To the Shareholders of Angang Steel Company Limited:

We have audited the accompanying financial statements of Angang Steel Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2006, and the consolidated income and profit appropriation statement, the income and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. OPINION

In our opinion, the financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2006, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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

Zhang Li

Beijing, The People's Republic of China

Yang Ming

10 April, 2007

Consolidated Balance Sheet

(Prepared under PRC Accounting Rules and Regulations)
31 December 2006

Assets	Note	2006 Rmb Million	2005 Rmb Million
Current assets			
Cash at banks and in hand	4	**1,698**	562
Bills receivable	5	**1,409**	595
Trade receivables	6	**648**	594
Other receivables	7	**68**	8
Prepayments	8	**610**	174
Inventories	9	**7,220**	2,608
Deferred expenses		**1**	1
Total current assets		**11,654**	4,542
Long-term equity investments	10	**59**	41
Fixed assets			
Fixed assets, at cost	11	**41,471**	11,438
Less: Accumulated depreciation		**(8,447)**	(4,905)
Net book value before provision for impairment		**33,024**	6,533
Less: Provision for impairment of fixed assets		**(118)**	—
Carrying amount		**32,906**	6,533
Construction in progress	12	**8,279**	2,840
Total fixed assets		**41,185**	9,373
Intangible assets and other assets			
Intangible assets	13	**5,528**	334
Long-term deferred expenses		**4**	—
Total intangible assets and other assets		**5,532**	334
Total assets		**58,430**	14,290

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Liabilities and shareholders' funds	*Note*	**2006** **Rmb Million**	2005 Rmb Million
Current liabilities			
Short-term loans	14	**4,630**	117
Bills payable	15	**1,338**	194
Trade payables	16	**1,401**	244
Receipts in advance	17	**3,252**	963
Accrued payroll		**212**	68
Staff welfare payable		**61**	26
Taxes payable	3(d)	**(21)**	(111)
Other payables	18	**1,223**	208
Accrued expenses		**9**	7
Current portion of long-term liabilities	19	**5,078**	641
Total current liabilities		**17,183**	2,357
Long-term liabilities			
Long-term loans	20	**9,089**	604
Long-term payables	21	**2,324**	—
Total long-term liabilities		**11,413**	604
Total liabilities		**28,596**	2,961
Shareholders' funds			
Share capital	22	**5,933**	2,963
Capital reserve	23	**12,847**	3,090
Surplus reserves (including statutory public welfare fund of Rmb0 (2005: Rmb772million))	24	**2,228**	1,544
Undistributed profits (including dividend proposed after the balance sheet date of Rmb3,441 million (2005: Rmb1,067million)	25	**8,826**	3,732
Total shareholders' funds		**29,834**	11,329
Total liabilities and shareholders' funds		**58,430**	14,290

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang	**Ma Lianyong**
Chairman	*Chief Accountant*

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Balance Sheet

(Prepared under PRC Accounting Rules and Regulations)
31 December 2006

Assets	*Note*	**2006** ***Rmb Million***	2005 *Rmb Million*
Current assets			
Cash at banks and in hand	4	**1,480**	515
Bills receivable	5	**1,409**	595
Trade receivables	6	**676**	649
Other receivables	7	**68**	1
Prepayments	8	**592**	166
Inventories	9	**7,036**	2,440
Total current assets		**11,261**	4,366
Long-term equity investments	10	**660**	212
Fixed assets			
Fixed assets, at cost	11	**40,910**	10,895
Less: Accumulated depreciation		**(8,320)**	(4,827)
Net book value before provision for impairment		**32,590**	6,068
Less: Provision for impairment of fixed assets		**(118)**	—
Carrying amount		**32,472**	6,068
Construction in progress	12	**8,135**	2,836
Total fixed assets		**40,607**	8,904
Intangible assets and other assets			
Intangible assets	13	**5,496**	298
Total intangible assets and other assets		**5,496**	298
Total assets		**58,024**	13,780

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Liabilities and shareholders' fund	Note	2006 Rmb Million	2005 Rmb Million
Current liabilities			
Short-term loans	14	**4,580**	—
Bills payable	15	**1,338**	194
Trade payables	16	**1,401**	232
Receipts in advance	17	**3,230**	932
Accrued payroll		**212**	66
Staff welfare payable		**61**	26
Taxes payable	3(d)	**(12)**	(100)
Other payables	18	**1,202**	189
Current portion of long-term liabilities	19	**5,037**	600
Total current liabilities		**17,049**	2,139
Long-term liabilities			
Long-term loans	20	**8,811**	300
Long-term payables	21	**2,324**	—
Total long-term liabilities		**11,135**	300
Total liabilities		**28,184**	2,439
Shareholders' funds			
Share capital	22	**5,933**	2,963
Capital reserve	23	**12,847**	3,090
Surplus reserves (including statutory public welfare fund of Rmb0 (2005: Rmb772million)	24	**2,228**	1,544
Undistributed profits (including dividend proposed after the balance sheet date of Rmb3,441 million (2005: Rmb1,067million)	25	**8,832**	3,744
Total shareholders' funds		**29,840**	11,341
Total liabilities and shareholders' funds		**58,024**	13,780

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

	Note	2006 Rmb Million	2005 Rmb Million
Income from principal operations	26	**54,596**	26,488
Less: Cost of sales	27	**41,246**	22,642
Business tax and surcharges	28	**370**	91
Profit from principal operations		**12,980**	3,755
Add: Other operating profit	29	**14**	104
Less: Operating expenses		**959**	463
Administrative expenses		**1,527**	349
Financial expenses	30	**901**	64
Operating profit		**9,607**	2,983
Add: Investment income/(loss)	31	**3**	(1)
Non-operating income		**11**	2
Less: Non-operating expenses		**408**	2
Total profit		**9,213**	2,982
Less: Income tax expense	3(b)	**2,368**	903
Net profit		**6,845**	2,079

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

	Note	**2006** **Rmb Million**	2005 Rmb Million
Net profit		**6,845**	2,079
Add: Undistributed profits at the beginning of the year		**3,732**	2,960
Distributable profits		**10,577**	5,039
Less: Transfer to statutory surplus reserve	24	**684**	209
Transfer to statutory public welfare fund	24	**—**	209
Profits distributable to shareholders		**9,893**	4,621
Less: Dividends		**1,067**	889
Undistributed profits at the end of the year (including: dividend proposed after the balance sheet date of Rmb3,441 million (2005: Rmb1,067million))	25	**8,826**	3,732

Additional information:

Item	**2006** **Rmb Million**	2005 Rmb Million
1. Gains (or losses) from the sale and disposal of divisions or invested entities	**—**	—
2. Losses arising from natural disasters	**—**	—
3. Increase (or decrease) in total profits due to the changes in accounting policies	**—**	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	**—**	—
5. Gains (or losses) arising from debt restructuring	**—**	—
6. Others	**—**	—

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang	**Ma Lianyong**
Chairman	*Chief Accountant*

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Income Statement and Profit Appropriation Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

		Note	**2006 Rmb Million**	2005 Rmb Million
Income from principal operations		26	**54,199**	26,296
Less:	Cost of sales	27	**40,957**	22,477
	Business tax and surcharges	28	**370**	91
Profit from principal operations			**12,872**	3,728
Add:	Other operating profit	29	**12**	102
Less:	Operating expenses		**943**	455
	Administrative expenses		**1,518**	314
	Financial expenses	30	**871**	41
Operating profit			**9,552**	3,020
Add:	Investment income/(loss)	31	**52**	(26)
	Non-operating income		**11**	2
Less:	Non-operating expenses		**408**	2
Total profit			**9,207**	2,994
Less:	Income tax expense	3(b)	**2,368**	903
Net profit			**6,839**	2,091

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

	Note	**2006 Rmb Million**	2005 Rmb Million
Net Profit		**6,839**	2,091
Add: Undistributed profits at the beginning of the year		**3,744**	2,960
Distributable profits		**10,583**	5,051
Less: Transfer to statutory surplus reserve	24	**684**	209
Transfer to statutory public welfare fund	24	—	209
Profits distributable to shareholders		**9,899**	4,633
Less: Dividends		**1,067**	889
Undistributed profits at the end of the year (including: dividend proposed after the balance sheet date of Rmb3,441 million (2005: Rmb1,067million))	25	**8,832**	3,744

Additional information:

Item	**2006 Rmb Million**	2005 Rmb Million
1. Gains (or losses) from the sale and disposal of divisions or invested entities	—	—
2. Losses arising from natural disasters	—	—
3. Increase (or decrease) in total profits due to the changes in accounting policies	—	—
4. Increase (or decrease) in total profits due to the changes in accounting estimates	—	—
5. Gains (or losses) arising from debt restructuring	—	—
6. Others	—	—

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Consolidated Cash Flow Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

	Note to the consolidated cash flow statement	2006 *Rmb Million*
Cash flows from operating activities:		
Cash received from sale of goods		58,932
Refund of taxes		384
Cash received in relation to other operating activities		6
Sub-total of cash inflows		59,322
Cash paid for goods and services		(40,463)
Cash paid to and on behalf of employees		(1,712)
Taxes paid		(5,247)
Cash paid in relation to other operating activities		(816)
Sub-total of cash outflows		(48,238)
Net cash flow from operating activities	i	11,084
Cash flows from investing activities:		
Cash received from investment income		3
Net proceeds from the disposal of fixed assets		51
Cash received in relation to other investing activities		493
Sub-total of cash inflows		547
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(10,670)
Cash paid for acquisition of investments		(18)
Net cash outflows for the acquisition of Angang New Steel & Iron Limited Company ("ANSI")	iv	(1,730)
Cash paid in relation to other investing activities		(2)
Sub-total of cash outflows		(12,420)
Net cash flow from investing activities		(11,873)

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

	Note to the consolidated cash flow statement	2006 *Rmb Million*
Cash flows from financing activities:		
Proceeds from loans		14,572
Sub-total of cash inflows		14,572
Repayment of loans		(10,989)
Cash paid for dividend and interest payment	ii	(1,624)
Cash paid in relation to other financing activities		(32)
Sub-total of cash outflows		(12,645)
Net cash flow from financing activities		1,927
Effect of exchange rate fluctuations on cash held		(2)
Net increase in cash and cash equivalents	iii	1,136

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

Notes to the consolidated cash flow statement		2006 Rmb Million
i	**Reconciliation of net profit to cash flows from operations:**	
	Net profit	6,845
	Add: Bad debt provision	4
	Inventory provision	26
	Provision for impairments of fixed assets	118
	Depreciation of fixed assets	3,817
	Amortisation of intangible assets	125
	Loss on disposal of fixed assets	282
	Decrease in deferred expenses	3
	Increase in accrued expenses	2
	Financial expenses	899
	Investment income	(3)
	Increase in inventories	(1,208)
	Increase in operating receivables	(822)
	Increase in operating payables	996
	Net cash flow from operating activities	11,084
ii	**Non-cash transactions of investing and financing activities:**	
	Bills paid for dividend on ordinary A shares	400
	Please refer to iv for the details of acquisition of ANSI	
iii	**Net increase in cash and cash equivalents:**	
	Cash at the end of the year	1,698
	Less: Cash at the beginning of the year	(562)
	Net increase in cash and cash equivalents	1,136

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Notes to the consolidated cash flow statement *(Continued)*

	2006 *Rmb Million*
iv Net cash paid for the acquisition of ANSI	
The acquisition of ANSI had the following effect on the Group's assets and liabilities:	
Cash at bank and in hand	593
Bills receivable	469
Trade receivables	203
Other receivables	267
Prepayments	444
Inventories	3,473
Deferred expenses	3
Fixed assets	23,308
Construction in progress	2,477
Intangible assets	5,317
Long-term deferred expenses	1
Short-term loans	(2,400)
Bills payable	(1,262)
Trade payables	(1,794)
Receipts in advance	(1,374)
Accrued payroll	(154)
Staff welfare payable	(61)
Taxes payable	650
Other payables	(1,297)
Current portion of long-term liabilities	(3,570)
Long-term loans	(5,581)
Net value of asset and liabilities acquired	19,712
Less: Amount paid by issuance of shares	(12,741)
Deferred cash payment classified as long-term payable	(4,648)
Cash at bank and in hand transferred in from ANSI	(593)
Net amount of cash at bank and in hand paid for the acquisition of ANSI	1,730

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang
Chairman

Ma Lianyong
Chief Accountant

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Cash Flow Statement

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

	Note to the cash flow statement	2006 *Rmb Million*
Cash flows from operating activities:		
Cash received from sale of goods		58,580
Refund of taxes		354
Cash received in relation to other operating activities		5
Sub-total of cash inflows		58,939
Cash paid for goods and services		(40,174)
Cash paid to and on behalf of employees		(1,702)
Taxes paid		(5,240)
Cash paid in relation to other operating activities		(805)
Sub-total of cash outflows		(47,921)
Net cash flow from operating activities	i	11,018
Cash flows from investing activities:		
Cash received from investment income		3
Net proceeds from the disposal of fixed assets		51
Cash received in relation to other investing activities		491
Sub-total of cash inflows		545
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(10,538)
Cash paid for acquisition of investments		(354)
Net cash outflows for the acquisition of ANSI	iv	(1,754)
Sub-total of cash outflows		(12,646)
Net cash flow from investing activities		(12,101)

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

	Note to the cash flow statement	2006 *Rmb Million*
Cash flows from financing activities:		
Proceeds from loans		13,920
Sub-total of cash inflows		13,920
Repayment of loans		(10,244)
Cash paid for dividend and interest payment	ii	(1,596)
Cash paid in relation to other financing activities		(32)
Sub-total of cash outflows		(11,872)
Net cash flow from financing activities		2,048
Effect of exchange rate fluctuations on cash held		—
Net increase in cash and cash equivalents	iii	965

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006

Notes to the cash flow statement	**2006** *Rmb Million*
i Reconciliation of net profit to cash flows from operations:	
Net profit	6,839
Add: Bad debt provision	4
Inventory provision	39
Provision for impairments of fixed assets	118
Depreciation of fixed assets	3,768
Amortisation of intangible assets	121
Decrease in deferred expenses	3
Loss on disposal of fixed assets	282
Financial expenses	869
Investment income	(52)
Increase in inventories	(1,205)
Increase in operating receivables	(791)
Increase in operating payables	1,023
Net cash flow from operating activities	11,018
ii Non-cash transactions of investing and financing activities:	
Bills paid for dividend on ordinary A shares	400
Please refer to iv for the details of acquisition of ANSI	
iii Net increase in cash and cash equivalents:	
Cash at the end of the year	1,480
Less: Cash at the beginning of the year	(515)
Net increase in cash and cash equivalents	965

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

Notes to the cash flow statement *(Continued)*	**2006** ***Rmb Million***

iv Net cash paid for the acquisition of ANSI

The acquisition of ANSI had the following effect on the Company's assets and liabilities:

Cash at bank and in hand	569
Bills receivable	469
Trade receivables	203
Other receivables	256
Prepayments	444
Inventories	3,473
Deferred expenses	3
Long-term equity investments	45
Fixed assets	23,308
Construction in progress	2,468
Intangible assets	5,317
Short-term loans	(2,400)
Bills payable	(1,262)
Trade payables	(1,794)
Receipts in advance	(1,374)
Accrued payroll	(154)
Staff welfare payable	(61)
Taxes payable	650
Other payables	(1,297)
Current portion of long-term liabilities	(3,570)
Long-term loans	(5,581)
Net value of asset and liabilities acquired	19,712
Less: Amount paid by issuance of shares	(12,741)
Deferred cash payment classified as long-term payable	(4,648)
Cash at bank and in hand transferred in from ANSI	(569)
Net amount of cash at bank and in hand paid for the acquisition of ANSI	1,754

The recognised value of the assets and liabilities of ANSI on acquisition was based on the valuation (Zhong Zi Ping Bao Zi 2005 No. 79) assessed by China Assets Appraisal Company Limited, an independent valuer qualified by China Securities Regulatory Commission and the Ministry of Finance of the PRC, on a depreciated replacement cost basis, as at 30 June 2005 plus further adjustments as stated in the Acquisition Agreement, which mainly reflected the operating results of ANSI for the six months ended 31 December 2005 (see Note 21).

These financial statements have been approved by the board of directors on 10 April 2007.

Zhang Xiaogang	**Ma Lianyong**
Chairman	*Chief Accountant*

The accompanying notes on pages 96 to 137 form an integral part of these financial statements.

1. STATUS OF THE COMPANY

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

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

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

On 26 January 2006, the Company made an additional issue of 2,970,000,000 ordinary A shares with a par value of Rmb1.00 each at an issue price of Rmb4.29 each to Angang Holding for a total consideration of Rmb12.74 billion. Proceeds of the issue were used to partly finance the acquisition of the entire equity interest in ANSI (see Note 21).

Upon the completion of the entire equity acquisition of ANSI, all the business, assets and liabilities of ANSI were transferred to the Company, and ANSI has applied for deregistration.

According to a special resolution approved by the shareholders in the annual general meeting on 20 June 2006, the Company changed its name from Angang New Steel Company Limited to Angang Steel Company Limited on 29 September 2006 upon the issuance of revised business license.

The Company and its jointly controlled entities (collectively referred to as the "Group") are principally engaged in ferrous metal smelting and steel pressing and processing.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Accounting year

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

(b) Preparation of the consolidated financial statements

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

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

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

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

(c) Basis of preparation and measurement basis

The financial statements of the Group have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Reporting currency

The Group's reporting currency is the Renminbi.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Translation of foreign currencies

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

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

(f) Cash equivalents

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

(g) Provision for bad and doubtful debts

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

(h) Inventories

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

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

Except spare parts, any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Spare parts provision is provided based on management's assessment. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Low value consumables, packaging and other materials are amortised in full when being consumed.

Inventories are recorded by perpetual method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the investors' equity in the investee enterprise.

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method and stated at initial investment cost. Investment income is recognised once the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised as profit or loss.

The Company makes provision for impairment losses on long-term equity investments (see Note 2(m)).

(j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods and for administrative purposes. They are expected to be used for more than one year.

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

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

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

Fixed assets are depreciated using the straight-line method over their estimated useful lives or estimated remaining useful life . The respective estimated useful lives or estimated remaining useful lives and residual values are as follows:

	Estimated remaining useful-life / estimated useful-life	Estimated residual value
Land use rights	50 years	—
Buildings and plants	10 to 20 years	3% - 5%
Machinery and equipment	6 to 15 years	3% - 5%
Other fixed assets	2 to 12 years	3% - 5%

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see Note 2(m)). The cost of the intangible assets is amortised on a straight-line basis over the estimated useful life or estimated remaining useful life, the contracted beneficial period or the effective period stipulated by law . The respective amortisation periods for the intangible assets are as follows:

	Amortisation period
Land use rights	50 years
Acquired software	3 to 10 years
Industrial technology	6 to 10 years

(l) Pre-operating expenses

Except for the acquisition and construction of fixed assets, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month when operations commence.

(m) Impairment loss of assets

The carrying amounts of the Group's assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets), other than trade receivables and inventories (see Note 2(g) and 2(h)), are assessed regularly to determine whether their recoverable amounts have declined below their carrying amounts . Assets are tested for impairment whenever events or changes in conditions indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax

Income tax is recognised when payable under the tax payable method. The income tax of the Group for the year is provided at the applicable tax rate on taxable income.

(o) Provisions and contingent liabilities

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

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

(p) Revenue recognition

When it is probable that the economic benefits will flow to the Company and the revenue and costs can be measured reliably, revenue is recognised in the income statement according to the following methods:

i) Sale of goods

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

ii) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the progress of work performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that are expected to be recoverable.

iii) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate.

(q) Repairs and maintenance expenses

Repair and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Research and development costs

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

(s) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(t) Dividends appropriated to investors

Dividends appropriated to the investors are recognised in the income and profit appropriation statement upon approval. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are disclosed in the balance sheet as a separate component under investors' equity.

(u) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes arranged by a governmental organisation for the employees. The Company makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement schemes, the Company does not have any other obligations in this respect (see Note 33).

(v) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

3. TAXATION

(a) The types of tax applicable to the Group's sales of goods include value added tax ("VAT"). The VAT rate for its major products is 17% (2005: 17%).

(b) **Income tax**

The applicable income tax rate of the Company for the year is 33% (2005: 33%).

(i) In accordance with Guoshuifa (2000) No.13 issued by the State Administration of Taxation on 17 January 2000, the Company enjoyed tax exemption relating to investment in technical development of domestic-produced machinery amounting to Rmb163 million (2005: Rmb24 million).

(ii) In accordance with Caishuizi (2003) No.244 issued by the Ministry of Finance and State Administration of Taxation on 27 November 2003, the Company enjoyed tax exemption relating to enterprise research and development costs amounting to Rmb1,143 million (2005: Rmb 294 million).

(iii) In accordance with Caishuizi (94) No. 001 issued by the Ministry of Finance and State Administration of Taxation on 29 March 1994, the company enjoyed tax exemption relating to the outputs from environmental protection facilities amounting to Rmb 504 million (2005: Nil).

According to Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, the Company's jointly controlled entity, ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS"), is exempt from income tax during its first two profitable years, starting from the first year when ANSC-TKS has a profit after offsetting any previous years' losses. A 50% income tax exemption is granted to ANSC-TKS from the third profitable year to fifth profitable year. No income tax was provided by ANSC-TKS as the year 2006 is the first profitable year of ANSC-TKS.

No income tax was provided for the three jointly controlled entities of the Company: ANSC-Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan"), Changchun FAM Steel Processing and Distribution Co., Ltd. ("Changchun FAM") and ANSC-TKS Steel Logistics (Changchun) Company Limited. ("TKAS-SSC"), as they had not begun their operations during the year and had no taxable income.

(c) Others

The Company and ANSC-Xinchuan is subject to surcharges, including city construction and maintenance tax, education surcharge and local education surcharge, which are computed based on 7%, 3% and 1% of net VAT payable and business taxes, respectively. As ANSC-TKS, Changchun FAM and TKAS-SSC are foreign invested enterprises, they are exempt from city construction and maintenance tax, education surcharge and local education surcharge.

3. TAXATION (Continued)

(d) Taxes payable

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
VAT payable/(deductible)	**227**	(71)	**236**	(61)
Income tax refundable	**(261)**	(41)	**(261)**	(41)
Others	**13**	1	**13**	2
	(21)	(111)	**(12)**	(100)

4. CASH AT BANK AND IN HAND

The Group	**2006** Original currency ***Million***	**2006** Exchange rate	**2006** Rmb/Rmb equivalent ***Million***	2005 Original currency *Million*	2005 Exchange rate	2005 Rmb/Rmb equivalent *Million*
Cash in hand						
Renminbi			**1**			—
Cash at bank						
Renminbi			**1,564**			547
HK Dollars	**—**		**—**	0.60	1.04	1
US Dollars	**4.87**	**7.81**	**38**	1.58	8.07	12
Euro	**9.25**	**10.27**	**95**	0.18	9.58	2
			1,698			562

The Company	**2006** Original currency ***Million***	**2006** Exchange rate	**2006** Rmb/Rmb equivalent ***Million***	2005 Original currency *Million*	2005 Exchange rate	2005 Rmb/Rmb equivalent *Million*
Cash in hand						
Renminbi			**1**			—
Cash at bank						
Renminbi			**1,479**			514
HK Dollars			**—**	0.60	1.04	1
			1,480			515

As at 31 December 2006, a deposit of Rmb1,449 million (2005: Rmb421 million) was placed with Angang Group Financial Company Limited ("Angang Finance").

5. BILLS RECEIVABLE

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

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

6. TRADE RECEIVABLES

The Group

	2006				2005			
	Amount	%	Bad debt provision	%	Amount	%	Bad debt provision	%
	Rmb Million		*Rmb Million*		*Rmb Million*		*Rmb Million*	
Within one year	644	100	—	—	594	100	—	—
Between one and two years *(note)*	1	—	—	—	—	—	—	—
Between two and three years *(note)*	1	—	—	—	—	—	—	—
Over three years *(note)*	2	—	—	—	—	—	—	—
Total	648	100	—		594	100	—	

The Company

	2006				2005			
	Amount	%	Bad debt provision	%	Amount	%	Bad debt provision	%
	Rmb Million		*Rmb Million*		*Rmb Million*		*Rmb Million*	
Within one year	672	100	—	—	649	100	—	—
Between one and two years *(note)*	1	—	—	—	—	—	—	—
Between two and three years *(note)*	1	—	—	—	—	—	—	—
Over three years *(note)*	2	—	—	—	—	—	—	—
Total	676	100	—		649	100	—	

Note: The accounts receivable whose aging is more than one year comes from the combined amount from the former ANSI.

6. TRADE RECEIVABLES *(Continued)*

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Third parties	**320**	338	**191**	393
Subsidiaries of Angang Holding	**328**	256	**328**	256
Other related parties	**—**	—	**157**	—
	648	594	**676**	649
Less: Bad debt provision	**—**	—	**—**	—
	648	594	**676**	649

	The Group		The Company	
	2006	2005	**2006**	2005
Bad debt provision	***Rmb Million***	*Rmb Million*	***Rmb Million***	*Rmb Million*
Balance at the beginning of the year	**—**	—	**—**	—
Add: Provision for the year	**2**	—	**2**	—
Less: Reversal during the year	**(2)**	—	**(2)**	—
Balance at the end of the year	**—**	—	**—**	—

As at 31 December 2006, the management considers that major accounts receivable can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

During the year, the Group had no individually significant recovery of accounts receivable which a full provision or a significant provision was made in previous years.

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

Parts of the trade receivables are pledged by the Group as collateral for the syndicated loan (see Note 20).

As at 31 December 2006, the total trade receivables of the Group's or Company's five largest debtors are as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Amount (Rmb Million)	**582**	590	**647**	649
% of total accounts receivable	**90%**	99%	**96%**	100%

7. OTHER RECEIVABLES

The Group	2006 Rmb Million	2006 %	2005 Rmb Million	2005 %
Within one year	18	26	3	38
Between one and two years	50	74	4	50
Between two and three years	—	—	—	—
Over three years	—	—	1	12
	68	100	8	100
Less: Bad debt provision	—	—	—	—
	68		8	

The Company	2006 Rmb Million	2006 %	2005 Rmb Million	2005 %
Within one year	18	26	1	100
Between one and two years	50	74	—	—
	68	100	1	100
Less: Bad debt provision	—	—		
	68		1	

	The Group 2006 Rmb Million	The Group 2005 Rmb Million	The Company 2006 Rmb Million	The Company 2005 Rmb Million
Third parties	68	8	68	1
Less: Bad debt provision	—	—	—	—
	68	8	68	1

Bad debt provision	The Group 2006 Rmb Million	The Group 2005 Rmb Million	The Company 2006 Rmb Million	The Company 2005 Rmb Million
Balance at the beginning of the year	—	—	—	—
Add: Provision for the year	4	—	4	—
Less: Written off for the year	(4)	—	(4)	—
Balance at the end of the year	—	—	—	—

7. OTHER RECEIVABLES *(Continued)*

As at 31 December 2006, the management considers that most of the other receivables can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

During the year, the Group had no individually significant recovery of other receivables which a full provision or a significant provision was made in previous years.

During the year, the management considers that part of the other receivables which had been made bad debt provision can not be recovered, so the related bad debt provision had been written-off.

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

As at 31 December 2006, the total other receivables of the Group's or Company's five largest debtors are as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Amount(Million Rmb)	**67**	6	**67**	—
% of total other receivables	**99%**	75%	**99%**	—

8. PREPAYMENTS

	2006		2005	
The Group	***Rmb Million***	**%**	*Rmb Million*	%
Within one year	**605**	**99**	174	100
Between one and two years	**5**	**1**	—	—
	610	**100**	174	100

	2006		2005	
The Company	***Rmb Million***	**%**	*Rmb Million*	%
Within one year	**587**	**99**	166	100
Between one and two years	**5**	**1**	—	—
	592	**100**	166	100

8. PREPAYMENTS *(Continued)*

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Third parties	**230**	46	**212**	38
Subsidiaries of Angang Holding	**380**	128	**380**	128
	610	174	**592**	166

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

The prepayments over one year are prepaid for spare parts with long procurement cycle.

9. INVENTORIES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Raw materials and fuel	**1,770**	312	**1,711**	298
Work in progress	**1,315**	190	**1,315**	190
Finished goods	**2,260**	1,246	**2,164**	1,105
Spare parts and low value consumables	**1,968**	927	**1,933**	895
	7,313	2,675	**7,123**	2,488
Less: Provision for diminution in value				
— Raw materials	**(2)**	(2)	**—**	—
— Finished goods	**(4)**	(17)	**—**	—
— Spare parts and low value consumables	**(87)**	(48)	**(87)**	(48)
	(93)	(67)	**(87)**	(48)
	7,220	2,608	**7,036**	2,440

9. INVENTORIES *(Continued)*

Provision for diminution in value	The Group 2006 Rmb Million	The Group 2005 Rmb Million	The Company 2006 Rmb Million	The Company 2005 Rmb Million
Balance at the beginning of the year	**67**	51	**48**	48
Add: Provision made during the year	**39**	16	**39**	—
Less: Transfer out due to sales	**(13)**	—	**—**	—
Balance at the end of the year	**93**	67	**87**	48

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

	The Group 2006 Rmb Million	The Group 2005 Rmb Million	The Company 2006 Rmb Million	The Company 2005 Rmb Million
Cost of inventories charged to costs and expenses in the income statement	**41,246**	22,642	**40,957**	22,477

10. LONG-TERM EQUITY INVESTMENTS

The Group	Investment in associates Rmb Million	Other equity investment Rmb Million	Total Rmb Million
Cost of investment			
Balance at the beginning of the year	31	10	41
Additions	18	—	18
Balance at the end of the year	49	10	59

The Company	Investment in jointly controlled entities Rmb Million	Investment in associates Rmb Million	Other equity investment Rmb Million	Total Rmb Million
Cost of investment				
Balance at the beginning of the year	171	31	10	212
Additions	430	18	—	448
Balance at the end of the year	601	49	10	660

As at 31 December 2006, no provision for impairment loss has been made for individual long-term equity investments by the Group.

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

(a) As at 31 December 2006, the Company's investment in jointly controlled entities are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment *Rmb Million*
ANSC-TKS	50%	50 years	**486**
ANSC-Xinchuan	50%	50 years	**70**
Changchun-FAM	50%	50 years	**45**
TKAS-SSC	50%	50 years	**48**
			649

	ANSC-TKS *Rmb Million*	ANSC-Xinchuan *Rmb Million*	Changchun FAM *Rmb Million*	TKAS-SSC *Rmb Million*	Total *Rmb Million*
Cost of investment					
Balance at the beginning of the year	151	20	—	—	171
Add: Acquisition of ANSI	—	—	45	—	45
Additions	238	50	—	48	336
Adjustment using equity method *(Note 31)*	49	—	—	—	49
Balance at the end of the year	438	70	45	48	601

Pursuant to an Equity Pledge Agreement entered into between the Company and Bank of China, Liaoning Branch on 22 October 2002, the Company pledged to Bank of China, Liaoning Branch all its equity interests in ANSC-TKS to secure the performance of the obligation of ANSC-TKS, i.e. to repay and settle the related debts due to Bank of China, Liaoning Branch in full and in a timely manner (see Note 20).

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

(b) As at 31 December 2006, the Group's and the Company's investments in associates are as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment *Rmb Million*
TKAS (Changchun) Tailored Blanks Ltd ("TKAS")	45%	50 years	37
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	30%	50 years	14
			51

	TKAS *Rmb Million*	Angang Shenyang *Rmb Million*	Total *Rmb Million*
Cost of investment			
Balance at the beginning of the year	16	15	31
Add: Additions	18	—	18
Adjustment using equity method *(Note 31)*	—	—	—
Balance at the end of the year	34	15	49

(c) As at 31 December 2006, the Group's and the Company's other equity investment is as follows:

Name of invested entity	Share of equity interest in the invested entity	Term of investment	Initial cost of investment *Rmb Million*
Zhongye Nanfang Engineering Technology Company Limited ("Zhongye Nanfang")	7%	30 years	10

(d) As at 31 December 2006, the ratio of the total carrying amount of the Company's long-term equity investments to its net assets was 2% (2005: 2%) .

11. FIXED ASSETS

The Group	Land use rights *Rmb Million*	Buildings and plants *Rmb Million*	Machinery and equipment *Rmb Million*	Others *Rmb Million*	Total *Rmb Million*
Cost					
Balance at the beginning of the year	219	2,556	7,853	810	11,438
Acquisition of ANSI	—	7,344	15,026	938	23,308
Additions	—	3	14	1	18
Transferred from construction in progress *(Note 12)*	—	2,021	4,860	427	7,308
Disposals of fixed assets	—	(132)	(397)	(72)	(601)
Reclassification	—	—	233	(233)	—
Balance at the end of the year	219	11,792	27,589	1,871	41,471
Accumulated depreciation					
Balance at the beginning of the year	9	851	3,527	518	4,905
Charge for the year	5	716	2,807	289	3,817
Written back on disposal of fixed assets	—	(11)	(204)	(60)	(275)
Reclassification	—	—	156	(156)	—
Balance at the end of the year	14	1,556	6,286	591	8,447
Provision for impairment					
Balance at the beginning of the year	—	—	—	—	—
Charge for the year	—	47	67	4	118
Balance at the end of the year	—	47	67	4	118
Carrying amount					
Balance at the end of the year	205	10,189	21,236	1,276	32,906
Balance at the beginning of the year	210	1,705	4,326	292	6,533

11. FIXED ASSETS (Continued)

The Company	Land use rights Rmb Million	Buildings and plants Rmb Million	Machinery and equipment Rmb Million	Others Rmb Million	Total Rmb Million
Cost					
Balance at the beginning of the year	197	2,457	7,451	790	10,895
Acquisition of ANSI	—	7,344	15,026	938	23,308
Transferred from construction in progress *(Note 12)*	—	2,021	4,860	427	7,308
Disposals of fixed assets	—	(132)	(397)	(72)	(601)
Reclassification	—	—	233	(233)	—
Balance at the end of the year	197	11,690	27,173	1,850	40,910
Accumulated depreciation					
Balance at the beginning of the year	8	843	3,465	511	4,827
Charge for the year	4	712	2,766	286	3,768
Written back on disposal of fixed assets	—	(11)	(204)	(60)	(275)
Reclassification	—	—	156	(156)	—
Balance at the end of the year	12	1,544	6,183	581	8,320
Provision for impairment					
Balance at the beginning of the year	—	—	—	—	—
Charge for the year	—	47	67	4	118
Balance at the end of the year	—	47	67	4	118
Carrying amount					
Balance at the end of the year	185	10,099	20,923	1,265	32,472
Balance at the beginning of the year	189	1,614	3,986	279	6,068

As at 31 December 2006, the cost of the fully depreciated fixed assets of the Group which are still in use amounted to Rmb1,780 million (2005: Rmb1,391 million).

Parts of the fixed assets are pledged by the Group as collateral for the syndicated loan and the long-term loans of Changchun FAM (see Note 20).

According to the expert opinion of the asset management departments, the Group made a provision for impairment of the fixed assets which cannot bring economic benefits to the enterprise, due to technological obsolescence, damage, or other reasons. The recoverable amounts of these fixed assets were assessed based on their scrape value less costs to sell.

12. CONSTRUCTION IN PROGRESS

	Amount The Group Rmb Million	Amount The Company Rmb Million	Including: Capitalisation of interest charges The Group Rmb Million	Including: Capitalisation of interest charges The Company Rmb Million
Cost				
Balance at the beginning of the year	2,840	2,836	46	46
Acquisition of ANSI	2,477	2,468	—	—
Additions	10,270	10,139	37	37
Transfer to fixed assets *(Note 11)*	(7,308)	(7,308)	—	—
Balance at the end of the year	8,279	8,135	83	83

Interest expense of the Group for the year was capitalised at a rate of 5.87% (2005: 5.6%).

As at 31 December 2006, the major projects under construction of the Group and the Company are as follows:

Projects	Budget *Rmb Million*	Balance at 1 January 2006 *Rmb Million*	Acquisition from ANSI *Rmb Million (Note 21)*	Additions *Rmb Million*	Transfer to fixed assets *Rmb Million (Note 11)*	Balance at 31 December 2006 *Rmb Million*	% of budget	Capital source *(note)*	Interest capitalized for the period *Rmb Million (Note 30)*
Bayuquan project	22,600	—	—	5,074	—	5,074	23%	Operating fund and bank loans	25
West project 2150	5,868	—	649	428	(739)	338	90%	Operating fund	—
New #2,3,4 and 5 furnace	5,574	—	967	1,113	(1,956)	124	86%	Operating fund	—
Cold rolling system upgrade	3,821	549	—	289	(500)	338	96%	Operating fund and bank loans	6
Chemical plant renovation	3,749	—	58	829	(115)	772	48%	Operating fund	—
West project 1450	2,900	—	—	882	—	882	30%	Operating fund and bank loans	6

12. CONSTRUCTION IN PROGRESS *(Continued)*

As at 31 December 2006, the major projects under construction of the Group and the Company are as follows: *(continued)*

Projects	Budget	Balance at 1 January 2006	Acquisition from ANSI	Additions	Transfer to fixed assets	Balance at 31 December 2006	% of budget	Capital source	Interest capitalized for the period
	Rmb Million	*Rmb Million*	*Rmb Million (Note 21)*	*Rmb Million*	*Rmb Million (Note 11)*	*Rmb Million*		*(note)*	*Rmb Million (Note 30)*
2130 continuous cold rolling line	2,640	2,226	—	396	(2,550)	72	99%	Operating fund	—
Steel plant and Iron plant supporting project	951	27	413	378	(794)	24	86%	Operating fund	—
Sintering unit	810	—	36	10	(46)	—	94%	Operating fund	—
ƒ177 petroleum pipe production line	780	—	—	33	—	33	4%	Operating fund	—
100-metre heavy rail production line upgrade	300	—	—	35	—	35	12%	Operating fund	—
2130 cold rolling renovation	223	—	103	46	(149)	—	67%	Operating fund	—
Thick plates plant Heating process Renovation	130	8	—	80	(86)	2	67%	Operating fund	—

12. CONSTRUCTION IN PROGRESS *(Continued)*

As at 31 December 2006, the major projects under construction of the Group and the Company are as follows: *(continued)*

Projects	Budget	Balance at 1 January 2006	Acquisition from ANSI	Additions	Transfer to fixed assets	Balance at 31 December 2006	% of budget	Capital source	Interest capitalized for the period
	Rmb Million	*Rmb Million*	*Rmb Million (Note 21)*	*Rmb Million*	*Rmb Million (Note 11)*	*Rmb Million*		*(note)*	*Rmb Million (Note 30)*
Hot strip ASP line edger mill	70	—	15	47	—	62	89%	Operating fund	—
Thick plates exploring instrument upgrade	55	3	—	33	(35)	1	66%	Operating fund	—
Other projects		23	227	466	(338)	378			
Total of the Company		2,836	2,468	10,139	(7,308)	8,135			37
ANSC-TKS second galvanized	508	—	—	74	—	74	15%	Operating fund	—
ANSC-Xinchuan steel product production line	314	4	—	15	—	19	6%	Operating fund	—
TKAS-SSSC Pressing line	120	—	—	3	—	3	3%	Operating fund	—
Changchun - FAM production line	75	—	9	39	—	48	64%	Operating fund and bank loans	—
Total of the Group		2,840	2,477	10,270	(7,308)	8,279			37

Note: The additions of construction in progress from the acquisition of ANSI were partly financed by issuance of the ordinary A share to Angang Holding with restricted condition in January 2006 (see Note 21) .

The proposed investment budget in Bayuquan Project amounted to Rmb22,600 million was approved by the Company's shareholders pursuant to a resolution passed in the extraordinary general meeting held on 29 September 2006. During the year ended 31 December 2006, Angang Holding acted as the agent and provided management services for Bayuquan Project. No service fee was received by Angang Holding in providing these services. Prior to 16 December 2006, Angang Holding entered into certain construction and equipment acquisition contracts and paid Rmb3,844 million as prepayments on behalf of the Company. Among the above prepayments, Rmb3,794 million were reimbursed by the Group during the year ended 31 December 2006.

12. CONSTRUCTION IN PROGRESS *(Continued)*

In addition to the above agency and project management services, Angang Holding and its subsidiaries also provided certain services in connection with the construction of Bayuquan Project. The related service fees were disclosed in Note 32(c).

As at 31 December 2006, the Company has not got the land use right that is related to the construction of Bayuquan Project.

Parts of the construction in progress are pledged by the Group as collateral for the syndicated loan (see Note 20).

13. INTANGIBLE ASSETS

The Group	Land use rights *Rmb Million*	Acquired software *Rmb Million*	Industrial technology *Rmb Million*	Total *Rmb Million*
Cost				
Balance at the beginning of the year	354	18	28	400
Acquisition of ANSI	5,284	1	32	5,317
Additions	—	2	—	2
Balance at the end of the year	5,638	21	60	5,719
Accumulated amortisation				
Balance at the beginning of the year	57	5	4	66
Additions	115	2	8	125
Balance at the end of the year	172	7	12	191
Carrying amount				
Balance at the end of the year	5,466	14	48	5,528
Balance at the beginning of the year	297	13	24	334

13. INTANGIBLE ASSETS *(Continued)*

The Company	Land use rights Rmb Million	Acquired software Rmb Million	Industrial technology Rmb Million	Total Rmb Million
Cost				
Balance at the beginning of the year	354	3	—	357
Acquisition of ANSI	5,284	1	32	5,317
Additions	—	2	—	2
Balance at the end of the year	5,638	6	32	5,676
Accumulated amortisation				
Balance at the beginning of the year	57	2	—	59
Additions	115	1	5	121
Balance at the end of the year	172	3	5	180
Carrying amount				
Balance at the end of the year	5,466	3	27	5,496
Balance at the beginning of the year	297	1	—	298

Land use rights include contribution of Rmb227 million made by Angang Holding and the amount of Rmb5,411 million acquired by the Company. Land use rights are amortised over a remaining period of 41 to 49 years.

Acquired software is amortised on a straight-line basis over an estimated useful life of 3 to 10 years. Industrial technology purchased by the Group from ThyssenKrupp Steel AG ("Thyssen") is amortised over its beneficial period of 6 to 10 years.

Parts of the land use rights are pledged by the Group as collateral for the syndicated loan (see Note 20).

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its land use rights, which was related to the acquisition of ANSI, with an aggregate carrying amount of approximately Rmb5,177 million as at 31 December 2006 (2005: Nil). According to the purchase agreement signed between the Company and Angang Holding, the directors are of the opinion that the Company is entitled to lawfully and validly occupy or use the above mentioned land use rights.

14. SHORT-TERM LOANS

The Group	2006 Principal Rmb Million	2006 Interest rate p.a.		2005 Principal Rmb Million	2005 Interest rate p.a.	
Bank loans	4,630	4.86%-5.508%	Credit	117	5.22%-5.58%	Credit

The Company	2006 Principal Rmb Million	2006 Interest rate p.a.		2005 Principal Rmb Million	2005 Interest rate p.a.	
Bank loans	4,580	4.86%-5.508%	Credit	—		

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

As at 31 December 2006, the balance of the Company's short-term borrowing from Angang Finance is Rmb500 million (2005: Nil).

15. BILLS PAYABLE

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

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

16. TRADE PAYABLES

	The Group 2006 Rmb Million	The Group 2005 Rmb Million	The Company 2006 Rmb Million	The Company 2005 Rmb Million
Third parties	**1,199**	225	**1,199**	213
Angang Holding	**13**	5	**13**	5
Subsidiaries of Angang Holding	**189**	14	**189**	14
	1,401	244	**1,401**	232

No individually significant trade payables of the Group or the Company as at 31 December 2006 are aged over three years.

Angang Holding is a shareholder who holds 5% or more of the Company's voting share.

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

17. RECEIPTS IN ADVANCE

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Third parties	**2,817**	890	**2,795**	859
Subsidiaries of Angang Holding	**435**	73	**435**	73
	3,252	963	**3,230**	932

No individually significant receipts in advance of the Group or the Company as at 31 December 2006 are aged over one year.

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

18. OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Construction costs	**963**	147	**949**	128
Freight charges	**49**	16	**49**	16
Deposit for steel shelves	**120**	34	**120**	34
Staff education fund	**41**	6	**41**	6
Education surcharge and local education surcharge	**6**	—	**6**	—
Others	**44**	5	**37**	5
	1,223	208	**1,202**	189

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Third parties	**793**	150	**774**	132
Angang Holding	**3**	—	**3**	—
Subsidiaries of Angang Holding	**427**	58	**425**	57
	1,223	208	**1,202**	189

No individually significant other payables of the Group or the Company as at 31 December 2006 are aged over three years.

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

19. CURRENT PORTION OF LONG-TERM LIABILITIES

The Group	2006 Interest rate p.a. (note)	2006 Original currency Million	2006 Rmb/Rmb equivalent Million	2005 Interest rate p.a. (note)	2005 Original currency Million	2005 Rmb/Rmb equivalent Million
Current portion of bank loans:						
Renminbi	**4.941%-6.12%**		**2,641**	5.49%-6.12%		641
Euro	**0.25%**	**0.12**	**1**			—
Japanese yen	**2.7%**	**1,707.32**	**112**			—
			2,754			641
Add: Long-term payable due within one year *(Note 21)*			**2,324**			—
			5,078			641

The Company	2006 Interest rate p.a. (note)	2006 Original currency Million	2006 Rmb/Rmb equivalent Million	2005 Interest rate p.a. (note)	2005 Original currency Million	2005 Rmb/Rmb equivalent Million
Current portion of bank loans:						
Renminbi	**4.941%-5.76%**		**2,600**	5.76%		600
Euro	**0.25%**	**0.12**	**1**			—
Japanese yen	**2.7%**	**1,707.32**	**112**			—
			2,713			600
Add: Long-term payable due within one year *(Note 21)*			**2,324**			—
			5,037			600

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

Among the balance of current portion of long-term liabilities, no balance is due to a shareholder who holds 5% or more of the Company's voting shares.

20. LONG-TERM LOANS

The Group

	2006 Interest rate p.a.	2006 Original currency *Million*	2006 Rmb/Rmb equivalent *Million*	2005 Interest rate p.a.	2005 Original currency *Million*	2005 Rmb/Rmb equivalent *Million*
Bank loans:						
Renminbi	**4.941%-6.156%**		**11,322**	5.49%-6.12%		1,245
Euro	**0.25%**	**1.36**	**14**			—
Japanese yen	**2.7%**	**7,728.66**	**507**			—
			11,843			1,245
Less: Long-term loan due within one year *(Note 19)*			**(2,754)**			(641)
			9,089			604

The Company

	2006 Interest rate p.a.	2006 Original currency *Million*	2006 Rmb/Rmb equivalent *Million*	2005 Interest rate p.a.	2005 Original currency *Million*	2005 Rmb/Rmb equivalent *Million*
Bank loans:						
Renminbi	**4.941%-6.156%**		**11,003**	5.76%		900
Euro	**0.25%**	**1.36**	**14**			—
Japanese yen	**2.7%**	**7,728.66**	**507**			—
			11,524			900
Less: Long-term loan due within one year *(Note 19)*			**(2,713)**			(600)
			8,811			300

The exchange rates for above bank loans to convert into Rmb are as follows:

	31 December 2006	31 December 2005
Euro	**10.27**	9.58
Japanese yen	**0.0656**	0.0687
US Dollar	**7.81**	8.07

20. LONG-TERM LOANS (Continued)

The Group's and Company's long-term loans (including long-term loan due within one year) are analyzed by nature as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Credit loan	**7,521**	—	**7,521**	—
Guaranteed loan *(Note)*	**4,003**	900	**4,003**	900
Secured loan	**319**	345	**—**	—
	11,843	1,245	**11,524**	900

The Group's and Company's long-term loans are analyzed by due dates as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Between one and two years	**2,743**	341	**2,703**	300
Between two and three years	**3,641**	40	**3,600**	—
Over three years	**2,705**	223	**2,508**	—
	9,089	604	**8,811**	300

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

In October 2002, ANSC-TKS entered into a loan agreement ("loan agreement") in respect of a syndicated loan totalling Rmb1.08 billion arranged by Bank of China which would be used for the construction of its production line. ANSC-TKS pledged its trade receivables, land use rights, construction in progress, buildings and plants, machinery and equipment with a carrying amount of Rmb1,099 million (2005: Rmb1,122 million) as at 31 December 2006 to Bank of China as collaterals of the loan.

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

As at 31 December 2006, Changchun FAM pledged its machinery and equipment with the total value of Rmb43 million to China Construction Bank, to secure the obligations under the loan contracts amounted to RMB30 million.

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

As at 31 December 2006, the balance of the Company's long-term borrowing from Angang Finance is Rmb3,200 million (2005:Nil).

21. LONG-TERM PAYABLES

According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), the Company acquired the entire equity interest of ANSI ("Acquisition") from Angang Holding, the ultimate holding company of the Company, according to the Angang Holding Gangzhengfa 2004 No. 22 "Notice of the scheme of asset reorganization of ANSI belonging to Angang Holding",for Rmb19.69 billion plus final adjustments as stated in the Acquisition Agreement. The total final consideration amounted to Rmb19.712 billion.

The above acquisition was completed in January 2006. The Company issued 2.97 billion ordinary A shares with a par value of Rmb1.00 each at Rmb4.29 per share (equivalent to Rmb12.74 billion) to Angang Holding as a partial payment for the consideration of the Acquisition. The remaining deferred cash payment will be paid in three installments within three years and bears interest at rates quoted by the People's Bank of China for the same period.

22. SHARE CAPITAL

	The Group/The Company			
	2006		2005	
Issued and paid up capital	***Shares Million***	***Rmb Million***	*Shares Million*	*Rmb Million*
Ordinary A shares issued with restricted condition				
State-owned shares at par value of Rmb 1.00 each				
Balance at the beginning of the year	**1,131**	**1,131**	1,319	1,319
Issuance of new shares *(Note 21)*	**2,970**	**2,970**	—	—
Decrease as a result of State-owned Share Reform Plan	**—**	**—**	(188)	(188)
Decrease as a result of exercise of warrants	**(111)**	**(111)**	—	—
Balance at the end of the year	**3,990**	**3,990**	1,131	1,131
Shares issued with no restricted condition				
Ordinary A shares at par value of Rmb 1.00 each				
Balance at the beginning of the year	**942**	**942**	754	754
Increase as a result of State-owned Share Reform Plan	**—**	**—**	188	188
Increase as a result of exercise of warrants	**111**	**111**	—	—
Balance at the end of the year	**1,053**	**1,053**	942	942
Overseas-listed foreign invested ordinary shares ("H shares") at par value of Rmb 1.00 each				
Balance at the beginning and the end of the year	**890**	**890**	890	890
	5,933	**5,933**	2,963	2,963

All the ordinary A and H shares rank pari passu in all material respects.

22. SHARE CAPITAL *(Continued)*

In accordance with the "Approval notice related to State-owned Share Reform Plan of Angang New Steel Company Limited" issued by State-owned Assets Supervision and Administration Commission of the State Council in the PRC, the Company implemented its State-owned Share Reform Plan ("Reform Plan") on 1 December 2005. Angang Holding transferred 188 million shares of the Company (excluding additional shares to be issued arising from the exercise of warrants issued in the Reform Plan) to those registered ordinary A share shareholders on 1 December 2005. After that, the state-owned shares of the Company held by Angang Holding were reduced by 188 million shares, while the Company's ordinary A shares issued with no restricted condition were increased by 188 million shares accordingly.

In accordance with Reform Plan of the Company, Angang Holding issued 113 million European-style warrants to ordinary A share shareholders registered as at the implementation date of the Reform Plan. Some warrant holders exercised their rights at the exercise date (5 December 2006), causing state-owned shares and ordinary A shares with no restricted condition to decrease and increase by 111 million shares respectively.

The increase in share capital for the year has been verified by KPMG Huazhen. A capital verification report, KPMG-A (2006) CR No.0005, was issued on 26 January 2006.

23. CAPITAL RESERVE

	The Group/Company		
	At 1 January 2006 *Rmb Million*	Increase *Rmb Million*	At 31 December 2006 *Rmb Million*
Share premium *(note)*	3,083	9,753	12,836
Long outstanding accounts payable	7	1	8
Other capital reserves	—	3	3
	3,090	9,757	12,847

Note: As stated in note 21, in January 2006, the Company issued 2.97 billion ordinary A shares of Rmb1.00 each at Rmb4.29 per share (equivalent to Rmb12.74 billion) to Angang Holding. The share premium, net of the issuance costs of Rmb18 million, amounted to Rmb9,753 million was credited to capital reserve.

24. SURPLUS RESERVES

	The Group/Company		
	Statutory surplus reserve 2006 *Rmb Million*	Statutory public welfare fund *Rmb Million*	Total 2006 *Rmb Million*
As at 1 January 2006	772	772	1,544
Add: Statutory surplus reserve	684	—	684
Transfer from/(to) statutory public welfare fund *(Note)*	772	(772)	—
As at 31 December 2006	2,228	—	2,228

Note: Pursuant to the Company Law No.167 effective from 1 January 2006 and the Articles of Association amended on 20 June 2006, the Company is no longer required to make allocations to the statutory public welfare fund. According to the "Notice on the Relevant Enterprise Accounting Treatments after the Effect of the Company Law" issued by the Ministry of Finance of the PRC, the Company has transferred the balance of statutory public welfare fund amounted to Rmb772 million as at 31 December 2005 to statutory surplus reserve.

25. UNDISTRIBUTED PROFITS

Dividends

(i) Dividends approved and paid during the year

Pursuant to the shareholder's approval at the Annual General Meeting on 20 June 2006, the Company was authorised to declare cash dividend of Rmb0.36 per share (2005: Rmb0.30 per share) to ordinary A shareholders, excluding 2.97 billion shares issued with restricted condition to Angang Holiding. On 28 June 2006, the Company paid cash dividend for the year 2005 totalling Rmb746 million (2005: Rmb622 million) to ordinary A shareholders. On 18 July 2006, the Company paid cash dividend for the year 2005 totalling Rmb321 million to overseas-listed foreign invested ordinary shareholders (2005: Rmb267 million).

(ii) Dividend proposed after the balance sheet date

Pursuant to a resolution passed at the directors' meeting on 10 April 2007, a final dividend of Rmb0.58 per share (2005: Rmb0.36 per share) totalling Rmb3,441 million (2005: Rmb1,067 million) was proposed 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.

26. INCOME FROM PRINCIPAL OPERATIONS

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Galvanised steel sheets and colour coating plates	**5,193**	4,278	**4,072**	3,302
Cold rolled sheets	**9,523**	8,706	**10,247**	9,490
Cold rolling silicon plant	**3,341**	—	**3,341**	—
Hot rolled sheets	**17,834**	—	**17,834**	—
Wire rods	**2,863**	2,799	**2,863**	2,799
Large section products	**2,463**	4,599	**2,463**	4,599
Thick plates	**4,819**	5,282	**4,819**	5,282
Medium plate plant	**3,312**	—	**3,312**	—
Seamless steel plant	**2,489**	—	**2,489**	—
Section plant	**369**	—	**369**	—
Steel billets	**9**	824	**9**	824
Molten steel	**51**	—	**51**	—
Others	**2,330**	—	**2,330**	—
	54,596	26,488	**54,199**	26,296

The Group's revenue from principal operations is derived solely from the production and sale of steel. The Group's segmental information is detailed in Note 38.

Total sales to the five largest customers were Rmb10,659 million (2005: Rmb12,572 million) which accounted for 20% (2005: 48%) of the total sales of the Group for the year ended 31 December 2006.

27. COST OF SALES

The Group's cost of sales is comprised solely of the cost incurred for the production and sale of steel. The Group's segmental information is detailed in Note 38.

28. BUSINESS TAX AND SURCHARGES

		The Group/Company	
		2006	2005
	Tax rate and basis	***Rmb Million***	*Rmb Million*
City construction and maintenance taxes	7% of VAT and Business Tax payable	**235**	58
Education surcharge and local education surcharge	3% and 1% of VAT and Business Tax payable	**135**	33
		370	91

29. OTHER OPERATING PROFIT

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Profit from sales of packaging materials	**3**	2	**1**	2
Profit from sales of scrap materials	**6**	101	**6**	99
Others	**5**	1	**5**	1
	14	104	**12**	102

30. FINANCIAL EXPENSES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Interest and bills discount expenses	**972**	118	**944**	89
Less: Amount capitalised as construction in progress *(Note 12)*	**(37)**	(21)	**(37)**	(21)
Net interest expenses	**935**	97	**907**	68
Net exchange gains	**(22)**	(19)	**(24)**	(14)
Interest income	**(14)**	(15)	**(14)**	(14)
Bank charges	**2**	1	**2**	1
	901	64	**871**	41

31. INVESTMENT INCOME/(LOSS)

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Income/(loss) from long-term equity investment in jointly controlled entities — Accounted under equity method *(Note 10 (a))*	**—**	—	**49**	(25)
Loss from long-term equity investment in associates — Accounted under equity method *(Note 10 (b))*	**—**	(2)	**—**	(2)
Income from other long-term equity investment — Accounted under cost method	**3**	1	**3**	1
	3	(1)	**52**	(26)

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

32. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

(a) Related party with controlling interest:

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

Note: The legal representative of Angang Holding had been changed to Zhang Xiaogang on 14 February 2007.

The registered capital of Angang Holding as at 31 December 2006 was Rmb10,794 million (2005: Rmb10,794 million). It held 67.25% (2005: 38.17%) of the total share capital of the Company. There was no change in the registered capital of Angang Holding during the year. The changes in percentage of shares held by Angang Holding are disclosed in Note 22 "Share Capital".

(b) Related parties without controlling interest:

Name of enterprise	Relation with the Company
Angang Group International Trade Corporation	Fellow subsidiary
Angang Finance	Fellow subsidiary
ANSC-TKS	Joint venture
ANSC-Xinchuan	Joint venture
Changchun FAM	Joint venture
TKAS-SSC	Joint venture
Angang Shenyang	Associate and fellow subsidiary
TKAS	Associate
Other subsidiaries of Angang Holding	Follow subsidiaries

32. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(Continued)*

(c) Details of the Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group"; the comparative figures of 2005 include that of ANSI):

	Note	**2006** **Rmb Million**	2005 *Rmb Million*
Sales (before deducting city construction tax and other surcharges)	(i)	**1,885**	2,201
Sales of scrap materials (before deducting city construction tax and other surcharges)	(i)	**150**	767
General service	(i)	**394**	—
Purchases			
— Raw materials	(ii)	**11,184**	18,410
— Ancillary materials and spare parts	(iii)	**1,493**	160
Utility supplies	(iv)	**1,031**	359
Fees paid for welfare and other support services	(v)	**4,589**	512
Interest income	(vi)	**5**	4
Interest expenses	(vi)	**94**	—
Material processing fee	(vii)	**—**	91

(i) Sales, Sales of scrap materials and general service

The Company sold steel products and scrap materials to Angang Group mainly at selling prices based on the average prices charged to independent customers for the preceding month or market prices.

The Company provided general services, such as coal gas, electricity, steam and transportation, to Angang Group at State prices, production cost plus 5%, or market prices.

(ii) Purchase of raw materials

The Company purchased its principal raw materials from Angang Group, at prices determined and modified on a semiannual basis.

The purchase price is mainly no higher than the average prices quoted to the Company for importing principal raw materials of similar quality plus freight charges in the previous interim period and adjustment for grade, or the average prices charged by independent suppliers plus 10% mark up of processing costs (if applicable).

(iii) Purchase of ancillary materials and spare parts

The Company purchased ancillary materials and spare parts from Angang Group at selling prices not higher than the average prices charged to independent customers for the preceding month.

32. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(Continued)*

(c) Details of material related party transactions with Angang Group *(Continued)*:

(iv) Utility supplies

The Company purchased electricity from Angang Group mainly at State prices.

(v) Fees paid for welfare and other supporting services

Angang Group provided certain supporting services to the Company. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; equipment examination, repair and maintenance; design and engineering services; construction project agency and management services and other employees' supporting services. Service fees were charged at applicable state prices, market prices, fixed rate commission or free of charge.

(vi) Interest income/expense

Angang Group provided financial services, including settlement, deposit taking, borrowing and discounting services, at state prices.

The deferred cash payment for the acquisition of ANSI bears interest at rates quoted by the People's Bank of China for the same period.

(vii) Material processing

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

(viii) Guarantee of loans

As at 31 December 2006, total bank loans of the Company amounting to Rmb4,003 million (2005: Rmb900 million) were guaranteed by Angang Holding (see Note 20).

(ix) The Supply of Materials and Services Agreement

In connection with the Acquisition, the Company entered into a new Supply of Materials and Services Agreement with Angang Holding on 29 December 2004, which became effective upon the completion of the acquisition. There were no significant changes in the pricing policies under the new Supply of Materials and Services Agreement.

32. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

Pursuant to the funding supporting agreement entered into between the Company and Bank of China Liaoning Branch on 20 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after completion of the construction projects. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

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

The Company sold products to ANSC-TKS totalling Rmb1,449 million in the year 2006 (2005: Rmb1,607 million.)

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

ANSC-TKS sold finished products to and purchased raw materials from Thyssen, under similar terms and pricing policies for independent parties. The sales and purchases during the year 2006 amounted to Rmb70 million (2005: Rmb288 million) and Rmb55 million (2005: Rmb45 million) respectively. Sales amounted to Rmb35 million (2005: Rmb144 million) and purchases amounted to Rmb28 million (2005: Rmb23 million) have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

(e) Amounts due from/to related parties and the loans balance

	The Group		**The Company**	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Trade receivables	**328**	256	**485**	256
Prepayments	**380**	128	**380**	128
Trade payables	**(202)**	(19)	**(202)**	(19)
Receipts in advance	**(435)**	(73)	**(435)**	(73)
Other payables	**(430)**	(58)	**(428)**	(57)
Short-term loans	**(500)**	—	**(500)**	—
Long-term loans	**(3,200)**	—	**(3,200)**	—
Long-term payables due within one year	**(2,324)**	—	**(2,324)**	—
Long-term payables	**(2,324)**	—	**(2,324)**	—

33. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

According to the document [2005] No.2 issued by Labour and Social Security Department of Liaoning Province, the required contribution rate from the Company to the retirement benefits scheme is 20% (2005: 22.5%).

Pursuant to regulations issued by local labour bureau, ANSC-TKS, ANSC-Xinchuan, Changchun FAM, and TKAS-SSC are required to contribute 19% - 27% (2005: 19%) of total salary to retirement benefit schemes.

34. JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2006, particulars of the jointly controlled entities of the Company are set out below:

Name of invested company	Registered capital	% of equity held by the Company	Initial cost of investment	Principal activities
ANSC-TKS	US$132 million	50%	US$60 million	Production and sale of hot dip galvanised steel products
ANSC-Xinchuan *(note)*	Rmb40 million	50%	Rmb70 million	Sale, processing, and distribution of steel products
Changchun FAM	Rmb90 million	50%	Rmb45 million	Sale, processing, and distribution of steel products
TKAS-SSC	US$12 million	50%	US$6 million	Production, processing, and sale of steel products and other related service

Note: The registered capital of ANSC-Xinchuan was changed to Rmb140 million on 25 February 2007. The above increase in paid-in capital has been verified by Dalian ZhongYuan Certified Public Accountants. A capital verification report, Da Zhong Yuan Kuai Shi Nei Yan Zi-(2006) No.52, was issued on 22 September 2006.

As at 31 December 2006, particulars of the associates of the Company are set out below:

Name of invested company	Registered capital	% of equity held by the Company	Initial cost of investment	Principal activities
Angang Shenyang	Rmb48 million	30%	Rmb14 million	Sale, processing, and distribution of steel products
TKAS	US$10 million	45%	US$4.5 million	Development, production and sale of tailored blanks

35. COMMITMENTS

(a) Capital commitments

As at 31 December 2006, the Group/Company had the following capital commitments:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb Million	*Rmb Million*	***Rmb Million***	*Rmb Million*
Contracted for				
— Construction and upgrade of production lines	**11,264**	847	**10,964**	847
— Investment	**167**	188	**167**	188
— Acquisition of ANSI *(note)*	**—**	19,692	**—**	19,692
Authorised but not contracted for				
— Construction and upgrade of production lines	**16,596**	730	**16,022**	385
	28,027	21,457	**27,153**	21,112

Note: The acquisition of ANSI has been completed in January 2006 (see Note 21).

Included in the Group's capital commitments were the Group's proportionate share of the jointly controlled entities' capital commitments amounting to Rmb1,748 million as at 31 December 2006 (2005: Rmb690 million).

(b) Other commitments

Pursuant to the funding supporting agreement with Bank of China Liaoning Branch dated 20 October 2002, the Company committed to finance ANSC-TKS if it does not have sufficient funds to complete the construction projects, repay the syndicated loan or finance the operations after the completion of the construction projects (see Note 32(d) (i)).

36. EXTRAORDINARY GAIN AND LOSS

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

	The Group	
	2006	2005
	Rmb Million	*Rmb Million*
Net loss on disposal of fixed assets	**(282)**	—
Provision for impairment of fixed assets	**(118)**	—
Penalty income	**3**	—
Total extraordinary gain and loss	**(397)**	—
Less: tax effect of the above items	**131**	—
Net extraordinary gain and loss	**(266)**	—

37. POST BALANCE SHEET EVENTS

(a) From the 1 January 2007, the Group will implement the Accounting Regulations for Business Enterprises ("New Accounting Standards") issued by the Ministry of Finance of People's Republic of China on 15 February 2006, instead of the existing Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises ("the existing accounting standards"). After the implementation of the New Accounting Standards, the Group may change the accounting policies and accounting estimates under existing accounting standards, and thereby may have an impact on the Group's financial position and results of operations.

(b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rates applicable to the Company and ANSC-Xinchuan will be reduced from 33% to 25% from 1 January 2008. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet as at 31 December 2006 in respect of current tax payable.

The jointly controlled entities of the Company, ANSC-TKS and Changchun FAM and TKAS-SSC which were established in high-tech zone , are entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years or entitle preferential income tax rates. The current preferential income tax rates will be gradually increased to the standard rate of 25% over a five-year transition period. However, the new tax law does not explain in detail how the current preferential income tax rate will be gradually increase to the standard rate of 25%.The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet as at 31 December 2006 in respect of current tax payable.

37. POST BALANCE SHEET EVENTS *(Continued)*

(c) At the board of directors meeting held on 10 April 2007, a resolution was passed for the proposed rights issue (the "Proposed Rights Issue") to finance part of the investment of the Bayuquan Project. The proposed Rights Issue will be conducted on the basis of approximately 2 to 3 rights shares for every 10 existing shares. The Proposed Rights Issue will be subject to the approval of the shareholders in general meeting and the approval by relevant governmental and regulatory authorities.

38. SEGMENT REPORTING

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

The Group

	PRC		Other countries and regions		Total	
	2006	2005	**2006**	2005	**2006**	2005
Category	***Rmb Million***	*Rmb Million*	***Rmb Million***	*Rmb Million*	***Rmb Million***	*Rmb Million*
Revenue from principal operations	**41,117**	21,001	**13,479**	5,487	**54,596**	26,488
Profit from principal operations	**9,456**	2,842	**3,524**	913	**12,980**	3,755

The Company

	PRC		Other countries and regions		Total	
	2006	2005	**2006**	2005	**2006**	2005
Category	***Rmb Million***	*Rmb Million*	***Rmb Million***	*Rmb Million*	***Rmb Million***	*Rmb Million*
Revenue from principal operations	**41,215**	21,217	**12,984**	5,079	**54,199**	26,296
Profit from principal operations	**9,386**	2,819	**3,486**	909	**12,872**	3,728

Details of the Provision for Impairment Losses of Assets

(Prepared under PRC Accounting Rules and Regulations)
For the year ended 31 December 2006
(Expressed in Renminbi Million)

	The Group			
	Balance at the beginning of the year *Rmb Million*	**Additions** *Rmb Million*	**Written off/ reversal for the year** *Rmb Million*	**Balance at the end of the year** *Rmb Million*
1. Bad debt provision				
Including:				
Accounts receivable	—	2	(2)	—
Other receivables	—	4	(4)	—
2. Provision for diminution in value of inventories	67	39	(13)	93
Including:				
Raw materials	2	—	—	2
Finished goods	17	—	(13)	4
Spare parts and low value consumables	48	39	—	87
3. Provision for impairment of fixed assets	—	118	—	118
Including:				
Plant and buildings	—	47	—	47
Machinery and equipment	—	67	—	67
Others	—	4	—	4

	The Company			
	Balance at the beginning of the year *Rmb Million*	**Additions** *Rmb Million*	**Written off /reversal for the year** *Rmb Million*	**Balance at the end of the year** *Rmb Million*
1. Bad debt provision				
Including:				
Accounts receivable	—	2	(2)	—
Other receivables	—	4	(4)	—
2. Provision for diminution in value of inventories	48	39	—	87
Including:				
Spare parts and low value consumables	48	39	—	87
3. Provision for impairment of fixed assets	—	118	—	118
Including:				
Plant and buildings	—	47	—	47
Machinery and equipment	—	67	—	67
Others	—	4	—	4

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

We have audited the consolidated financial statements of Angang Steel Company Limited ("the Company") set out on pages 141 to 198, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
10 April 2007

Consolidated income statement

for the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006** *Rmb million*	2005 *Rmb million*
Turnover	4	**54,596**	26,488
Cost of sales		**(41,290)**	(22,673)
Sales related taxes		**(370)**	(91)
Gross profit		**12,936**	3,724
Other operating (loss)/income	5	**(369)**	110
Distribution and other operating expenses		**(959)**	(463)
Administrative expenses		**(1,506)**	(314)
Profit from operations		**10,102**	3,057
Net financing costs	6(a)	**(715)**	(19)
Share of profits less losses of associates		**—**	(2)
Profit before taxation	6	**9,387**	3,036
Income tax expense	7(a)	**(2,293)**	(919)
Profit for the year and attributable to equity shareholders of the Company	10	**7,094**	2,117
Dividends payable to equity shareholders of the Company attributable to the year			
Final dividend proposed after the balance sheet date	9	**3,441**	1,067
Earnings per share	11		
— Basic		**Rmb 1.196**	Rmb 0.715

The notes on pages 148 to 198 form part of these financial statements.

Consolidated balance sheet

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006** **Rmb million**	2005 Rmb million
Non-current assets			
Property, plant and equipment	12	**32,834**	6,365
Intangible assets	13	**48**	24
Construction in progress	14	**8,401**	2,886
Lease prepayments	15	**5,486**	316
Interest in associates	17	**49**	31
Other investment	18	**10**	10
Deferred tax assets	7(b)	**114**	39
		46,942	9,671
Current assets			
Inventories	19	**7,220**	2,608
Amounts due from fellow subsidiaries		**708**	282
Trade receivables	20	**1,729**	933
Prepayments, deposits and other receivables		**378**	127
Income tax recoverable		**261**	41
Cash and cash equivalents	21	**1,698**	562
		11,994	4,553
Current liabilities			
Trade payables	22	**2,537**	419
Amount due to ultimate holding company		**16**	5
Amounts due to fellow subsidiaries		**1,051**	44
Other payables		**4,210**	1,143
Short-term bank loans	24	**7,384**	758
Current portion of long-term payable to ultimate holding company	31	**2,324**	—
		17,522	2,369
Net current (liabilities)/assets		**(5,528)**	2,184
Total assets less current liabilities carried forward		**41,414**	11,855

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006** **_Rmb million_**	2005 *Rmb million*
Total assets less current liabilities brought forward		**41,414**	11,855
Non-current liabilities			
Bank loans	24	**9,089**	604
Long-term payable to ultimate holding company	31	**2,324**	—
		11,413	604
NET ASSETS		**30,001**	11,251
CAPITAL AND RESERVES			
Share capital	25	**5,933**	2,963
Share premium	26	**12,811**	3,058
Reserves	27	**2,076**	1,392
Retained profits		**9,181**	3,838
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**30,001**	11,251

Approved and authorised for issue by the board of directors on 10 April 2007.

Zhang Xiaogang
Chairman

Fu Jihui
Director

The notes on pages 148 to 198 form part of these financial statements.

Balance sheet

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006** **Rmb million**	2005 Rmb million
Non-current assets			
Property, plant and equipment	12	**32,411**	5,910
Intangible assets	13	**27**	—
Construction in progress	14	**8,257**	2,882
Lease prepayments	15	**5,465**	295
Investment in jointly controlled entities	16	**649**	268
Investment in associates	17	**51**	33
Other investment	18	**10**	10
Deferred tax assets	7(b)	**112**	38
		46,982	9,436
Current assets			
Inventories	19	**7,036**	2,440
Amounts due from fellow subsidiaries		**865**	593
Trade receivables	20	**1,600**	676
Prepayments, deposits and other receivables		**348**	103
Income tax recoverable		**261**	41
Cash and cash equivalents	21	**1,480**	515
		11,590	4,368
Current liabilities			
Trade payables	22	**2,537**	407
Amount due to ultimate holding company		**16**	5
Amounts due to fellow subsidiaries		**1,049**	42
Other payables		**4,158**	1,087
Short-term bank loan	24	**7,293**	600
Current portion of long-term payable to ultimate holding company	31	**2,324**	—
		17,377	2,141
Net current (liabilities)/assets		**(5,787)**	2,227
Total assets less current liabilities carried forward		**41,195**	11,663

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006** **Rmb million**	2005 Rmb million
Total assets less current liabilities brought forward		**41,195**	11,663
Non-current liabilities			
Bank loans	24	**8,811**	300
Long-term payable to ultimate holding company	31	**2,324**	—
		11,135	300
NET ASSETS		**30,060**	11,363
CAPITAL AND RESERVES			
Share capital	25	**5,933**	2,963
Share premium	26	**12,811**	3,058
Reserves	27	**2,076**	1,392
Retained profits	28	**9,240**	3,950
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**30,060**	11,363

Approved and authorised for issue by the board of directors on 10 April 2007.

Zhang Xiaogang
Chairman

Fu Jihui
Director

The notes on pages 148 to 198 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital *Rmb million*	Share premium *Rmb million*	Reserves *Rmb million*	Retained profits *Rmb million*	Total *Rmb million*
2005						
At 1 January 2005		2,963	3,057	974	3,028	10,022
Net profit for the year		—	—	—	2,117	2,117
Transfer between reserves		—	—	418	(418)	—
Shares issued upon conversion of convertible debentures		—	1	—	—	1
Final dividend - 2004	9(b)	—	—	—	(889)	(889)
At 31 December 2005		2,963	3,058	1,392	3,838	11,251
2006						
At 1 January 2006		2,963	3,058	1,392	3,838	11,251
Net profit for the year		—	—	—	7,094	7,094
Proposed transfer between reserves		—	—	684	(684)	—
Issuance of A shares for the acquisition of Angang New Steel and Iron Co. Ltd. ("ANSI")	25(a)	2,970	9,771	—	—	12,741
Expenses related to share issuance	25(a)	—	(18)	—	—	(18)
Final dividend - 2005	9(b)	—	—	—	(1,067)	(1,067)
At 31 December 2006		5,933	12,811	2,076	9,181	30,001

The notes on pages 148 to 198 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 Rmb million	2005 Rmb million
Operating activities			
Cash flows from operations	30	**13,005**	3,742
Interest received		**14**	17
Interest paid		**(972)**	(117)
Income tax paid		**(1,920)**	(1,188)
Cash flows from operating activities		**10,127**	2,454
Investing activities			
Capital expenditure		**(10,191)**	(2,673)
Proceeds from disposal of property, plant and equipment		**51**	2
Investment in associate		**(18)**	(2)
Decrease in fixed deposits maturing over 3 months		**—**	934
Net cash outflow for the acquisition of ANSI	31	**(1,730)**	—
Cash flows from investing activities		**(11,888)**	(1,739)
Financing activities			
Dividends paid		**(666)**	(889)
Proceeds of bank loans		**14,572**	117
Repayment of bank loans		**(10,989)**	(1,204)
Redemption of convertible debentures		**—**	(3)
Cash paid in relation to other financing activities		**(18)**	—
Cash flows from financing activities		**2,899**	(1,979)
Net increase/(decrease) in cash and cash equivalents		**1,138**	(1,264)
Cash and cash equivalents at 1 January		**562**	1,813
Effect of exchange rate fluctuations on cash held		**(2)**	13
Cash and cash equivalents at 31 December		**1,698**	562

The notes on pages 148 to 198 form part of these financial statements.

1 BACKGROUND OF THE COMPANY

Angang 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. According to a special resolution approved by the shareholders in the annual general meeting on 20 June 2006, the Company changed its name from Angang New Steel Company Limited to Angang Steel Company Limited on 29 September 2006 upon the issuance of revised business license.

During the year ended 31 December 2006, the company acquired the entire equity interest of ANSI from Anshan Iron & Steel Group Complex ("Angang Holding") at a total consideration of Rmb19.712 billion. Upon the completion of the acquisition ("Acquisition"), all the assets and liabilities of ANSI were transferred to the Company and ANSI has applied for deregistration.

The Company and its jointly controlled entities (the "Group") are principally engaged in the production and sales of hot rolled sheets, cold rolled sheets, galvanised steel, seamless tubes, 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 page 199.

IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. There are no significant changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2006 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 or joint 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)).

(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 control ceases.

Investments in jointly controlled entities 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)*

(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 Company and its associates and jointly controlled entities are eliminated to the extent of the Company'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 commits to purchase/sell the investments.

(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 equipment over its estimated remaining useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	10 to 20 years
Plant, machinery and equipment	6 to 15 years
Transportation vehicles and other related equipment	2 to 12 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 6 to 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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)).

(l) Convertible debentures

Convertible debentures that can be converted to share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments with both a liability component and an 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 at the time of initial recognition 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. Except for financial guarantee liabilities measured in accordance with Note 2(n)(i), trade and other payables are subsequently 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) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provision and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 investment in equity securities 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 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 equity securities are not reversed.

- For trade and other current receivables and other 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), where the effect of discounting is material.

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

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).

- 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.

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(t)(i) and (ii)).

Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 34.

(v) Dividends

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

(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 parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a jointly controlled entity in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties *(Continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

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

3 SEGMENT REPORTING

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

	2006 *Rmb million*	2005 *Rmb million*
Revenue		
— The PRC	**41,117**	21,001
— Other countries	**13,479**	5,487
	54,596	26,488

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

4 TURNOVER

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

5 OTHER OPERATING (LOSS)/INCOME

	2006 Rmb million	2005 Rmb million
Loss on disposals of property, plant and equipment	**(282)**	—
Impairment provision on property, plant and equipment	**(118)**	—
Income from sales of scrap materials	**6**	101
Write-off of long outstanding accounts payable	**1**	5
Packaging materials income	**3**	2
Insurance compensation	**8**	—
Dividend income from other investment	**3**	1
Others	**10**	1
	(369)	110

6 PROFIT BEFORE TAXATION

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

(a) Net financing costs:

	2006 Rmb million	2005 Rmb million
Interest and other borrowing costs	**972**	118
Less: Amount capitalised as construction in progress *	**(223)**	(66)
Net interest expenses	**749**	52
Net exchange gain	**(22)**	(19)
Interest income	**(14)**	(15)
Bank charges	**2**	1
	715	19

* The borrowing costs have been capitalised at an average rate of 5.04% (2005: 5.59%) per annum for construction in progress.

6 PROFIT BEFORE TAXATION *(Continued)*

(b) Other items:

	2006 Rmb million	2005 Rmb million
Auditors' remuneration	**8**	4
Cost of inventories	**41,290**	22,673
Depreciation	**3,831**	838
Amortisation of intangible assets	**8**	3
Amortisation of lease prepayments	**115**	7
Impairment losses		
— Fixed assets	**118**	—
— Trade receivable	**4**	—
— Inventories	**26**	16
Personnel costs		
— Salaries and wages, welfare and other costs	**1,416**	267
— Contributions to defined contribution scheme	**344**	49
Total personnel costs	**1,760**	316
Repairs and maintenance	**2,010**	473
Research and development costs	**23**	9

7 INCOME TAX

(a) Income tax expense in the consolidated income statement

	2006 Rmb million	2005 Rmb million
Current tax expense		
Provision for PRC income tax for the year	**2,368**	903
Deferred tax expense		
Origination and reversal of temporary differences *(note 7(b))*	**(75)**	16
Total income tax expense in consolidated income statement	**2,293**	919

7 INCOME TAX *(Continued)*

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

The provision for PRC income tax is based on a statutory rate of 33% (2005:33%) of the assessable profits of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain jointly controlled entities of the Company, which are exempted or taxed at preferential rates of 15% or 24% (2005:15% or 24%).

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

	2006 **Rmb million**	2005 Rmb million
Profit before taxation	**9,387**	3,036
Expected PRC income tax at a statutory tax rate of 33%	**3,098**	1,002
Non-taxable income	**(133)**	(4)
Non-deductible expenses	**34**	42
Additional deductions *	**(543)**	(97)
Tax credit *	**(163)**	(24)
	2,293	919

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

7 INCOME TAX *(Continued)*

(b) Deferred taxation

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

The Group

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*	***Rmb million***	*Rmb million*
Borrowing costs capitalised	**—**	—	**(80)**	(25)	**(80)**	(25)
Revaluation of lease prepayments (note)	**62**	64	**—**	—	**62**	64
Provision for inventories	**28**	—	**—**	—	**28**	—
Impairment losses on property, plant and equipment	**39**	—	**—**	—	**39**	—
Depreciation of property, plant and equipment	**7**	—	**—**	—	**7**	—
Expenses to be claimed on paid basis	**55**	—	**—**	—	**55**	—
Others	**3**	—	**—**	—	**3**	—
	194	64	**(80)**	(25)	**114**	39
Set-off within legal tax units and jurisdictions	**(80)**	(25)	**80**	25	**—**	—
Net deferred tax assets	**114**	39	**—**	—	**114**	39

7 INCOME TAX *(Continued)*

(b) Deferred taxation *(Continued)*

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

The Company

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*	***Rmb million***	*Rmb million*
Borrowing costs capitalised	**—**	—	**(80)**	(25)	**(80)**	(25)
Revaluation of lease prepayments (note)	**61**	63	**—**	—	**61**	63
Provision for inventories	**28**	—	**—**	—	**28**	—
Impairment losses on property, plant and equipment	**39**	—	**—**	—	**39**	—
Depreciation of property, plant and equipment	**7**	—	**—**	—	**7**	—
Expenses to be claimed on paid basis	**55**	—	**—**	—	**55**	—
Others	**2**	—	**—**	—	**2**	—
	192	63	**(80)**	(25)	**112**	38
Set-off within legal tax units and jurisdictions	**(80)**	(25)	**80**	25	**—**	—
Net deferred tax assets	**112**	38	**—**	—	**112**	38

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.

7 INCOME TAX (Continued)

(b) Deferred taxation (Continued)

(ii) Movement in temporary differences during the year:

The Group

	Balance at 1 January 2005	Recognised in income statement *(Note 7(a))*	Balance at 31 December 2005/ 1 January 2006	Recognised in income statement *(Note 7(a))*	Balance at 31 December 2006
	Rmb million	*Rmb million*	*Rmb million*	*Rmb million*	*Rmb million*
Borrowing costs capitalised	(10)	(15)	(25)	(55)	(80)
Revaluation of lease prepayments	65	(1)	64	(2)	62
Provision for inventories	—	—	—	28	28
Impairment losses on property, plant and equipment	—	—	—	39	39
Depreciation of property, plant and equipment	—	—	—	7	7
Expenses to be claimed on paid basis	—	—	—	55	55
Others	—	—	—	3	3
	55	(16)	39	75	114

7 INCOME TAX *(Continued)*

(b) Deferred taxation *(Continued)*

(ii) Movement in temporary differences during the year: *(Continued)*

The Company

	Balance at 1 January 2005 *Rmb million*	Recognised in income statement *Rmb million*	Balance at 31 December 2005/ 1 January 2006 *Rmb million*	Recognised in income statement *Rmb million*	Balance at 31 December 2006 *Rmb million*
Borrowing costs capitalised	(10)	(15)	(25)	(55)	(80)
Revaluation of lease prepayments	65	(2)	63	(2)	61
Provision for inventories	—	—	—	28	28
Impairment losses on property, plant and equipment	—	—	—	39	39
Depreciation of property, plant and equipment	—	—	—	7	7
Expenses to be claimed on paid basis	—	—	—	55	55
Others	—	—	—	2	2
	55	(17)	38	74	112

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

Directors' and supervisors' remuneration:

	Directors' and supervisors' fees *Rmb million*	Salaries, allowance and benefits in kind *Rmb million*	Discretionary bonuses *Rmb million*	Retirement scheme contributions *Rmb million*	2006 Total *Rmb million*
Executive directors					
Liu Jie	—	—	—	—	—
Yang Hua	—	0.49	—	0.08	0.57
Tang Fuping	—	0.49	—	0.08	0.57
Huang Haodong	—	0.32	—	0.06	0.38
Fu Jihui	—	0.28	—	0.05	0.33
Fu Wei	—	0.28	—	0.05	0.33
Lin Daqing	—	0.32	—	0.05	0.37
Wang Chun Ming	—	0.16	—	0.03	0.19
Non-executive directors					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Wang Linsen	0.06	—	—	—	0.06
Yao Weiting	0.03	—	—	—	0.03
Liu Yongze	0.06	—	—	—	0.06
Francis Li Chak Yan	0.06	—	—	—	0.06
Wang Xiaobin	0.06	—	—	—	0.06
Wu Xichun	0.04	—	—	—	0.04
Supervisors					
Qi Cong	—	—	—	—	—
Zhou Fa	—	0.02	—	—	0.02
Xing Guibin	—	0.13	—	0.02	0.15
Zhang Lifen	—	0.26	—	0.05	0.31
Shan Mingyi	—	0.32	—	0.06	0.38
Li Ji	—	0.23	—	0.04	0.27
	0.31	3.30	—	0.57	4.18

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

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

	Directors' and supervisors' fees *Rmb million*	Salaries, allowance and benefits in kind *Rmb million*	Discretionary bonuses *Rmb million*	Retirement scheme contributions *Rmb million*	2005 Total *Rmb million*
Executive directors					
Liu Jie	—	—	—	—	—
Yang Hua	—	—	—	—	—
Tang Fuping	—	0.27	—	0.05	0.32
Yao Lin	—	0.28	—	0.05	0.33
Huang Haodong	—	—	—	—	—
Zhang Lifen	—	0.32	—	0.06	0.38
Fu Jihui	—	0.29	—	0.06	0.35
Fu Wei	—	0.30	—	0.06	0.36
Cai Denglou	—	—	—	—	—
Li Zhongwu	—	—	—	—	—
Non-executive directors					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Wang Linsen	0.06	—	—	—	0.06
Yao Weiting	0.06	—	—	—	0.06
Liu Yongze	0.06	—	—	—	0.06
Francis Li Chak Yan	0.07	—	—	—	0.07
Wang Xiaobin	0.05	—	—	—	0.05
Supervisors					
Qi Cong	—	—	—	—	—
Zhou Fa	—	0.29	—	0.06	0.35
Xing Guibin	—	0.15	—	0.02	0.17
	0.30	1.90	—	0.36	2.56

The five highest paid individuals of the Group in 2006 and 2005 were all executive directors and supervisors whose emoluments are disclosed above.

9 DIVIDENDS

(a) Dividends attributable to the year

	2006 **Rmb million**	2005 Rmb million
Final dividend proposed after the balance sheet date of Rmb58 cents per share (2005: Rmb36 cents per share)	**3,441**	1,067

Pursuant to a resolution passed at the directors' meeting on 10 April 2007, a final dividend of Rmb58 cents (2005: Rmb36 cents) per share totalling Rmb3,441 (2005: Rmb1,067 million) 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

	2006 **Rmb million**	2005 Rmb million
Final dividends in respect of the previous financial year, approved and paid during the year, of Rmb36 cents per share (2005: Rmb30 cents per share)	**1,067**	889

The 2.97 billion A shares issued for the acquisition of ANSI as mentioned in Note 31 were not entitled to the final dividends approved and paid during the year.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company in the amount of Rmb7,041 million (2005: Rmb2,157 million) has been dealt with in the financial statements of the Company.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb7,094 million (2005: Rmb2,117 million) and a weighted average number of shares outstanding during the year of 5,933 million (2005: 2,963 million) calculated as follows:

Weighted average number of shares

(In millions of shares)	**2006**	2005
Issued shares at 1 January	**2,963**	2,963
Effect of issuance of new shares	**2,970**	—
Weighted average number of shares at 31 December	**5,933**	2,963

(b) Diluted earnings per share

There were no dilutive potential equity shares in existence as at 31 December 2005 and 2006.

12 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings *Rmb million*	Plant, machinery and equipment *Rmb million*	Transportation vehicles and other related equipment *Rmb million*	Total *Rmb million*
Cost:				
At 1 January 2005	1,575	7,553	616	9,744
Additions	—	10	1	11
Transfer from construction in progress *(Note 14)*	18	252	23	293
Disposals	(1)	(9)	(1)	(11)
At 31 December 2005	1,592	7,806	639	10,037
At 1 January 2006	1,592	7,806	639	10,037
Acquisition of ANSI *(Note 31)*	7,344	15,026	938	23,308
Additions	3	14	1	18
Transfer from construction in progress *(Note 14)*	2,021	4,970	427	7,418
Reclassification	—	233	(233)	—
Disposals	(132)	(397)	(72)	(601)
At 31 December 2006	10,828	27,652	1,700	40,180

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The Group *(Continued)*

	Buildings *Rmb million*	Plant, machinery and equipment *Rmb million*	Transportation vehicles and other related equipment *Rmb million*	Total *Rmb million*
Accumulated depreciation and impairment losses:				
At 1 January 2005	289	2,262	285	2,836
Charge for the year	111	666	61	838
Written back on disposal	—	(2)	—	(2)
At 31 December 2005	400	2,926	346	3,672
At 1 January 2006	400	2,926	346	3,672
Charge for the year	716	2,826	289	3,831
Reclassification	—	156	(156)	—
Written back on disposal	(11)	(204)	(60)	(275)
Impairment losses *(note f)*	47	67	4	118
At 31 December 2006	1,152	5,771	423	7,346
Net book value:				
At 31 December 2006	9,676	21,881	1,277	32,834
At 31 December 2005	1,192	4,880	293	6,365

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Buildings *Rmb million*	Plant, machinery and equipment *Rmb million*	Transportation vehicles and other related equipment *Rmb million*	Total *Rmb million*
Cost:				
At 1 January 2005	1,476	7,133	598	9,207
Additions	—	12	—	12
Transfer from construction in progress *(Note 14)*	18	252	23	293
Disposals	(1)	(9)	(1)	(11)
At 31 December 2005	1,493	7,388	620	9,501
At 1 January 2006	1,493	7,388	620	9,501
Acquisition of ANSI *(Note 31)*	7,344	15,026	938	23,308
Additions	—	2	—	2
Transfer from construction in progress *(Note 14)*	2,021	4,970	427	7,418
Reclassification	—	233	(233)	—
Disposals	(132)	(397)	(72)	(601)
At 31 December 2006	10,726	27,222	1,680	39,628

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company *(Continued)*

	Buildings *Rmb million*	Plant, machinery and equipment *Rmb million*	Transportation vehicles and other related equipment *Rmb million*	Total *Rmb million*
Accumulated depreciation and impairment losses:				
At 1 January 2005	285	2,234	282	2,801
Charge for the year	107	627	58	792
Written back on disposal	—	(2)	—	(2)
At 31 December 2005	392	2,859	340	3,591
At 1 January 2006	392	2,859	340	3,591
Charge for the year	712	2,785	286	3,783
Reclassification	—	156	(156)	—
Written back on disposal	(11)	(204)	(60)	(275)
Impairment losses *(note f)*	47	67	4	118
At 31 December 2006	1,140	5,663	414	7,217
Net book value:				
At 31 December 2006	9,586	21,559	1,266	32,411
At 31 December 2005	1,101	4,529	280	5,910

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

(d) ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS") has pledged its property, plant and equipment at a carrying amount of Rmb808 million at 31 December 2006 (2005: Rmb878 million) to secure a syndicated loan as mentioned in Note 24.

(e) Changchun FAM Steel Processing and Distribution Co., Ltd. ("Changchun FAM"), a jointly controlled entity of the Company, has pledged certain machinery at a carrying amount of Rmb43 million at 31 December 2006 (2005: Rmb Nil) to secure a bank loan as mentioned in Note 24.

(f) During the year ended 31 December 2006, the Group planned to dispose of certain machinery which were obsolete. The recoverable amounts of these machinery were accessed based on their scrape value less costs to sell. As a result, the carrying amount of the machinery was written down by Rmb118 million (2005: Rmb Nil). The impairment loss for the year is included in "Other operating (loss)/ income" in the consolidated income statement.

13 INTANGIBLE ASSETS

	Industrial technology	
	The Group *Rmb million*	**The Company** *Rmb million*
Cost:		
Balance at 1 January 2005	28	—
Additions	—	—
Balance at 31 December 2005	28	—
Balance at 1 January 2006	28	—
Acquisition of ANSI *(Note 31)*	32	32
Balance at 31 December 2006	60	32
Accumulated amortisation:		
Balance at 1 January 2005	1	—
Amortisation for the year	3	—
Balance at 31 December 2005	4	—
Balance at 1 January 2006	4	—
Amortisation for the year	8	5
Balance at 31 December 2006	12	5
Net book value:		
At 31 December 2006	48	27
At 31 December 2005	24	—

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

14 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Balance at 1 January	**2,886**	611	**2,882**	611
Additions	**10,456**	2,568	**10,325**	2,564
Acquisition of ANSI *(Note 31)*	**2,477**	—	**2,468**	—
	15,819	3,179	**15,675**	3,175
Transfer to property, plant and equipment *(Note 12)*	**(7,418)**	(293)	**(7,418)**	(293)
Balance at 31 December	**8,401**	2,886	**8,257**	2,882

Construction in progress comprises:

Cold rolling system upgrade	**339**	549	**339**	549
2130 continuous cold rolling line	**90**	2,272	**90**	2,272
West projects	**1,229**	—	**1,229**	—
New #2,3,4 and 5 furnace	**126**	—	**126**	—
Chemical plant renovation	**792**	—	**792**	—
Bayuquan port connected projects (“Bayuquan Project”) *(note b)*	**5,135**	—	**5,135**	—
Others	**690**	65	**546**	61
Balance at 31 December	**8,401**	2,886	**8,257**	2,882

(a) ANSC-TKS has pledged its construction in progress at a carrying amount of Rmb148 million at 31 December 2006 (2005: Rmb Nil) to secure a syndicated loan as mentioned in Note 24.

(b) The investment budget in Bayuquan Project amounted to Rmb22,600 million was approved by the Company’s shareholders pursuant to a resolution passed in the extraordinary general meeting held on 29 September 2006.

During the year ended 31 December 2006, Angang Holding acted as the agent and provided management services for Bayuquan Project. No service fee was received by Angang Holding in providing these services. Prior to 16 December 2006, Angang Holding entered into certain construction and equipment acquisition contracts and paid Rmb3,844 million as prepayments on behalf of the Company. Among the above prepayments, Rmb3,794 million were reimbursed by the Group during the year ended 31 December 2006.

In addition to the above agency and project management services, Angang Holding and its subsidiaries (“Angang Group”) also provided certain services in connection with the construction of Bayuquan Project. The related service fees were disclosed in Note 33(A).

Up to 31 December 2006, the Company has not acquired the land use rights of Bayuquan Project.

15 LEASE PREPAYMENTS

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights of the Company and the Group range from 40 to 47 years.

ANSC-TKS has pledged its land use rights at a carrying amount of Rmb42 million at 31 December 2006 (2005: Rmb42 million) to secure a syndicated loan as mentioned in Note 24.

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its land use rights, which related to acquisition of ANSI as mentioned in Note 31, with an aggregate carrying value of approximately RMB5,177 million as at 31 December 2006 (2005: Rmb Nil). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned land.

16 INVESTMENT/INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2006	2005
	Rmb million	*Rmb million*
Unlisted shares, at cost	**649**	268

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	Sino-foreign equity joint venture	PRC	US$132 million	50%	50%	Production and sale of hot dip galvanised steel products
ANSC - Xinchuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited ("ANSC-Xinchuan") *(note)*	Equity joint venture	PRC	Rmb40 million	50%	50%	Sale, processing and distribution of steel products

16 INVESTMENT/INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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
Changchun FAM	Sino-foreign equity joint venture	PRC	Rmb90 million	50%	50%	Sale, processing, distribution and storage of steel products
ANSC-TK Changchun Steel Logistics Co., Ltd. ("TKAS-SSC")	Sino-foreign equity joint venture	PRC	US$12 million	50%	50%	Production, processing and sale of anti-fluorin steel products and connected commercial activities

Note: Paid-up capital of ANSC-Xinchuan was increased from Rmb40 million to Rmb140 million on 25 February 2007. The above increase in paid-up capital has been verified by Dalian Zhong Yuan Certified Public Accountants. A capital verification report, Da Zhong Yuan Kuai Shi Nei Yan Zi (2006) No.0052, was issued on 22 September 2006.

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.

	2006 *Rmb million*	2005 *Rmb million*
Non-current assets	**641**	504
Current assets	**446**	343
Non-current liabilities	**(278)**	(304)
Current liabilities	**(211)**	(373)
Net assets	**598**	170
Income	**1,122**	997
Expenses	**(1,075)**	(1,023)
	47	(26)

The Company has pledged its equity interest in ANSC-TKS to secure a syndicated loan granted to ANSC-TKS as mentioned in Note 24.

17 INVESTMENT/INTEREST IN ASSOCIATES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Unlisted shares, at cost	**—**	—	**51**	33
Share of net asset	**49**	31	**—**	—
	49	31	**51**	33

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	Rmb 48 million	30%	30%	Sale, processing, distribution and storage of steel products
TKAS (Changchun) Tailored Blanks Ltd ("TKAS", formerly known as TKAZ (Changchun) Tailored Blanks Ltd)	Sino-foreign equity joint venture	PRC	US$10 million	45%	45%	Production and sale of tailored blanks

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit/(loss)
	Rmb million	*Rmb million*	*Rmb million*	*Rmb million*	*Rmb million*
2006					
100 per cent	**215**	**90**	**125**	**393**	**1**
Group's effective interest	**82**	**33**	**49**	**128**	**—**
2005					
100 per cent	156	71	85	56	(6)
Group's effective interest	61	30	31	19	(2)

18 OTHER INVESTMENT

	The Group and the Company	
	2006	2005
	Rmb million	*Rmb million*
Unlisted equity securities	**10**	10

19 INVENTORIES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Raw materials and fuels	**1,768**	310	**1,711**	298
Work in progress	**1,315**	190	**1,315**	190
Finished goods	**2,256**	1,229	**2,164**	1,106
Spare parts, tools and ancillary materials	**1,881**	879	**1,846**	846
	7,220	2,608	**7,036**	2,440

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

	2006	2005
	Rmb million	*Rmb million*
Carrying amount of inventories sold	**41,264**	22,657
Write-down of inventories	**39**	16
Reversal of write-down of inventories	**(13)**	—
	41,290	22,673

The reversal of write-down of inventories made in prior years arose due to an increase in the recoverable amount of certain galvanised steel products which were sold during the year ended 31 December 2006.

20 TRADE RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Accounts receivable	**320**	338	**191**	81
Bills receivable	**1,409**	595	**1,409**	595
	1,729	933	**1,600**	676

The ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Less than 3 months	**1,664**	405	**1,535**	148
More than 3 months but less than 12 months	**61**	528	**61**	528
More than 1 year	**4**	—	**4**	—
	1,729	933	**1,600**	676

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.

ANSC-TKS has pledged its trade receivables at a carrying amount of Rmb101 million at 31 December 2006 (2005: Rmb202 million) 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 and the Company	
	2006	2005
	million	*million*
United States Dollars	**USD9**	USD12
Euros	**EUR2**	—

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represented cash at bank and in hand.

As at 31 December 2006, a deposit of Rmb1,449 million (2005: Rmb421 million) was placed with Angang Group Financial Company Limited ("Angang Finance"), a subsidiary of the Angang Holding.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	million	*million*	***million***	*million*
Hong Kong Dollars	**—**	HKD1	**—**	HKD1
United States Dollars	**USD5**	USD2	**—**	—
Euros	**EUR9**	—	**—**	—

22 TRADE PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Accounts payable	**1,199**	225	**1,199**	213
Bills payable	**1,338**	194	**1,338**	194
	2,537	419	**2,537**	407

The ageing analysis of trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Due on demand	**34**	190	**34**	188
Due within 3 months	**1,917**	121	**1,917**	111
Due after 3 months but within 6 months	**586**	108	**586**	108
	2,537	419	**2,537**	407

23 CONVERTIBLE DEBENTURES

	The Group and the Company	
	2006	2005
	Rmb million	*Rmb million*
Carrying amount of convertible debentures at 1 January	—	3
Redemptions of convertible debentures	—	(3)
Carrying amount of convertible debentures at 31 December	—	—

On 15 March 2000, the Company issued convertible debentures (the "Debentures") amounting to Rmb1,500 million. The Debentures were listed on the Shenzhen Stock Exchange and were guaranteed by 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.

24 BANK LOANS

At 31 December 2006, the bank loans were repayable as follows:

	Within 1 year or on demand *Rmb million*	**After 1 year but within 2 years** *Rmb million*	**After 2 years but within 5 years** *Rmb million*	**More than 5 years** *Rmb million*	**Sub-total** *Rmb million*	**Total** *Rmb million*
Unsecured bank loans: — Floating interest rates ranging from 0.25% p.a. to 6.16% p.a.	7,293	2,703	3,996	2,112	8,811	16,104
The Company	7,293	2,703	3,996	2,112	8,811	16,104
Unsecured bank loans: — Floating interest rate at 5.02% p.a.	50	—	—	—	—	50
Secured bank loan: — Floating interest rates ranging from 4.86% p.a. to 6.12%	41	41	55	182	278	319
The Group	7,384	2,744	4,051	2,294	9,089	16,473

24 BANK LOANS (Continued)

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

	Within 1 year or on demand Rmb million	After 1 year but within 2 years Rmb million	After 2 years But Within 5 years Rmb million	More than 5 years Rmb million	Sub-total Rmb million	Total Rmb million
Unsecured bank loans:						
— Floating interest rate at 5.76% p.a.	600	300	—	—	300	900
The Company	600	300	—	—	300	900
Unsecured bank loans:						
— Floating interest rates ranging from 5.22% p.a. to 5.58% p.a.	117	—	—	—	—	117
Secured bank loan:						
— Floating interest rates at 6.12% p.a.	41	41	121	142	304	345
The Group	758	341	121	142	604	1,362

Among the unsecured bank loans of the Company as at 31 December 2006, Rmb4,003 million (2005: Rmb900 million) were guaranteed by Angang Holding.

As at 31 December 2006, loans from Angang Finance, a subsidiary of Angang Holding, amounted to Rmb3,700 million (2005: Rmb Nil).

In October 2002, ANSC-TKS entered into a long-term loan facility of Rmb1,080 million (the "Syndicated Loan") for the construction of production line. The Syndicated Loan is secured by the land use rights, construction in progress, property, plant and equipment and trade receivables of ANSC-TKS at a carrying amount of Rmb1,099 million at 31 December 2006 (2005: Rmb1,122 million).

The Company pledged its 50% equity interest in ANSC-TKS to Bank of China to secure the performance of the obligations of ANSC-TKS under the agreement of Sydicated Loan (Note 16).

As at 31 December 2006, a bank loan totalling Rmb30 million (2005: Rmb Nil), was secured by the machinery of Changchun FAM with a carrying value of Rmb43 million (2005: Rmb Nil) (Note 12(e)).

24 BANK LOANS *(Continued)*

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

	The Group and the Company	
	2006	2005
	million	*million*
Euros	**EUR1**	—
Japanese Yen	**JPY7,729**	—

25 SHARE CAPITAL

The Group and the Company

	2006		2005	
	Number of shares *million*	***Rmb million***	Number of shares *million*	*Rmb million*
Issued and fully paid:				
State-owned legal person shares of Rmb1 each				
At 1 January	1,131	1,131	1,319	1,319
Issuance of A shares for the acquisition of ANSI *(note (a))*	2,970	2,970	—	—
Decrease as a result of State-owned Share Reform Plan *(note (b))*	—	—	(188)	(188)
Decrease as a result of exercise of warrants *(note (c))*	(111)	(111)	—	—
At 31 December	3,990	3,990	1,131	1,131
A shares of Rmb1 each				
At 1 January	942	942	754	754
Increase as a result of State-owned Share Reform Plan *(note (b))*	—	—	188	188
Increase as a result of exercise of warrants *(note (c))*	111	111	—	—
At 31 December	1,053	1,053	942	942
H shares of Rmb1 each				
At 1 January and 31 December	890	890	890	890
	5,933	5,933	2,963	2,963

25 SHARE CAPITAL *(Continued)*

Notes:

(a) In January 2006, 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 ANSI (Note 31). The share premium, net of the issuance costs of Rmb18 million, amounted to Rmb9,753 million was credited to share premium account.

The above increase in share capital has been verified by KPMG Huazhen. A capital verification report, KPMG-A(2006) CR No.0005, was issued on 26 January 2006.

(b) 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 million 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 million shares. The Company's A shares were increased by 188 million shares accordingly.

(c) In accordance with the Reform Plan of the Company, Angang Holding issued 113 million European-style warrants to A share shareholders registered as at the implementation date of the Reform Plan. Some warrant holders exercised their rights at the exercise date (5 December 2006), causing state-owned legal person shares and Renminbi ordinary shares to decrease and increase by 111 million shares respectively.

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

26 SHARE PREMIUM

The Group and the Company

	Share premium *Rmb million*
At 1 January 2005	3,057
Shares issued upon conversion of convertible debentures	1
At 31 December 2005/1 January 2006	3,058
Issuance of new shares *(Note25(a))*	9,753
At 31 December 2006	12,811

27 RESERVES

The Group and the Company

	Statutory surplus reserve *(note (a))* *Rmb million*	Statutory public welfare fund *(note (b))* *Rmb million*	Excess over share capital *(note (c))* *Rmb million*	Total *Rmb million*
2005				
At 1 January 2005	563	563	(152)	974
Transfer for the year *(Note 28)*	209	209	—	418
At 31 December 2005	772	772	(152)	1,392
2006				
At 1 January 2006	772	772	(152)	1,392
Proposed transfer for the year *(Note 28)*	684	—	—	684
Transfer of balance of statutory public welfare fund	772	(772)	—	—
At 31 December 2006	2,228	—	(152)	2,076

(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; and

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

(b) Pursuant to the Company Law No.167 effective from 1 January 2006 and the amendment of the Articles of Association on 20 June 2006, the Company is no longer required to make allocations to the statutory public welfare fund. According to the "Notice on the Relevant Enterprise Accounting Treatments after the Effect of the Company Law" issued by the Ministry of Finance of the PRC, the Company has transferred the balance of statutory public welfare fund as at 31 December 2005 to statutory surplus reserve.

(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 is reversed from the shareholders' funds.

28 RETAINED PROFITS

The Company

	Note	**2006** **Rmb million**	2005 Rmb million
At 1 January		**3,950**	3,100
Net profit for the year		**7,041**	2,157
Transfer between reserves *(note 27)*		**(684)**	(418)
Final dividend - 2005/2004	9(b)	**(1,067)**	(889)
At 31 December		**9,240**	3,950

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 2006, the reserve available for distribution was Rmb8,832 million (2005: Rmb3,744 million). Final dividend of Rmb3,441 million (2005: Rmb1,067 million) in respect of the financial year 2006 was proposed after the balance sheet date.

30 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash flows from operations

	2006	2005
	Rmb million	*Rmb million*
Profit before taxation	**9,387**	3,036
Interest income	**(14)**	(15)
Interest expenses	**749**	52
Share of profits less losses of associates	**—**	2
Depreciation	**3,831**	838
Amortisation of intangible assets	**8**	3
Loss on disposal of property, plant and equipment	**282**	—
Net exchange gain	**(22)**	(19)
Increase in inventories	**(1,208)**	(405)
(Increase) / decrease in amounts due from fellow subsidiaries	**(229)**	24
Decrease / (increase) in accounts receivable	**31**	(210)
(Increase) / decrease in bills receivable	**(782)**	831
Decrease in amount due from ultimate holding company	**240**	—
Decrease in lease prepayments	**115**	7
Increase in prepayments, deposits and other receivables	**(86)**	(23)
Decrease in accounts payables	**(285)**	—
Decrease in bills payable	**(119)**	(26)
(Decrease) / increase in amount due to ultimate holding company	**(765)**	4
Increase in amount due to fellow subsidiaries	**79**	53
Increase / (Decrease) in other payables	**1,645**	(426)
Bad debt provision	**4**	—
Write-down of inventories	**26**	16
Impairment losses on fixed assets	**118**	—
Cash flows from operations	**13,005**	3,742

(b) Material non-cash transactions

(i) The Company acquired the entire equity interest of ANSI at a total consideration of Rmb19.712 billion. The Company issued 2.97 billion A shares of Rmb1 each amounting to Rmb12.74 billion to Angang Holding as a partial payment for the consideration of Acquisition (see Note 31).

(ii) During the year ended 31 December 2006, the Company settled part of dividend payable to its ultimate holding company amounting to Rmb400 million by way of endorsed bills, which did not involve any movement of cash or cash equivalents.

31 ACQUISITION OF ANSI

According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), the Company acquired the entire equity interest of ANSI from Anshan Iron & Steel Group Complex ("Angang Holding"), the ultimate holding company of the Company, for Rmb19.69 billion plus final adjustments as stated in the Acquisition Agreement. The Acquisition was completed in January 2006 and the total final consideration amounted to Rmb19.712 billion.

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 the Acquisition. As a result, the share capital and share premium of the Company increased by Rmb2,970 million and Rmb9,753 million respectively after deducting the expenses related to the shares issuance.

The remaining balance of the purchase consideration amounted to Rmb6,972 million will be paid in three instalments and bears interest rates quoted by People's Bank of China for the same period. Up to 31 December 2006, the Company has repaid Rmb2,324 million. The remaining purchase consideration amounted to Rmb4,648 million will be paid in two instalments within the next two years.

The Acquisition had the following effect on the Group's assets and liabilities:

	Recognised value on Acquisition *Rmb million*
Property, plant and equipment	23,308
Intangible assets	32
Construction in progress	2,477
Lease prepayments	5,285
Other investment	10
Inventories	3,473
Amount due from ultimate holding company	240
Amounts due from fellow subsidiaries	548
Trade receivables	500
Prepayments, deposits and other receivables	89
Income tax recoverable	668
Cash and cash equivalents	593
Trade payables	(2,669)
Amount due to ultimate holding company	(776)
Amounts due to fellow subsidiaries	(924)
Other payables	(1,591)
Bank loans and long-term payable	(11,551)
Net identifiable assets and liabilities	19,712
Less: Consideration paid, satisfied in shares issued	(12,741)
Long-term payable to ultimate holding company	(4,648)
Cash and cash equivalents acquired	(593)
Net cash outflow	1,730

31 ACQUISITION OF ANSI (Continued)

All assets and liabilities of ANSI were transferred to the Company upon completion of the Acquisition in January 2006 and ANSI applied for deregistration thereafter. As a result, the operating profit of ANSI for the year ended 31 December 2006 was captured in the Company's financial statements.

The recognised value of the assets and liabilities of ANSI on Acquisition was based on the valuation assessed by China Assets Appraisal Company Limited, an independent valuers qualified by China Securities Regulatory Commission and the Ministry of Finance of the PRC, on a depreciated replacement cost basis, as at 30 June 2005 plus further adjustments as stated in the Acquisition Agreement, which mainly reflected the operating results of ANSI for the six months ended 31 December 2005.

32 COMMITMENTS

(a) The Group had capital commitments outstanding at 31 December 2006 not provided for in the financial statements as follows:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*
Authorised and contracted for:				
— Construction projects of production lines	**11,264**	847	**10,964**	847
— Investments	**167**	188	**167**	188
— Acquisition of ANSI *(note)*	**—**	19,692	**—**	19,692
Authorised but not contracted for:				
— Improvement projects of production lines	**16,596**	730	**16,022**	385
	28,027	21,457	**27,153**	21,112

Note: The acquisition of ANSI has been completed in January 2006 (see Note 31).

Included in the Group's capital commitments were the Group's proportionate share of the jointly controlled entities' capital commitments amounting to Rmb1,748 million as at 31 December 2006 (2005: Rmb690 million).

32 COMMITMENTS *(Continued)*

(b) In October 2002, a jointly controlled entity of the Company, ANSC-TKS, obtained a Syndicated Loan of Rmb1,080 million for the construction of production line. The Syndicated Loan is secured by the land use rights, construction in progress, property, plant and equipment and trade receivables of ANSC-TKS at carrying amount of Rmb1,099 million at 31 December 2006 (2005: Rmb1,122 million).

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

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. The commitment is limited to US$8 million and will be reduced to US$4 million after the tenth repayment date.

33 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 and its business undertakings (“Angang Group”, including ANSI for the year ended 31 December 2005) during the year.

(A) Significant transactions and balances with Angang Group

(i) Significant transactions which the Company conducts with Angang Group (including ANSI for the year ended 31 December 2005) in the normal course of business are as follows:

		The Group	
		2006	2005
	Note	***Rmb million***	*Rmb million*
Sales of finished goods (before deducting sales related taxes)	(a)	**1,885**	2,201
Sales of scrap materials (before deducting sales related taxes)	(a)	**150**	767
Fee received for fuel and utilities provided	(b)	**394**	—
Purchase of raw materials	(c)	**11,184**	18,410
Purchase of ancillary materials and spare parts	(d)	**1,493**	160
Utility supplies	(e)	**1,031**	359
Fees paid for welfare and other support services	(f)	**4,589**	512
Interest received	(g)	**5**	4
Interest paid	(g)	**94**	—
Material processing services (before deducting sales related taxes)	(h)	**—**	91

33 RELATED PARTY TRANSACTIONS *(Continued)*

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

(i) Significant transactions which the Company conducts with Angang Group (including ANSI for the year ended 31 December 2005) in the normal course of business are as follows: *(Continued)*

Notes:

(a) The Company sold finished products and returned scrap materials to Angang Group for their own consumption mainly at selling prices based on the average prices charged to independent customers for the preceding month or market prices.

(b) The Company provided utilities and services, such as gas, electricity, steam and transportation, to Angang Group at applicable State prices, production cost plus 5%, or market prices.

(c) The Company purchased its principal raw materials, from Angang Group at prices determined and modified on a semi-annual basis. The purchase price is mainly no higher than the average prices quoted to the Company for importing principal raw materials of similar quality plus freight charges in the previous interim period or the average prices charged by independent suppliers plus 10% mark up of processing costs (if applicable).

(d) The Company purchased from Angang Group ancillary materials in the form of steel products and spare parts at selling prices no higher than the average prices of such materials charged by Angang Group to independent customers for the preceding month.

(e) The Company purchased electricity from Angang Group mainly at State prices.

(f) Angang Group provided certain supporting services to the Company. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; equipment examination, repair and maintenance; design and engineering services; construction project agency and management services and other employees' supporting services. Service fees were charged at applicable state prices, market prices, fixed rate commission or free of charge.

(g) Angang Group provided financial services in the form of deposit taking, settlement, borrowing and discounting services at State prices.

As at 31 December 2006, the deposit placed with Angang Finance amounted to Rmb1,449 million (2005: Rmb421 million).

The deferred cash payment for the acquisition of ANSI bears interest at rates quoted by the People's Bank of China for the same period (Note 31).

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

(ii) Bank loans

As at 31 December 2006, certain bank loans amounted to Rmb4,003 million (2005: Rmb900 million) were guaranteed by Angang Holding.

33 RELATED PARTY TRANSACTIONS *(Continued)*

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

(iii) Amount due to ultimate holding company

Amount due to ultimate holding company mainly represents fees payable for support services and interest accrual for long-term payable to ultimate holding company.

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

(iv) 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.

(v) Long-term payable to ultimate holding company

The amount represents deferred cash payment for the acquisition of 100% equity interest in ANSI (see Note 31).

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

In connection with the Acquisition, the Company entered into a new Supply of Materials and Services Agreement ("New Supply Agreement") with Angang Holding on 29 December 2004, which became effective upon the completion of the acquisition. The New Supply Agreement superseded the prevailing Supply of Materials and Services Agreement and there were no significant changes in the pricing policies under the New Supply Agreement.

The Acquisition of ANSI was completed in January 2006.

(B) Significant transactions with ANSC-TKS

(i) The Company sold finished products to ANSC-TKS amounting to Rmb1,449 million (2005: Rmb1,607 million) 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.

(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 by/to independent parties. The sales and purchases during the year amounted to Rmb70 million (2005: Rmb288 million) and Rmb55 million (2005: Rmb45 million) respectively, of which Rmb35 million and Rmb28 million (2005: Rmb144 million and Rmb23 million) have been included in the sales and cost of sales of the Group's consolidated financial statements respectively.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(D) Transaction with other state-controlled entities in the PRC

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions as disclosed above, the Group conducts certain business activities with other state-controlled entities which include but are not limited to the following:

- Sales and purchases of goods, property and other assets; and
- Depositing and borrowing money.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities, including state-controlled banks in the PRC

	2006	2005
	Rmb million	*Rmb million*
Sales	**17,670**	11,425
Purchases	**6,847**	715
Defined contribution scheme contribution	**344**	49

(ii) Balances with other state-controlled entities, including state-controlled banks in the PRC

	2006	2005
	Rmb million	*Rmb million*
Accounts receivable	**186**	81
Accounts payable	**67**	2
Short-term bank loans	**6,884**	758
Long-term bank loans	**5,368**	604
Cash and time deposits at banks	**248**	141

33 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 8 is as follows:

	2006 **Rmb million**	2005 Rmb million
Directors' and supervisors' fees	**0.31**	0.30
Salaries, allowance and other benefits in kind	**3.87**	2.46
Retirement scheme contributions	**0.62**	0.48
	4.80	3.24

Total remuneration is included in "personnel costs" (see Note 6(b)).

34 RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Company and its jointly controlled entities are required to contribute to the retirement benefits scheme based on 20% (2005: 22.5%) and 19%-27% (2005: 19%) respectively of the total salary in accordance with the regulations of the local labour bureau.

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.

35 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. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 1 month overdue are requested to settle all outstanding balance before any further credit is granted. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

35 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Amounts due from fellow subsidiaries

The terms of amounts due from fellow subsidiaries are disclosed in Note 33.

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 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 bank loans are disclosed in Note 24.

(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, 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.

36 NON-ADJUSTING POST BALANCE SHEET EVENTS

(i) The directors proposed a final dividend after the balance sheet date (see Note 9).

(ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rates applicable to the Company and its jointly controlled entities will be unified at 25% from 1 January 2008. Certain jointly controlled entities of the Company are entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years or a preferential income tax rates. The current preferential income tax rates will be gradually increased to 25% in five years time. However, the detailed implementation rules regarding the preferential tax policies have yet to be made public. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

(iii) At the board of directors meeting held on 10 April 2007, a resolution was passed for the proposed rights issue (the "Proposed Rights Issue") to finance part of the investment of the Bayuquan Project. The proposed Rights Issue will be conducted on the basis of approximately 2 to 3 rights shares for every 10 existing shares. The Proposed Rights Issue will be subject to the approval of the shareholders in general meeting and the approval by relevant governmental and regulatory authorities.

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.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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.

(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 Note 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.

(Expressed in Renminbi)

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

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 2006 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
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 2006 to be Angang Holding, which is a state-owned enterprise incorporated in the PRC.

	Note	**2006** **Rmb million**	2005 Rmb million
Profit attributable to equity shareholders of the Company under IFRSs		**7,094**	2,117
Adjustments:			
— Pre-operating expenses	(ii)	**3**	—
— Revaluation of land use rights	(iii)	**(5)**	(5)
— General borrowing costs capitalised	(iv)	**(168)**	(45)
— Write off of long outstanding accounts payable	(v)	**(1)**	(4)
— Receipt of government grant	(vi)	**(3)**	—
— Deferred tax charge	(vii)	**(75)**	16
Profit attributable to equity shareholders of the Company under PRC GAAP		**6,845**	2,079
Total equity attributable to equity shareholders of the Company under IFRSs		**30,001**	11,251
Adjustments:			
— Convertible debentures			
Additional borrowing costs capitalised	(i)	**(7)**	(7)
— Pre-operating expenses	(ii)	**3**	—
— Revaluation of land use rights	(iii)	**186**	191
— General borrowing costs capitalised	(iv)	**(235)**	(67)
— Deferred tax	(vii)	**(114)**	(39)
Total equity attributable to equity shareholders of the Company under PRC GAAP		**29,834**	11,329

Notes:

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

(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 in the month when operation commence.

(iii) Under the PRC GAAP, 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) 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 the PRC GAAP, only specific borrowing costs with certain conditions fulfilled can be capitalised, while other borrowing costs are recognised as expenses when incurred.

(v) Under IFRSs, the write off of long outstanding accounts payable is recognised in the income statement. Under the PRC GAAP, the write off of long outstanding accounts payable is credited to capital reserve.

(vi) Under IFRSs, the receipt of government grant is recognised as an income in the income statement. Under the PRC GAAP, receipt of government grant is credited to capital reserve.

(vii) Under IFRSs, deferred tax assets and liabilities are provided in accordance with balance sheet liability method at the tax rate of 33%.

A PREPARED IN ACCORDANCE WITH PRC ACCOUNTING RULES AND REGULATIONS

	2006 **Rmb million**	2005 *Rmb million*	2004 *Rmb million*	2003 *Rmb million*	2002 *Rmb million*
Principal operating revenue	**54,596**	26,488	23,228	14,521	10,771
Net profit	**6,845**	2,079	1,776	1,433	595
Total assets	**58,430**	14,290	15,343	15,012	12,425
Total liabilities	**(28,596)**	(2,961)	(5,209)	(6,064)	(4,620)
Net assets	**29,834**	11,329	10,134	8,948	7,805

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2006 **Rmb million**	2005 *Rmb million*	2004 *Rmb million*	2003 *Rmb million*	2002 *Rmb million*
Turnover	**54,596**	26,488	23,228	14,521	10,771
Profit attributable to equity shareholders of the Company	**7,094**	2,117	1,798	1,433	598
Non-current assets	**46,942**	9,671	7,966	7,970	6,776
Current assets	**11,994**	4,553	6,934	6,875	5,517
Current liabilities	**(17,522)**	(2,369)	(3,633)	(4,132)	(3,147)
Net current (liabilities)/assets	**(5,528)**	2,184	3,301	2,743	2,370
Total assets less current liabilities	**41,414**	11,855	11,267	10,713	9,146
Non-current liabilities	**(11,413)**	(604)	(1,245)	(1,898)	(1,472)
Net assets	**30,001**	11,251	10,022	8,815	7,674

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

Angang Steel Company Limited
31 December 2006 and 1 January 2007
Reconciliation statement of the differences in shareholders' fund between
the new and old accounting standards
Review Report

All shareholders of Angang Steel Company Limited ("the Company"):

We have reviewed the attached reconciliation statement of differences in shareholders' funds between the new and old accounting standards of the Company as at 31 December 2006 and 1 January 2007 (the "reconciliation statement of differences"). It is the responsibility of the Company's management to prepare the reconciliation statement of differences in accordance with the basis of preparation set out in note 2 to the reconciliation statement of differences. Our responsibility is to issue a review report on the reconciliation statement of differences based on our review.

According to relevant requirements of the "Notice on the Proper Disclosure of Financial and Accounting Information in Relation to the New Accounting Standards" (Zheng Jian Fa [2006] No. 136), we conducted our review by reference to the Standard on Review Engagements for Certified Public Accountants No. 2101 - Engagement to Review Financial Statements. The standard requires that we plan and perform the review to obtain limited assurance about whether the reconciliation statement of differences is free from material misstatement. A review is limited largely to making enquiries of relevant personnel of the Company about the accounting policies and all the important assumptions underlying the reconciliation statement of differences, obtaining an understanding of the calculation of the reconciled amounts in the reconciliation statement of differences, reading the reconciliation statement of differences to determine whether the basis of preparation has been properly followed and performing analytical procedures as and when necessary. A review provides a lower level of assurance than an audit. We have not conducted an audit and accordingly, we do not express an audit opinion.

On the basis of our review, we are not aware of any issues which cause us to believe that the above reconciliation statement of differences has not been prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the reconciliation statement of differences.

KPMG Huazhen

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

Zhang Li

Yang Ming

Beijing, The People's Republic of China

10 April 2007

Reconciliation statement of differences in shareholders' funds between the new and old accounting standards

(Unit: Rmb million)

	Note	Amount
Shareholders' funds as at 31 December 2006 (old accounting standards)	3(1)	29,840
Adjustments:		
1. Capitalisation of general borrowing costs	3(2)	235
2. Income tax	3(3)	54
Shareholders' funds as at 1 January 2007 (new accounting standards)	4	30,129

Approved by the Board of Directors on 10 April 2007.

Zhang Xiaogang
Chairman

Ma Lianyong
Chief Accountant

Notes:

1. **Purpose of preparation**

Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises ("New Accounting Standards") promulgated by the Ministry of Finance ("MOF") in 2006. To analyse and disclose the impact of adopting the New Accounting Standards on the Company's financial position, the China Securities Regulatory Commission issued the "Notice on the Proper Disclosure of Financial and Accounting Information in Relation to the New Accounting Standards" (Zheng Jian Fa [2006] No. 136) ("Notice") in November 2006 under which the Company is required to disclose the reconciliation of major differences in the "Supplementary Information" section of the annual financial report for 2006 in the form of reconciliation statement of differences in shareholders' funds between the new and old accounting standards ("reconciliation statement of differences") in accordance with relevant requirements of the Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises ("ASBE 38") and the Notice.

Reconciliation statement of differences in shareholders' funds between the new and old accounting standards *(Continued)*

Notes: (continued)

2. Basis of preparation

After adopting New Accounting Standards, the Company should reassess the scope of consolidation in accordance with the requirements of the Accounting Standard for Business Enterprises No. 33 - Consolidated Financial Statements ("ASBE 33"). According to ASBE 33, jointly controlled entities are not included in the scope of consolidation; therefore, the Company's shares of equity of jointly controlled entities should be recorded in the Company's financial statements based on equity method in accordance with the Accounting Standard for Business Enterprises No. 2 - Long-term Equity Investment ("ASBE 2").

As the Company does not have any subsidiary, the Company's shares of equity of jointly controlled entities and associates should be recorded in the Company's financial statements based on equity method in accordance with ASBE 2.

Starting from the effective date of New Accounting Standards on 1 January 2007, the Company is not required to prepare consolidated financial statements. Therefore, the reconciliation statement of differences in shareholders' funds between the new and old accounting standards is prepared based on the financial statements of the Company for the year ended 31 December 2006.

The Company has issued H shares and prepared financial statements in accordance with the PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("IFRS") in previous years. As required by the "Opinion of the Expert Team on the Implementation of the Accounting Standards for Business Enterprises" ("Opinion"), on the date of first adoption, the following retrospective adjustments have been made to items relevant to the changes in accounting policies arising from the implementation of New Accounting Standards.

For the principles of the New Accounting Standards which are different from the old accounting standards, if the Company had already adopted the principles of the New Accounting Standards in the preparation of financial statements under IFRS for the previous years, retrospective adjustments will be made to the changes in accounting policies arising from the implementation of New Accounting Standards based on the information relied upon by the Company in preparing the financial statements under IFRS for the previous years.

Apart from the retrospective adjustments which are required by the Opinion as stated above, the Company has also made retrospective adjustments to other items in accordance with Art. 5 to Art.19 of ASBE 38.

This reconciliation statement of differences has been prepared in accordance with the principle of retrospective adjustment as stated above, the characteristics and actual situation of the Company and the principle of materiality on the basis of the financial statements of 2006. References have been made to the Notice in respect of the presentation and disclosure of information in the reconciliation statement of differences.

Reconciliation statement of differences in shareholders' funds between the new and old accounting standards *(Continued)*

Notes: (continued)

3. Descriptions of key items

(1) The figures of shareholders' funds as at 31 December 2006 (under the old Accounting Standards) are extracted from the Company's financial statements for the year ended 31 December 2006 prepared under the old Accounting Standards. These financial statements were audited by KPMG Huazhen, which issued an auditors' report with unqualified opinion on 10 April 2007. The basis of presentation and the significant accounting policies of these financial statements are set out in the Company's 2006 financial statements.

This reconciliation statement of differences and its notes should be read in conjunction with the 2006 financial statements.

(2) Capitalisation of general borrowing costs

According to the information about capitalisation of general borrowing costs in the Company's financial statements prepared under IFRS in previous years, the Company increased construction in progress, fixed assets, accumulated depreciation as well as retained earnings by RMB 121 million, RMB 131 million, RMB 17 million and RMB 235 million, respectively, upon its first adoption of the New Accounting Standards on 1 January 2007.

(3) Income tax

In accordance with the relevant requirements of the Accounting Standard for Business Enterprises No. 18 - Income Tax ("ASBE 18"), as a result of its first time adoption of the New Accounting Standards on 1 January 2007, The Company increased deferred tax assets and deferred tax liabilities as well as retained earnings by RMB 132 million, RMB 78 million and RMB 54 million, respectively.

4. Important Notes

The Company commenced adoption of the New Accounting Standards on 1 January 2007, and is in the process of making an assessment of its impact on the Company's financial position, operating results, and cash flows. After giving careful consideration to this and the further briefing on the New Accounting Standards by the MOF, the Company may adjust related accounting policies or significant perception applied in the preparation of the reconciliation statement of differences, while preparing the 2007 financial statements. This will, in turn, cause a difference between the shareholders' funds (under the New Accounting Standards) as at 1 January 2007 as stated in the reconciliation statement of differences and the respective figures as presented in the 2007 financial statements.