五環報廢汽車回收拆解有限責任公司 (「五環汽車」) (notes ii, iii)	PRC	–	Recycling and dismantling of scrap motor vehicles and trading of steel products
上海大宗鋼鐵電子交易中心有限公司 (note ii)	PRC	20	Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services
馬鞍山市港口(集團)有限責任公司 (notes i, ii)	PRC	45	Provision of loading/unloading and cargos forwarding agency services; storage, transmitting of cargos and division/merge of cargos in containers; provision of general services to ships, repair and manufacture of spare parts of ships

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19. INVESTMENTS IN ASSOCIATES (continued)

Notes:

(i) Newly incorporated during the year

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

(iii) The equity interest in 五環汽車 was disposed of during the year. As at 31 December 2005, the Company did not hold any equity interest in 五環汽車.

The Group's shareholdings in the associates all comprise equity shares held by the Company.

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

	2005	2004
	RMB'000	RMB'000
Assets	**1,680,038**	1,236,649
Liabilities	**(1,229,570)**	(812,450)
Turnover	**1,715,920**	671,988
Net profit/(loss)	**27,289**	(5,101)

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**16,817**	16,817

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

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21. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Debt investments	**10,919**	13,579

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

22. DEFERRED TAX

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

Group and Company

2005

Deferred tax assets

	Repair and maintenance expenses RMB'000	Housing subsidies RMB'000	Asset provisions RMB'000	Early retirement benefits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	–	–	38,078	7,831	–	45,909
Deferred tax credited/ (charged) to the income statement during the year (note 9)	9,024	3,639	3,122	(1,792)	4,448	18,441
Gross deferred tax assets at 31 December 2005	9,024	3,639	41,200	6,039	4,448	64,350

Deferred tax liabilities

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

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22. DEFERRED TAX (continued)

Group and Company

2004

Deferred tax assets

	Asset provisions RMB'000	**Early retirement benefits** RMB'000	**Total** RMB'000
At 1 January 2004	54,803	10,831	65,634
Deferred tax charged to the income statement during the year (note 9)	(16,725)	(3,000)	(19,725)
Gross deferred tax assets at 31 December 2004	38,078	7,831	45,909

Deferred tax liabilities

	Furnace relining costs RMB'000
Gross deferred tax liabilities at 1 January 2004 and 31 December 2004	11,175
Net deferred tax assets at 31 December 2004	34,734

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or the joint venture entity as the Group has no liability to additional tax should such amounts be remitted.

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

23. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,973,684**	3,143,887	**2,829,103**	3,142,044
Work in progress	**638,586**	548,152	**627,427**	528,270
Finished goods	**360,528**	380,766	**232,293**	272,894
Spare parts	**1,195,674**	681,379	**1,195,454**	681,320
	5,168,472	4,754,184	**4,884,277**	4,624,528

At 31 December 2005, the carrying amount of the Group's inventories was pledged as security for the Group's bills payables amounting to approximately RMB23,930,000 (2004: Nil), as further detailed in note 29 to the financial statements.

24. CONSTRUCTION CONTRACTS

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Gross amount due from contract customers	**31,002**	–
Contract costs incurred plus recognised profits less recognised losses to date	**188,542**	–
Less: Progress billings	**(157,540)**	–
	31,002	–

At 31 December 2005, retentions held by customers for contract works included in trade receivables amounted to approximately RMB16 million (2004: Nil).

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25. TRADE AND BILLS RECEIVABLES

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

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**188,665**	252,788	**170,906**	234,120
Four to six months	**32,819**	8,130	**5,757**	3,196
Seven to twelve months	**49,014**	4,688	**27,711**	4,207
One to two years	**12,578**	8,757	**12,422**	8,355
Two to three years	**407**	2,189	**407**	2,189
	283,483	276,552	**217,203**	252,067
Bills receivables	**1,931,609**	1,922,826	**1,986,454**	1,876,497
	2,215,092	2,199,378	**2,203,657**	2,128,564

Bills receivables will mature within one year.

Included in both the Group's and the Company's trade and bills receivables are amounts due from Holding and its subsidiaries aggregating approximately RMB32,365,000 (2004: approximately RMB1,466,000). Such balances principally arose from normal trading activities.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in both the Group's and the Company's prepayments, deposits and other receivables are prepayments to Holding and its subsidiaries, in aggregate, amounting to approximately RMB3,049,000 (2004: approximately RMB40,490,000) for the purchase of raw materials and the provision of support services from Holding.

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Equity investments listed in the PRC, at market value	**13,568**	13,568

The above investments as at 31 December 2005 were classified as held for trading.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005	2004
	RMB'000	RMB'000
Cash and bank balances	**3,027,462**	2,112,876
Time deposits and balances with financial institutions, net of provisions	**227,554**	68,620
	3,255,016	2,181,496
Less: Pledged deposits for trading facilities	**(142,114)**	(8,620)
Cash and cash equivalents in the consolidated balance sheet	**3,112,902**	2,172,876
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(63,632)**	(60,000)
Cash and cash equivalents in the consolidated cash flow statement	**3,049,270**	2,112,876

	Company	
	2005	2004
	RMB'000	RMB'000
Cash and bank balances	**2,562,161**	1,696,613
Time deposits and balances with financial institutions, net of provisions	**63,632**	59,601
Cash and cash equivalents	**2,625,793**	1,756,214

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the balance sheet date, the above balances of the Group denominated in RMB amounted to RMB2,523,465,000 (2004: RMB1,934,612,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

The balances with financial institutions included the following overdue Hong Kong dollar fixed deposit principal amounts with four non-bank financial institutions, in aggregate, amounting to approximately HK$123 million (2004: approximately HK$128 million).

	Notes	**2005 HK$'000**	2004 HK$'000
Guangdong International Trust & Investment Corporation ("GITIC")	(i)	**23,317**	23,317
China Venturetech Investment Corporation ("China Venturetech")	(ii)	**3,491**	8,608
CITIC Ningbo Inc. ("Ningbo CITIC")	(iii)	**48,000**	48,000
SEG International Trust & Investment Corporation ("SEG")	(iii)	**48,125**	48,125
		122,933	128,050

Notes:

(i) GITIC was declared bankrupt by the Shenzhen Intermediate People's Court of Guangdong Province on 16 January 1999. On 28 February 2003, the People's High Court of Guangdong Province declared an end to the bankruptcy proceeding in relation to the GITIC bankruptcy case but the liquidation process will remain in progress. During the period from year 2000 to 2004, the Company received three repayments amounting to approximately RMB7.1 million in aggregate. During the year, no allocation of assets was made by the liquidator of GITIC.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

Notes: (continued)

(ii) China Venturetech was in liquidation since 1998 and the Company has registered its debts with中國人民銀行關閉中國新技術創業投資公司清算組(the liquidator of China Venturetech). Up to 31 December 2005, the Company has received an accumulated repayment of approximately RMB2,271,000. On 23 January 2006, the liquidator of China Venturetech declared that all the assets have been liquidated and the Company was entitled to a final repayment of RMB3,632,000. The amount proved to be irrecoverable was written off in the current year. On 14 February 2006, the Company received the rest of the repayment of RMB3,632,000.

(iii) Ningbo CITIC is now in liquidation and the Company has registered its debts with the liquidator. SEG is currently in the process of business suspension and rectification under the supervision of the People's Bank of China. The recovery of the relevant deposit and interest can only be proceeded when the business suspension and rectification has been completed. Up to the approval date of the financial statements, no repayments have been received from Ningbo CITIC and SEG.

Except for the balance with China Venturetech, the directors are unable to estimate, as at the date on which these financial statements were approved, the principal amount of the outstanding deposits the Company will be able to recover. Based on the above factors, the directors maintain the full provision made for the three remaining overdue fixed deposits.

29. TRADE AND BILLS PAYABLES

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

	Group		**Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**3,820,295**	3,176,820	**3,554,133**	3,068,762
One to two years	**36,029**	83,700	**11,749**	19,827
Two to three years	**1,549**	4,784	**1,491**	963
Over three years	**5,255**	6,857	**3,667**	4,943
	3,863,128	3,272,161	**3,571,040**	3,094,495

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

Included in the Group's and the Company's trade payables are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB170,850,000 (2004: approximately RMB81,805,000). Such balances principally arose from normal trading activities.

At 31 December 2005, the carrying amounts of the Group's inventories and cash deposits were pledged as security for the Group's trading facilities for the issuance of bank bills amounting to RMB23,930,000 (2004: Nil) and RMB142,114,000 (2004: RMB8,620,000), respectively.

30. OTHER PAYABLES AND ACCRUALS

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

Included in the Group's and the Company's other payables and accruals are amounts due to Holding and its subsidiaries, in aggregate, amounting to approximately RMB67,392,000 (2004: approximately RMB116,400,000). Such balances principally arose from normal trading activities.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 RMB'000	Group 2004 RMB'000	Company 2005 RMB'000	Company 2004 RMB'000
Current						
Bank loans – unsecured	0.25-5.22	2006	**159,690**	1,350,763	**158,503**	1,261,084
Short term commercial papers – unsecured	3.19	2006	**2,000,000**	–	**2,000,000**	–
Other loans – unsecured	5.02, 5.22	2006	**31,671**	–	**–**	–
			2,191,361	1,350,763	**2,158,503**	1,261,084
Non-current						
Bank loans – unsecured	0.25-6.12	2007-2019	**8,562,664**	4,125,909	**8,528,228**	4,087,366
Other loan – secured	5.49	2007	**6,000**	6,063	**–**	–
Other loan – unsecured	5.49	2007	**2,152**	2,171	**–**	–
			8,570,816	4,134,143	**8,528,228**	4,087,366
			10,762,177	5,484,906	**10,686,731**	5,348,450
Analysed into:						
Bank loans repayable:						
Within one year			**159,690**	1,350,763	**158,503**	1,261,084
In the second year			**480,358**	2,987,888	**460,171**	3,132,907
In the third to fifth years, inclusive			**8,039,619**	1,007,061	**8,036,057**	837,459
Beyond five years			**42,687**	130,960	**32,000**	117,000
			8,722,354	5,476,672	**8,686,731**	5,348,450
Short term commercial papers and other borrowings repayable:						
Within one year			**2,031,671**	–	**2,000,000**	–
In the second year			**8,152**	–	**–**	–
In the third to fifth years, inclusive			**–**	8,234	**–**	–
			2,039,823	8,234	**2,000,000**	–
			10,762,177	5,484,906	**10,686,731**	5,348,450

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Certain of the bank loans of approximately RMB4,831,511,000 (2004: approximately RMB4,173,352,000) and RMB16,623,000 (2004: approximately RMB20,939,000) are guaranteed by Holding and Sinosteel Trading Company, respectively.

Except for bank and other borrowings of approximately RMB1,688,093,000 and RMB16,623,000 which are denominated in United States dollars and Euros, respectively, all other borrowings are denominated in RMB.

The short term commercial papers represented 20,000,000 3.19% per annum short-term commercial papers with a nominal value of RMB100 issued by the Company at par on 29 December 2005. These short-term commercial papers are redeemable on 28 December 2006.

Other loans of approximately RMB9,823,000 are granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. Certain of the other loans granted by Profit Access Investments Limited are secured by the pledge of certain of the Group's equipment with an aggregate net book value of approximately RMB30,762,000.

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**14,647**	**145,043**	44,856	1,305,907
Short term commercial papers	**2,000,000**	**–**	–	–
Other loans – unsecured	**31,671**	**–**	–	–
Non-current				
Bank loans – unsecured	**2,372,436**	**6,190,228**	1,909,543	2,216,366
Other loan – secured	**6,000**	**–**	6,063	–
Other loan – unsecured	**2,152**	**–**	2,171	–

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Company			
	2005		2004	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**13,460**	**145,043**	23,460	1,237,624
Short-term commercial papers	**2,000,000**	**–**	–	–
Non-current				
Bank loans – unsecured	**2,338,000**	**6,190,228**	1,871,000	2,216,366

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

32. PROVISIONS

	Group and Company		
	Pension benefits for early retired employees RMB'000	**Housing subsidies** RMB'000	**Total** RMB'000
At 1 January 2005	52,203	112,918	165,121
Amounts utilised during the year	(11,945)	(8,944)	(20,889)
At 31 December 2005	40,258	103,974	144,232
Portion classified as current liabilities	(10,773)	(103,974)	(114,747)
Non-current portion	29,485	–	29,485

Housing subsidies represents one-off lump sum cash subsidies payable to both current and retired employees by the Company pursuant to an implemented staff housing subsidy scheme.

33. DUE TO THE ULTIMATE HOLDING COMPANY

The amount due to Holding is unsecured, interest-free and is repayable after 1 January 2007.

34. SHARE CAPITAL

		Group and Company 2005 RMB'000	2004 RMB'000
Registered, issued and fully paid:			
4,034,560,000	Unlisted state owned shares	**4,034,560**	4,034,560
87,810,000	Unlisted legal person A shares	**87,810**	87,810
600,000,000	Individual A shares of RMB1.00 each	**600,000**	600,000
1,732,930,000	H shares of RMB1.00 each	**1,732,930**	1,732,930
6,455,300,000		**6,455,300**	6,455,300

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

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 59 of the financial statements.

(b) Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004	4,864,976	530,653	530,653	1,039,033	6,965,315
Profit for the year	–	–	–	3,520,406	3,520,406
Transfer to reserves	–	357,350	357,350	(714,700)	–
Proposed final 2004 dividend	–	–	–	(1,420,166)	(1,420,166)
At 31 December 2004 and 1 January 2005	4,864,976	888,003	888,003	2,424,573	9,065,555
Profit for the year	–	–	–	2,677,000	2,677,000
Transfer to reserves	–	278,667	278,667	(557,334)	–
Proposed final 2005 dividend	–	–	–	(1,032,848)	(1,032,848)
At 31 December 2005	4,864,976	1,166,670	1,166,670	3,511,391	10,709,707

35. RESERVES (continued)

In accordance with the Company Law of the PRC and the articles of associations of the Company and certain of its subsidiaries, they are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to the statutory surplus reserve (the "SSR") until such reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these company's share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

In accordance with the Company Law of the PRC, the Company and certain of its subsidiaries are required to transfer 5% to 10% of their profit after tax to the statutory public welfare fund (the "PWF"). PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of these companies.

When the PWF is used, the lower of the cost of assets and the balance of the PWF should be transferred to the SSR. These reserves are not distributable unless these companies are dissolved. When the related assets are sold, the amount which was originally transferred from the PWF to the SSR should be transferred back.

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

Subsequent to the balance sheet date, the directors determined that the Company should transfer approximately RMB278.7 million (2004: approximately RMB357.4 million) to each of the SSR and the PWF. This represents 10% of the Company's profit after tax of approximately RMB2,787 million (2004: approximately RMB3,574 million) determined in accordance with PRC accounting standards and regulations. However, the transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

During the year, the share of the subsidiaries' current year appropriations to each of the SSR, PWF, reserve fund and enterprise expansion fund, in accordance with the percentage of investment held by the Group, was approximately RMB8.1 million (2004: approximately RMB2.7 million), approximately RMB6.9 million (2004: approximately RMB2.7 million), approximately RMB7.6 million (2004: approximately RMB2.8 million) and approximately RMB5.5 million (2004: approximately RMB4.8 million), respectively.

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

35. RESERVES (continued)

As at 31 December 2005, the Company had retained profits of approximately RMB3,511 million (31 December 2004: approximately RMB2,368 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC accounting standards and regulations or the amount determined under generally accepted accounting principles in Hong Kong, available for distribution by way of cash or in kind.

As at 31 December 2005, in accordance with the Company Law of the PRC, an amount of approximately RMB5.45 billion (2004: approximately RMB5.43 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

36. BUSINESS COMBINATIONS

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

On 28 April 2005, the Company entered into an acquisition agreement (the "Acquisition Agreement") with Magang Holding Construction Co. Ltd. ("Construction Company"), a wholly-owned subsidiary of Holding, to acquire its steel structure manufacturing and installation business and electrical and mechanical equipment installation business (the "Businesses"). The acquisition price, which amounted to approximately RMB149,774,000, was determined by reference to an asset appraisal report issued by an independent assets valuer, Jiangsu Talent Certified Public Accountants. In accordance with the terms of the Acquisition Agreement, for the period from 1 February 2005 to the effective date of the Acquisition Agreement, the Businesses were entrusted to Construction Company for management and the profit and loss was assumed by the Company, which was not significant.

(b) Acquisition of a subsidiary

On 15 November 2004, the Company acquired a 71% equity interest in Holly Packing from Holding at a consideration of approximately RMB21,478,000. Holly Packing is mainly engaged in production of packing materials and on-site packing services. The consideration was determined on the basis of the carrying amount of the net asset value of Holly Packing as at 30 September 2004 which was audited by Jiangsu Talent Certified Public Accountants. In the opinion of the directors, the carrying amounts of the assets and liabilities acquired by the Company on the completion date approximated to their fair values.

(Prepared under Hong Kong accounting standards)
31 December 2005

36. BUSINESS COMBINATIONS (continued)

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

	Notes	2005 RMB'000	2004 RMB'000
Property, plant and equipment, net	13	**54,396**	41,140
Prepaid land premiums	14	**–**	5,152
Construction in progress	15	**49,855**	1,754
Cash and cash equivalents		**–**	9,967
Inventories		**88,740**	2,294
Construction contracts		**63,500**	–
Trade and bills receivables		**76,108**	361
Prepayments, deposits and other receivables		**20,825**	3,855
Bank borrowings		**–**	(26,000)
Trade payables		**(113,421)**	(1,256)
Other payables and accruals		**(89,100)**	(7,184)
Tax payable		**(1,129)**	168
Minority interests		**–**	(8,773)
		149,774	21,478
Satisfied by cash		**149,774**	21,478

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

	2005 RMB'000	2004 RMB'000
Cash consideration	**149,774**	21,478
Cash and cash equivalents acquired	**–**	(9,967)
Net outflow of cash and cash equivalents in respect of the aforesaid acquisitions	**149,774**	11,511

Since the aforesaid acquisitions, Holly Packing contributed RMB11 million to the Group's consolidated turnover and RMB1 million to the Group's consolidated profit attributable to equity holders of the parent for the year ended 31 December 2004 whereas the Businesses' contributions to the Group's consolidated turnover and consolidated profit attributable to equity holders of the parent for the year ended 31 December 2005 were not significant.

36. BUSINESS COMBINATIONS (continued)

Had these combinations taken place at the beginning of the year, the Group's consolidated turnover and consolidated profit attributable to equity holders of the parent would have been RMB32,083 million and RMB2,910 million for the year ended 31 December 2005, respectively, and RMB26,770 million and RMB3,605 million for the year ended 31 December 2004, respectively.

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**7,795,113**	2,559,075
Bills discounted with recourse	**–**	311,000	**–**	311,000
	–	311,000	**7,795,113**	2,870,075

38. OPERATING LEASE ARRANGEMENTS

The Group leases its leasehold land (note 14 to the financial statements) under operating lease arrangements with BOC-Ma Steel for 18 years since 2005. The periodic rent is fixed during the operating lease periods.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	**1,250**	–
In the second to fifth years, inclusive	**5,000**	–
After five years	**15,000**	–
	21,250	–

(Prepared under Hong Kong accounting standards)
31 December 2005

39. CAPITAL COMMITMENTS

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for:				
Blast Furnaces Project	**2,089,447**	119,396	**2,089,447**	119,396
Converters Project	**861,321**	121,960	**861,321**	121,960
Wheel Line Project	**371,086**	91,035	**371,086**	91,035
Construction Steel Lines Project	**3,355,414**	985,211	**3,355,414**	983,932
Coking Stoves Project	**1,120,768**	134,169	**1,120,768**	134,169
Public Auxiliary Utilities Project	**964,589**	262,758	**964,589**	262,758
Energy-saving and Environment Protection Project	**232,125**	23,712	**232,125**	23,712
Other projects	**2,049,663**	63,446	**2,047,568**	63,446
	11,044,413	1,801,687	**11,042,318**	1,800,408
Contracted, but not provided for:				
Blast Furnaces Project	**1,146,893**	632	**1,146,893**	632
Converters Project	**1,440,998**	35,805	**1,440,998**	35,805
Wheel Line Project	**15,698**	2,970	**15,698**	2,970
Construction Steel Lines Project	**4,711,870**	200,274	**4,711,870**	182,855
Coking Stoves Project	**626,902**	26,745	**626,902**	26,745
Public Auxiliary Utilities Project	**682,275**	219,072	**682,275**	219,072
Energy-saving and Environment Protection Project	**103,657**	46,501	**103,657**	46,501
Other projects	**1,107,654**	80,852	**1,100,384**	80,852
	9,835,947	612,851	**9,828,677**	595,432
Total	**20,880,360**	2,414,538	**20,870,995**	2,395,840

(Prepared under Hong Kong accounting standards)
31 December 2005

39. CAPITAL COMMITMENTS (continued)

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

	Group		Company	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Contracted, but not provided for	**7,668**	–	**34,668**	–

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

	2005 **RMB'000**	2004 RMB'000
Authorised, but not contracted for	**31,202**	–
Contracted, but not provided for	**148,218**	–
Total	**179,420**	–

40. RELATED PARTY TRANSACTIONS

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

	Notes	**2005 RMB'000**	2004 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore, limestone and dolomite	(i)	**1,408,068**	964,679
Fees paid for welfare, support services and other services	(ii), (iii)	**206,210**	240,718
Rental expenses	(iii)	**36,250**	36,250
Agency fee paid	(iii)	**3,784**	4,795
Purchases of property, plant and equipment and construction services	(iii)	**266,777**	279,689
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(27,497)**	(32,708)
Sale of steel and other by-products	(iii)	**(8,479)**	(3,564)
Acquisition of a subsidiary	(iv)	**–**	21,478
Acquisition of businesses	(v)	**149,774**	–
Transactions with associates of the Company:			
Purchases of coke	(vi)	**598,732**	157,821
Transactions with minority shareholders:			
Purchase of net assets	(vii)	**–**	16,376
Transactions with the jointly-controlled entity of the Company:			
Rental income	(viii)	**(1,250)**	–
Construction fees income	(viii)	**(7,440)**	–

40. RELATED PARTY TRANSACTIONS (continued)

Notes:

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

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

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

(iv) The Company acquired a 71% equity interest in Holly Packing on 15 November 2004 from Holding for a cash consideration of approximately RMB21,478,000. Further details of the transaction are included in note 36(b) to the financial statements.

(v) The Company acquired the steel structure manufacturing and installation business and the electrical and mechanical equipment installation business from a wholly-owned subsidiary of Holding for a cash consideration of approximately RMB149,774,000. Further details of the transaction are included in note 36(a) to the financial statements.

(vi) These transactions were made between the Group and 濟源市金馬焦化 and 滕州盛隆煤焦化 and were conducted in accordance with the terms mutually agreed between them.

(vii) The Group signed an agreement with 安徽鑫鋼商貿有限公司 in 2004 for the purchase of net assets at a consideration of approximately RMB16,376,000. The consideration was determined on the basis of the valuation carried out by Anhui Pingtai Certified Public Accountants. 安徽鑫鋼商貿有限公司 holds a 20% equity interest in Ma Steel (Cihu).

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

(b) Other transactions with related parties:

(i) Holding has guaranteed certain bank loans made to the Group up to RMB4,831,511,000 (2004: RMB4,173,352,000) as at the balance sheet date at nil consideration, as further detailed in note 31 to the financial statements.

(ii) Profit Access Investments Limited, a minority shareholder of Anhui Masteel K. Wah, granted loans of US$206,000 to the Group in 2005 (2004: US$986,000). Further details of the transaction are included in note 31 to the financial statements.

(c) Further details on balances with Holding and its subsidiaries and a minority shareholder are set out in notes 25, 26, 29, 30, 31, and 33 to the financial statements.

40. RELATED PARTY TRANSACTIONS (continued)

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

	2005 RMB'000	2004 RMB'000
Short term employee benefits	**6,608**	6,314
Post-employment benefits	**53**	13
Total compensation paid to key management personnel	**6,661**	6,327

Further details of directors' and supervisors' emoluments are included in note 7 to the financial statements.

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also entered into a recovery forward contract to manage the currency risks arising from its operations and sources of finance.

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk

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

At 31 December 2005, approximately 41% (2004: 36%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Foreign currency risk

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

During the year, the Company entered into a recovery forward contract, which does not qualify for hedging accounting, to manage its risks associated with foreign currency fluctuations. Under the recovery forward contract, the Company has an option to exercise the contract to buy a total of JPY17,931 million by selling US$166 million over the period from January 2006 to October 2006 when the exchange rate ranges from US$/JPY 94 to US$/JPY 124 during the entire period and is obliged to exercise the contract when the exchange rate is at or above US$/JPY 124. As at 31 December 2005, the fair value of the recovery forward contract was insignificant.

Credit risk

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

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, short term commercial papers and other available sources of financing. 20% of the Group's debts would mature in less than one year at 31 December 2005 (2004: 25%).

(Prepared under Hong Kong accounting standards)
31 December 2005

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

The financial statements prepared under PRC accounting standards are audited by Ernst & Young Hua Ming.

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

	Notes	**2005 RMB'000**	2004 RMB'000
Net profit			
Profit attributable to equity holders of the parent under Hong Kong accounting standards		**2,909,943**	3,592,320
Add back:			
Deferred tax (income)/expense	(i)	**(18,441)**	19,725
Employee bonus and welfare fund	(ii)	**4,616**	2,141
Deduct:			
Recognition of deferred income	(iii)	**(48,498)**	(38,379)
Profit attributable to equity holders of the parent under PRC accounting standards		**2,847,620**	3,575,807
Shareholders' equity			
Equity attributable to equity holders of the parent under Hong Kong accounting standards		**18,514,504**	17,024,727
Add back:			
Deferred income	(iii)	**585,369**	562,069
Deduct:			
Deferred tax assets	(i)	**(53,175)**	(34,734)
Recognition of deferred income	(iii)	**(90,483)**	(41,985)
Provision for furnace relining costs	(iv)	**(74,499)**	(74,499)
Equity attributable to equity holders of the parent under PRC accounting standards		**18,881,716**	17,435,578

42. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

(i) Deferred tax

Under HKAS 12, deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Accordingly, deferred tax assets recognised as at 31 December 2005 amounted to approximately RMB53.2 million (2004: approximately RMB34.7 million). The movement in the deferred tax assets resulted in a deferred tax income of approximately RMB18.4 million in the current year (2004: deferred tax expense of approximately RMB19.7 million).

Under PRC accounting standards and regulations, the Company adopted the tax payable method in which the current year's tax payable represents the current year's income tax expense and does not recognise the effect of timing differences on income tax. Thus, no deferred tax was recognised as at 31 December 2004 and 31 December 2005.

(ii) Employee bonus and welfare fund

Pursuant to the articles of association and the resolutions of the board of directors of certain subsidiaries of the Company, these subsidiaries have to make appropriations to the employee bonus and welfare fund. During the year, the Group's share of the appropriation of these subsidiaries in respect of the employee bonus and welfare fund amounted to approximately RMB4,616,000 (2004: approximately RMB2,141,000).

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

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

(iii) Deferred income

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

42. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS (continued)

(iii) Deferred income (continued)

Under Statement of Standard Accounting Practice No. 35, "Accounting for government grants and disclosure of assistance" ("HKSSAP 35"), upon completion of the subsidised construction projects, deferred income is released to the income statement over the expected useful lives of the relevant assets by equal annual instalments. During the year, certain subsidised construction projects, with government grants of approximately RMB23.3 million received in the current and prior year, were completed. As at 31 December 2005, accumulated deferred income amounting to approximately RMB585 million (31 December 2004: approximately RMB562 million) should be released to the income statement over the expected useful lives of the relevant assets. Deferred income of approximately RMB48.5 million (2004: approximately RMB38.4 million) was released to the current year's income statement. As at 31 December 2005, the accumulated deferred income released amounted to approximately RMB90.5 million (31 December 2004: approximately RMB42.0 million). HKAS 20 replaced HKSSAP 35 and became effective on 1 January 2005. The adoption of HKAS 20 did not result in any impact on the above treatment.

Under PRC accounting standards and regulations, upon completion of the subsidised construction projects, the costs incurred are recognised as property, plant and equipment and the utilised portion of specific payables thereof is transferred to the capital reserve. As at 31 December 2005, accumulated specific payables transferred to the capital reserve amounted to approximately RMB585 million (31 December 2004: approximately RMB562 million).

(iv) Furnace relining costs

Under HKSSAP 28, "Provisions, Contingent Liabilities and Contingent Assets", furnace relining costs are recognised as and when incurred starting from 1 January 2001. The balance of provision for furnace relining costs of approximately RMB124 million as at 31 December 2000 was derecognised retrospectively by a prior year adjustment. HKAS 37 replaced HKSSAP 28 and became effective on 1 January 2005. The adoption of HKAS 37 did not result in any impact on the above treatment.

Under the PRC accounting standard "Fixed Assets" issued on 1 January 2002, repair and maintenance costs incurred on property, plant and equipment should be charged to the income statement as and when incurred. Hence, from 1 January 2002 onwards, the Company no longer accrued for the provision for furnace relining costs. The balance of provision for furnace relining costs, amounting to approximately RMB120.3 million as at 31 December 2001, will be utilised when furnace relining costs are actually incurred. During the year, no furnace relining costs were incurred (2004: Nil), and the remaining provision as at 31 December 2005 amounted to approximately RMB74.5 million (2004: approximately RMB74.5 million).

43. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Company, upon request and authorised by Holding, announced the proposal for converting all the Company's unlisted and non-circulating Shares ("Non-circulating Shares") into listed and circulating A shares ("Circulating A Shares") (the "State Share Reform Proposal").

According to the State Share Reform Proposal, Holding proposes to offer 3.4 of its State-owned shares to each circulating A shareholder for every 10 Circulating A Shares they held upon the close of business on the State Share Reform Proposal's record date in accordance with an execution arrangement. On the first business date upon the implementation of the State Share Reform Proposal, the then Non-circulating Shares will be entitled to be listed and become circulating shares.

On 20 February 2006, the State Share Reform Proposal was approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han [2006] No. 52). On 27 February 2006, the State Share Reform Proposal was approved by the relevant shareholders in the "Relevant Shareholders' Meeting to the State Share Reform". On 17 March 2006, the State Share Reform Proposal was approved by the Ministry of Commerce (Shang Zi Pi [2006] No. 886). Accordingly, all relevant approvals for the implementation of the State Share Reform Proposal have been obtained. The then non-circulating shares are entitled to be listed and become circulating shares since 31 March 2006.

44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs during the current year, the presentation of certain comparative amounts have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2006.