

## Consolidated Balance Sheet

At 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

Assets	Note	2005 Rmb'000	2004 Rmb'000
<b>Current assets</b>			
Cash at bank and in hand	4	562,339	2,748,133
Bills receivable	5	594,774	1,425,868
Trade receivables	6	594,563	641,013
Other receivables	7	6,493	11,056
Prepayments	8	173,728	217,437
Inventories	9	2,608,291	2,221,412
Deferred expenses		583	492
<b>Total current assets</b>		<b>4,540,771</b>	7,265,411
<b>Long-term equity investments</b>			
	10	41,427	41,303
<b>Fixed assets</b>			
Fixed assets, at cost	11	11,438,201	11,146,973
Less: Accumulated depreciation		(4,905,493)	(4,067,194)
Net book value of fixed assets		6,532,708	7,079,779
Construction in progress	12	2,840,603	611,746
<b>Total fixed assets</b>		<b>9,373,311</b>	7,691,525
<b>Intangible assets and other assets</b>			
Intangible assets	13	333,885	345,072
Long-term deferred expenses		429	17
<b>Total intangible assets and other assets</b>		<b>334,314</b>	345,089
<b>Total assets</b>		<b>14,289,823</b>	15,343,328

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Consolidated Balance Sheet (Continued)

At 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

Liabilities and shareholders' funds	Note	2005 Rmb'000	2004 Rmb'000
<b>Current liabilities</b>			
Short-term loans	14	117,500	100,000
Bills payable	15	194,392	220,899
Trade payables	16	243,687	286,744
Receipts in advance	17	962,875	1,554,986
Accrued payroll		67,110	61,938
Staff welfare payable		25,734	19,418
Accrued expenses		6,592	7,002
Taxes payable	3(d)	(110,531)	262,520
Other payables	18	208,659	344,094
Current portion of long-term liabilities	19	640,535	1,107,237
<b>Total current liabilities</b>		<b>2,356,553</b>	3,964,838
<b>Long-term liabilities</b>			
Long-term loans	20	604,013	1,244,548
<b>Total liabilities</b>		<b>2,960,566</b>	5,209,386
<b>Shareholders' funds</b>			
Share capital	21	2,962,986	2,962,942
Capital reserve	22	3,089,796	3,084,915
Surplus reserves (including statutory public welfare fund of Rmb772,057,000 (2004: Rmb562,930,000))	23	1,544,114	1,125,860
Undistributed profits (including dividend proposed after the balance sheet date of Rmb1,066,675,000 (2004: Rmb888,883,000))	24	3,732,361	2,960,225
<b>Total shareholders' funds</b>		<b>11,329,257</b>	10,133,942
<b>Total liabilities and shareholders' funds</b>		<b>14,289,823</b>	15,343,328

These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
Chairman

**Ma Lianyong**  
Chief Accountant

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Balance Sheet

At 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

Assets	Note	2005 Rmb'000	2004 Rmb'000
<b>Current assets</b>			
Cash at bank and in hand	4	515,061	2,705,059
Bills receivable	5	594,774	1,425,868
Trade receivables	6	649,462	569,082
Other receivables	7	289	5,653
Prepayments	8	166,047	209,670
Inventories	9	2,439,971	2,068,827
<b>Total current assets</b>		<b>4,365,604</b>	6,984,159
<b>Long-term equity investments</b>			
	10	212,012	237,199
<b>Fixed assets</b>			
Fixed assets, at cost	11	10,894,901	10,601,802
Less: Accumulated depreciation		(4,826,597)	(4,033,116)
Net book value of fixed assets		6,068,304	6,568,686
Construction in progress	12	2,836,255	611,316
<b>Total fixed assets</b>		<b>8,904,559</b>	7,180,002
<b>Intangible assets and other assets</b>			
Intangible assets	13	297,855	305,828
<b>Total intangible assets and other assets</b>		<b>297,855</b>	305,828
<b>Total assets</b>		<b>13,780,030</b>	14,707,188

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Balance Sheet (Continued)

At 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

Liabilities and shareholders' fund	Note	2005 Rmb'000	2004 Rmb'000
<b>Current liabilities</b>			
Bills payable	15	194,392	220,899
Trade payables	16	231,413	282,135
Receipts in advance	17	932,255	1,523,443
Accrued payroll		67,110	61,938
Staff welfare payable		25,726	19,418
Taxes payable	3(d)	(100,288)	274,508
Other payables	18	188,382	224,202
Current portion of long-term liabilities	19	600,000	1,066,703
<b>Total current liabilities</b>		<b>2,138,990</b>	3,673,246
<b>Long-term liabilities</b>			
Long-term loans	20	300,000	900,000
<b>Total liabilities</b>		<b>2,438,990</b>	4,573,246
<b>Shareholders' funds</b>			
Share capital	21	2,962,986	2,962,942
Capital reserve	22	3,089,796	3,084,915
Surplus reserves (including statutory public welfare fund of Rmb772,057,000 (2004: Rmb562,930,000))	23	1,544,114	1,125,860
Undistributed profits (including dividend proposed after the balance sheet date of Rmb1,066,675,000 (2004: Rmb888,883,000))	24	3,744,144	2,960,225
<b>Total shareholders' funds</b>		<b>11,341,040</b>	10,133,942
<b>Total liabilities and shareholders' funds</b>		<b>13,780,030</b>	14,707,188

These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
Chairman

**Ma Lianyong**  
Chief Accountant

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000
<b>Income from principal operations</b>	25	<b>26,488,115</b>	23,227,617
Less: Cost of sales	26	<b>22,642,123</b>	19,814,375
Business tax and surcharges	27	<b>90,660</b>	49,754
<b>Profit from principal operations</b>		<b>3,755,332</b>	3,363,488
Add: Other operating profit	28	<b>103,786</b>	96,434
Less: Operating expenses	29	<b>462,875</b>	423,192
Administrative expenses		<b>348,542</b>	281,900
Financial expenses	30	<b>64,038</b>	120,840
<b>Operating profit</b>		<b>2,983,663</b>	2,633,990
Add: Investment (loss) / income	31	<b>(955)</b>	233
Non-operating income		<b>1,637</b>	222
Less: Non-operating expenses		<b>1,891</b>	1,702
<b>Total profit</b>		<b>2,982,454</b>	2,632,743
Less: Income tax expense	3(b)	<b>902,969</b>	856,406
<b>Net profit</b>		<b>2,079,485</b>	1,776,337

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

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

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000
<b>Net profit</b>		<b>2,079,485</b>	1,776,337
Add: Undistributed profits at the beginning of the year		<b>2,960,225</b>	2,131,717
<b>Distributable profits</b>		<b>5,039,710</b>	3,908,054
Less: Transfer to statutory surplus reserve	23	<b>209,127</b>	177,633
Transfer to statutory public welfare fund	23	<b>209,127</b>	177,633
<b>Profits distributable to shareholders</b>		<b>4,621,456</b>	3,552,788
Less: Dividends		<b>889,095</b>	592,563
<b>Undistributed profits at the end of the year</b>			
(including: dividend proposed after the balance sheet date of Rmb1,066,675,000 (2004: Rmb888,883,000))		<b>3,732,361</b>	2,960,225

### Additional information:

Item	2005 Rmb'000	2004 Rmb'000
1. Gains / (losses) from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase / (decrease) in total profits due to the changes in accounting policies	—	—
4. Increase / (decrease) in total profits due to the changes in accounting estimates	—	—
5. Gains / (losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
Chairman

**Ma Lianyong**  
Chief Accountant

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

# Income Statement and Profit Appropriation Statement

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000
<b>Income from principal operations</b>	25	<b>26,296,417</b>	23,148,417
Less: Cost of sales	26	<b>22,477,870</b>	19,740,857
Business tax and surcharges	27	<b>90,660</b>	49,754
<b>Profit from principal operations</b>		<b>3,727,887</b>	3,357,806
Add: Other operating profit	28	<b>102,357</b>	91,105
Less: Operating expenses	29	<b>454,731</b>	417,821
Administrative expenses		<b>313,344</b>	230,714
Financial expenses	30	<b>41,428</b>	97,387
<b>Operating profit</b>		<b>3,020,741</b>	2,702,989
Add: Investment loss	31	<b>(26,266)</b>	(68,766)
Non-operating income		<b>1,637</b>	222
Less: Non-operating expenses		<b>1,875</b>	1,702
<b>Total profit</b>		<b>2,994,237</b>	2,632,743
Less: Income tax expense	3(b)	<b>902,969</b>	856,406
<b>Net profit</b>		<b>2,091,268</b>	1,776,337

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

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

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

	Note	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
<b>Net Profit</b>		<b>2,091,268</b>	1,776,337
Add: Undistributed profits at the beginning of the year		<b>2,960,225</b>	2,131,717
<b>Distributable profits</b>		<b>5,051,493</b>	3,908,054
Less: Transfer to statutory surplus reserve	23	<b>209,127</b>	177,633
Transfer to statutory public welfare fund	23	<b>209,127</b>	177,633
<b>Profits distributable to shareholders</b>		<b>4,633,239</b>	3,552,788
Less: Dividends		<b>889,095</b>	592,563
<b>Undistributed profits at the end of the year</b>			
(including: dividend proposed after the balance sheet date of Rmb1,066,675,000 (2004: Rmb888,883,000))		<b>3,744,144</b>	2,960,225

### Additional information:

Item	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
1. Gains / (losses) from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase / (decrease) in total profits due to the changes in accounting policies	—	—
4. Increase / (decrease) in total profits due to the changes in accounting estimates	—	—
5. Gains / (losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
*Chairman*

**Ma Lianyong**  
*Chief Accountant*

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.



## Consolidated Cash Flow Statement

For the year ended 31 December 2005  
(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note to the consolidated cash flow statement	2005 Rmb'000
<b>Cash flows from operating activities:</b>		
Cash received from sale of goods		29,469,838
Refund of taxes		158,867
Cash received in relation to other operating activities		2,025
<b>Sub-total of cash inflows</b>		<b>29,630,730</b>
<hr style="border-top: 1px dashed #000;"/>		
Cash paid for goods		(24,883,750)
Cash paid to and on behalf of employees		(342,180)
Taxes paid		(1,600,024)
Cash paid in relation to other operating activities		(251,656)
<b>Sub-total of cash outflows</b>		<b>(27,077,610)</b>
<hr style="border-top: 1px dashed #000;"/>		
<b>Net cash flow from operating activities</b>	(a)	<b>2,553,120</b>
<hr style="border-top: 1px dashed #000;"/>		
<b>Cash flows from investing activities:</b>		
Cash received from investment income		1,400
Net proceeds from the disposal of fixed assets		1,463
Cash received in relation to other investing activities		72,358
<b>Sub-total of cash inflows</b>		<b>75,221</b>
<hr style="border-top: 1px dashed #000;"/>		
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(2,727,912)
Cash paid for acquisition of investments		(2,479)
Cash paid in relation to other investing activities		(338)
<b>Sub-total of cash outflows</b>		<b>(2,730,729)</b>
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<b>Net cash flow from investing activities</b>		<b>(2,655,508)</b>
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The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note to the consolidated cash flow statement	2005 Rmb'000
<b>Cash flows from financing activities:</b>		
Proceeds from loans		117,500
<b>Sub-total of cash inflows</b>		
		117,500
<hr/>		
Repayment of loans		(1,206,964)
Cash paid for dividends or interest payment		(1,006,542)
Cash paid in relation to other financing activities		(437)
<b>Sub-total of cash outflows</b>		
		(2,213,943)
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<b>Net cash flow from financing activities</b>		(2,096,443)
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<b>Effect of exchange rate fluctuations on cash held</b>		13,037
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<b>Net decrease in cash and cash equivalents</b>	(c)	(2,185,794)

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	2005 Rmb'000
<b>Notes to the consolidated cash flow statement</b>	
<b>(a) Reconciliation of net profit to cash flows from operations:</b>	
Net profit	2,079,485
Add: Bad debt provision	79
Inventory provision	16,079
Depreciation of fixed assets	840,696
Amortisation of intangible assets	12,415
Loss on disposal of fixed assets	373
Increase in deferred expenses	(91)
Decrease in accrued expenses	(410)
Financial expenses	64,038
Investment losses	955
Increase in inventories	(402,958)
Decrease in operating receivables	923,594
Decrease in operating payables	(981,135)
Net cash flow from operating activities	2,553,120
<b>(b) Non-cash transactions of investing and financing activities:</b>	
Conversion of convertible debentures to A shares	123
<b>(c) Net increase in cash and cash equivalents:</b>	
Cash at the end of the year	562,339
Less: Cash at the beginning of the year	2,748,133
Net decrease in cash and cash equivalents	(2,185,794)

These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
Chairman

**Ma Lianyong**  
Chief Accountant

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Cash Flow Statement

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note to the cash flow statement	2005 Rmb'000
<b>Cash flows from operating activities:</b>		
Cash received from sales of goods		29,163,518
Refund of taxes		122,675
<b>Sub-total of cash inflows</b>		29,286,193
<hr style="border-top: 1px dashed #000;"/>		
Cash paid for goods		(24,720,202)
Cash paid to and on behalf of employees		(330,658)
Taxes paid		(1,597,785)
Cash paid in relation to other operating activities		(234,275)
<b>Sub-total of cash outflows</b>		(26,882,920)
<hr style="border-top: 1px dashed #000;"/>		
<b>Net cash flow from operating activities</b>	(a)	2,403,273
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<b>Cash flows from investing activities:</b>		
Cash received from investment income		1,400
Net proceeds from the disposal of fixed assets		1,390
Cash received in relation to other investing activities		71,320
<b>Sub-total of cash inflows</b>		74,110
<hr style="border-top: 1px dashed #000;"/>		
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(2,632,864)
Cash paid for acquisition of investments		(2,479)
<b>Sub-total of cash outflows</b>		(2,635,343)
<hr style="border-top: 1px dashed #000;"/>		
<b>Net cash flow from investing activities</b>		(2,561,233)
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The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Cash Flow Statement *(Continued)*

For the year ended 31 December 2005  
(Prepared in accordance with PRC Accounting Rules and Regulations)

	Note to the cash flow statement	2005 Rmb'000
<b>Cash flows from financing activities:</b>		
Repayment of loans		(1,066,430)
Cash paid for dividends or interest payment		(978,520)
Cash paid in relation to other financing activities		(437)
<b>Sub-total of cash outflows</b>		(2,045,387)
<b>Net cash flow from financing activities</b>		(2,045,387)
<b>Effect of exchange rate fluctuations on cash held</b>		13,349
<b>Net decrease in cash and cash equivalents</b>	(c)	(2,189,998)

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

## Cash Flow Statement *(Continued)*

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

2005  
Rmb'000

### Notes to the cash flow statement

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

Net profit	2,091,268
Add: Bad debt provision	79
Depreciation of fixed assets	795,787
Amortisation of intangible assets	7,973
Loss on disposal of fixed assets	357
Financial expenses	41,428
Loss on investments	26,266
Increase in inventories	(371,144)
Decrease in operating receivables	797,480
Decrease in operating payables	(986,221)

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Net cash flow from operating activities	2,403,273
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#### (b) Non-cash transactions of investing and financing activities:

Conversion of convertible debentures to A shares	123
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#### (c) Net increase in cash and cash equivalents:

Cash at the end of the year	515,061
Less: Cash at the beginning of the year	2,705,059

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Net decrease in cash and cash equivalents	(2,189,998)
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These financial statements have been approved by the board of directors on 10 April 2006.

**Liu Jie**  
Chairman

**Ma Lianyong**  
Chief Accountant

The accompanying notes on pages 89 to 135 form an integral part of these financial statements.

# Notes on the Financial Statements

*For the year ended 31 December 2005  
(Prepared in accordance with PRC Accounting Rules and Regulations)*

## 1. STATUS OF THE COMPANY

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

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

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

In accordance with the "Approval notice related to State-owned Share Reform Plan of Angang New Steel Company Limited" issued by State-owned Assets Supervision and Administration Commission of the State Council in the PRC, the Company implemented its State-owned Share Reform Plan ("Reform Plan") on 1 December 2005. Angang Holding transferred 188,496,424 shares of the Company (excluding additional shares to be issued arising from the exercise of warrants issued in the Reform Plan) to those registered A share shareholders on 1 December 2005. After that, the state-owned legal shares of the Company held by Angang Holding were reduced by 188,496,424 shares. The Company's A shares were increased by 188,496,424 shares accordingly.

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 1. STATUS OF THE COMPANY *(Continued)*

Pursuant to agreements "Acquisition Agreement regarding 100% Equity Interests in Angang New Steel and Iron Company Limited" dated 29 December 2004 and "Acquisition Agreement regarding 100% Equity Interests in Angang New Steel and Iron Company Limited (2005)" dated 20 October 2005 ("Acquisition Agreement") entered into between the Company and Angang Holding, the Company proposed to acquire the entire equity interest in Angang New Steel and Iron Company Limited ("ANSI") which has been reorganised in accordance with Angang Holding Gangzhengfa [2004] No. 22 "Notice regarding the reorganisation of Angang New Steel and Iron Company Limited" at a consideration amounting to Rmb1.969 billion. The acquisition was approved by the independent shareholders at the 2nd extraordinary general meeting held on 28 December 2005. After China Securities Regulatory Commission ("CSRC") has issued an approval (Zheng Jian Gong Si Zi No. 5 [2006]) on 25 January 2006, the Company issued a total of 2.97 billion A shares with a par value of Rmb1 each to Angang Holding on 26 January 2006 and with cash payment as consideration for the acquisition of the entire equity interest in ANSI.

The principal operations of the Company and its jointly controlled entities ("the Group") are production and sale of steel billets, wire rods, thick plates, cold rolled sheets, large section products and hot dip galvanized steel products, and sale, processing and distribution of steel products.



## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Accounting period

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

#### (b) Preparation of the consolidated financial statements

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

The consolidated financial statements include the financial statements of the Company and its jointly controlled entities.

In the preparation of the consolidated financial statements, for jointly controlled entities which the Company has joint control with other investors under contractual agreement, the Company consolidates the assets, liabilities, revenues, costs and expenses of these jointly controlled entities using the proportionate consolidation method, including the Group's proportionate share of the jointly controlled entities' assets, liabilities, revenues, costs and expenses with items of a similar nature on a line by line basis.

When the accounting policies adopted by the jointly controlled entities differ from those of the Company, necessary adjustments are made in the consolidated financial statements according to the Company's accounting policies. Material group transactions, including any unrealised gains and intragroup balances, are eliminated in consolidation.

#### (c) Accounting basis and measurement principle

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

#### (d) Reporting currency

The reporting currency of the Group is Renminbi.

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(e) Translation of foreign currencies**

Foreign currency transactions are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China and other recognised exchange rates ruling at the balance sheet date. Except for those exchange gains and losses directly relating to the purchase or construction of fixed assets (Note 2(j)), exchange gains and losses on foreign currency translation are dealt with in the income statement of the current period.

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

#### **(f) Cash equivalents**

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

#### **(g) Bad debt provision**

Trade receivables showing signs of uncollectibility are individually identified by the Group and bad debt provision is then made based on the probable uncollectible amount. Bad debt provision for other receivables is determined by the Group based on the nature and corresponding collectibility of the receivables.

## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(h) Inventories**

Inventories are stated at the lower of cost and net realisable value.

Cost of inventories includes the costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the actual cost for the purchase of raw materials, work in progress and finished goods also include direct labour and an appropriate proportion of manufacturing overheads.

Except spare parts, inventory provision is provided at the difference between the cost of individual inventory item and its net realisable value. Spare parts provision is provided based on the management's assessment. Net realisable value is determined according to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs and related taxes necessary to make the sale.

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

Inventories are recorded by perpetual method.

#### **(i) Long-term equity investments**

Investee enterprises that are controlled or jointly controlled by the Company or over which the Company exercises significant influence are accounted for under the equity method. It is initially recorded at cost and adjusted thereafter according to the Company's share of equity interest in the investee enterprises.

Investee enterprises that are not controlled or jointly controlled by the Company, and over which the Company does not exercise significant influence are recorded at cost. Investment income is recognised when the investee enterprises declare a cash dividend or profit appropriation.

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

Long-term investments have been reviewed for impairment loss by the Group. (refer to Note 2(n)).

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (j) Fixed assets and construction in progress

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

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

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended use, are capitalised as construction in progress. Those costs included borrowing costs (including foreign exchange gains or losses arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

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

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

	<b>Estimated useful life</b>	<b>Estimated residual value</b>
Land use rights	50 years	—
Buildings and plants	10 to 40 years	3% - 5%
Machinery and equipment	5 to 20 years	3% - 5%
Other fixed assets	4 to 15 years	3% - 5%

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (k) Intangible assets

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

	<b>Amortisation period</b>
Land use rights	50 years
Acquired software	3 to 10 years
Industrial technology	10 years

#### (l) Convertible debentures

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

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

#### (m) Pre-operating expenses

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

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (n) Impairment loss of assets

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

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

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

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

## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**(o) Income tax**

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

**(p) Provisions and contingent liabilities**

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

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

**(q) Revenue recognition**

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

**(r) Repairs and maintenance expenses**

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

**(s) Research and development costs**

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

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(t) Borrowing costs**

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

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

#### **(u) Dividend distribution**

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

#### **(v) Retirement benefits**

According to PRC government regulations, the Group has entered into government organized defined contribution pension scheme on behalf of its employees. The Group contributes to the scheme based on a certain percentage of employee's wages. Contributions to defined contribution pension scheme are recognised as an expense in the income statement on an accrual basis. The Group has no other payment obligations beyond those stipulated in the defined contribution pension scheme. Further information is set out in Note 33.

#### **(w) Related parties**

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



## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 3. TAXATION

(a) Tax relating to sales of goods applicable to the Group includes value added tax ("VAT"). The VAT rate is 17%. In accordance with Caishuizi (2004) No.168 issued by the Ministry of Finance and State Administration of Taxation on 20 September 2004, the Company enjoyed tax exemption relating to input VAT of fixed assets amounting to Rmb117,200,000 for the year (2004: Rmb7,290,000).

(b) Income tax

The applicable income tax rate of the Company is 33% (2004: 33%).

According to Income Tax Law of the PRC for Enterprises with Foreign Investment, the Company's jointly controlled entity, ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS"), is exempt from income tax during its first two profitable years, starting from the first year when ANSC-TKS has a profit after offsetting any previous years' losses. A 50% income tax exemption is granted to ANSC-TKS from the third profitable year to fifth profitable year. No income tax was provided by ANSC-TKS as ANSC-TKS sustained a loss in 2005.

No income tax was provided for the jointly controlled entity of the Company, ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan"), as it had not begun its operations during the year.

(c) Others

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 3. TAXATION (Continued)

(d) Taxes payable

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
VAT (deductible)/payable	<b>(71,229)</b>	(10,720)	<b>(60,889)</b>	1,369
Income tax (refundable)/payable	<b>(40,723)</b>	244,082	<b>(40,723)</b>	244,082
Others	<b>1,421</b>	29,158	<b>1,324</b>	29,057
	<b>(110,531)</b>	262,520	<b>(100,288)</b>	274,508

In accordance with Guoshuifa (2000) No.13 issued by the State Administration of Taxation on 17 January 2000, the Company enjoyed tax exemption relating to investment in technical development of domestic-produced machinery amounting to Rmb24,154,000 for the year (2004: Rmb37,126,000). In accordance with Caishuizi (2003) No.244 issued by the Ministry of Finance and State Administration of Taxation on 27 November 2003, the Company enjoyed additional tax exemption relating to enterprise research and development cost amounting to Rmb96,392,000 for the year (2004: Nil).

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 4. CASH AT BANK AND IN HAND

The Group	2005			2004		
	Original currency '000	Exchange rate	Rmb / Rmb equivalent '000	Original currency '000	Exchange rate	Rmb / Rmb equivalent '000
Cash in hand						
Renminbi			7			14
Euro	1	9.58	14	—	11.26	4
Cash at bank						
Renminbi			547,183			1,795,694
HK Dollars	603	1.04	627	4,056	1.06	4,315
US Dollars	1,579	8.07	12,745	1,179	8.28	9,760
Euro	184	9.58	1,763	346	11.26	3,896
Deposits with bank						
Renminbi			—			934,450
			<b>562,339</b>			<b>2,748,133</b>

The Company	2005			2004		
	Original currency '000	Exchange rate	Rmb / Rmb equivalent '000	Original currency '000	Exchange rate	Rmb / Rmb equivalent '000
Cash in hand						
Renminbi			7			11
Cash at bank						
Renminbi			514,402			1,763,278
HK Dollars	603	1.04	627	4,056	1.06	4,315
US Dollars	—	8.07	1	91	8.28	753
Euro	2	9.58	24	200	11.26	2,252
Deposits with bank						
Renminbi			—			934,450
			<b>515,061</b>			<b>2,705,059</b>

As at 31 December 2005, the Company has cash balance of Rmb 421,402,000 deposited with Angang Group Financial Company Limited ("Angang Finance") (2004: Rmb 990,178,000).

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 5. BILLS RECEIVABLE

All bills receivable held by the Group are bank accepted bills which have not been pledged.

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

### 6. TRADE RECEIVABLES

The Group	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	<b>594,563</b>	<b>100</b>	641,013	100

The Company	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	<b>649,462</b>	<b>100</b>	569,082	100

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Third parties	<b>338,391</b>	128,647	<b>393,290</b>	56,716
Subsidiaries of Angang Holding	<b>256,172</b>	512,366	<b>256,172</b>	512,366
	<b>594,563</b>	641,013	<b>649,462</b>	569,082

As at 31 December 2005, no provision has been made for trade receivables as they are due within one year and the management considers that they can be fully recovered.

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

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 6. TRADE RECEIVABLES (Continued)

As at 31 December 2005, the total trade receivables of the Group's/Company's five largest debtors are as follows:

	The Group		The Company	
	2005	2004	2005	2004
Amount (Rmb'000)	<b>589,511</b>	616,424	<b>649,462</b>	569,082
Percentage of total trade receivables	<b>99%</b>	96%	<b>100%</b>	100%

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 7. OTHER RECEIVABLES

The Group	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	2,182	33	10,488	95
Between one and two years	4,273	66	141	1
Between two and three years	—	—	—	—
Over three years	38	1	430	4
Less: Bad debt provision	6,493	100	11,059	100
Over three years	—	—	(3)	—
	6,493	100	11,056	100

The Company	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	251	87	5,085	90
Between one and two years	—	—	141	2
Between two and three years	—	—	—	—
Over three years	38	13	430	8
Less: Bad debt provision	289	100	5,656	100
Over three years	—	—	(3)	—
	289	100	5,653	100

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	6,493	10,340	289	4,937
Subsidiaries of Angang Holding	—	719	—	719
Less: Bad debt provision	—	(3)	—	(3)
	6,493	11,056	289	5,653

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 7. OTHER RECEIVABLES (Continued)

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>Bad debt provision</b>				
Balance at the beginning of the year	<b>3</b>	3	<b>3</b>	3
Add: Provision for the year	<b>79</b>	212	<b>79</b>	212
Less: Written off for the year	<b>(82)</b>	(212)	<b>(82)</b>	(212)
Balance at the end of the year	<b>—</b>	3	<b>—</b>	3

As at 31 December 2005, the management considers that most of the other receivables can be recovered and all debtors have the ability to repay the debts, hence, the level of bad debt provision is less than 5%.

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

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 8. PREPAYMENTS

The Group	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	<b>173,728</b>	<b>100</b>	217,437	100

The Company	2005		2004	
	Rmb'000	%	Rmb'000	%
Within one year	<b>166,047</b>	<b>100</b>	209,670	100

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Prepayments to third parties	<b>45,907</b>	82,186	<b>38,226</b>	74,419
Prepayments to ANSI	<b>127,821</b>	135,251	<b>127,821</b>	135,251
	<b>173,728</b>	217,437	<b>166,047</b>	209,670

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



## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 9. INVENTORIES

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	311,682	391,675	297,920	357,446
Work in progress	190,330	291,093	190,330	291,093
Finished goods	1,245,740	724,798	1,105,429	631,453
Spare parts and low value consumables	927,080	864,308	894,758	837,301
	<b>2,674,832</b>	2,271,874	<b>2,488,437</b>	2,117,293
Less: Provision for diminution in value				
— Raw materials	(1,825)	—	—	—
— Finished goods	(16,250)	(1,996)	—	—
— Spare parts	(48,466)	(48,466)	(48,466)	(48,466)
	<b>2,608,291</b>	2,221,412	<b>2,439,971</b>	2,068,827

Provision for diminution in value	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at the beginning of the year	50,462	63,596	48,466	63,596
Add: Provision for the year	16,079	1,996	—	—
Less: Written off for the year	—	(15,130)	—	(15,130)
Balance at the end of the year	<b>66,541</b>	50,462	<b>48,466</b>	48,466

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

The cost of inventories recognised as cost of sales	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
	<b>22,642,123</b>	19,814,375	<b>22,477,870</b>	19,740,857

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 10. LONG-TERM EQUITY INVESTMENTS

<b>The Group</b>	<b>Investment in associates Rmb'000</b>	<b>Other equity investment Rmb'000</b>	<b>Total Rmb'000</b>
<b>Cost of investment</b>			
Balance at the beginning of the year	30,803	10,500	41,303
Additions	2,479	—	2,479
Deductions	(2,355)	—	(2,355)
Balance at the end of the year	30,927	10,500	41,427

<b>The Company</b>	<b>Investment in associates joint ventures Rmb'000</b>	<b>Investment in associates Rmb'000</b>	<b>Other equity investment Rmb'000</b>	<b>Total Rmb'000</b>
<b>Cost of investment</b>				
Balance at the beginning of the year	195,896	30,803	10,500	237,199
Additions	—	2,479	—	2,479
Deductions	(25,311)	(2,355)	—	(27,666)
Balance at the end of the year	170,585	30,927	10,500	212,012

As at 31 December 2005, no provision for impairment loss has been made for individual long-term equity investments by the Group.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 10. LONG-TERM EQUITY INVESTMENTS (Continued)

(a) As at 31 December 2005, the Company's investment in jointly controlled entities are as follows:

Name of investee enterprise	Share of equity interest in the investee enterprise	Term of investment	Initial cost of investment <i>Rmb'000</i>
ANSC-TKS	50%	50 years	248,305
ANSC-Xinchuan	50%	50 years	20,000
			268,305
	<b>ANSC-TKS <i>Rmb'000</i></b>	<b>ANSC-Xinchuan <i>Rmb'000</i></b>	<b>Total <i>Rmb'000</i></b>
<b>Cost of investment</b>			
Balance at the beginning of the year	175,896	20,000	195,896
Add: Adjustment using equity method	(25,311)	—	(25,311)
Balance at the end of the year	150,585	20,000	170,585

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 10. LONG-TERM EQUITY INVESTMENTS (Continued)

- (b) As at 31 December 2005, the Group's and the Company's investments in associates are as follows:

Name of investee enterprise	Share of equity interest in the investee enterprise	Term of investment	Initial cost of investment Rmb'000
TKAS-ANSC (Changchun) Tailored Blanks Ltd ("TKAS")	45%	50 years	18,643
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	30%	50 years	14,400
			33,043
	<b>TKAS</b> <i>Rmb'000</i>	<b>Angang Shenyang</b> <i>Rmb'000</i>	<b>Total</b> <i>Rmb'000</i>
<b>Cost of investment</b>			
Balance at the beginning of the year	16,164	14,639	30,803
Add: Additions	2,479	—	2,479
Adjustment using equity method	(2,702)	347	(2,355)
Balance at the end of the year	15,941	14,986	30,927

- (c) As at 31 December 2005, the Group's and the Company's other equity investment is as follows:

Name of investee enterprise	Share of equity interest in the investee enterprise	Term of investment	Initial cost of investment Rmb'000
Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang")	7%	30 years	10,500

- (d) As at 31 December 2005, the Company's total investments represent 2% (2004: 2%) of the Company's net asset value.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 11. FIXED ASSETS

The Group	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
<b>Cost:</b>					
Balance at the beginning of the year	218,750	2,539,776	7,601,726	786,721	11,146,973
Additions	—	210	8,731	752	9,693
Transferred from construction in progress (Note 12)	—	18,039	251,861	23,483	293,383
Disposals of fixed assets	—	(1,386)	(9,407)	(1,055)	(11,848)
Balance at the end of the year	218,750	2,556,639	7,852,911	809,901	11,438,201
<b>Accumulated depreciation:</b>					
Balance at the beginning of the year	3,887	739,825	2,866,783	456,699	4,067,194
Charge for the year	4,637	111,208	663,568	61,283	840,696
Written back on disposal of fixed assets	—	(37)	(2,226)	(134)	(2,397)
Balance at the end of the year	8,524	850,996	3,528,125	517,848	4,905,493
<b>Carrying value:</b>					
Balance at the end of the year	210,226	1,705,643	4,324,786	292,053	6,532,708
Balance at the beginning of the year	214,863	1,799,951	4,734,943	330,022	7,079,779

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 11. FIXED ASSETS (Continued)

The Company	Land use rights Rmb'000	Buildings and plants Rmb'000	Machinery and equipment Rmb'000	Others Rmb'000	Total Rmb'000
<b>Cost:</b>					
Balance at the beginning of the year	196,402	2,440,684	7,196,851	767,865	10,601,802
Additions	—	—	11,779	—	11,779
Transferred from construction in progress (Note 12)	—	18,039	251,459	23,483	292,981
Disposals of fixed assets	—	(1,386)	(9,407)	(868)	(11,661)
Balance at the end of the year	196,402	2,457,337	7,450,682	790,480	10,894,901
<b>Accumulated depreciation:</b>					
Balance at the beginning of the year	3,544	736,446	2,839,818	453,308	4,033,116
Charge for the year	4,180	106,739	626,824	58,044	795,787
Written back on disposal of fixed assets	—	(37)	(2,226)	(43)	(2,306)
Balance at the end of the year	7,724	843,148	3,464,416	511,309	4,826,597
<b>Carrying value:</b>					
Balance at the end of the year	188,678	1,614,189	3,986,266	279,171	6,068,304
Balance at the beginning of the year	192,858	1,704,238	4,357,033	314,557	6,568,686

As at 31 December 2005, the cost of the fully depreciated fixed assets of the Group which are still in use amounted to Rmb1,391,193,000 (2004: Rmb948,466,000).

Part of the fixed assets are pledged by the Group as collateral for the syndicated loan. Details are set out in Note 20.

As at 31 December 2005, the carrying value of the Group's fixed assets does not comprise significant idle, written off and disposable fixed assets.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 12. CONSTRUCTION IN PROGRESS

	Amount		Including: Capitalisation of interest charges	
	The Group Rmb'000	The Company Rmb'000	The Group Rmb'000	The Company Rmb'000
<b>Cost</b>				
Balance at the beginning of the year	611,746	611,316	25,193	25,193
Additions	2,522,240	2,517,920	20,977	20,977
Transfer to fixed assets (Note 11)	(293,383)	(292,981)	—	—
Balance at the end of the year	2,840,603	2,836,255	46,170	46,170

Interest expense of the Group for the year was capitalised at a rate of 5.6% (2004: 5.54%).

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 12. CONSTRUCTION IN PROGRESS (Continued)

As at 31 December 2005, the projects under construction of the Group/Company are as follows:

Project	Budget Rmb'000	Balance at 1 January 2005 Rmb'000	Additions Rmb'000	Transferred to fixed assets Rmb'000 (Note 11)	Balance at 31 December 2005 Rmb'000	Percentage of budget Rmb'000	Source of fund	Interests capitalised during the year Rmb'000
Upgrade of cold rolling production lines	3,820,530	212,552	336,316	—	548,868	88%	Equity finance and bank loans	20,977
2130 continuous cold rolling line	2,640,000	279,997	1,946,317	—	2,226,314	84%	Operating fund	—
Technology renovation	533,900	118,767	235,287	(292,981)	61,073	66%	Operating fund	—
Total for the Company	6,994,430	611,316	2,517,920	(292,981)	2,836,255			20,977
Dalian galvanised steel production line	538,670	402	—	(402)	—	100%	Operating fund	—
ANSC - Xinchuan steel product production line	349,450	28	4,320	—	4,348	1%	Operating fund	—
Total for the Group	7,882,550	611,746	2,522,240	(293,383)	2,840,603			20,977

Part of the construction in progress are pledged by the Group as collateral for the syndicated loan. Details are set out in Note 20.



## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 13. INTANGIBLE ASSETS

The Group	Land use rights Rmb'000	Acquired software Rmb'000	Industrial technology Rmb'000	Total Rmb'000
<b>Cost</b>				
Balance at the beginning of the year	354,200	16,497	28,230	398,927
Additions	—	1,228	—	1,228
Balance at the end of the year	354,200	17,725	28,230	400,155
<b>Less: Accumulated amortisation</b>				
Balance at the beginning of the year	50,033	2,291	1,531	53,855
Additions	7,179	2,297	2,939	12,415
Balance at the end of the year	57,212	4,588	4,470	66,270
<b>Carrying value</b>				
Balance at the end of the year	296,988	13,137	23,760	333,885
Balance at the beginning of the year	304,167	14,206	26,699	345,072

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 13. INTANGIBLE ASSETS (Continued)

The Company	Land use rights Rmb'000	Acquired software Rmb'000	Total Rmb'000
<b>Cost</b>			
Balance at the beginning and at the end of the year	354,200	2,601	356,801
<b>Less: Accumulated amortisation</b>			
Balance at the beginning of the year	50,033	940	50,973
Additions	7,179	794	7,973
Balance at the end of the year	57,212	1,734	58,946
<b>Carrying value</b>			
Balance at the end of the year	296,988	867	297,855
Balance at the beginning of the year	304,167	1,661	305,828

Land use rights include contribution of Rmb226,800,000 made by Angang Holding and the amount of Rmb127,400,000 acquired by the Company. Land use rights are amortised over a remaining period of 42 years. Acquired software is amortised on a straight-line basis over an estimated useful life of 3 to 10 years. Industrial technology purchased by ANSC-TKS from Thyssen Krupp Stahl AG ("Thyssen") is amortised over its beneficial period of 10 years.

### 14. SHORT-TERM LOANS

The Group	2005		2004	
	Principal Rmb'000	Interest rate p.a.	Principal Rmb'000	Interest rate p.a.
Bank loans	117,500	5.22% - 5.58%	100,000	5.31%

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 15. BILLS PAYABLE

Bills payable of the Group primarily represent bank accepted bills for the purchases of raw materials and spare parts. The repayment terms are within six months.

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

### 16. TRADE PAYABLES

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	<b>224,809</b>	225,379	<b>212,535</b>	220,770
Angang Holding	<b>4,628</b>	317	<b>4,628</b>	317
Subsidiaries of Angang Holding	<b>14,250</b>	61,048	<b>14,250</b>	61,048
	<b>243,687</b>	286,744	<b>231,413</b>	282,135

No individually significant trade payables of the Group as at 31 December 2005 are aged over three years.

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

### 17. RECEIPTS IN ADVANCE

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	<b>889,429</b>	1,325,295	<b>858,809</b>	1,293,752
Angang Holding	<b>31</b>	31	<b>31</b>	31
Subsidiaries of Angang Holding	<b>73,415</b>	229,660	<b>73,415</b>	229,660
	<b>962,875</b>	1,554,986	<b>932,255</b>	1,523,443

No individually significant receipts in advance of the Group as at 31 December 2005 are aged over one year.

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 18. OTHER PAYABLES

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Construction costs	<b>147,281</b>	276,043	<b>127,001</b>	156,149
Freight charges	<b>16,389</b>	11,964	<b>16,389</b>	11,964
Deposit for steel shelves	<b>33,902</b>	27,380	<b>33,902</b>	27,380
Staff education fund	<b>6,106</b>	5,798	<b>6,106</b>	5,798
Education surcharge and local education surcharge	<b>125</b>	15,083	<b>125</b>	15,083
Others	<b>4,856</b>	7,826	<b>4,859</b>	7,828
	<b>208,659</b>	344,094	<b>188,382</b>	224,202

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Third parties	<b>150,165</b>	217,109	<b>131,547</b>	99,991
Angang Holding	<b>29</b>	115	<b>29</b>	115
Subsidiaries of Angang Holding	<b>58,465</b>	126,870	<b>56,806</b>	124,096
	<b>208,659</b>	344,094	<b>188,382</b>	224,202

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

No individually significant other payables of the Group as at 31 December 2005 are aged over three years.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 19. CURRENT PORTION OF LONG-TERM LIABILITIES

	Interest rate p.a. (Note)	Secured / guaranteed	The Group		The Company	
			2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Current portion of bank loans:						
Industrial and						
Commercial Bank of China	5.49%	Guaranteed	—	63,000	—	63,000
Bank of China	5.76%	Guaranteed	<b>600,000</b>	1,000,000	<b>600,000</b>	1,000,000
Bank of China	6.12%	Secured	<b>40,535</b>	40,534	—	—
Sub-total			<b>640,535</b>	1,103,534	<b>600,000</b>	1,063,000
Current portion of debentures			—	3,703	—	3,703
Total			<b>640,535</b>	1,107,237	<b>600,000</b>	1,066,703

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

On 15 March 2000, the Company issued convertible debentures (the "Debentures") for the construction and the renovation projects amounting to Rmb1,500,000,000, which were listed on the Shenzhen Stock Exchange and were guaranteed by Angang Holding. The debentures have been converted into A shares of the Company ("A shares") or settled prior to 14 March 2005 (the deadline of conversion date).

By 14 March 2005, 453,985,697 A shares were converted from the Debentures of the Company with a value of Rmb1,496,570,000 and accrued interest of Rmb10,228,000, which increased the capital reserve by Rmb1,052,812,000. A cash payment of Rmb3,526,000 was made for the remaining convertible debentures and the related accrued interest.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 20. LONG-TERM LOANS

Bank	Due date	Interest rate p.a.	Secured / guaranteed	The Group		The Company	
				2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Bank of China	Due in 2006	5.76%	Guaranteed	—	600,000	—	600,000
Bank of China	Due in 2007	5.76%	Guaranteed	300,000	300,000	300,000	300,000
Bank of China	Due in 2014	6.12%	Secured	304,013	344,548	—	—
				<b>604,013</b>	1,244,548	<b>300,000</b>	900,000

Due dates of the Group's / Company's long-term loans are analyzed as follows:

	The Group		The Company		
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	
Between one and two years	340,535	640,535	—	600,000	
Between two and three years	40,535	340,535	300,000	300,000	
Over three years	222,943	263,478	—	—	
		<b>604,013</b>	1,244,548	<b>300,000</b>	900,000

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

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged certain of its land use rights, construction in progress, buildings and plants, machinery and equipment and trade receivables with a carrying value of Rmb1,123,490,000 (2004: Rmb1,160,912,000) as at 31 December 2005 to Bank of China as collaterals of the loan.

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

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 21. SHARE CAPITAL

Issued and paid up capital:	The Group / The Company			
	2005		2004	
	'000 shares	Rmb'000	'000 shares	Rmb'000
<b>State-owned legal person shares</b>				
<b>of Rmb1 each:</b>				
Balance at the beginning of the year	1,319,000	1,319,000	1,319,000	1,319,000
Decrease as a result of				
State-owned Share Reform Plan	(188,496)	(188,496)	—	—
Balance at the end of the year	1,130,504	1,130,504	1,319,000	1,319,000
<b>Renminbi ordinary shares ("A shares")</b>				
<b>of Rmb1 each:</b>				
Balance at the beginning of the year	753,942	753,942	753,309	753,309
Additional A shares issued upon the conversion of convertible debentures	44	44	633	633
Increase as a result of				
State-owned Share Reform Plan	188,496	188,496	—	—
Balance at the end of the year	942,482	942,482	753,942	753,942
<b>Overseas-listed foreign invested shares ("H shares") of Rmb1 each:</b>				
Balance at the beginning and the end of the year	890,000	890,000	890,000	890,000
	<b>2,962,986</b>	<b>2,962,986</b>	2,962,942	2,962,942

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

In accordance with State-owned Share Reform Plan of the Company, Angang Holding issued 113,097,855 European-style warrants to A share shareholders registered as at the implementation date of the State-owned Share Reform Plan. If all warrant holders exercise their rights at the exercise date (5 December 2006), state-owned legal person shares and Renminbi ordinary shares will further decrease and increase by 113,097,855 shares respectively.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 22. CAPITAL RESERVE

	The Group / Company		
	At 1 January		At 31 December
	2005	Increase	2005
	Rmb'000	Rmb'000	Rmb'000
Net asset conversion	709,817	—	709,817
Write-off of water and electricity use rights	(122,733)	—	(122,733)
Proceeds from the issuance of H shares, net of expenses	594,722	—	594,722
Proceeds from the issuance of A shares, net of expenses	848,222	—	848,222
Conversion of A share convertible debentures	1,052,733	79	1,052,812
Write-off of trade and other payables	2,078	4,502	6,580
Receipt of fixed assets donation	76	—	76
Other capital reserves	—	300	300
	3,084,915	4,881	3,089,796

### 23. SURPLUS RESERVES

	The Group / Company		
	At 1 January	Profit	At 31 December
	2005	appropriation	2005
	Rmb'000	for the year	Rmb'000
	Rmb'000	Rmb'000	Rmb'000
Statutory surplus reserve	562,930	209,127	772,057
Statutory public welfare fund	562,930	209,127	772,057
	1,125,860	418,254	1,544,114

Pursuant to Article 147 of the Articles of Association of the Company, on 10 April 2006, the board of directors of the Company have approved the allocation of 10% of the net profit after taxation to the statutory surplus reserve and 10% of the net profit after taxation to the statutory public welfare fund.



## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 24. UNDISTRIBUTED PROFITS

#### Dividends

- (i) Dividends approved and paid during the year

Pursuant to the shareholders' approval at the Annual General Meeting on 9 May 2005, the Company was authorised to declare a cash dividend of Rmb0.3 per share (2004: Rmb0.2 per share). The Company paid a cash dividend for the year 2004 totalling Rmb889,095,000 (2004: Rmb592,563,000) to ordinary share shareholders on 18 May 2005.

- (ii) Dividend proposed after the balance sheet date

Pursuant to a resolution passed at the Directors' meeting on 10 April 2006, the Directors proposed a cash dividend of Rmb0.36 per share (2004: Rmb0.3 per share) totalling Rmb1,066,675,000 (2004: Rmb888,883,000) to ordinary share shareholders. The resolution is subject to the approval in the shareholders' meeting. As such, the proposed dividend has not yet been recognised as a liability at the balance sheet date.

### 25. INCOME FROM PRINCIPAL OPERATIONS

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Wire rods	<b>2,799,155</b>	2,778,123	<b>2,799,155</b>	2,778,123
Thick plates	<b>5,282,019</b>	4,798,125	<b>5,282,019</b>	4,798,125
Cold rolled sheets	<b>8,705,672</b>	8,123,068	<b>9,489,923</b>	8,476,510
Large section products	<b>4,598,695</b>	3,889,653	<b>4,598,695</b>	3,889,653
Galvanised steel sheets and colour coating plates	<b>4,278,473</b>	2,897,572	<b>3,302,524</b>	2,464,930
Steel billets	<b>824,101</b>	741,076	<b>824,101</b>	741,076
	<b>26,488,115</b>	23,227,617	<b>26,296,417</b>	23,148,417

The Group's income from principal operations is derived solely from the production and sale of steel. The Group's segmental information is detailed in Note 37.

Total sales to the five largest customers were Rmb12,571,870,000 (2004: Rmb6,112,662,000) which accounted for 48% (2004: 26%) of the total sales income of the Group for the year ended 31 December 2005.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 26. COST OF SALES

The Group's cost of sales solely comprised the cost incurred for the production and sale of steel. The Group's segmental information is detailed in Note 37.

### 27. BUSINESS TAX AND SURCHARGES

	Tax rate and basis	The Group/Company	
		2005	2004
		Rmb'000	Rmb'000
City construction and maintenance taxes	7% of VAT payable	57,753	31,641
Education surcharge and local education surcharge	3% and 1% of VAT payable	32,907	18,113
		90,660	49,754

### 28. OTHER OPERATING PROFIT

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Sales of packaging materials	2,495	2,026	2,495	2,026
Sales of scrap materials	100,007	93,439	98,578	88,510
Others	1,284	969	1,284	569
	103,786	96,434	102,357	91,105

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 29. OPERATING EXPENSES

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Transportation	44,817	40,948	44,592	37,432
Packaging expenses	245,001	231,547	245,001	231,547
Export-related expenses	151,154	126,186	146,153	126,186
Others	21,903	24,511	18,985	22,656
	462,875	423,192	454,731	417,821

### 30. FINANCIAL EXPENSES

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest and bills discount expenses	118,075	136,903	89,353	115,362
Less: Amount capitalised as construction in progress	(20,977)	(22,858)	(20,977)	(18,888)
Net interest expenses	97,098	114,045	68,376	96,474
Net exchange difference	(19,279)	30,553	(13,349)	24,495
Less: Amount capitalised as construction in progress	—	643	—	643
Net exchange (gain) / loss	(19,279)	31,196	(13,349)	25,138
Interest income	(14,556)	(24,952)	(14,036)	(24,723)
Bank charges	775	551	437	498
	64,038	120,840	41,428	97,387

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 31. INVESTMENT (LOSS)/INCOME

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loss from long-term equity				
investments in jointly controlled entities				
- equity method	—	—	(25,311)	(68,999)
(Loss) / income from long-term equity				
investments in associates				
- equity method	(2,355)	233	(2,355)	233
Income from other long-term				
equity investment				
- cost method	1,400	—	1,400	—
	(955)	233	(26,266)	(68,766)

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

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### (a) Related party with controlling interest:

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

The registered capital of Angang Holding as at 31 December 2005 was Rmb10,794,160,000. It held 38.15% of the total share capital of the Company. There was no change in the registered capital of Angang Holding during the year. The changes in percentage of shares held by Angang Holding are detailed in Note 21 "Share Capital".

## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

**(b) Related parties without controlling interest:**

<b>Name of enterprise</b>	<b>Relation with the Company</b>
ANSI	Fellow subsidiary
Angang Group International Trade Corporation ("AITC")	Fellow subsidiary
ANSC - TKS	Jointly controlled entity
ANSC - Xinchuan	Jointly controlled entity
Angang Shenyang	Associate and fellow subsidiary
TKAS	Associate
Other subsidiaries of Angang Holding	Follow subsidiaries

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2005 Rmb'000	2004 Rmb'000
Sales (before deducting city construction tax and other surcharges)	(i)	2,201,292	2,302,742
Sales of scrap materials (before deducting city construction tax and other surcharges)	(i)	767,030	497,699
Purchases			
- Raw materials	(ii)	18,410,493	16,530,004
- Ancillary materials and spare parts	(iii)	159,983	192,064
Supply of fuel and power	(iv)	358,752	340,327
Staff welfare and other services	(v)	512,214	260,140
Interest income	(vi)	3,778	5,863
Material processing fee (before deducting city construction tax and other surcharges)	(vii)	90,503	84,382

(i) Sales

The Company sold steel products and scrap materials to ANSI, Angang Shenyang and various subsidiaries of Angang Holding at selling prices not lower than the average prices charged to independent customers for the preceding month. Included in the above are sales of pipe billets totalling Rmb1,758,490,000 (2004: Rmb1,095,675,000).

(ii) Purchase of raw materials

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

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

(iii) Purchase of ancillary materials and spare parts

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

(iv) Supply of fuel and power

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

(v) Staff welfare and other services

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

(vi) Interest income

The subsidiaries of Angang Holding provided financial services, including settlement and deposit taking services to the Company. There is no charge for the settlement services. The maximum amount of deposits will be Rmb1,000,000,000 and interest will be based on the rate offered by the People's Bank of China. As at 31 December 2005, the balance of deposits amounted to Rmb421,402,000 (2004: Rmb990,178,000).

(vii) Material processing fee

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

## Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

(viii) Guarantee of debentures

The issuance of five-year A share convertible debentures amounting to Rmb1,500,000,000 on 15 March 2000 was guaranteed by Angang Holding. These convertible debentures matured on 14 March 2005.

(ix) Guarantee of loans

As at 31 December 2005, total bank loans of the Company amounted to Rmb900,000,000 (2004: Rmb1,963,000,000). These bank loans were guaranteed by Angang Holding, details of which are set out in Note 20.

(x) Acquisition of ANSI

The Company has signed an acquisition agreement with Angang Holding to acquire the entire equity interest of ANSI, details of which are set out in Note 1.

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

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

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

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

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

The Company sold products to ANSC-TKS totalling Rmb1,607,309,000 for the year (2004: Rmb946,827,000).

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

ANSC-TKS sold finished products to and purchased raw materials from Thyssen, under similar terms and pricing policies for independent parties. The sales and purchases in 2005 amounted to Rmb287,988,000 (2004: Rmb105,235,000) and Rmb45,077,000 (2004: Rmb16,475,000) respectively. Sales amounting to Rmb143,994,000 and purchases amounting to Rmb22,538,000 have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.



## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 32. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

#### (e) Amounts due from/to Angang Holding and its subsidiaries

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables	256,172	512,366	256,172	512,366
Other receivables	—	719	—	719
Prepayments	127,821	135,251	127,821	135,251
Trade payables	(18,878)	(61,365)	(18,878)	(61,365)
Receipts in advance	(73,446)	(229,691)	(73,446)	(229,691)
Other payables	(58,494)	(126,985)	(56,835)	(124,211)

### 33. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document Liaolaoshepi [2005] No.2 issued by Labour and Social Security Department of Liaoning Province, the required contribution rate from the Company to the retirement benefits scheme is 22.5% (2004: 25.5%).

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

### 34. JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2005, particulars of the jointly controlled entities of the Company are set out below:

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

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 34. JOINT VENTURES AND ASSOCIATES (Continued)

As at 31 December 2005, particulars of the associates of the Company are set out below:

Name of investee enterprise	Registered capital	% of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang	Rmb48,000,000	30%	Rmb14,400,000	Sale, processing, and distribution of steel products
TKAS	US\$5,000,000	45%	US\$2,250,000	Development, production and sale of tailored blanks

### 35. COMMITMENTS

#### (a) Capital commitments

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

	The Group		The Company	
	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted for				
Construction and upgrade of production lines	<b>847,352</b>	458,774	<b>846,850</b>	458,774
Investment	<b>188,000</b>	170,000	<b>188,000</b>	170,000
Acquisition of subsidiary (Note)	<b>19,691,566</b>	—	<b>19,691,566</b>	—
Authorised but not contracted for				
Construction and upgrade of production lines	<b>729,964</b>	3,363,421	<b>385,364</b>	3,013,971
	<b>21,456,882</b>	3,992,195	<b>21,111,780</b>	3,642,745

## Notes on the Financial Statements *(Continued)*

*For the year ended 31 December 2005*

*(Prepared in accordance with PRC Accounting Rules and Regulations)*

### 35. COMMITMENTS *(Continued)*

#### (a) Capital commitments *(Continued)*

(Note): Acquisition of subsidiary

Pursuant to the Acquisition Agreement, the Company acquired the entire equity interest of ANSI for a consideration of Rmb19,690,000,000. The consideration is based on the net asset value of ANSI as at 30 June 2005 ("Asset Appraisal Date") as assessed by the valuer, as adjusted by the net profit of ANSI between the Asset Appraisal Date and the completion date of the acquisition and other terms as set out in the agreement. According to the "Asset appraisal report for project in relation to the transfer of 100% equity interests in Angang New Steel and Iron Company Limited from Anshan Iron & Steel Group Complex to Angang New Steel Company Limited" (Zhong Zi Ping Bao Zi [2005] No.079) issued on 2 September 2005 by China Assets Appraisal Company Limited, the net asset appraisal value of ANSI as at 30 June 2005 was approximately Rmb19,690,000,000. The appraisal result has been filed to the State-owned Assets Supervision and Administration Commission for reference on 19 October 2005.

#### (b) Other commitments

Pursuant to the funding supporting agreement entered into between the Company and Bank of China Liaoning Branch dated 22 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after the completion of the construction projects. Details are set out in Note 20.

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 36. NON-OPERATING ITEMS

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

	The Group	
	2005 Rmb'000	2004 Rmb'000
Loss on disposal of assets	(373)	(1,269)
Penalty charges	(66)	(173)
Penalty income	45	21
Others	140	(59)
Total non-operating items	(254)	(1,480)
Less: tax effect of the above items	84	488
Net non-operating items	(170)	(992)

## Notes on the Financial Statements (Continued)

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

### 37. SEGMENT REPORTING

The Group operates as a single business segment for the production and sales of steel products mainly in the PRC, except for certain exports to other countries and regions. Details of segment revenue based on the geographical location of customers are set out as follows:

#### The Group

Category	PRC		Other countries		Total	
	2005	2004	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from						
principal operations	21,000,763	18,623,452	5,487,352	4,604,165	26,488,115	23,227,617
Profit from						
principal operations	2,842,696	2,389,334	912,636	974,154	3,755,332	3,363,488

#### The Company

Category	PRC		Other countries		Total	
	2005	2004	2005	2004	2005	2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from						
principal operations	21,217,581	18,700,093	5,078,836	4,448,324	26,296,417	23,148,417
Profit from						
principal operations	2,819,193	2,378,744	908,694	979,062	3,727,887	3,357,806

### 38. POST BALANCE SHEET EVENTS

The acquisition of the entire equity interest of ANSI has been completed in January 2006. Upon obtaining approval from China Securities Regulatory Commission, the Company issued 2.97 billion A shares of Rmb1 each at Rmb4.29 per share (equivalent to Rmb12.74 billion) to Angang Holding as a partial payment for the consideration of acquisition of the entire equity interest of ANSI on 26 January 2006. The remaining purchase consideration will be paid by three installments within three years following the completion date of acquisition. Details are set out in Note 1.

## Details of the Provision for Impairment Losses of Assets

For the year ended 31 December 2005

(Prepared in accordance with PRC Accounting Rules and Regulations)

	Balance at the beginning of the year <i>Rmb'000</i>	The Group		Balance at the end of the year <i>Rmb'000</i>
		Additions <i>Rmb'000</i>	Written off for the year <i>Rmb'000</i>	
1. Bad debt provision	3	79	(82)	—
Including: Other receivables	3	79	(82)	—
2. Provision for diminution				
in value of inventories	50,462	16,079	—	66,541
Including: Raw materials	—	1,825	—	1,825
Finished goods	1,996	14,254	—	16,250
Spare parts	48,466	—	—	48,466

	Balance at the beginning of the year <i>Rmb'000</i>	The Company		Balance at the end of the year <i>Rmb'000</i>
		Additions <i>Rmb'000</i>	Written off for the year <i>Rmb'000</i>	
1. Bad debt provision	3	79	(82)	—
Including: Other receivables	3	79	(82)	—
2. Provision for diminution				
in value of inventories	48,466	—	—	48,466
Including: Finished goods	—	—	—	—
Spare parts	48,466	—	—	48,466