KPMG

To the
Shareholders of Angang New Steel Company Limited
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 138 to 201 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2005 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 10 April 2006

Consolidated Income Statement

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)

	Note	**2005** **Rmb'000**	2004 Rmb'000
Turnover	5	**26,488,115**	23,227,617
Cost of sales		**(22,673,271)**	(19,805,512)
Sales related taxes		**(90,660)**	(49,754)
Gross profit		**3,724,184**	3,372,351
Other operating income	6	**109,988**	106,032
Distribution and other operating expenses		**(462,875)**	(423,192)
Administrative expenses		**(313,519)**	(271,121)
Profit from operations		**3,057,778**	2,784,070
Net financing costs	7(a)	**(18,749)**	(119,843)
Share of profits less losses of associates		**(2,355)**	233
Profit before taxation	7	**3,036,674**	2,664,460
Income tax expense	8(a)	**(919,277)**	(866,873)
Profit for the year and attributable to equity shareholders of the Company	11	**2,117,397**	1,797,587
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	10	**1,066,675**	888,883
Earnings per share	12		
— Basic		**Rmb0.715**	Rmb0.607
— Diluted		**—**	Rmb0.606

The notes on pages 145 to 201 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005

(Prepared in accordance with International Financial Reporting Standards)

	Note	**2005** **Rmb'000**	2004 Rmb'000
Non-current assets			
Property, plant and equipment	13	**6,364,573**	6,908,076
Intangible assets	14	**23,760**	26,699
Construction in progress	15	**2,886,086**	611,498
Lease prepayments	16	**315,959**	323,234
Interest in associates	18	**30,927**	30,803
Other investment	19	**10,500**	10,500
Deferred tax assets	8(b)	**38,692**	54,999
		9,670,497	7,965,809
Current assets			
Inventories	20	**2,608,291**	2,221,412
Amounts due from fellow subsidiaries		**281,590**	304,561
Trade receivables	21	**933,165**	1,554,515
Prepayments, deposits and other receivables		**127,326**	105,504
Income tax recoverable		**40,723**	—
Deposits with banks		**—**	934,450
Cash and cash equivalents		**562,339**	1,813,683
		4,553,434	6,934,125
Current liabilities			
Trade payables	22	**419,201**	446,278
Income tax payable		**—**	244,082
Amount due to ultimate holding company		**4,688**	463
Amounts due to fellow subsidiaries		**43,727**	73,803
Other payables		**1,143,565**	1,661,440
Convertible debentures	23	**—**	3,510
Short term bank loans	24	**758,035**	1,203,534
		2,369,216	3,633,110
Net current assets		**2,184,218**	3,301,015
Total assets less current liabilities carried forward		**11,854,715**	11,266,824

Consolidated Balance Sheet *(Continued)*

At 31 December 2005

(Prepared in accordance with International Financial Reporting Standards)

	Note	2005 Rmb'000	2004 Rmb'000
Total assets less current liabilities brought forward		**11,854,715**	11,266,824
Non-current liabilities			
Bank loans	24	**604,013**	1,244,548
NET ASSETS		**11,250,702**	10,022,276
CAPITAL AND RESERVES			
Share capital	25	**2,962,986**	2,962,942
Share premium	26	**3,057,639**	3,057,296
Reserves	27	**1,392,158**	974,167
Retained profits		**3,837,919**	3,027,871
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**11,250,702**	10,022,276

Approved and authorised for issue by the board of directors on 10 April 2006.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 145 to 201 form part of these financial statements.

At 31 December 2005

(Prepared in accordance with International Financial Reporting Standards)

	Note	2005 Rmb'000	2004 (restated) Rmb'000
Non-current assets			
Property, plant and equipment	13	**5,909,447**	6,406,442
Construction in progress	15	**2,881,738**	611,470
Lease prepayments	16	**295,154**	301,977
Investment in jointly controlled entities	17	**268,305**	268,305
Investment in associates	18	**33,043**	30,564
Other investment	19	**10,500**	10,500
Deferred tax assets	8(b)	**38,304**	54,747
		9,436,491	7,684,005
Current assets			
Inventories	20	**2,439,971**	2,068,827
Amounts due from fellow subsidiaries		**593,371**	304,561
Trade receivables	21	**676,283**	1,482,584
Prepayments, deposits and other receivables		**102,518**	79,352
Income tax recoverable		**40,723**	—
Deposits with banks		—	934,450
Cash and cash equivalents		**515,061**	1,770,609
		4,367,927	6,640,383
Current liabilities			
Trade payables	22	**406,927**	441,669
Income tax payable		—	244,082
Amount due to ultimate holding company		**4,688**	463
Amounts due to fellow subsidiaries		**42,068**	71,029
Other payables		**1,087,630**	1,505,676
Convertible debentures	23	—	3,510
Short term bank loan	24	**600,000**	1,063,000
		2,141,313	3,329,429
Net current assets		**2,226,614**	3,310,954
Total assets less current liabilities carried forward		**11,663,105**	10,994,959

At 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)

	Note	**2005** Rmb'000	2004 (restated) Rmb'000
Total assets less current liabilities brought forward		**11,663,105**	10,994,959
Non-current liabilities			
Bank loans	24	**300,000**	900,000
NET ASSETS		**11,363,105**	10,094,959
CAPITAL AND RESERVES			
Share capital	25	**2,962,986**	2,962,942
Share premium	26	**3,057,639**	3,057,296
Reserves	27	**1,392,158**	974,167
Retained profits	28	**3,950,322**	3,100,554
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**11,363,105**	10,094,959

Approved and authorised for issue by the board of directors on 10 April 2006.

Liu Jie
Chairman

Fu Jihui
Director

The notes on pages 145 to 201 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
2004						
At 1 January 2004		2,962,309	3,055,920	619,043	2,178,113	8,815,385
Profit for the year		—	—	—	1,797,587	1,797,587
Transfer between reserves		—	—	355,266	(355,266)	—
Shares issued upon conversion of convertible debentures	25	633	1,376	(158)	—	1,851
Final dividend — 2003	10(b)	—	—	—	(592,563)	(592,563)
Deferred tax released upon the conversion of convertible debentures	8(b)	—	—	16	—	16
At 31 December 2004		2,962,942	3,057,296	974,167	3,027,871	10,022,276
2005						
At 1 January 2005		2,962,942	3,057,296	974,167	3,027,871	10,022,276
Profit for the year		—	—	—	2,117,397	2,117,397
Proposed transfer between reserves		—	—	418,254	(418,254)	—
Shares issued upon conversion of convertible debentures	25	44	343	(264)	—	123
Final dividend – 2004	10(b)	—	—	—	(889,095)	(889,095)
Deferred tax released upon the conversion of convertible debentures	8(b)	—	—	1	—	1
At 31 December 2005		2,962,986	3,057,639	1,392,158	3,837,919	11,250,702

The notes on pages 145 to 201 form part of these financial statements

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)

	Note	**2005** **Rmb'000**	2004 Rmb'000
Operating activities			
Cash flows from operations	30	**3,741,879**	2,094,497
Interest received		**16,913**	25,613
Interest paid		**(117,447)**	(135,647)
Income tax paid		**(1,187,774)**	(589,257)
Cash flows from operating activities		**2,453,571**	1,395,206
Investing activities			
Capital expenditure		**(2,672,827)**	(746,414)
Proceeds from disposal of property, plant and equipment		**1,463**	670
Investment in associate		**(2,479)**	(16,164)
Investment in other investment		**—**	(10,500)
Decrease / (increase) in fixed deposits maturing over 3 months		**934,450**	(644,450)
Cash flows from investing activities		**(1,739,393)**	(1,416,858)
Financing activities			
Dividends paid		**(889,095)**	(592,563)
Proceeds of bank loans		**117,500**	555,349
Repayment of bank loans		**(1,203,534)**	(420,267)
Redemption of convertible debentures		**(3,430)**	—
Cash flows from financing activities		**(1,978,559)**	(457,481)
Net decrease in cash and cash equivalents		**(1,264,381)**	(479,133)
Cash and cash equivalents at 1 January		**1,813,683**	2,316,976
Effect of exchange rate fluctuations on cash held		**13,037**	(24,160)
Cash and cash equivalents at 31 December		**562,339**	1,813,683

The notes on pages 145 to 201 form part of these financial statements.

1 BACKGROUND OF THE COMPANY

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

A summary of the significant accounting policies adopted in the preparation of the financial statements is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's profit for the year and the equity attributable to equity shareholders of the Company under IFRSs and the PRC Accounting Rules and Regulations is presented on pages 202 to 203.

IASB has issued a number of new and revised IFRSs which are effective or available for early adoption for the accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2005 comprise the Group and the Group's interest in associates. The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in next year are discussed in note 37.

(c) Basis of consolidation

(i) Associates

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

Investments in associates are stated in the Company's balance sheet at cost less impairment losses (see note 2(t)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

(ii) Jointly controlled entities

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

Investments in jointly controlled entities are stated in the Company's balance sheet at cost less impairment losses (see note 2(t)).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(d) Investments

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(t)).

Investments are recognised / derecognised on the date the Group and/or the Company commits to purchase / sell the investments.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

(i) Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(t)). The cost of an acquired asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use.

(ii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in the income statement in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised as income or expense in the income statement on the date of retirement or disposal.

(iv) Depreciation is provided to write off the cost of each part of an item of property, plant and asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

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

When parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 2(t)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges and exchange differences on the designated financial instruments (see note 2(w)), during the period of construction.

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

No depreciation is provided in respect of construction in progress.

(g) Intangible assets

Intangible assets represent industrial technology acquired by the Group and are stated at cost less accumulated amortisation and impairment losses (see note 2(t)).

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

Amortisation is charged to the income statement on a straight-line basis over the assets' estimated useful life of 10 years.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the PRC land bureau. Land use rights are carried at amortised cost less impairment losses (see note 2(t)). Land use rights are amortised on a straight line basis over the respective periods of the rights.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

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

The cost of inventories is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(t)), unless the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(t)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Convertible debentures

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

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

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

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

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

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

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

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Provisions and contingent liabilities

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

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

(o) Revenue recognition

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

(p) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method (see note 2(x)), interest receivable on fund invested, foreign exchange gains and losses (see note 2(w)).

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

(q) Repairs and maintenance expenses

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Research and development costs

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

(s) Income tax

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Impairment of assets

(i) Impairment of trade and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets; and

– investments in associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of other asset is the greater of its net selling price and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(u) Retirement benefits

Obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. Further information is set out in note 33.

(v) Dividends

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those eligible for capitalisation as construction in progress (see note 2(f)).

(x) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related party transactions

For the purpose of these financial statements, parties are considered to be related to the Group if it has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(z) Segment reporting

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

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRSs which are effective for the accounting periods beginning on or after 1 January 2005. The accounting policies of the Group and/or the Company after the adoption of these new and revised IFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

(a) Investments in associates and jointly controlled entities (IAS 28, Investments in associates; IAS 31, Interests in joint ventures)

In prior years, in the Company's balance sheet, an investment in an associate or a jointly controlled entity is accounted for under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Company's share of associate's or jointly controlled entity's net assets.

With effect from 1 January 2005, in order to comply with IAS 28 and IAS 31, the Company has changed its accounting policy relating to investments in associates and jointly controlled entities. Under the new policies, investments in associates and investments in jointly controlled entities are stated in the Company's balance sheets at cost less impairment losses. The new accounting policy has been applied retrospectively with comparatives restated. As a result of the adoption of these accounting policies, the Company's profit after taxation attributable to equity shareholders of the Company and total equity attributable to equity shareholders of the Company have been increased by Rmb27,939,000 (2004: Rmb58,640,000) and Rmb100,622,000 (2004: Rmb72,683,000) respectively for the year ended 31 December 2005.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Definition of related parties (IAS 24 "Related party disclosures")

The definition of related parties under IAS 24 as disclosed in note 32 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-retirement benefit plans. The disclosure of such related party transactions in note 32 for the comparative period has been made accordingly.

4 SEGMENT REPORTING

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

	2005	2004
	Rmb'000	*Rmb'000*
Revenue		
The PRC	**21,000,763**	18,623,452
Other countries	**5,487,352**	4,604,165
	26,488,115	23,227,617

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

5 TURNOVER

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

6 OTHER OPERATING INCOME

	2005 Rmb'000	2004 Rmb'000
Income from sales of scrap materials	**100,007**	93,439
Write-off of long outstanding accounts payable	**4,502**	—
Packaging materials income	**2,495**	2,026
Insurance compensation	**—**	9,598
Dividend income from other investment	**1,400**	—
Others	**1,584**	969
	109,988	106,032

7 PROFIT BEFORE TAXATION

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

(a) Net financing costs:

	2005 Rmb'000	2004 Rmb'000
Interest on bank advances	**118,075**	136,903
Less: Amount capitalised as construction in progress*	**(66,266)**	(23,855)
Net interest expenses	**51,809**	113,048
Net exchange difference	**(19,279)**	30,553
Less: Amount capitalised as construction in Progress	**—**	643
Net exchange (gain)/loss	**(19,279)**	31,196
Interest income	**(14,556)**	(24,952)
Bank charges	**775**	551
	18,749	119,843

* The borrowing costs have been capitalised at an average rate of 5.59% (2004: 5.53%) per annum for construction in progress.

7 PROFIT BEFORE TAXATION *(Continued)*

Profit before taxation is arrived after charging / (crediting): *(Continued)*

(b) Other items:

	2005	2004
	Rmb'000	*Rmb'000*
Auditors' remuneration	**3,640**	3,500
Cost of inventories	**22,673,271**	19,805,512
Depreciation	**838,356**	806,006
Amortisation of intangible assets	**2,939**	1,531
Amortisation of lease prepayments	**7,275**	6,357
Personnel costs		
– Salaries and wages, welfare and other costs	**267,017**	233,243
– Contributions to defined contribution scheme	**48,732**	57,029
Total personnel costs	**315,749**	290,272
Repairs and maintenance	**473,334**	359,755
Research and development costs	**9,403**	10,421
Loss on disposals of property, plant and equipment	**373**	1,269

8 INCOME TAX

(a) Income tax expense in the consolidated income statement

	2005	2004
	Rmb'000	*Rmb'000*
Current tax expense		
Provision for PRC income tax for the year	**902,969**	856,406
Deferred tax expense		
Origination and reversal of temporary differences (note 8(b))	**16,308**	10,467
Total income tax expense in consolidated income statement	**919,277**	866,873

8 INCOME TAX *(Continued)*

(a) Income tax expense in the consolidated income statement *(Continued)*

The provision for PRC income tax is calculated at 33% (2004: 33%) of the estimated assessable profits for the year determined in accordance with relevant income tax rules and regulations in the PRC.

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

	2005	2004
	Rmb'000	*Rmb'000*
Profit before taxation	**3,036,674**	2,664,460
Expected PRC income tax at a statutory tax rate of 33%	**1,002,102**	879,271
Non-taxable income	**(4,324)**	(9,961)
Non-deductible expenses	**42,045**	34,688
Additional deduction *	**(96,392)**	—
Tax credit *	**(24,154)**	(37,125)
	919,277	866,873

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

8 INCOME TAX *(Continued)*

(b) Deferred taxation

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

The Group

	Assets		Liabilities		Net	
	2005	2004	**2005**	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Borrowing costs capitalised in construction in progress	**—**	—	**(24,564)**	(9,605)	**(24,564)**	(9,605)
Revaluation of lease prepayments (note)	**63,114**	64,612	**—**	—	**63,114**	64,612
Pre-operating expenses	**142**	6	**—**	—	**142**	6
Discount on convertible debentures	**—**	—	**—**	(14)	**—**	(14)
	63,256	64,618	**(24,564)**	(9,619)	**38,692**	54,999
Set-off within legal tax units and jurisdictions	**(24,564)**	(9,619)	**24,564**	9,619	**—**	—
Net deferred tax assets	**38,692**	54,999	**—**	—	**38,692**	54,999

8 INCOME TAX *(Continued)*

(b) Deferred taxation *(Continued)*

(i) Deferred tax assets / (liabilities) are attributable to the following: *(Continued)*

The Company

	Assets		Liabilities		Net	
	2005	2004	**2005**	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Borrowing costs capitalised in construction in progress	**—**	—	**(24,564)**	(9,605)	**(24,564)**	(9,605)
Revaluation of lease prepayments (note)	**62,868**	64,366	**—**	—	**62,868**	64,366
Discount on convertible debentures	**—**	—	**—**	(14)	**—**	(14)
	62,868	64,366	**(24,564)**	(9,619)	**38,304**	54,747
Set-off within legal tax units and jurisdictions	**(24,564)**	(9,619)	**24,564**	9,619	**—**	—
Net deferred tax assets	**38,304**	54,747	**—**	—	**38,304**	54,747

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

8 INCOME TAX *(Continued)*

(b) Deferred taxation *(Continued)*

(ii) Movement in temporary differences during the year:

The Group

	Balance at 1 January 2004	Recognised in income statement (note 8(a))	Recognised in equity (note 27)	Balance at 31 December 2004 / 1 January 2005	Recognised in income statement (note 8(a))	Recognised in equity (note 27)	at 31 December 2005
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Borrowing costs capitalised in construction in progress	(9,245)	(360)	—	(9,605)	(14,959)	—	(24,564)
Revaluation of lease prepayments	66,074	(1,462)	—	64,612	(1,498)	—	63,114
Pre-operating expenses	8,682	(8,676)	—	6	136	—	142
Discount on convertible debentures	(61)	31	16	(14)	13	1	—
	65,450	(10,467)	16	54,999	(16,308)	1	38,692

The Company

	Balance at 1 January 2004	Recognised in income statement	Recognised in equity (note 27)	Balance at 31 December 2004/ 1 January 2005	Recognised in income statement	Recognised in equity (note 27)	at 31 December 2005
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Borrowing costs capitalised in construction in progress	(9,245)	(360)	—	(9,605)	(14,959)	—	(24,564)
Revaluation of lease prepayments	65,863	(1,497)	—	64,366	(1,498)	—	62,868
Discount on convertible debentures	(61)	31	16	(14)	13	1	—
	56,557	(1,826)	16	54,747	(16,444)	1	38,304

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

Directors' and supervisors' remuneration:

	Directors' and supervisors' fees *Rmb'000*	Salaries, allowance and benefits in kind *Rmb'000*	Discretionary bonuses *Rmb'000*	Retirement scheme contributions *Rmb'000*	2005 Total *Rmb'000*
Executive directors					
Liu Jie	—	—	—	—	—
Yang Hua	—	—	—	—	—
Tang Fuping	—	270	—	49	319
Yao Lin	—	282	—	57	339
Huang Haodong	—	—	—	—	—
Zhang Lifen	—	325	—	65	390
Fu Jihui	—	288	—	57	345
Fu Wei	—	298	—	60	358
Cai Denglou	—	—	—	—	—
Li ZhongWu	—	—	—	—	—
Non-executive directors					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Wang Linsen	63	—	—	—	63
Yao Weiting	63	—	—	—	63
Liu Yongze	63	—	—	—	63
Francis Li Chak Yan	66	—	—	—	66
Wang Xiaobin	44	—	—	—	44
Supervisors					
Qi Cong	—	—	—	—	—
Zhou Fa	—	288	—	58	346
Xing Guibin	—	148	—	19	167
	299	1,899	—	365	2,563

9 DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

Directors' and supervisors' remuneration: *(Continued)*

	Directors' and supervisors' fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2004 Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Executive directors					
Liu Jie	—	185	—	47	232
Yang Hua	—	140	—	36	176
Cai Denglou	—	140	—	36	176
Yao Lin	—	140	—	36	176
Li Zhongwu	—	140	—	36	176
Zhang Lifen	—	140	—	36	176
Fu Jihui	—	140	—	36	176
Fu Wei	—	140	—	36	176
Non-executive directors					
Yu Wanyuan	130	—	—	—	130
Independent non-executive directors					
Wang Linsen	40	—	—	—	40
Yao Weiting	40	—	—	—	40
Liu Yongze	40	—	—	—	40
Francis Li Chak Yan	42	—	—	—	42
Supervisors					
Qi Cong	—	130	—	33	163
Zhou Fa	—	124	—	30	154
Xing Guibin	—	107	—	27	134
	292	1,526	—	389	2,207

The five highest paid individuals of the Group in 2005 and 2004 were all executive directors whose emoluments are disclosed above.

10 DIVIDENDS

(a) Dividends attributable to the year

	2005 Rmb'000	2004 Rmb'000
Final dividend proposed after the balance sheet date of Rmb36 cents per share (2004: Rmb30 cents per share)	**1,066,675**	888,883

Pursuant to a resolution passed at the directors' meeting on 10 April 2006, a final dividend of Rmb36 cents (2004: Rmb30 cents) per share totalling Rmb1,066,675,000 (2004: Rmb888,883,000) was approved for shareholders' approval at the Annual General Meeting.

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

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

	2005 Rmb'000	2004 Rmb'000
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb30 cents per share (2004: Rmb20 cents per share)	889,095	592,563

In respect of the dividends attributable to the year ended 31 December 2004, the difference between the final dividend proposed and the amount approved and paid during the year represents the additional dividends distributed to the holders of shares which were issued upon the conversion of convertible debentures before the closing date of the register of members.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company in the amount of Rmb2,157,117,000 (2004 restated: Rmb1,856,227,000) has been dealt with in the financial statements of the Company.

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb2,117,397,000 (2004: Rmb1,797,587,000) and a weighted average number of shares outstanding during the year of 2,962,975,000 (2004: 2,962,761,000) calculated as follows:

Weighted average number of shares *(In thousands of shares)*	**2005**	2004
Issued shares at 1 January	**2,962,942**	2,962,309
Effect of conversion of convertible debentures	**33**	452
Weighted average number of shares at 31 December	**2,962,975**	2,962,761

(b) Diluted earnings per share

There were no dilutive potential equity shares in existence as at 31 December 2005.

During the year ended 31 December 2004, the calculation of diluted earnings per share was based on the profit attributable to equity shareholders of the Company of Rmb1,797,587,000 and a weighted average number of shares of 2,964,017,000 after the adjustment with regard to the effects of conversion of remaining convertible debentures as follows:

Weighted average number of shares (diluted) *(In thousands of shares)*	2004
Weighted average number of shares at 31 December	2,962,761
Effect of conversion of remaining convertible debentures	1,256
Weighted average number of shares (diluted) at 31 December	2,964,017

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

13 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Transportation vehicles and other related equipment *Rmb'000*	Total *Rmb'000*
Cost:				
At 1 January 2004	1,481,451	6,549,785	457,687	8,488,923
Reclassification	(52,276)	34,586	17,690	—
Additions	20,629	9,928	8,666	39,223
Transfer from construction in progress (note 15)	125,262	962,095	132,784	1,220,141
Disposals	—	(3,247)	(726)	(3,973)
At 31 December 2004	1,575,066	7,553,147	616,101	9,744,314
At 1 January 2005	1,575,066	7,553,147	616,101	9,744,314
Additions	210	9,959	752	10,921
Transfer from construction in progress (note 15)	18,039	251,861	23,483	293,383
Disposals	(1,386)	(9,407)	(1,055)	(11,848)
At 31 December 2005	1,591,929	7,805,560	639,281	10,036,770

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Transportation vehicles and other related equipment *Rmb'000*	Total *Rmb'000*
Accumulated depreciation:				
At 1 January 2004	191,182	1,616,082	224,977	2,032,241
Reclassification	(1,127)	746	381	—
Charge for the year	98,499	647,340	60,167	806,006
Written back on disposal	—	(1,774)	(235)	(2,009)
At 31 December 2004	288,554	2,262,394	285,290	2,836,238
At 1 January 2005	288,554	2,262,394	285,290	2,836,238
Charge for the year	111,208	665,865	61,283	838,356
Written back on disposal	(37)	(2,226)	(134)	(2,397)
At 31 December 2005	399,725	2,926,033	346,439	3,672,197
Net book value:				
At 31 December 2005	1,192,204	4,879,527	292,842	6,364,573
At 31 December 2004	1,286,512	5,290,753	330,811	6,908,076

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Transportation vehicles and other related equipment *Rmb'000*	Total *Rmb'000*
Cost:				
At 1 January 2004	1,477,599	6,540,751	452,149	8,470,499
Reclassification	(52,276)	34,586	17,690	—
Additions	20,629	4,562	7,961	33,152
Transfer from construction in progress (note 15)	30,022	557,723	120,170	707,915
Disposals	—	(3,247)	(726)	(3,973)
At 31 December 2004	1,475,974	7,134,375	597,244	9,207,593
At 1 January 2005	1,475,974	7,134,375	597,244	9,207,593
Additions	—	11,779	—	11,779
Transfer from construction in progress (note 15)	18,039	251,459	23,483	292,981
Disposals	(1,386)	(9,407)	(868)	(11,661)
At 31 December 2005	1,492,627	7,388,206	619,859	9,500,692

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company (Continued)

	Buildings Rmb'000	Plant, machinery and equipment Rmb'000	Transportation vehicles and other related equipment Rmb'000	Total Rmb'000
Accumulated depreciation:				
At 1 January 2004	191,168	1,615,923	224,163	2,031,254
Reclassification	(1,127)	746	381	—
Charge for the year	95,134	619,182	57,590	771,906
Written back on disposal	—	(1,774)	(235)	(2,009)
At 31 December 2004	285,175	2,234,077	281,899	2,801,151
At 1 January 2005	285,175	2,234,077	281,899	2,801,151
Charge for the year	106,739	627,618	58,044	792,401
Written back on disposal	(37)	(2,226)	(44)	(2,307)
At 31 December 2005	391,877	2,859,469	339,899	3,591,245
Net book value:				
At 31 December 2005	1,100,750	4,528,737	279,960	5,909,447
At 31 December 2004	1,190,799	4,900,298	315,345	6,406,442

(c) All of the Group's buildings are located in the PRC.

(d) One of the Company's jointly controlled entities has pledged its property, plant and equipment at a carrying amount of Rmb878,412,000 at 31 December 2005 (2004: Rmb997,326,000) to secure a syndicated loan as mentioned in note 24.

14 INTANGIBLE ASSETS

The Group	Industrial technology *Rmb'000*
Cost:	
Balance at 1 January 2004	12,819
Additions	15,411
Balance at 31 December 2004 and 31 December 2005	28,230
Accumulated amortisation:	
Balance at 1 January 2004	—
Amortisation for the year	1,531
Balance at 31 December 2004	1,531
Balance at 1 January 2005	1,531
Amortisation for the year	2,939
Balance at 31 December 2005	4,470
Net book value:	
At 31 December 2005	23,760
At 31 December 2004	26,699

The amortisation charge for the year is included in "Administrative expenses" in the consolidated income statement.

15 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Balance at 1 January	**611,498**	1,122,923	**611,470**	670,914
Additions	**2,567,971**	708,716	**2,563,249**	648,471
	3,179,469	1,831,639	**3,174,719**	1,319,385
Transfer to property, plant and equipment (note 13)	**(293,383)**	(1,220,141)	**(292,981)**	(707,915)
Balance at 31 December	**2,886,086**	611,498	**2,881,738**	611,470

Construction in progress comprises:

	The Group 2005	The Group 2004	The Company 2005	The Company 2004
Cold rolling system upgrade	**549,062**	212,706	**549,062**	212,706
2130 cold rolling production line	**2,271,603**	279,997	**2,271,603**	279,997
ANSC - Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC - Xinchuan") steel product production line	**4,348**	28	**—**	—
Technological renovation	**61,073**	118,767	**61,073**	118,767
Balance at 31 December	**2,886,086**	611,498	**2,881,738**	611,470

16 LEASE PREPAYMENTS

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights of the Company and the Group range from 42 to 47 years.

One of the Company's jointly controlled entities has pledged its land use rights at a carrying amount of Rmb41,610,000 at 31 December 2005 (2004: Rmb42,514,000) to secure a syndicated loan as mentioned in note 24.

17 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

The Company	2005 *Rmb'000*	2004 (restated) *Rmb'000*
Unlisted shares, at cost	**268,305**	268,305

Details of the Company's investment in the jointly controlled entities are set out below:

Name of jointly controlled entities	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of equity interest: Group's effective interest	Proportion of equity interest: held by the Company	Principal activities
ANSC - TKS Galvanizing Co., Ltd. ("ANSC - TKS")	Sino-foreign equity joint venture	PRC	US$60 million	50%	50%	Production and sale of hot dip galvanised steel products
ANSC - Xinchuan	Equity joint venture	PRC	Rmb 40 million	50%	50%	Sale, processing and distribution of steel products

17 INVESTMENT IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	2005	2004
	Rmb'000	*Rmb'000*
Non-current assets	**504,427**	549,870
Current assets	**342,841**	281,655
Non-current liabilities	**(304,013)**	(344,548)
Current liabilities	**(373,456)**	(291,594)
Net assets	**169,799**	195,383
Income	**997,361**	437,970
Expenses	**(1,022,945)**	(496,843)
	(25,584)	(58,873)

The Company has pledged its equity interest in ANSC-TKS to secure a syndicated loan granted to ANSC-TKS (note 24).

18 INTEREST / INVESTMENT IN ASSOCIATES

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted shares, at cost	**—**	—	**33,043**	30,564
Share of net asset	**30,927**	30,803	**—**	—
	30,927	30,803	**33,043**	30,564

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

Name of associate	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of equity interest: Group's effective interest	Proportion of equity interest: held by the Company	Principal activities
Angang Shenyang Steel Product Processing And Distribution Company Limited ("Angang Shenyang")	Equity joint venture	PRC	Rmb48 million	30%	30%	Sale, processing and distribution of steel products
TKAS (Changchum) Tailored Blanks Ltd ("TKAS", formerly known as TKAZ (Changchun) Tailored Blanks Ltd)	Sino-foreign equity joint	PRC	US$5 million	45%	45%	Production and sale of tailored blanks venture

18 INTEREST / INVESTMENTS IN ASSOCIATES *(Continued)*

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
2005					
100 per cent	**156,486**	**71,108**	**85,378**	**56,301**	**(5,760)**
Group's effective interest	**61,351**	**30,424**	**30,927**	**19,093**	**(2,355)**
2004					
100 per cent	73,920	8,959	64,961	33,179	781
Group's effective interest	33,490	2,687	30,803	9,954	233

19 OTHER INVESTMENT

	The Group and the Company	
	2005	2004
	Rmb'000	*Rmb'000*
Unlisted equity securities	**10,500**	10,500

20 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	**1,227,665**	722,802	**1,105,429**	631,453
Spare parts, tools and ancillary materials	**878,614**	815,842	**846,292**	788,835
	2,608,291	2,221,412	**2,439,971**	2,068,827

20 INVENTORIES *(Continued)*

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2005	2004
	Rmb'000	*Rmb'000*
Carrying amount of inventories sold	**22,655,196**	19,803,516
Write-down of inventories	**18,075**	1,996
	22,673,271	19,805,512

21 TRADE RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accounts receivable	**338,391**	128,647	**81,509**	56,716
Bills receivable	**594,774**	1,425,868	**594,774**	1,425,868
	933,165	1,554,515	**676,283**	1,482,584

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Less than 3 months	**405,247**	1,164,599	**148,364**	1,092,668
More than 3 months but less than 12 months	**527,918**	389,916	**527,918**	389,916
	933,165	1,554,515	**676,282**	1,482,584

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

21 TRADE RECEIVABLES *(Continued)*

One of the Company's jointly controlled entities has pledged its trade receivables at a carrying amount of Rmb201,982,000 at 31 December 2005 (2004: Rmb143,862,000) to secure a syndicated loan as mentioned in note 24.

Included in the accounts receivable are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005	2004
	Rmb'000	*Rmb'000*
United States Dollars	**USD12,256**	USD 8,637
Euros	**EUR —**	EUR 115

22 TRADE PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accounts payable	**224,809**	225,379	**212,535**	220,770
Bills payable	**194,392**	220,899	**194,392**	220,899
	419,201	446,278	**406,927**	441,669

The ageing analysis of trade payables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due on demand	**190,118**	191,955	**188,314**	191,955
Due within 3 months	**121,621**	147,304	**111,151**	142,695
Due after 3 months but within 6 months	**107,462**	107,019	**107,462**	107,019
	419,201	446,278	**406,927**	441,669

23 CONVERTIBLE DEBENTURES

	The Group and the Company	
	2005	2004
	Rmb'000	*Rmb'000*
Carrying amount of convertible debentures at 1 January	**3,510**	5,269
Conversion into A shares (note 25)	**(123)**	(1,851)
Redemptions of convertible debentures	**(3,430)**	—
Transaction costs amortised	**5**	7
Discount on convertible debentures amortised	**38**	85
Carrying amount of convertible debentures at 31 December	**—**	3,510
Less: Balance due within one year classified as current liabilities	**—**	(3,510)
	—	—

On 15 March 2000, the Company issued convertible debentures (the "Debentures") amounting to Rmb1,500,000,000. The Debentures were listed on the Shenzhen Stock Exchange and were guaranteed by Anshan Iron & Steel Group Complex ("Angang Holding"). Each debenture has been, at the option of the holder, converted into A shares with a par value of Rmb1 each of the Company ("A Shares") or settled prior to 14 March 2005 (the deadline of conversion date).

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

By 14 March 2005, 453,985,697 A shares were converted from the Debentures.

24 BANK LOANS

At 31 December 2005, the bank loans denominated in Renminbi were repayable as follows:

	Within 1 year or on demand *Rmb'000*	After 1 year but within 2 years *Rmb'000*	After 2 years But Within 5 years *Rmb'000*	More than 5 years *Rmb'000*	Sub-total *Rmb'000*	Total *Rmb'000*
Unsecured bank loans:						
— Floating interest rate at 5.76% p.a.	600,000	300,000	—	—	300,000	900,000
The Company	600,000	300,000	—	—	300,000	900,000
Unsecured bank loans:						
— Floating interest rates ranging from 5.22% p.a. to 5.58% p.a.	117,500	—	—	—	—	117,500
Secured bank loan:						
— Floating interest rates at 6.12% p.a.	40,535	40,535	121,605	141,873	304,013	344,548
The Group	758,035	340,535	121,605	141,873	604,013	1,362,048

24 BANK LOANS (Continued)

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

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

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

In October 2002, ANSC-TKS entered into a long-term loan facility of Rmb1,080 million (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights, property, plant and equipment and trade receivables of ANSC-TKS at a carrying amount of Rmb1,122,004,000 at 31 December 2005 (2004: Rmb1,183,702,000).

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

25 SHARE CAPITAL

The Group and the Company

	2005 Number of Shares'000	**2005** Rmb'000	2004 Number of Shares'000	2004 Rmb'000
Issued and fully paid:				
State-owned legal person shares of Rmb1 each				
At 1 January	**1,319,000**	**1,319,000**	1,319,000	1,319,000
Decrease as a result of State-owned Share Reform Plan (note)	**(188,496)**	**(188,496)**	—	—
As at 31 December	**1,130,504**	**1,130,504**	1,319,000	1,319,000
A shares of Rmb1 each				
At 1 January	**753,942**	**753,942**	753,309	753,309
Conversion of convertible debentures	**44**	**44**	633	633
Increase as a result of State-owned Share Reform Plan (note)	**188,496**	**188,496**	—	—
As at 31 December	**942,482**	**942,482**	753,942	753,942
H shares of Rmb1 each				
At 1 January and 31 December	**890,000**	**890,000**	890,000	890,000
	2,962,986	**2,962,986**	2,962,942	2,962,942

Note:

In accordance with the "Approval notice related to State-owned Share Reform Plan of Angang New Steel Company Limited" issued by Stated-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 188,496,000 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 person shares of the Company held by Angang Holding were reduced by 188,496,000 shares. The Company's A shares were increased by 188,496,000 shares accordingly.

25 SHARE CAPITAL (Continued)

During the year, 43,451 (2004: 633,594) A shares were issued on the conversion of convertible debentures with total carrying values of Rmb387,000 (2004: Rmb2,009,000) made up as follows:

	2005	2004
	Rmb'000	*Rmb'000*
Liability component (note 23)	**123**	1,851
Equity component (note 27)	**264**	158
	387	2,009

The balance of Rmb343,000 (2004: Rmb1,376,000) was credited to share premium account.

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

26 SHARE PREMIUM

The Group and the Company

	Share Premium
	Rmb'000
At 1 January 2004	3,055,920
Shares issued upon conversion of convertible debentures (note 25)	1,376
At 31 December 2004 / 1 January 2005	3,057,296
Shares issued upon conversion of convertible debentures (note 25)	343
At 31 December 2005	3,057,639

27 RESERVES

The Group and the Company

	Statutory surplus reserve (note a) Rmb'000	Statutory public welfare fund (note a) Rmb'000	Convertible debenture reserve (note b) Rmb'000	Excess over share capital (note c) Rmb'000	Total Rmb'000
2004					
At 1 January 2004	385,297	385,297	405	(151,956)	619,043
Transfer for the year	177,633	177,633	—	—	355,266
Shares issued upon conversion of convertible debentures (note 25)	—	—	(158)	—	(158)
Deferred tax released upon the conversion of convertible debentures (note 8(b))	—	—	16	—	16
At 31 December 2004	562,930	562,930	263	(151,956)	974,167
2005					
At 1 January 2005	562,930	562,930	263	(151,956)	974,167
Proposed transfer for the year	209,127	209,127	—	—	418,254
Shares issued upon conversion of convertible debentures (note 25)	—	—	(264)	—	(264)
Deferred tax released upon the conversion of convertible debentures (note 8(b))	—	—	1	—	1
At 31 December 2005	772,057	772,057	—	(151,956)	1,392,158

27 RESERVES *(Continued)*

(a) Under the Company's Articles of Association, the Company's net profit after taxation as reported in the financial statements prepared in accordance with the PRC Accounting Rules and Regulations can only be distributed as dividends after allowance has been made for:

(i) making up cumulative prior years' losses, if any;

(ii) allocations to the statutory surplus reserve fund of at least 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations;

(iii) allocations of 5% to 10% of the net profit after taxation, as determined under the PRC Accounting Rules and Regulations, to the Company's statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

(iv) allocations to the discretionary surplus reserve subject to approval by the shareholders.

(b) Convertible debentures reserve comprises the value of the option granted to debenture holders to convert their convertible debentures into A shares of the Company (see note 23).

(c) Land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed from the shareholders' funds.

28 RETAINED PROFITS

The Company

	Note	**2005** **Rmb'000**	2004 Rmb'000
At 1 January			
– As previously reported		**3,027,871**	2,178,113
– Prior year adjustments in respect of IAS 28 and IAS 31	3	**72,683**	14,043
– As restated		**3,100,554**	2,192,156
Net profit for the year (2004: restated)	11	**2,157,117**	1,856,227
Transfer between reserves		**(418,254)**	(355,266)
Final dividend - 2004 / 2003	10(b)	**(889,095)**	(592,563)
At 31 December		**3,950,322**	3,100,554

29 DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under the PRC Accounting Rules and Regulations and the amount determined under IFRSs. As at 31 December 2005, the reserve available for distribution was Rmb3,744,144,000 (2004: Rmb2,960,225,000). Final dividend of Rmb1,066,675,000 (2004: Rmb888,883,000) in respect of the financial year 2005 was proposed after the balance sheet date.

30 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash flows from operations

	2005	2004
	Rmb'000	*Rmb'000*
Profit before taxation	**3,036,674**	2,664,460
Interest income	**(14,556)**	(24,952)
Interest expenses	**51,809**	113,048
Share of profits less losses of associates	**2,355**	(233)
Depreciation	**838,356**	806,006
Amortisation of intangible assets	**2,939**	1,531
Loss on disposal of property, plant and equipment	**373**	1,269
Net exchange (gain) / loss	**(19,279)**	31,196
Increase in inventories	**(386,879)**	(781,129)
Decrease in amounts due from fellow subsidiaries	**23,354**	182,989
Increase in accounts receivable	**(209,744)**	(43,898)
Decrease in bills receivable	**831,094**	671,944
Decrease / (increase) in lease prepayments	**7,275**	(25,058)
(Increase) / decrease in prepayments, deposits and other receivables	**(23,393)**	28,616
(Decrease) / increase in accounts payables	**(570)**	30,917
Decrease in bills payable	**(26,507)**	(1,038,695)
Increase / (decrease) in amount due to ultimate holding company	**4,225**	(418)
Increase / (decrease) in amount due to fellow subsidiaries	**53,090**	(738,702)
(Decrease) / increase in other payables	**(428,737)**	215,606
Cash flows from operations	**3,741,879**	2,094,497

31 COMMITMENTS

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

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Authorised and contracted for:				
– Construction projects of production lines	**847,352**	458,774	**846,850**	458,774
– Investments	**188,000**	170,000	**188,000**	170,000
– Acquisition of Angang Steel and Iron Company Limited ("ANSI") (note 32A(iv))	**19,691,566**	—	**19,691,566**	—
Authorised but not contracted for:				
– Improvement projects of production lines	**729,964**	3,363,421	**385,364**	3,013,971
	21,456,882	3,992,195	**21,111,780**	3,642,745

Included in the Group's capital commitments were the Group's proportionate share of the jointly controlled entities' capital commitments amounting to RMB 345,102,000 as at 31 December 2005 (2004: RMB 349,450,000).

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

(c) According to the acquisition agreements dated 29 December 2004 and 20 October 2005 ("Acquisition Agreement"), the Company acquired the entire equity interest of ANSI for RMB19.69 billion. The consideration is determined based on the appraisal value of the net assets of ANSI as at 30 June 2005 ("Asset Appraisal Date"), subject to final adjustments such as the net profits of ANSI between the Asset Appraisal Date and the date for the acquisition completed and other adjustment items as stated in the Acquisition Agreement. According to the asset appraisal report (Zhong Zi Ping Bao Zi (2005) No.079) issued by China Asset Appraisal Company Limited on 2 September 2005, the appraised net asset value of ANSI was RMB19.69 billion. The appraisal result has been filed to State-owned Assets Supervision and Administration Commission for reference on 19 October 2005.

32 RELATED PARTY TRANSACTIONS

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

(A) Significant transactions and balances with Angang Group

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

		The Group	
		2005	2004
	Note	***Rmb'000***	*Rmb'000*
Sales of finished goods (before deducting sales related taxes)	(a)	**2,201,292**	2,302,742
Return of scrap materials (before deducting sales related taxes)	(a)	**767,030**	497,699
Purchases of			
– raw materials	(b)	**18,410,493**	16,530,004
– ancillary materials and spare parts	(c)	**159,983**	192,064
Utility supplies	(d)	**358,752**	340,327
Fees paid for welfare and other support services	(e)	**512,214**	260,140
Interest received	(f)	**3,778**	5,863
Material processing services (before deducting sales related taxes)	(g)	**90,503**	84,382

Notes:

(a) The Company sold finished products and returned scrap materials to ANSI and other fellow subsidiaries for their own consumption at average prices charged to independent customers for preceding month. Included in the above are sales of pipe billets totalling Rmb1,758,490,000 (2004: Rmb1,095,675,000) to ANSI during the year.

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

32 RELATED PARTY TRANSACTIONS *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(i) Significant transactions which the Group conducts with Angang Group in the normal course of business are as follows: *(Continued)*

Notes: (Continued)

(c) The Company purchased from ANSI ancillary materials in the form of steel products and spare parts based on the average prices of such materials charged by ANSI to independent customers.

(d) The Company purchased from ANSI utilities in the form of industrial water, re-cycled water, soft water, mixed gas, oxygen, nitrogen, hydrogen, argon, compressed air and steam at cost, limited to a maximum increment of 5% from the relevant cost charged in the previous year.

(e) Angang Group charged the Company for railway and road transportation services; agency services for purchase of fuel oil and liquefied petroleum gas, import of spare parts and export of products; equipment repair and general maintenance and overhaul; design and engineering services, product quality testing and analysis services, heating supply for employees' accommodation, education facilities; newspapers, telephone, fax and other media communication services and staff training either at applicable State price, market price or at cost.

(f) Angang Group provided financial services in the form of deposit taking and settlement services to the Company. Angang Group will not charge any fee for the 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 deposits amounted to Rmb421,402,000 (2004: Rmb990,178,000).

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

(h) The issuance of Debentures and all unsecured bank loans of the Company (note 23 and note 24) are guaranteed by Angang Holding.

32 RELATED PARTY TRANSACTIONS *(Continued)*

(A) Significant transactions and balances with Angang Group *(Continued)*

(ii) Amount due to ultimate holding company

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

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

(iii) Amounts due from/to fellow subsidiaries

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

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

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

On 20 October 2005, the Company entered into a revised acquisition agreement with Angang Holding to acquire the entire equity interest of ANSI (see note 31 (c)). In connection with the acquisition of ANSI, the Company entered into the Supply of Materials and Services Agreement with Angang Holding on 29 December 2004, which became effective upon the completion of the acquisition.

(B) Significant transactions with ANSC-TKS

(i) The Company sold finished products to ANSC-TKS amounting to Rmb1,607,309,000 (2004: Rmb946,827,000) for further processing at market price.

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

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

32 RELATED PARTY TRANSACTIONS (Continued)

(C) Significant transactions with other related parties

ANSC-TKS purchased raw materials from and sold finished products to ThyssenKrupp Stahl AG ("TKSAG") (joint venturer of ANSC-TKS), at average prices charged to independent customers. The sales and purchases during the year amounted to Rmb287,988,000 (2004: Rmb105,235,000) and Rmb45,077,000 (2004: Rmb16,475,000) respectively. Rmb143,994,000 and Rmb22,538,000 have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

(D) Transaction with other state-owned enterprises

The Group is part of a larger group of companies under Angang Holding, which itself is owned by the PRC government. The Group also conducts business with other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). The related party transactions as disclosed above only refer to transactions with Angang Holding and enterprises which are under common control of Angang Holding. The transactions with other state-owned enterprises are conducted in the ordinary course of business and under normal commercial terms and as such the Group believes that meaningful disclosure of related party transactions has been provided in the above.

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

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

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

32 RELATED PARTY TRANSACTIONS *(Continued)*

(E) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the company's directors and supervisors as disclosed in note 9 is as follows:

	2005	2004
	Rmb'000	*Rmb'000*
Directors' and supervisors' fees	**299**	292
Salaries, allowance and other benefits in kind	**2,462**	1,666
Retirement scheme contributions	**477**	420
	3,238	2,378

Total remuneration is included in "personnel costs" (see note 7(b)).

33 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Company and two jointly controlled entities are required to contribute to the retirement benefits scheme based on 22.5% (2004: 25.5%) and 19% (2004: 19%) respectively of the total salary in accordance with the regulations of the local labour bureaux.

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

34 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Cash at bank and in hand

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

Trade and other receivables

The Group requests most of its customers to pay cash or bills in full prior to delivery of goods. 24% (2004: 36%) of the Group's accounts receivable relate to sales to railway companies which caused a high concentration of its receivables with railway companies. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

Amounts due from fellow subsidiaries

The terms of amounts due from fellow subsidiaries are disclosed in note 32.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the respective company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The interest rates of convertible debentures and bank loans are disclosed in notes 23 and 24 respectively.

34 FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign currency risk

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

(e) Fair value

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

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

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

35 NON-ADJUSTING POST BALANCE SHEET EVENTS

(i) The acquisition of entire equity interest of ANSI ("Acquisition") 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 in three instalments within three years following the completion date of the Acquisition.

(ii) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

36 COMPARATIVE FIGURES

Certain comparative figures have been re-classified or re-stated to conform with the current year presentation and as a result of the changes in accounting policies. Further details are disclosed in note 3.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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 decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Provision for inventories

As explained in notes 2(i), the Group's inventories, other than spare parts, tools and ancillary materials, are stated at the lower of cost and net realisable value. Spare parts, tools and ancillary materials are stated at cost less any provision for obsolescence. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs to be incurred in selling the inventories and the costs of completion in case for work in progress or the usage for future repair and maintenance. Uncertainty exists in these estimations.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
Amendments to IAS 19	Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to IAS 39	Financial instruments:	
	Recognition and measurement:	
	– The fair value option	1 January 2006
	– Financial guarantee contracts	1 January 2006
IFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to IAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

39 PARENT AND ULTIMATE HOLDING COMPANY

The directors of the Company consider its parent and ultimate holding company at 31 December 2005 to be Angang Holding, which is a state-owned enterprise incorporated in the PRC.

Differences between financial statements prepared in accordance with PRC Accounting Rules and Regulations and International Financial Reporting Standards ("IFRSs")

	Note	2005 Rmb'000	2004 Rmb'000
Net profit under PRC Accounting Rules and Regulations		**2,079,485**	1,776,337
Adjustments:			
Pre-operating expenses	(ii)	**(412)**	26,293
Revaluation of land use rights	(iii)	**4,536**	4,536
Amortisation of lease prepayments	(iv)	**5**	(109)
General borrowing costs capitalised	(v)	**45,289**	997
Write off of long outstanding accounts payable	(vi)	**4,502**	—
Receipt of government grant	(vii)	**300**	—
Deferred tax charge	(viii)	**(16,308)**	(10,467)
Profit attributable to equity shareholders of the Company under IFRSs		**2,117,397**	1,797,587

	Note	2005 Rmb'000	2004 Rmb'000
Shareholders' fund under PRC Accounting Rules and Regulations		**11,329,257**	10,133,942
Adjustments:			
Convertible debentures	(i)		
– Discount on convertible debentures		**—**	42
– Additional borrowing costs capitalised		**7,293**	7,251
Pre-operating expenses	(ii)	**(429)**	(17)
Revaluation of land use rights	(iii)	**(190,512)**	(195,048)
Amortisation of lease prepayments	(iv)	**(743)**	(748)
General borrowing costs capitalised	(v)	**67,144**	21,855
Deferred tax	(viii)	**38,692**	54,999
Total equity attributable to equity shareholders of the Company under IFRSs		**11,250,702**	**10,022,276**

Notes:

(i) The amounts represent the different treatments on transaction costs and discount on convertible debentures between the IFRSs and the PRC Accounting Rules and Regulations.

(ii) Pre-operating expenses are expensed when incurred under IFRSs. However, in the PRC financial statements, pre-operating expenses are capitalised in long-term deferred expenses before the commencement of operation and will be charged to expense on the first date of operation.

(iii) Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Land use rights are carried at historical cost base under IFRSs. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset was reversed from shareholders' equity in the financial statements prepared under IFRSs.

(iv) Land use rights are amortised on a straight-line basis over the respective periods of rights from the date of grant under IFRSs. Under the PRC Accounting Rules and Regulations, land use rights are amortised over the remaining useful lives when the construction work on the related land has been completed.

(v) Under IFRSs, borrowing costs are capitalised as the cost of qualifying assets if they fulfilled the criteria for capitalisation, no matter they are specific borrowings or other borrowings. Under PRC Accounting Rules and Regulations, only specific borrowing costs with certain conditions fulfilled can be capitalised, while other borrowing costs are recognised as expenses when incurred.

(vi) Under IFRSs, the write off of long outstanding accounts payable is recognised in the income statement. Under the PRC Accounting Rules and Regulations, the write off of long outstanding accounts payable is credited to capital reserve.

(vii) Under IFRSs, the receipt of government grant is recognised as an income in the income statement. Under the PRC Accounting Rules and Regulations, receipt of government grant is credited to capital reserve.

(viii) Under IFRSs, deferred tax assets and liabilities are provided at the tax rate of 33%.

A PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS

	2005	2004	2003	2002	2001
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Principal operating revenue	**26,488,115**	23,227,617	14,520,736	10,771,077	9,490,523
Net profit	**2,079,485**	1,776,337	1,432,579	594,588	403,743
Total assets	**14,289,823**	15,343,328	15,011,870	12,425,350	10,237,888
Total liabilities	**(2,960,566)**	(5,209,386)	(6,063,602)	(4,619,902)	(2,799,856)
Net assets	**11,329,257**	10,133,942	8,948,268	7,805,448	7,438,032

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2005	2004	2003	2002	2001
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Turnover	**26,488,115**	23,227,617	14,520,736	10,771,077	9,490,523
Profit attributable equity shareholders of the company	**2,117,397**	1,797,587	1,433,002	598,316	366,481
Non-current assets	**9,670,497**	7,965,809	7,970,456	6,776,533	5,281,336
Current assets	**4,553,434**	6,934,125	6,875,218	5,517,032	4,820,586
Current liabilities	**(2,369,216)**	(3,633,110)	(4,132,287)	(3,147,046)	(2,380,651)
Net current assets	**2,184,218**	3,301,015	2,742,931	2,369,986	2,439,935
Total assets less current liabilities	**11,854,715**	11,266,824	10,713,387	9,146,519	7,721,271
Non-current liabilities	**(604,013)**	(1,244,548)	(1,898,002)	(1,472,264)	(417,529)
Net assets	**11,250,702**	10,022,276	8,815,385	7,674,255	7,303,742

Note: Turnover was stated as the amount before deducting sales related taxes.