2008 Annual Report

ANGANG STEEL COMPANY LIMITED*

(Stock Code: 0347)

ANGANG STEEL 鞍鋼

* For identification purposes only

鞍鋼股份有限公司
ANGANG STEEL COMPANY LIMITED*

鞍鋼 Angang Steel
2008 年度報告
Annual Report 2008

Contents

Corporate Profile

The board of directors (the "Board"), Supervisory Committee ("Supervisory Committee"), the directors (the "Directors"), the supervisors (the "Supervisors") and the senior management of Angang Steel Company Limited (the "Company") confirm that there is no false representation or misleading statement contained in, or material omission from this annual report, and severally and jointly warrant and undertake for the truthfulness, accuracy, and completeness of the contents of this annual report.

Mr. Zhang Xiaogang, the Company's Chairman of the Board, and Ma Lianyong, Chief Accountant and Head of the Planning and Finance Department (計劃財務部), confirm that the financial statements in this annual report are true and complete.

The Board of the Company is pleased to announce the annual results of the Company and the subsidiaries of the Company (collectively, the "Group") for the year ended 31 December 2008.

CORPORATE PROFILE

The Company is a joint stock limited company incorporated on 8 May 1997 with Anshan Iron and Steel Group Complex ("Angang Holding") as its sole promoter. Pursuant to the reorganisation of Angang Holding and the Company, Angang Holding transferred the Cold Roll Plant, Wire Rod Plant and Thick Plate Plant to the Company by Angang Holding. The three plants had a net asset value of Rmb2,028,817,600 as determined by the State-owned Assets Administration Bureau, and 1,319,000,000 domestic state-owned legal person shares with a par value of Rmb1 each were issued to Angang Holding as consideration for these plants.

On 22 July 1997, the Company issued 890,000,000 H shares at HK$1.63 per share which were listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 24 July 1997. The Company subsequently issued 300,000,000 A shares at Rmb3.90 per share on 16 November 1997, of which 285,505,400 shares were offered to the public and 14,494,600 shares were issued to the employees of the Company. Trading of the 285,505,400 shares offered and issued to the domestic shareholders, and the 14,494,600 employees' shares issued to the employees of the Company commenced on the Shenzhen Stock Exchange on 25 December 1997 and 26 June 1998, respectively.

CORPORATE PROFILE *(continued)*

On 15 March 2000, the Company issued A share convertible debentures amounting to Rmb1.5 billion in the People's Republic of China (the "PRC"). On 14 March 2005, the Company paid the principal and interest accrued for the A share convertible debentures upon their maturity, and trading in and conversion of A share convertible debentures ended on the same day. As of the date of maturity, total of 453,985,697 A shares were converted from the convertible debentures of the Company.

On 26 January 2006, the Company issued 2,970,000,000 A shares at Rmb4.29 per share to Angang Holding as partial payment of the consideration for the acquisition of 100% share capital of Angang New Steel and Iron Company Limited ("ANSI"). The registration for custody of such shares at Shenzhen Branch of China Securities Registration and Clearing Corporate Limited completed on 23 February 2006 and they will not be traded or transferred within 36 months starting from 23 February 2006. The total number of shares of the Company increased to 5,932,985,697 following the issue of new shares.

On 20 June 2006, it was approved by the annual shareholder meeting of the Company for the year 2005 to change the Chinese name of the Company from "鞍鋼新軋鋼股份有限公司" to "鞍鋼股份有限公司", and Chinese short name was changed to "鞍鋼股份" from "鞍鋼新軋". The English name was changed from "Angang New Steel Company Limited" to "Angang Steel Company Limited", while the English short name was changed to "Ansteel" from "Angang New Steel". On 29 September 2006, the Company obtained its new "Business License for Enterprise Legal Person" reflecting such change of name.

CORPORATE PROFILE *(continued)*

In December 2005, the Company implemented the non-tradable shares reform, pursuant to which Angang Holding, the holder of the non-tradable shares of the Company, offered 2.5 A shares and 1.5 "鞍鋼JTC1" share warrants for every 10 shares held by the registered holders of tradable A shares on the record date for the non-tradable shares reform, and Angang Holding offered a total of 188,496,424 A shares and 113,097,855 "鞍鋼JTC1" share warrants to other holders of A shares. The "鞍鋼JTC1" share warrants expired in December 2006. A total of 110,601,666 share warrants were exercised, as a result of which Angang Holding transferred 110,601,666 shares to the other holders of A shares at Rmb3.386 per share. The "鞍鋼JTC1" warrants which were not exercised on the date of expiry were cancelled thereafter. Following the exercise of such warrants, the total number of shares of the Company remained unchanged, comprising 3,989,901,910 A shares held by Angang Holding, 1,053,083,787 A shares held by the other A shareholders and 890,000,000 H shares held by the H shareholders.

During 2007, the Company issued rights shares on the basis of 2.2 rights shares for every 10 existing shares to all the shareholders of the Company. From 10 October to 16 October 2007, the Company issued 1,106,022,150 domestic rights shares to A share shareholders of the Company at the price of Rmb15.4 per share, including issuance of 228,240,496 shares to holders of shares not subject to trading moratorium and issuance of 877,781,654 shares to holders of shares subject to trading moratorium. Such newly issued domestic rights shares were approved to be listed on the Shenzhen Stock Exchange on 25 October 2007. From 22 October to 5 November 2007, the Company issued 195,800,000 H rights shares to H shareholders of the Company at a price of HK$15.91 per share (equivalent to Rmb15.4 per share according to the then exchange rate). Such newly issued H rights shares were approved to be listed on the Hong Kong Stock Exchange on 14 November 2007. Upon completion of rights issue, the total number of shares of the Company amounted to 7,234,807,847 shares, of which 4,867,680,330 shares were held by Angang Holding, 1,281,327,517 shares were held by other A shareholders and 1,085,800,000 shares were held by H shareholders.

The Company's principal activities include production and sale of steel products such as hot rolled sheets, cold rolled sheets, galvanized steel sheets, colour coating plates, silicon steel, moderately thick plates, wire rods, large steel products and seamless steel pipes. These products are widely used in industries such as automobile, construction, ship-building, home electrical appliances, railway construction and manufacture of pipelines. The Company's products are very competitive in the domestic and foreign markets and its equipment is of an advanced standard in the PRC.

CORPORATE PROFILE *(continued)*

1.	Legal Name of the Company:	
	(in Chinese):	鞍鋼股份有限公司
	(in English):	ANGANG STEEL COMPANY LIMITED
2.	Legal Representative of the Company:	Zhang Xiaogang
3.	Company Secretary:	Fu Jihui
	Company Address:	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC
	Telephone:	86-412-8417273 86-412-8419192
	Fax:	86-412-6727772
4.	Registered Address of the Company:	Production Area of Angang Steel Tie Xi District, Anshan City, Liaoning Province, the PRC
	Postal Code:	114021
	Website:	http://www.ansteel.com.cn
	E-mail Address:	ansteel@ansteel.com.cn
5.	Company's Annual Report available at:	Secretarial office of the Board of Directors of the Company
	Website for Disclosure of Information in Hong Kong:	http://www.hkex.com.hk and http://angang.wspr.com.hk
	Website for Publication of Annual Report	http://www.cninfo.com.cn
	Stock Exchange Listings:	A shares: Shenzhen Stock Exchange H shares: The Stock Exchange of Hong Kong Limited
	Abbreviations:	A shares: Angang Steel H shares: Angang Steel
	Stock Code:	A shares: 000898 H shares: 0347

Financial and Business Highlights

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Unit: Rmb million

		2007		2006	
	2008	Before adjustment	After adjustment	Before adjustment	After adjustment
Turnover	**78,985**	65,294	65,294	54,596	54,283
Profit before tax	**3,847**	10,382	10,382	9,387	9,388
Income tax expense	**854**	2,848	2,848	2,293	2,294
Profit for the year attributable to equity shareholders of the Company	**2,993**	7,534	7,534	7,094	7,094
Total assets	**94,826**	87,381	87,381	58,936	58,513
Total liabilities	**41,855**	33,254	33,254	28,935	28,512
Total equity attributable to equity shareholders of the Company	**52,971**	54,127	54,127	30,001	30,001
Net assets per share *(Rmb)*	**7.32**	7.48	7.48	5.06	5.06
Earnings per share (basic) *(Rmb)*	**0.414**	1.121	1.121	1.196	1.074
Return on net assets *(%)*	**5.65**	13.92	13.92	23.65	23.65

PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC ("PRC GAAP")

1. Key accounting data of the Company and its subsidiary (the "Group") for the year:

For the year ended 31 December 2008 *Unit: Rmb million*

Item	Amount
Operating profit	3,878
Total profit	3,842
Net profit attributable to shareholders of the Company	2,989
Net profit before extraordinary items attributable to shareholders of the Company	3,016
Net cash flow generated from operating activities	11,938
Investment income	96
Net non-operating expenses	(36)
Net increase in cash and cash equivalents	(4,759)

Note: Extraordinary items and amounts of the Group during the reporting period:

No.	Extraordinary item	Effect on profit *(Rmb million)*
1	Non-operating income	33
2	Non-operating expenses	(69)
3	Relevant income tax	9
4	Total	(27)

PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC (“PRC GAAP”) *(continued)*

2. Differences between PRC GAAP and IFRSs

Unit: Rmb million

	Net profit		Net asset	
	In the period	In the previous period	Closing balance	Opening balance
Under IFRSs	2,993	7,534	52,971	54,127
Under PRC GAAP	2,989	7,533	53,103	54,263
	List of items and effect on total net profit/ equity as adjusted under IFRSs			
Additional borrowing costs capitalised	—	(7)	—	—
Pre-operating expenses	—	3	—	—
Re-valuation of land use rights	5	5	(176)	(181)
Deferred income tax assets	(1)	—	44	45
Total adjustments	4	1	(132)	(136)

PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC ("PRC GAAP") *(continued)*

3. Major accounting data and financial indices of the Group for the latest three years

Unit: Rmb million

Item	2008	2007		Increase/ (decrease) compared with previous year (%)	2006	
		Before adjustment	After adjustment	After adjustment	Before adjustment	After adjustment
Operating revenue	**79,616**	65,499	65,499	21.55	54,645	54,330
Total profit	**3,842**	10,373	10,384	(63.00)	9,213	9,381
Net profit attributable to shareholders of the Company	**2,989**	7,525	7,533	(60.32)	6,845	7,003
Net profit after extraordinary items attributable to shareholders of the Company	**3,016**	7,613	7,621	(60.43)	7,111	7,190
Net cash flows from operating activities	**11,938**	7,906	7,906	51.00	11,084	11,018
Earnings per share (basic) *(Rmb)*	**0.413**	1.120	1.121	(63.16)	1.204	1.106
Earnings per share (diluted) *(Rmb)*	**0.413**	1.120	1.121	(63.16)	1.204	1.106
Basic earnings per share after extraordinary items *(Rmb)*	**0.417**	1.133	1.134	(63.23)	1.251	1.136
Return on net assets (fully diluted) (%)	**5.63**	13.87	13.88	Decreased by 8.25 percentage points	22.94	23.25
Return on net assets (weighted average) *(%)*	**5.57**	21.32	21.34	Decreased by 15.77 percentage points	26.44	26.84
Return on net assets after extraordinary items (fully diluted) (%)	**5.68**	14.03	14.04	Decreased by 8.36 percentage points	23.84	23.87

PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC ("PRC GAAP") *(continued)*

3. Major accounting data and financial indices of the Group for the latest three years *(continued)*

Unit: Rmb million

Item	**2008**	2007 Before adjustment	2007 After adjustment	Increase/(decrease) compared with previous year (%) After adjustment	2006 Before adjustment	2006 After adjustment
Return on net assets after extraordinary items (weighted average) *(%)*	**5.62**	21.57	21.59	Decreased by 15.97 percentage points	27.47	27.55
Net cash flows per share from operating activities *(Rmb)*	**1.650**	1.093	1.093	50.96	1.868	1.857

	At the end of 2008	At the end of 2007 Before adjustment	At the end of 2007 After adjustment	Increase/(decrease) compared with the end of previous year (%) After adjustment	At the end of 2006 Before adjustment	At the end of 2006 After adjustment
Total assets	**92,179**	86,786	86,783	6.22	58,430	58,385
Shareholders' equity	**53,103**	54,255	54,263	(2.14)	29,834	30,123
Net asset per share attributable to shareholders of the Company *(Rmb)*	**7.34**	7.50	7.50	(2.13)	5.03	5.08
Share capital	**7,235**	7,235	7,235	0	5,933	5,933

PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC ("PRC GAAP") *(continued)*

4. Return on net assets and earnings per share as calculated in accordance with the "Regulations for Preparation and Reporting of Information Disclosure by Listed Companies (No. 9)" issued by China Securities Regulatory Commission:

Profit for the reporting period	Return on net assets *(%)* Fully diluted	Weighted average	Earnings per share *(Rmb/share)* Basic	Diluted
Net profit attributable to shareholders of ordinary shares of the Company	5.63	5.57	0.413	0.413
Net profit after extraordinary items attributable to shareholders of ordinary shares of the Company	5.68	5.62	0.417	0.417

5. Changes in shareholders' equity during the reporting period

Unit: Rmb million

Item	Share capital	Capital reserve	Surplus reserves	Undistributed profits	Total shareholders' equity
As at 1 January 2008	7,235	31,593	2,992	12,443	54,263
Increase in 2008	—	—	309	2,989	3,298
Decrease in 2008	—	170	—	4,288	4,458
As at 31 December 2008	7,235	31,423	3,301	11,144	53,103

Reasons for changes

1. The decrease in capital reserve was due to the decrease of Rmb170 million in the fair value of available-for-sale financial assets.

2. The increase in surplus reserves was due to (i) allocation of 10% (Rmb299 million) of net profit to surplus reserves and (ii) allocation of Rmb10 million for safe production allowance to surplus reserves.

3. The increase in undistributed profits was due to net profits of Rmb2,989 million generated in 2008; the decrease in undistributed profits was due to (i) the payment of Rmb3,979 million as dividends for 2007 and (ii) the allocation of Rmb309 million to surplus reserve.

On behalf of the Board of Angang Steel Company Limited, I am pleased to present the Annual Report of the Group for the year ended 31 December 2008 and hereby extend my regards to all the shareholders.

OPERATING RESULTS FOR 2008

Based on the IFRSs, the Group recorded a profit attributable to equity shareholders of Rmb2,993 million for the year ended 31 December 2008, representing a decrease of 60.27% from the previous year, and its basic earnings per share was Rmb0.414.

Based on the PRC GAAP, the Group recorded a net profit of Rmb2,989 million for the year ended 31 December 2008, representing a decrease of 60.32% from the previous year, and its basic earnings per share was Rmb0.413.

PROFIT DISTRIBUTION:

As audited and confirmed by Zhong Rui Yue Hua Certified Public Accountants Co., Ltd, as at the year end of 2008 the Company's net profit for the year amounted to Rmb2,989 million and the profit available for distribution to shareholders as at the end of 2008 was Rmb11,144 million under the PRC GAAP. The Board of the Company recommended a cash dividend of Rmb0.21 per share (inclusive of tax) for 2008 based on the total share capital of 7,234,807,847 shares as at 31 December 2008 in accordance with the PRC regulations and the articles of association of the Company. The proposal for distribution is subject to the approval of the Annual Shareholder Meeting for the year 2008.

Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company, the final dividend will be distributed to the H shareholders of the Company whose names appear on the register of H shareholders of the Company at the close of business on Wednesday, 13 May 2009. The register of the H shareholders of the Company will be closed from Thursday, 14 May 2009 to Friday, 12 June 2009 (both days inclusive), during which no transfer of the H shares of the Company will be registered. To qualify for the final dividend, all transfer of the H shares of the Company accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H share registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 13 May 2009.

Distribution for the last three years

Time	Net profit realized *(Rmb million)*	Distribution plan	Amount of cash dividend *(Rmb million)*	Proportion of the amount of cash dividend in realized net proift
2007	7,533	Rmb0.55 per share	3,979	52.82%
2006	7,003	Rmb0.58 per share	3,441	49.14%
2005	2,210	Rmb0.36 per share	1,067	48.28%
Total	16,746	—	8,487	50.68%

Note: Figures of the Company's realized profit are figures adjusted in accordance with the latest requirements under the Accounting Standards for Business Enterprises in the PRC.

BUSINESS REVIEW

1. Stable production and operation

During the reporting period, the Group produced 16,078,200 tonnes of iron, 15,996,900 tonnes of steel and 14,984,900 tonnes of steel products, representing a decrease of 0.14%, a decrease of 0.52% and an increase of 0.34%, respectively, as compared with the previous year. Sales of steel products amounted to 15,233,300 tonnes, representing an increase of 0.99% as compared with the previous year and realizing a 101.66% of production to sale ratio for steel products.

2. Substantial progress in energy saving, emission reduction and environment protection

The Group enhanced its environmental protection and approved 53 energy saving projects during the year, with a total investment of Rmb928 million. The Group implemented 11 pollution control projects, including renovation of roof dust collector for seven blast furnaces. The Group actively promoted the utilisation of new energy, including wind power, seawater and solar energy, at the Bayuquan project.

There was no material environment pollution accident or any environmental accident at or above Grade III for the year. The Company has fully complied with the requirements for the simultaneous design, construction and operation commencement of the environment protection facilities for all of its new, renovation and expansion projects. The air indices, including that for sulphur dioxide, nitrogen dioxide and inhalable particulates have attained the national standards.

BUSINESS REVIEW *(continued)*

3. Prominent achievements in new products development

A total of 210 scientific research programmes were completed in the year. The Group cooperated with the Central Iron & Steel Research Institute in Beijing and the University of Science and Technology Beijing and entered into 58 technology contracts in order to leverage on the technology and research strength of the renowned universities and research institutes in China and establish a comprehensive technology innovation system. The Company completed the research for 70 technical know-how and the applications for 375 national patents. The Group has also applied for 3 international patents for the first time. The quantity and quality of the technical know-how and national patents have achieved a record high, coupled with a ground-breaking progress in international patent application. A total of 3,066,000 tonnes newly developed products were produced in the year, contributing a total of Rmb18,585 million to the sale revenue.

4. On-schedule progress of the construction of new projects

The construction of various facilities at the Bayuquan Iron and Steel Project has been completed and such facilities have commenced operation since August 2008. The project is the first large-scaled and modernised iron and steel production base located in the costal area of China, where advanced and environmental protection technologies are applied. It was completed by the Company in reliance on its own resources and strengths and by overcoming various difficulties associated with the complicated production processes, high technical standards and sophisticated operations. It produced a total of 540,000 tonnes of iron, 430,000 tonnes of steel and 220,000 tonnes of steel products reached in 2008.

The main equipment installation for the production lines of high-performance silicon steel was completed as to 80% and the construction of the new No. 5 blast furnace was completed as to 95%. The construction of No. 7 and 8 coke oven facilities, No. 4 coke dry quenching facilities and the supporting power generation facilities for dry quenching facilities for the Phase III Chemical Project were completed and such facilities have commenced operation. The assessment of the 2130 cold rolling production line at the production facilities at the west area of Anshan City has been completed, with the engineering excellence rate attaining to 100%. A total of Rmb68.00 million has been saved from the proposed investment in the project. The project also won the "Lu Ban Prize" at the national level. Various key projects, including renovation of seamless ø177 production lines, renovation of the iron works of No. 3 sinter plant, change of the rolling converter boiler of No. 3 steel smelting plant and renovation of No. 3 converter of No. 2 steel smelting plant were completed as scheduled.

BUSINESS REVIEW *(continued)*

5. Better marketing and procurement results

The Company further enhanced its marketing system and formulated scientific and rational marketing strategies and pricing policies to generate more economic benefits. Faced with the financial crisis, the Company formulated rational and effective sales strategies in a timely manner and, proactively procured new sales contracts to ensure appropriate production scale and effectively control the inventories of finished products, and ensured liquidity safety, stable production and smooth operation.

The Company substantially adjusted its product mix and steadily implemented its branding strategies. Apart from maintaining its close relationship with the famous enterprises, including CNPC, SINOPEC, DSIC, CIMC and FAW, the Group developed a group of new direct-supply customers, including the well-known enterprises such as BYD, Beijing Hyundai, STX (Dalian) Shipyard, SANY and Bridgestone. The Company proactively expanded its overseas markets and enhanced its international operation, as a result of which, it exported a total of 2,380,000 tonnes of steel products. In 2008, the Company sold a total of 1,424,100 tonnes of steel plates to the automobiles industry, a total of 2,022,000 tonnes of steel plates to the ship-building industry, a total of 694,200 tonnes of steel plates for steel containers and a total of 602,600 tonnes of heavy rails.

BUSINESS REVIEW *(continued)*

5. Better marketing and procurement results *(continued)*

The Company also endeavoured to secure the supply of raw materials and fuels, including coals, in order to control the cost. While leveraging on its relationships with the strategic suppliers, including Shanxi Coking Coal Group and Heilongjiang Longmay Mining Holding, in order to procure their fulfillment of their contractual supply commitments, the Company also actively sought new strategic partners and substantially reduced its exposure to shortage of raw materials and fuels supply. In the fourth quarter of 2008, the Company promptly changed its procurement focus from "securing the resources" to "reducing the costs" in order to control its purchase prices at a level no higher than its competitors in the industry. During the same period, it also controlled its purchase volume and reduced its high-priced inventories in order to reduce its production costs.

6. Steady progress in external investments

The Group implemented scientific decision-making procedures for its external investment projects and achieved timely implementation of such projects pursuant to its development strategy of expanding it geographic presence and extending its industrial chain. The registration with the relevant administrative authority for industry and commerce for and the capital contribution to Angang Steel Logistics (Wuhan) Company Limited were completed. The joint venture contract with Tianjin Tian Tie Group was entered into and the initial capital contribution was completed.

7. Significant improvement of corporate management level

The campaign of benchmarking management for performance excellence was effectively carried out. The Company established a three-level benchmarking management system and created a comprehensive management innovation system available for the participation of all the employees and flexible for further improvements. The Company made remarkable achievements under such systems.

The Company further strengthened its quality of technical management and improved its economic and technical indices. A total of 23 quality indices complied with the required targets and a total of 17 quality indices was improved as compared with the previous year. The customers' satisfaction level was considerably improved.

The Company continued to improve its financial management system and enhance its production process cost accounting system, quality cost accounting system and external investment assessment system. The accounting system of Bayuquan Branch was designed pursuant to rational and effectiveness principles. The Company also established and effectively implemented a centralised finance management system.

The Company continuously accelerated the construction of its enterprise information infrastructure. The Company continued to improve the online function of its ERP production and sales system and successfully launched the on-line operations of its ERP finance cost system and ERP equipment management sub-system, which were also integrated into the Company's centralised finance cost system. Such achievements demonstrate a progress of the Company from traditional management to information-based management.

DEVELOPMENT PLAN FOR 2009

1. Outlook for the Steel Market and the Opportunities and Challenges for the Company

2009 will be a crucial year for the Company to expedite its development to become a most competitive steel manufacturer in the international market. The challenges and opportunities coexist in 2009. From the negative perspective, with the global financial crisis commencing to affect the substance of the economy, the global economy growth will substantially slow down. The domestic economy of China is also facing the adverse impacts of both cyclical adjustment and industrial restructuring. The possibility for the economy of China to experience a downturn in 2009 is expected to increase due to the sluggish domestic consumption.

From the positive perspective, the fundamental factors and long-term growth trend of the economy of China remain unchanged. Recently, the Chinese central government has implemented various more proactive fiscal policies and more relaxed monetary policies, and promulgated a series of industry revitalisation measures and in plans with focuses on ensuring the domestic economic growth, expanding the domestic consumption demand, restructuring the domestic industries and achieving a sound and growing economy, in order to provide certainties for a stable economic growth in 2009. From the perspective of the Company, it has substantially enhanced the standards of its technology and equipment and improved its performance results. Bayuquan Project has gradually achieved its desired production capacity level and the product mix has been further optimized. All such factors will enable us to excel in the market.

2. Operation plan of the Company for 2009

The strategies of the Company in 2009 are to overcome the challenges, capture the opportunities, establish a new management system, further improve technical innovation capability, carry out the "Four Changes" campaign, in order to achieve an overall and sustainable growth and attain the purpose of becoming a most competitive steel manufacturer in the international market.

(1) To establish a new management system and improve the overall management and control capabilities.

(2) To enhance the internal control system in order to effectively prevent the relevant risks.

(3) To enhance the technological innovation mechanism and expedite the development of an innovative corporate structure.

(4) To strengthen energy saving and emission reduction to achieve a sustainable growth.

(5) To focus on key factors of the operation and management and improve adaptability to market changes.

(6) To expedite the technical renovation projects and continue to upgrade the equipment.

(7) To strengthen the corporate management and achieve an overall management improvement.

(8) To expedite the development of Bayuquan Project and fully release its growth potential.

(9) To achieve a harmonies organic growth by adhering to the people-oriented principle.

DEVELOPMENT PLAN FOR 2009 *(continued)*

3. Capital Requirements, Utilisation Plan and Funding Sources for 2009

The estimated investment amount for the Company's new Bayuquan Iron and Steel Project is Rmb3.53 billion in 2009. In addition, the Company plans to invest Rmb4.6 billion in 2009 in various technical renovation projects including construction of high-performance silicon steel production lines, renovation of chemical plant, renovation of seamless ∮177 Unit and wire rod plant.

In 2009, the Company's capital requirements will be mainly financed by the net proceeds raised from market financing, cash generated from operating activities and bank loans.

Chairman
Zhang Xiaogang

Anshan City, the PRC
14 April 2009

MOVEMENT IN SHARE CAPITAL

As at 31 December 2008, the share structure of the Company was as follows:

Unit: Share

	At 1 January 2008		Increase (+)/decrease (-) during the year			At 31 December 2008	
	Number	Percentage (%)	Issue of new shares	Other	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	4,867,698,264	67.28	—	-526,792,921	-526,792,921	4,340,905,343	60.00
1. State-owned shares	4,867,680,330	67.28	—	-526,795,621	-526,795,621	4,340,884,709	60.00
2. State-owned legal person shares	—	—	—	—	—	—	—
3. Other domestic shares	17,934	0.00	—	+2,700	+2,700	20,634	0.00
Including: shares held by domestic corporations	—	—	—	—	—	—	—
shares held by domestic natural persons	17,934	0.00	—	+2,700	+2,700	20,634	0.00
4. Foreign investment shares	—	—	—	—	—	—	—
Including: shares held by overseas corporations	—	—	—	—	—	—	—
shares held by overseas natural persons	—	—	—	—	—	—	—
II. Shares not subject to trading moratorium	2,367,109,583	32.72	—	+526,792,921	+526,792,921	2,893,902,504	40.00
1. Renminbi domestic shares	1,281,309,583	17.71	—	+526,792,921	+526,792,921	1,808,102,504	24.99
2. Domestically listed foreign investment shares	—	—	—	—	—	—	—
3. H shares	1,085,800,000	15.01	—	—	—	1,085,800,000	15.01
4. Others	—	—	—	—	—	—	—
III. Total shares	7,234,807,847	100.00	—	0	0	7,234,807,847	100.00

Notes: Reasons for the changes in the share structure during the reporting period:

1) The decrease in state-owned shares subject to trading moratorium was attributable to the release of certain shares subject to trading moratorium held by Angang Holding.

2) The increase in other domestic shares subject to trading moratorium was due to reclassification of the A shares purchased by a Director as shares subject to trading moratorium.

3) The increase in Renminbi ordinary shares not subject to trading moratorium was attributable to the release of certain shares subject to trading moratorium held by Angang Holding, and reclassification of the A shares purchased by a Director as shares subject to trading moratorium.

MOVEMENT IN SHARE CAPITAL *(continued)*

Changes in shares subject to trading moratorium

Unit: share

Name of shareholder	Number of shares subject to moratorium as at 1 January 2008	Number of shares released from moratorium in 2008	Number of increased shares subject to moratorium in 2008	Number of shares subject to moratorium as at 31 December 2008	Reason for trading moratorium	Date of moratorium release
Angang Holding	4,867,680,330	526,795,621	—	4,340,884,709	Release of certain shares with period of trading moratorium expired.	3 December 2008
Fu Wei	11,529	—	—	11,529	—	—
Fu Jihui	6,405	—	—	6,405	—	—
Lin Daqing	0	—	2,700	2,700	Reclassification of purchased A shares as shares subject to trading moratorium	—
Total	4,867,698,264	526,795,621	2,700	4,340,905,343	—	—

DETAILS OF SHAREHOLDERS

1. **As at 31 December 2008, the Company has a total of 187,311 shareholders, of which 558 were holders of H shares.**

2. **As at 31 December 2008, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows:**

Name	Capacity	Percentage of shareholding *(%)*	Number of shares *(Share)*	Number of shares subject to trading moratorium *(Share)*	Number of shares pledged/ frozen
Angang Holding	Holder of state-owned shares	67.30	4,868,680,330	4,340,884,709	—
HKSCC (Nominees) Limited	Holder of H shares	14.84	1,073,524,567	—	Unknown
China Construction Bank — China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	Others	0.60	43,193,586	—	Unknown
China Construction Bank — Great Wall Brand Prime Equity Securities Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	Others	0.49	35,480,711	—	Unknown
Industrial and Commercial Bank of China — Huaan Middle-Small Growth Equity Securities Investment Fund (中國工商銀行 — 華安中小盤成長股票型證券投資基金)	Others	0.45	32,300,000	—	Unknown
China Construction Bank — Huabao Industrial Prime Equity Securities Investment Fund (中國建設銀行 — 華寶興業行業精選股票型證券投資基金)	Others	0.37	26,747,322	—	Unknown
China Construction Bank — Yinhua Core Value Equity Securities Investment Fund (中國建設銀行 — 銀華核心價值優選股票型證券投資基金)	Others	0.33	24,000,000	—	Unknown

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2008, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

Name	Capacity	Percentage of shareholding *(%)*	Number of shares *(Share)*	Number of shares subject to trading moratorium *(Share)*	Number of shares pledged/ frozen
China Merchants Bank — Everbright & Pramerica Strength Allocation Equity Securities Investment Fund (招商銀行股份有限公司 — 光大保德信優勢配置股票型證券投資基金)	Others	0.31	22,209,273	—	Unknown
Agricultural Bank of China — Dacheng Innovation Growth Mixed Securities Investment Fund (LOF) (中國農業銀行 — 大成創新成長混合型證券投資基金)	Others	0.24	17,253,349	—	Unknown
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	Others	0.22	15,756,301	—	Unknown

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2008, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

Shareholding of the top 10 shareholders not subject to trading moratorium

	Name of shareholder held not subject to trading moratorium *(share)*	**Numbers of shares Class of Shares**
HKSCC (Nominees) Limited	1,073,524,567	Overseas listed foreign shares
China Construction Bank — China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	43,193,586	Renminbi ordinary shares
China Construction Bank — Great Wall Brand Prime Equity Securities Investment Fund (中國建設銀行 — 長城品牌優選股票型證券投資基金)	35,480,711	Renminbi ordinary shares
Industrial and Commercial Bank of China — Huaan Middle-Small Growth Equity Securities Investment Fund (中國工商銀行 — 華安中小盤成長股票型證券投資基金)	32,300,000	Renminbi ordinary shares
China Construction Bank — Huabao Industrial Prime Equity Securities Investment Fund (中國建設銀行 — 華寶興業行業精選股票型證券投資基金)	26,747,322	Renminbi ordinary shares
China Construction Bank — Yinhua Core Value Equity Securities Investment Fund (中國建設銀行 — 銀華核心價值優選股票型證券投資基金)	24,000,000	Renminbi ordinary shares
China Merchants Bank — Everbright & Pramerica Strength Allocation Equity Securities Investment Fund (招商銀行股份有限公司 — 光大保德信優勢配置股票型證券投資基金)	22,209,273	Renminbi ordinary shares
Agricultural Bank of China — Dacheng Innovation Growth Mixed Securities Investment Fund (LOF) (中國農業銀行 — 大成創新成長混合型證券投資基金)	17,253,349	Renminbi ordinary shares

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2008, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

Shareholding of the top 10 shareholders not subject to trading moratorium *(continued)*

	Name of shareholder held not subject to trading moratorium *(share)*	**Numbers of shares Class of Shares**
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	15,756,301	Renminbi ordinary shares
China Everbright Bank Co., Ltd. — Everbright & Pramerica Core Equity Securities Investment Fund (中國光大銀行股份有限公司 — 光大保德信量化核心證券投資基金)	14,131,882	Renminbi ordinary shares

Relationships of Shareholders or Shareholders acting in Concert

Angang Holding, the largest shareholder of the Company, has no relationship with any of the other top 10 shareholders of the Company or any of the top 10 shareholders not subject to trading moratorium. Nor is Angang Holding a party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Movement in Shareholdings of the Shareholders of Listed Companies. Except China Merchants Bank — Everbright & Pramerica Strength Allocation Equity Securities Investment Fund(招商銀行股份有限公司 — 光大保德信優勢配置股票型證券投資基)and China Everbright Bank Co., Ltd. — Everbright & Pramerica Core Equity Securities Investment Fund(中國光大銀行股份有限公司 — 光大保德信量化核心證券投資基金)which are funds managed by Everbright & Pramerica Fund Management Company Limited, the Company is not aware of any connected relationship among other shareholders of the Company or any parties acting in concert as provided in Procedures for the Administration of Information Disclosure for Movement in Shareholdings of the Shareholders of Listed Companies.

DETAILS OF SHAREHOLDERS *(continued)*

3. Details of the controlling shareholder of the Company

Controlling shareholder:	Angang Holding
Legal representative:	Zhang Xiaogang
Year of incorporation:	1948
Scope of operation:	Production of steel products, metal products (non-franchise), cast iron tubes, metal structures, metal wire and products, sintering and coking products, cement, power generation, metallurgical machinery equipment and parts, electrical machinery, electricity transmission and supply and control equipment and meters, mining of iron and manganese ores, refractory earth and stone extraction.
Principal products:	Steel pressing products and metal products
Registered capital:	Rmb10,794 million
Shareholding structure:	Wholly-owned by the PRC

4. Ownership and controlling relationship between the Company and its ultimate controlling shareholder

The State-owned Assets Supervision and Administration Commission of the State Council

↓ 100%

Angang Holding

↓ 67.30%

Angang Steel Company Limited

DETAILS OF SHAREHOLDERS *(continued)*

5. Interests and short positions in the shares and underlying shares of the Company held by substantial shareholders and others

Save for disclosed below, as at 31 December 2008, no other person (other than the Company's directors, supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong ("SFO")).

Interest in ordinary Shares of the Company

Name of shareholder	Number and class of shares held	Percentage in total share capital	Percentage in total issued H shares	Percentage in total issued domestic shares	Capacity
Angang Holding	4,868,680,330 State-owned Shares	67.30%	—	79.18%	Beneficial owner
HKSCC (Nominees) Limited	1,073,524,567 H shares	14.84%	98.87%	—	Nominee

6. Trading moratorium on the former holders of non-tradable shares out of the top 10 shareholders:

Unit: Share

No.	Name of shareholders subject to moratorium	Number of shares subject to moratorium	Expiry date of moratorium	Number of shares released from moratorium	Trading moratorium
1	Angang Holding	4,340,884,709	1 January 2011	4,340,884,709	1. The shares held by Angang Holding following the completion of the Non-tradable Share Reform Plan will be subject to a trading moratorium of 36 months from the date of the listing of such shares except for the state-owned shares to be transferred to the holders of tradable A shares upon his/her exercise of the warrants; 2. On 23 February 2006, the Company issued a total of 2.97 billion tradable A shares to Angang Holding. Such newly issued shares were deposited to Angang Holding's account and are subject to a trading moratorium of 36 months from the completion of the transfer of such shares to Angang Holding; 3. Angang Holding shall maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of 100% equity interest in ANSI till the end of 2010.

Details of Shareholders' General Meeting

The Company convened the 2007 AGM on 12 June 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 13 June 2008.

1. MEMBERS OF THE BOARD

Executive Directors

Mr. Zhang Xiaogang, aged 55, a professor-level senior engineer holding a PhD degree in engineering, is the Chairman of the Company and General Manager of Angang Holding. Mr. Zhang has obtained a bachelor's degree from Wuhan University, a master's degree from Northeastern University and a Ph.D degree from the Central Iron & Steel Research Institute. He has been working for Angang Holding for over 30 years and has held various senior management positions in Angang Holding, including the Head of the Technology Department, the Deputy Chief Engineer and the General Manager of ANSI and the Executive Deputy General Manager of Angang Holding. He is an alternate member of Seventeenth Central Committee of the Communist Party of China and representatives of the Eleventh National People's Congress. Mr. Zhang is an expert in metallurgical industry with extensive knowledge in the development and innovation of metallurgical technology. He was a member of the expert panel in the "State 863 and 973 Projects" and was awarded the First Prize for Scientific and Technological Progress by the state. Mr. Zhang is currently the Chairman of China Iron and Steel Association, a member of the expert panel of the Standardization Administration of China, the Director of the Steel Rolling Academic Committee and the Chairman of International Organization for Standardization ISO/PC17/SC17 and the Low Alloy Steel Academic Committee of The Chinese Society for Metals.

Mr. Tang Fuping, aged 51, is the Vice Chairman and the General Manager of the Company, and a professor-level senior engineer. Mr. Tang graduated from University of Science and Technology Beijing with a Ph.D degree in steel smelting. He joined Angang Holding in 1982. He has served as the Factory Manager of the No. 3 Steel Smelting Plant of Angang Holding, the General Manager of the Company, the General Manager of ANSI, and a Deputy General Manager of Angang Holding.

Mr. Yang Hua, aged 47, is the Vice Chairman and the Secretary to the Party Committee of the Company and an associate professor. Mr. Yang graduated from the Faculty of Philosophy of Peking University with a master's degree in 1990. He joined Angang Holding in the same year and has been a Deputy Head of the Education Division of Angang Party School, a Deputy Secretary to the Party Committee of Iron Smelting Plant and Half Continuous Rolling Plant of Angang Holding, the Secretary to the Party Committee of Iron Smelting Plant of Angang Holding, the Head of Angang Holding Office, the Assistant to General Manager of Angang Holding, the Secretary to the Party Committee of the Company, a Deputy Secretary to the Party Committee of Angang Holding and the Secretary to the Party Committee of ANSI.

Mr. Chen Ming, aged 48, is a Director and the Deputy General Manager of the Company and a professor-level senior engineer. Mr. Chen graduated from Anshan Institute of Iron and Steel Technology with a master's degree in iron and steel metallurgy. He has been working for Angang Holding for over 20 years and has held various senior management positions, including the General Engineer of No. 3 Steel Plant of Angang Holding, the Vice Director and Director of No. 2 Steel Plant of Angang Holding, a Deputy General Manager and the Head of Production Department of ANSI, the Head of the Planning and Development Department of Angang Holding and the Head of Strategic Development Department of Angang Holding.

1. MEMBERS OF THE BOARD *(continued)*

Executive Directors *(continued)*

Mr. Wang Chunming, aged 43, is a Director and the Deputy Secretary to the Party Committee of the Company and a senior engineer. He graduated from University of Science and Technology Beijing with a PhD degree in material physics and chemistry. He joined Angang Holding in 1990 and has been Deputy Office Head of Angang Steel Research Institute, Deputy Head and Head of the Party Committee of Angang Technology Centre, and the Deputy Office Head and Office Head of Angang Holding.

Mr. Lin Daqing, aged 44, is a Director and the Deputy General Manager of the Company and a senior engineer. He graduated from Northeastern University with a master's degree in Metallurgy and Materials. He joined Angang Holding in 1988 and has been an Assistant to the Factory Manager of Cold Roll Plant of Angang Holding, Deputy Factory Manager and Factory Manager of Wire Rod Plant of Angang Holding, an Assistant to the General Manager and Deputy General Manager of the Company, and Deputy General Manager of ANSI.

Mr. Fu Wei, aged 49, is a Director and a Deputy General Manager of the Company and a senior engineer. Mr. Fu graduated from University of Science and Technology Beijing with a master's degree in Industrial Engineer. He joined Angang Holding in 1982 and held various positions including the Assistant to the Plant Manager of Cold Roll Plant, Chairman of the Workers' Union of Cold Roll Plant of Angang Holding, the Deputy Head and Head of Facility Division, and Assistant to the General Manager the Company.

Mr. Fu Jihui, aged 57, is a Director, Secretary to the Board of the Company and a senior accountant. Mr. Fu graduated from Dongbei University of Finance and Economics with a master's degree in accounting. He joined Angang Holding in 1969 and has held various positions including a Deputy Manager of the Finance Department of Angang Holding.

Non-executive Director

Mr. Yu Wanyuan, aged 48, is a Director of the Company and a Deputy General Manager of Angang Holding and a senior accountant. Mr. Yu joined Angang Holding in 1998. Mr. Yu graduated from Northeastern University with a bachelor's degree in mechanical engineering. He studied at the Economic College of Xiamen University in 1984. He obtained his second bachelor's degree in management engineering from Northeastern University in 1990. Mr. Yu has held the positions as a Deputy Director of Financial Department of Northeastern University, the Accounting Director of Shenyang Xinji Real Estate Development Company, a Deputy Chief Accountant of Northeastern University, the Assistant to General Manager, a Deputy Chief Accountant, Chief Accountant and the Head of the Department of Finance and Accounting of Angang Holding.

1. MEMBERS OF THE BOARD *(continued)*

Independent non-executive Directors

Mr. Wu Xichun, aged 74, is an Independent Non-executive Director of the Company. He is an advisor of China Iron and Steel Association, professor-grade senior engineer. Mr. Wu graduated from Anshan Iron and Steel Institute with a bachelor's degree majoring in steel-smelting. He was an engineer of No. 2 Steel Smelting Plant of Anshan Steel Company, the Head of Steel-smelting Research Office of Southwest Iron and Steel Research Institute, Director of Steel-smelting Division of Iron and Steel Department, Director of Production and Technology Department, Chief Engineer of the Ministry of Metallurgical Industry, and the Deputy Minister of the Ministry of Metallurgical Industry and concurrently the Secretary to the Party Committee of Angang Holding, and Chairman of China Iron and Steel Association.

Mr. Wang Linsen, aged 71, is an Independent Non-executive Director of the Company. He is Vice Dean of Beijing Institute of Modern Recycling Economy and a professor-level senior engineer. Mr. Wang graduated from the Beijing Normal University with a bachelor's degree majoring in physics. He once worked as a technician of Central Iron & Steel Research Institute, Beijing, Supervisor of the Office of the Ministry of Metallurgical Industry, Head of the System Reform Department of the Ministry of Metallurgical Industry, Head of Legal System Reform of the Ministry of Metallurgical Industry, Deputy Governor of China Metallurgical Enterprises Management Association and a member of the expert committee of China Cinda Asset Management Corporation.

Mr. Liu Yongze, aged 59, is an Independent Non-executive Director of the Company, the Dean of the Accounting Faculty of Dongbei University of Finance and Economics, a PRC certified accountant, a professor and a doctoral advisor. Mr. Liu graduated from the accounting faculty of Dongbei University of Finance and Economics with a doctor's degree. Mr. Liu was a professor, vice officer and officer of the Accounting Faculty of Dongbei University of Finance and Economics and concurrently the Councillor of the Accounting Society of China, and Deputy Head of the Financial Accounting Society of China.

Mr. Francis Li Chak Yan, aged 42, is an Independent Non-executive Director of the Company and a partner in Squire, Sanders & Dempsey. He graduated from the City University of Hong Kong in Hong Kong laws with a Bachelor's degree (upper second honour) in law. He was a lawyer at Coudert Brothers, the Vice President of DBS Asia Capital Ltd. and a partner of Koo and Partners in association with Paul, Hastings, Janofsky & Walker LLP.

Ms. Wang Xiaobin, aged 41, is an Independent Non-executive Director of the Company. She is currently the financial controller of China Resources Power Holdings Company Limited. She is also a member of Institute of Chartered Accountants in Australia, Australian Society of Certified Practising Accountants and Securities Institute of Australia. She has worked with the audit and business consulting department of PriceWaterhouse (Australia) and then served as a Director of Investment Bank Department of ABN AMRO Bank N.V..

2. MEMBERS OF THE SUPERVISORY COMMITTEE

Mr. Wen Baoman, aged 58, is the Chairman of the Supervisory Committee of the Company and the Deputy Secretary to the Communist Party Committee of Angang Holding, the controlling shareholder of the Company. Mr. Wen is also the President of the Angang Communist Party School, a member of the Standing Commission of Anshan Municipal Committee of the Communist Party of China and a senior politician. Mr. Wen graduated with a bachelor's degree from Liaoning Provincial Party School. Mr. Wen has been with Angang Holding for over 30 years and held various senior positions of Angang Holding, including the Secretary to the Committee of the Communist Youth League of Angang Holding, the Head of the Office of the Communist Party Committee of Angang Holding, the Vice Chairman of the Labour Union of Angang Holding, the Head of Propaganda Department of the Communist Party Committee of Angang Holding, a member of the Standing Committee of the Communist Party of Angang Holding, the Secretary to the Communist Party Committee of Angang Construction Company*（鞍鋼建設公司）and the Chairman of the Labour Union of Angang Holding.

Mr. Shan Mingyi, aged 55, is a Supervisor of the Company and the Chairman of the Labour Union of the Company and a senior politician. Mr. Shan graduated from the correspondence education of Central Party's School majoring in economics and management. He joined Angang Holding in 1969, and had been the Deputy Head, Head of the Organization Department, Director of Human Resources Department, Deputy Secretary to the Party Committee of Angang Machinery Manufacturing Co., Ltd., Vice Chairman of the Labour Union of Angang Holding, and Chairman of the Labour Union of ANSI.

Ms. Zhang Lifen, aged 44, is a Supervisor of the Company, the Assistant to the General Manager and a senior engineer. Ms. Zhang graduated from University of Science and Technology Beijing with a Master's degree in metallurgical material engineering. Ms. Zhang joined Angang Holding in 1986 and has been the Assistant to Plant Manager, Deputy Plant Manager, Acting Plant Manager and Plant Manager of Wire Rod Plant of Angang Holding, the Deputy General Manager of the Company.

2. MEMBERS OF THE SUPERVISORY COMMITTEE *(continued)*

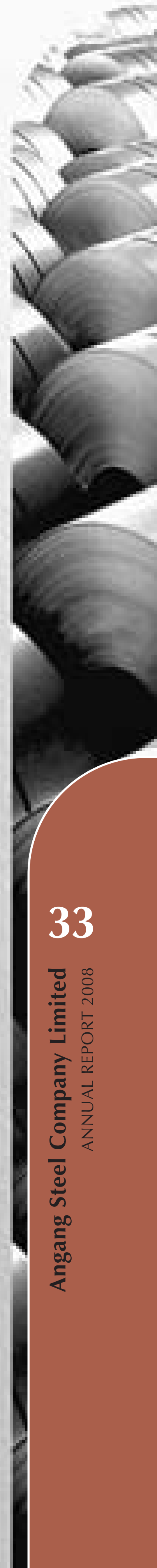
Supervisors from staff representatives:

Mr. Li Ji, aged 55, is a Supervisor of the Company, the Team Leader of the Preparation Team of Quality Inspection Center of the Company and an economist. Mr. Li graduated from Dalian University of Technology with a master's degree. He joined Angang Holding in 1969, and served as the Deputy Director of the General Office of Personnel Department of Angang Holding, the Assistant to the Director, Deputy Director of Corporate Management Department of Angang Holding, and the Director of Corporate Management Department of ANSI.

Mr. Xing Guibin, aged 49, is a Supervisor, currently the secretary to a branch of the Party of the Company in the continuous casting operation area. Mr. Xing graduated from Liaoning Gongyun College with an associate degree. Mr. Xing joined Angang Holding in 1981 and served as a worker, Head and Chief of the Boiler Division, Deputy Director, Director of the workshop, etc. He was recognized as a model worker in the national metallurgical industry in 1994 and a national model worker in 1995. He was granted one of the national outstanding youths award by the Communist Youth Party of the central government in 1996.

3. OTHER SENIOR MANAGEMENT MEMBERS

Mr. Ma Lianyong, aged 47, is the Chief Accountant of the Company and a professor-level senior accountant. Mr. Ma joined Angang Holding in 1984, and served as the Chief Accountant of Angang Construction's Complex Construction and Installation Corporation（鞍鋼建設公司綜合建築安裝總公司）and Anshan Yinzuo Group Company Limited（鞍山銀座集團股份有限公司）, the Deputy Head of Fund Division of Finance Department of Angang Holding and the Deputy Head of Finance Department of ANSI. Mr. Ma received a master's degree in industrial foreign trade and industrial accounting from Beihang University and a master's degree in management engineering from Northeastern University.



The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is a major steel manufacturer in the PRC. Its principal business includes production and sale of products including hot rolled sheets, cold rolled sheets, galvanized steel sheets, colour coating plates, silicon steel, medium and thick plates, wire rods, large steel products and seamless steel pipes. The domestic market share of the Company's hot rolled sheets, cold rolled sheets, galvanized steel sheets, colour coating plates, silicon steel, medium and thick plates, wire rods, heavy rails and seamless steel pipes are 5.29%, 8.41%, 7.80%, 3.84%, 24.21%, 5.06%, 0.88%, 28% and 3.29%, respectively.

Principal activities of the Group by industries and products (prepared in accordance with Accounting Standards for Business Enterprises in the PRC)

Unit: Rmb million

	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease of operating profits compared with previous year *(%)*	Increase/ decrease of operating costs compared with previous year *(%)*	Gross profit margin Increase (+)/ decrease (-) *(percentage points)*
Principal activities by industries						
Steel pressing and processing	76,440	63,238	17.27	20.68	35.88	(9.26)
Including: connected transactions	4,631	4,213	9.03	12.08	37.63	(16.89)
Principal activities by products						
Hot rolled sheets	25,022	21,316	14.81	10.14	29.16	(12.55)
Cold rolled sheets	17,074	13,827	19.02	31.26	48.20	(9.25)
Galvanized steel sheets and colour coated plates	8,035	6,916	13.93	9.93	20.13	(7.30)
Thick plates	7,506	5,181	30.98	47.64	52.88	(2.36)
Silicon steel	4,587	3,696	19.42	(1.86)	12.27	(10.15)
Medium plates	4,738	3,559	24.88	37.02	44.44	(3.86)
Wire rods	3,080	2,531	17.82	14.88	18.33	(2.40)
Large steel products	2,935	2,769	5.66	71.04	84.48	(6.87)
Seamless steel pipes	3,188	2,805	12.01	29.44	41.81	(7.68)
Including: connected transactions	4,523	4,148	8.29	13.84	36.00	(14.94)

The pricing policy for connected transactions	Not less than the selling prices between the Company and independent third parties.

PRINCIPAL ACTIVITIES *(continued)*

Principal activities of the Group by industries and products (prepared in accordance with Accounting Standards for Business Enterprises in the PRC) *(continued)*

Notes:

1) The increase in operating revenue of hot rolled sheets was due to hiking product prices and adjustment in product mix during the first three quarters; the increased operating cost was due to (i) the rise in raw material prices and (ii) relatively high cost of Bayuquan Branch at the initial stage of commencing production; the decreased gross profit margin was primarily attributable to the higher growth in raw material prices than that in product prices.

2) The increase in operating revenue of cold rolled sheets was attributable to (i) the commencement of full operation of the 1450 cold rolled sheet production line of the Company which resulted in growth of sales volume of cold rolled sheets; (ii) increase in price of products in the first three quarters; the increased operating cost was due to (i) hiking raw material prices and (ii) growth of sales volume of cold rolled sheets; the decrease in gross profit margin was owing to the higher growth in costs of raw materials than that in product prices.

3) The increase in operating revenue of galvanized steel sheets and colour coated plates was due to the increase in product prices and growth in sales volume; the increased operating cost was due to hiking raw material prices and growth of sales volume; the decrease in gross profit margin was owing to the higher growth in costs of raw materials than that in product prices.

4) The increase in operating revenue of thick plates was attributable to (i) hiking price of products and (ii) growth of sales volume; the increase in operating cost was due to hiking raw material prices and the growth of sales volume of thick plates; the decrease in gross profit margin was principally owing to the higher growth in costs of raw materials than that in product prices.

5) The decrease in operating revenue of silicon steel was due to drop in sales volume of products; the increased operating cost was mainly arising from hiking cost of raw materials; the decrease in gross profit margin was principally owing to the higher growth in costs of raw materials than that in product prices.

6) The increase in operating revenue of medium plates was attributable to (i) hiking price of products and (ii) growth of sales volume; the increase in operating cost was due to (i) hiking raw material prices and (ii) growth of sales volume of products; the decrease in gross profit margin was principally owing to the higher growth in costs of raw materials than that in product prices.

7) The increase in operating revenue of wire rods was due to the increase in product prices; the increased operating cost was mainly due to the rising raw material prices; the decrease in gross profit margin was owing to the higher growth in costs of raw materials than that in product prices.

8) The increase in operating revenue of large steel products was attributable to (i) commencement for production of the new lines and the increase in sales volume of products and (ii) the hiking product prices; the increase in operating cost was due to (i) growth of sales volume and (ii) hiking raw material prices; the decrease in gross profit margin was principally owing to the higher growth in costs of raw materials than that in product prices.

9) The increase in operating revenue of seamless steel pipes was mainly due to the increase in selling prices of products; the increase in operating cost was due to hiking raw material prices; the decrease in gross profit margin was owing to the higher growth in costs of raw materials than that in product prices.

10) The increase in operating revenue of connected transactions was mainly due to increase in selling prices of products; the increase in operating cost was primarily due to hiking raw material prices; the decrease in gross profit margin was owing to (i) the significant increase in operating costs and (ii) the product mix.

PRINCIPAL ACTIVITIES *(continued)*

Segmental information of principal activities by geographical locations (prepared in accordance with Accounting Standards for Business Enterprises in the PRC)

Unit: Rmb million

	Operating revenue	Increase/ decrease of operating revenue compared with previous year *(%)*
Northeast China	26,721	40.14
North China	10,122	13.41
East China	16,355	33.27
South China	9,840	5.52
Central south China	1,338	13.95
Northwest China	1,026	66.91
Southwest China	327	56.53
Export sales	13,887	(0.17)
Total	79,616	21.55

PROFIT DISTRIBUTION FOR THE REPORTING PERIOD

On 12 June 2008, the Company convened its 2007 annual general meeting in Anshan, at which the 2007 profit distribution plan was considered and approved. It was resolved to distribute a cash dividend of Rmb5.5 per 10 shares based on the total share capital of 7,234,807,847 shares as at 31 December 2007. On 30 June 2008, the Company distributed cash dividends to holders of H shares. The applicable exchange rate was the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the shareholder meeting, being HK$100 to Rmb88.69. The cash dividends actually paid to holders of H shares was HK$673,000,000. On 27 June 2008, the Company distributed cash dividends to holders of circulating A shares and state-owned shares, totalling Rmb3,382,000,000. The cash dividends for 2007 distributed by the Company were Rmb3,979,000,000 in total.

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

As at 31 December 2008, interests in the Company's issued share capital held by Directors, supervisors and senior management were as follows:

Name	Position	Gender	Age	Terms of appointment	Number of shares held as at 1 January 2008	Number of shares held as at 31 December 2008	Reason of Change
Zhang Xiaogang	Chairman	Male	55	2007.03-present	0	0	—
Tang Fuping	Vice Chairman General Manager	Male	51	2006.06-present 2005.05-present	0	0	—
Yang Hua	Vice Chairman	Male	47	2006.06-present	0	0	—
Chen Ming	Director Deputy General Manager	Male	48	2009.02-present 2008.11-present	—	610	Purchase of shares before the appointment as Deputy General Manager of the Company in November 2008
Wang Chunming	Director	Male	43	2006.06-present	0	0	—
Lin Daqing	Director Deputy General Manager	Male	44	2006.06-present 2006.03-present	0	2,700	Purchase of shares
Fu Wei	Director Deputy General Manager	Male	49	2006.06-present 2000.08-present	15,372	15,372	—
Fu Jihui	Director, Secretary to the Board	Male	57	2006.06-present	8,540	8,540	—
Yu Wanyuan	Non-executive Director	Male	48	2006.06-present	0	0	—
Wu Xichun	Independent Non-executive Director	Male	74	2006.06-present	0	0	—
Wang Linsen	Independent Non-executive Director	Male	71	2006.06-present	0	0	—
Liu Yongze	Independent Non-executive Director	Male	59	2006.06-present	0	0	—

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT *(continued)*

As at 31 December 2008, interests in the Company's issued share capital held by Directors, supervisors and senior management were as follows: *(continued)*

Name	Position	Gender	Age	Terms of appointment	Number of shares held as at 1 January 2008	Number of shares held as at 31 December 2008	Reason of Change
Francis Li Chak Yan	Independent Non-executive Director	Male	42	2006.06-present	0	0	—
Wang Xiaobin	Independent Non-executive Director	Female	41	2006.06-present	0	0	—
Wen Baoman	Chairman of the Supervisory Committee	Male	58	2007.12-present	0	0	—
Shan Mingyi	Supervisor	Male	55	2006.06-present	5,124	5,124	—
Zhang Lifen	Supervisor	Female	44	2006.06-present	0	0	—
Li Ji	Supervisor	Male	55	2006.06-present	0	0	—
Xing Guibin	Supervisor	Male	49	2006.06-present	0	0	—
Ma Lianyong	Chief Accountant	Male	47	2002.03-present	0	0	—
Total	—	—	—	—	29,036	32,346	—

Notes: All the shares mentioned above are A shares of the Company. Such shares were held by the persons mentioned above in the capacity of individual beneficial owner except for Mr. Chen Ming and Mr. Shan Mingyi in the capacity of family interest (held by his spouse).

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, as at 31 December 2008, none of the Directors, Supervisors or Senior Management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules").

POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDERS OF THE COMPANY

1. Mr. Zhang Xiaogang, Chairman of the Company, has served as the General Manager of Angang Holding, the controlling shareholder of the Company since January 2007.

2. Mr. Yu Wanyuan, Non-executive Director of the Company, has served as the Deputy General Manager of Angang Holding since December 2001.

3. Mr. Wen Baoman, Chairman of the Supervisory Committee of the Company, has served as the Deputy Secretary of Party Committee of Angang Holding since May 2005.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of each of the Directors, Supervisors and Senior Management was proposed by the Remuneration and Evaluation Committee under the Board and the Supervisory Committee respectively. Such remuneration has been approved upon discussion by the Board and the Supervisory Committee, and proposed for approval by the shareholders at the general shareholder meeting. Such remuneration was determined according to the business performance of the Company and the remuneration offered by comparable enterprises in the PRC.

Name	Position	Total remuneration received from the Company during the reporting period (Inclusive of tax) *(Rmb0'000)*	Whether receiving remuneration from the shareholders of the Company or other associated entities
Zhang Xiaogang	Chairman	0	Yes
Tang Fuping	Vice Chairman, General Manager	43.5	No
Yang Hua	Vice Chairman	43.5	No
Chen Ming	Director, Deputy General Manager	0.9	Receiving remuneration from Angang Holding before appointed as Deputy General Manager of the Company
Wang Chunming	Director	29.9	No
Lin Daqing	Director, Deputy General Manager	30.0	No
Fu Wei	Director, Deputy General Manager	30.1	No
Fu Jihui	Director, Secretary to the Board	30.2	No
Yu Wanyuan	Non-executive Director	0	Yes
Wu Xichun	Independent non-executive Director	0	Not receiving any remuneration of Independent Director as required by the Central Document
Wang Linsen	Independent non-executive Director	9	No
Liu Yongze	Independent non-executive Director	9	No
Francis Li Chak Yan	Independent non-executive Director	9	No
Wang Xiaobin	Independent non-executive Director	9	No
Wen Baoman	Chairman of the Supervisory Committee	0	Yes
Shan Mingyi	Supervisor	30.2	No
Zhang Lifen	Supervisor	27.9	No
Li Ji	Supervisor	23.3	No
Xing Guibin	Supervisor	15.8	No
Ma Lianyong	Chief Accountant	30.2	No
Total	—	371.5	—

Note: The total remuneration above did not include the Company's contribution to retirement schemes and other welfare funds.

RESIGNATION, APPOINTMENT AND DISMISSAL OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The 9th meeting of the fourth session of the Board was held on 4 January 2008, at which Mr. Wen Baoman was elected as Chairman of the fourth Supervisory Committee.

The 31st meeting of the fourth session of the Board on 28 November 2008, at which the following proposals were passed:

Dismissed Mr. Huang Haodong as deputy general manager of the Company;

Approved Mr. Huang Haodong's resignation from directorship of the Company;

Approved the appointment of Mr. Chen Ming as deputy general manager of the Company;

Approved the nomination of Mr. Chen Ming as the candidate for director of the Company.

The 1st EGM for 2009 was convened on 6 February 2009, at which the election of Mr. Chen Ming as the director of the fourth session of the Board was passed.

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLED OR INVESTED COMPANIES (PREPARED UNDER THE PRC ACCOUNTING STANDARDS)

No.	Name of controlled company or joint venture	Shareholding	Major products or services	Registered capital	Total assets as at 31 December 2008 *(Rmb million)*	Net profit for 2008 *(Rmb million)*
1	Angang Steel Logistics (Wuhan) Company Limited	100%	Production, processing, wholesale and retail business of steel and relevant products	Rmb60 million	60	0
2	ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	50%	Production of rolled hot dip galvanised steel products and microalloyed steel plate and stripe products, sale of self-produced products and provision of after-sales services	US$132 million	2,179	99
3	ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited	50%	Processing of steel products, and manufacturing, distribution and sales of structural steel	Rmb380 million	656	2
4	Changchun FAM Steel Processing and Distribution Co., Ltd.	50%	Processing and production of steel products and other related services	Rmb90 million	302	11
5	TKAS (Changchun) Steel Service Center Ltd. (formerly known as ANSC-TKS Steel Logistics (Changchun) Company Limited)	50%	Production, processing, sales of steel materials and other related commercial activities	US$12 million	215	(17)

MAJOR SUPPLIERS AND CUSTOMERS

The total amount of purchase from the Company's five largest suppliers was Rmb30,528 million, representing 46.25% of the Company's total purchase for the year, 25.54% of which was attributable to the Company's largest supplier. The sales to the Company's five largest customers aggregated to Rmb14,472 million, representing 18.32% of the Company's total turnover for the year and the largest customer accounted for 7.74%.

Except for those disclosed in this report, none of the Directors, supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold 5% or more of shares in the Company) had any interest in any of the aforementioned suppliers or customers of the Company during 2008.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Mr. Chen Ming, a Director since 6 February 2009, entered into a service contract with the Company starting from 6 February 2009. Other Directors and supervisors have entered into service contracts with a term of three years starting from 20 June 2006. All Directors and Supervisors' contracts of the Company shall expire upon the election of Directors of the fifth session of the Board at the 2008 Annual General Meeting. No Director or Supervisor has entered into any service contract with the Company which may be terminated by the Company within one year and compensation shall be paid other than statutory compensation.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the reporting period, there was no other purchase, sale or redemption by the Company or any of its subsidiaries of its listed securities.

PRE-EMPTIVE RIGHTS

In accordance with the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist to require the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

In 2008, none of the Directors or Supervisors of the Company had any material interests in any contracts in which the Company, or the holding Company or any of its subsidiaries were involved.

FIXED ASSETS

Changes in the fixed assets during the year are set out in note 12 to financial statements prepared in accordance with IFRSs on pages 237 to 238 of this report.

OPERATING RESULTS

The results of the Company for the year ended 31 December 2008 and its financial position as at that date are set out in the financial statements prepared in accordance with IFRSs included in this report.

SHARE CAPITAL

Changes in share capital during the year are set out in note 26 to the financial statements prepared in accordance with IFRSs included in this report.

RESERVES

Changes in the reserves during the year are set out in note 28 to financial statements prepared in accordance with IFRSs on page 253 and page 254 of this report.

EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 35 to financial statements prepared in accordance with IFRSs on page 263 of this report.

CONTINUING CONNECTED TRANSACTIONS

Details of continuing connected transactions for the year are set out on pages 73 to 80 of this report.

FIVE-YEARS SUMMARY

A summary of the results and balance sheet of the Company for the past five years is set out on page 269 and page 270 of this report.

CHAPTER 13 DISCLOSURE

The Directors confirmed that there was no matter occurring in 2008 which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor did the Company sign loan agreements imposing specific performance obligations on the controlling shareholders.

SUFFICIENT PUBLIC SHAREHOLDINGS

According to the information obtained by the Company through public channels, and so far as the Directors are aware of as at the latest practical date before the publishing of this annual report, the Company has been maintaining sufficient public shareholdings to comply with the Hong Kong Listing Rules during the year.

AUDITORS

RSM Nelson Wheeler (Certified Public Accountants in Hong Kong) and Zhong Rui Yue Hua Certified Public Accountants Co., Ltd (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2008.

A resolution for the appointment of Zhong Rui Yue Hua Certified Public Accountants Co., Ltd and RSM Nelson Wheeler as the Company's domestic and international auditors, respectively, for 2009 will be proposed at the 2008 Annual General Meeting to be held on 12 June 2009.

WORKING REPORT OF THE BOARD

The Board meetings during the reporting period

1. The fourth session of the Board of the Company convened the 21st meeting on 3 January 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 4 January 2008.

2. The fourth session of the Board of the Company convened the 23rd meeting on 5 March 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 6 March 2008.

3. The fourth session of the Board of the Company convened the 24th meeting on 14 April 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 15 April 2008.

4. The fourth session of the Board of the Company convened the 25th meeting on 16 April 2008, at which the relocation compensation payable by the Company to Angang Steel Rope Co., Ltd. due to land occupation for renovation of the wire rod plant and the authorisation to the management for entering into specific agreements with Angang Steel Rope Co., Ltd. was considered and approved.

5. The fourth session of the Board of the Company convened the 26th meeting on 22 April 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 23 April 2008.

6. The fourth session of the Board of the Company convened the 27th meeting on 10 July 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 11 July 2008.

7. The fourth session of the Board of the Company convened the 28th meeting on 11 August 2008, at which 2008 Interim Report of the Company was considered and approved.

8. The fourth session of the Board of the Company convened the 29th meeting on 15 September 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 26 September 2008.

9. The fourth session of the Board of the Company convened the 30th meeting on 23 October 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 24 October 2008.

10. The fourth session of the Board of the Company convened the 31st meeting on 28 November 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 29 November 2008.

11. The fourth session of the Board of the Company convened the 32nd meeting on 16 December 2008, announcement of resolutions in respect of which was published in China Securities Journal, Securities Times on 17 December 2008.

EXECUTION OF THE RESOLUTIONS PASSED AT GENERAL MEETINGS OF THE COMPANY BY THE BOARD

On 12 June 2008, the Company convened its 2007 annual general meeting in Anshan, at which the 2007 profit distribution plan was considered and approved. It was resolved to distribute a cash dividend of Rmb5.5 per 10 shares based on the total share capital of 7,234,807,847 shares. On 30 June 2008, the Company distributed cash dividends to holders of H shares. The applicable exchange rate was the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the general shareholder meeting for that year, being HK$100 to Rmb88.69. The cash dividends actually paid to holders of H shares was HK$673,000,000. On 27 June 2008, the Company distributed cash dividends to holders of circulating A shares and state-owned shares; in a total amount of Rmb3,382,000,000. The cash dividend for 2007 distributed by the Company was Rmb3,979,000,000 in total.

PERFORMANCE OF DUTIES OF AUDIT COMMITTEE UNDER THE BOARD

Please refer to the content concerning Audit Committee in Corporate Governance Report as set out in page 68 of this report.

PERFORMANCE OF DUTIES OF REMUNERATION AND EVALUATION COMMITTEE UNDER THE BOARD

Please refer to the content concerning Remuneration and Evaluation Committee in Corporate Governance Report as set out in page 66 of this report.

By order of the Board
Zhang Xiaogang
Chairman

14 April 2009

During the year, members of the Supervisory Committee duly fulfilled their duties in accordance with the Company Law and the articles of association of the Company in order to protect the lawful interests of the Company and its shareholders.

(I) The Supervisory Committee attended one general meeting and five Board meetings of the Company as non-voting participants and convened 5 supervisory meetings. The Supervisory Committee has given independent opinions and advices on the basis of their full knowledge of the Company's major production and operation decisions and implementation process.

1. The fourth Supervisory Committee of the Company convened the 9th meeting on 4 January 2008, at which Mr. Wen Baoman was elected as Chairman of the fourth Supervisory Committee.

2. The fourth Supervisory Committee of the Company convened the 10th meeting on 14 April 2008, at which the following resolutions were considered and approved:

(1) to approve the Company's annual report for 2007 and its summary;

(2) To approve the work report of the Supervisory Committee of the Company for 2007;

(3) To approve the proposed remuneration for supervisors of the Company for 2007;

(4) Self-evaluation report on internal control for 2007;

(5) To approve the 2008 first Quarterly Report of the Company.

3. The fourth Supervisory Committee of the Company convened the 11th meeting on 10 July 2008, at which the proposed adjustment to depreciation life of certain fixed assets was considered and approved.

4. The fourth Supervisory Committee of the Company convened the 12th meeting on 11 August 2008, at which the 2008 Interim Report of the Company and its summary were considered and approved.

5. The fourth Supervisory Committee of the Company convened the 13th meeting on 23 October 2008, at which the following resolutions were considered and approved:

(1) To approve the 2008 third quarterly report of the Company;

(2) To approve the proposal for the Company's provision for diminution in value of inventories for the third quarter of 2008.

(II) In 2008, the Supervisory Committee of the Company also monitored the Company's operations to ensure compliance with the relevant laws and regulations, such as the Company Law and the articles of association of the Company. It examined and reviewed the connected transactions entered into between the Company and Angang Holding and the relevant information in order to ensure the fairness of such transactions.

The Supervisory Committee had given independent opinions on the following issues:

1. During the year, the Company's operations had complied with all relevant laws and regulations and no violation of regulations had occurred. The Company has comprehensive internal control system and the decision making procedure of the Company complied with applicable laws and regulations.

2. None of the Directors and senior management had violated any laws or regulations or the articles of association of the Company when performing their duties or have otherwise acted in a manner as to infringe upon the interests of the Company.

3. The Company's financial report truly reflected the Company's financial position and operating results.

4. The Company's actual application of the latest funds raised was in line with the projects undertaken.

5. The acquisitions and disposals of assets were carried out by the Company at reasonable prices and there was no insider dealing or any damage to the shareholders' interests or any loss to the Company's assets.

6. During the year, routine continuing connected transactions and other connected transactions were conducted on a fair basis in the Company's production and operation. There was no insider dealing and the interests of the Company were not adversely affected.

On behalf of the Supervisory Committee
Wen Baoman
Chairman of the Supervisory Committee

14 April 2009

1. BUSINESS REVIEW

Confronted with the market upheaval in 2008, the Company withstood impact on the industry from global financial crisis and recorded remarkable results, thanks to concerted efforts and hard work of all the staff together with the Company's effective countermeasures and accelerated development pace. The Company upgraded its influence in international and domestic capital markets and its core competitiveness and risk resistance were noticeably increased.

(1) Operating Results

Based on the IFRSs, the Group recorded a profit attributable to equity shareholders of Rmb2,993 million for the year ended 31 December 2008, representing a decrease of 60.27% from the previous year, and its basic earnings per share was Rmb0.414.

Based on the PRC GAAP, the Group recorded a net profit of Rmb2,989 million for the year ended 31 December 2008, representing a decrease of 60.32% from the previous year, and its basic earnings per share was Rmb0.413.

(2) Analysis on the Group's Financial and Operational Status

Under the PRC GAAP

Unit: Rmb million

Item	**2008**	2007	Change *(%)*
Total assets	**92,179**	86,783	6.22
Non-current liabilities	**17,753**	12,545	41.51
Shareholders' equity	**53,103**	54,263	(2.14)
Operating revenue	**79,616**	65,499	21.55
Profit from operations	**3,878**	10,461	(62.93)
Net profit	**2,989**	7,533	(60.32)
Net increase in cash and cash equivalents	**(4,759)**	6,253	(176.11)

1. BUSINESS REVIEW *(continued)*

(2) Analysis on the Group's Financial and Operational Status *(continued)*

Under the IFRSs

Unit: Rmb million

Item	2008	2007 *(restated)*	Change *(%)*	Reason for change
Total assets	**94,826**	87,381	8.52	A
Non-current liabilities	**17,706**	12,443	42.30	A
Equity attributable to shareholders of the Company	**52,971**	54,127	(2.14)	B
Turnover	**78,985**	65,294	20.97	C
Gross profit	**8,146**	14,499	(43.82)	D
Profit for the year attributable to shareholders of the Company	**2,993**	7,534	(60.27)	D
Net increase in cash and cash equivalents	**(4,759)**	6,276	(175.83)	E

Notes:

A. The increase in total assets and non-current liabilities was mainly attributable to the increase in loans for construction projects and working capital respectively;

B. The decrease in shareholder's interests was mainly due to: (1) the decrease of Rmb986 million in retained earnings (including: the increase of Rmb2,993 million in net profit for the year, the decrease of Rmb3,979 million for payment of dividend for 2007); (2) the decrease in reserve of Rmb170 million arising from change in fair value of available-for-sale financial assets;

C. The increased turnover was mainly arising from the rising steel product price in first three quarters and the increase in sales volume of products during the year;

D. The decreased gross profit and profit for the year were mainly due to: (1) hiking cost of raw materials; (2) decreased profitability as a result of plummeting steel product price in the fourth quarter and allowance of inventory;

E. The lower of net increase in cash and cash equivalents was mainly attributable to: (1) the increase of Rmb4,258 million in the net cash inflow from operating activities as compared with the previous year due to the decrease in operating receivables and the increase in operating payables; (2) the decrease of Rmb2,048 million in net cash outflows from investing activities as compared with the previous year due to the decreased acquisition of fixed assets and expenditures in construction in progress; and (3) the decrease of Rmb17,341 million in net cash inflow from financing activities as compared with the previous year due to the fact that there was no proceeds from share issue for the year as was in last year.

1. BUSINESS REVIEW *(continued)*

(3) Analysis on the changes of financial figures including the Group's assets and expenses (prepared under the PRC GAAP)

Unit: Rmb million

Item of Balance Sheet	31 December 2008 Amount	31 December 2008 As a percentage in total assets (%)	As at 31 December 2007 Amount	As at 31 December 2007 As a percentage in total assets (%)	Increase/ (decrease) of percentage in total assets compared with previous year *(percentage points)*
Currency funds	**2,974**	**3.23**	7,733	8.91	(5.68)
Bills receivable	**2,583**	**2.80**	6,083	7.01	(4.21)
Prepayments	**2,731**	**2.96**	6,600	7.61	(4.65)
Long-term equity investment	**2,262**	**2.45**	885	1.02	1.43
Fixed assets	**43,252**	**46.92**	32,656	37.63	9.29
Short term loans	**7,570**	**8.21**	4,512	5.20	3.01
Bills payable	**4,585**	**4.97**	1,052	1.21	3.76
Non-current liabilities due within one year	**1,031**	**1.12**	5,138	5.92	(4.80)
Long term loans	**17,565**	**19.06**	12,297	14.17	4.89

Notes: In preparing financial statements of the Group, its assets were measured at historic cost but available-for-sale financial assets were measure at fair value subsequent to initial recognition.

1) The decrease of Rmb4,759 million in currency funds from the end of last year was mainly due to (1) Rmb11,938 million in the net cash inflow from operating activities; (2) Rmb15,554 million in the net cash outflow from investing activities; (3) Rmb1,143 million in the net cash outflow from financing activities.

2) The decrease of Rmb3,500 million in bills receivable from the end of last year mainly was due to (1) decreased receivables as a result of dropped product price as at end of year as affected by the market; (2) payment by bill endorsement for part of procurement.

3) The decrease of Rmb3,869 million in prepayments from the end of last year was mainly due to reinforced control on prepayment as a countermeasure to global financial crisis under which no prepayment would be effected in principle with enhanced verification and disposal of prepayment.

4) The increase of Rmb1,377 million in long-term equity investment over last year was mainly due to investment of Rmb975 million in Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited, investment of Rmb315 million in Angang Holdings Financial Company Limited and investment of Rmb11 million in Angang Package Steel Strip Company Limited, as well as the increased recognition of Rmb76 million in investment income.

1. BUSINESS REVIEW *(continued)*

(3) Analysis on the changes of financial figures including the Group's assets and expenses (prepared under the PRC GAAP) *(continued)*

5) The increase of Rmb10,596 million in net value of fixed assets over the end of last year was mainly due to the transfer from construction in progress to fixed assets after completion of Bayuquan project.

6) The increase of Rmb8,326 million in long and short term loans over the end of last year was mainly due to the increase in loans for construction projects and working capital;

7) The increase of Rmb3,533 million in bills payable over the end of last year was mainly due to the increase in acceptance bills issued in the second half of 2008;

8) The decrease of Rmb4,107 million in non-current liabilities due within one year was mainly due to (1) payment of consideration for acquisition of ANSI to Angang Holding; (2) repayment of long-term borrowings due within one year.

Unit: Rmb million

Item of Income Statement	**2008**	2007	Increase (+)/ decrease (-) from previous year
Selling expenses	**1,687**	1,598	5.57
Administrative expenses	**3,788**	3,509	7.95
Financial expenses	**694**	755	(8.08)
Income tax expense	**853**	2,851	(70.08)

Notes:

1) The increase of Rmb89 million in selling expenses was mainly due to the increased sales volume.

2) The increase of Rmb279 million in administrative expenses was primarily attributable to (1) the increase of Rmb68 million in taxes and surcharges: (2) the increased expenses in computer maintenance such as ERP system; (3) increased amortisation of intangible assets; (4) increased transportation fee, loading change and all supporting and labour costs in the wake of increased production and sales.

3) The decrease of Rmb61 million in financial expenses mainly was due to a decrease in interest accrued as a result of the payment of consideration for acquisition of ANSI to Angang Holding.

4) The decrease of Rmb1,998 million in income tax expense mainly was due to (1) decreased total profit of the Company; (2) a decrease in income tax rate during the year.

1. BUSINESS REVIEW *(continued)*

(4) Components of cash flow generated from the Group's operating activities, investing activities and financing activities (prepared under the PRC GAAP)

Unit: Rmb million

Item	2008	2007	Main reason for change
Net cash flows from operating activities	**11,938**	7,906	The increase in net cash flow from operating activities as compared with last year was mainly due to the decrease in operating receivables and the increase in items payable.
Net cash flows from investing activities	**(15,554)**	(17,959)	The decrease in net cash outflows from investing activities as compared with last year was due to acquisition of fixed assets and the decreased expenses in construction in progress
Net cash flows from financing activities	**(1,143)**	16,329	The decrease in net cash flow from financing activities was due to that there was no proceeds from rights issue as was last year

1. BUSINESS REVIEW *(continued)*

(5) Items related to fair value measurement (under PRC GAAP)

Unit: Rmb million

Item	Balance at the beginning of the year	Gains or losses arising from changes in fair value for the reporting period	Cumulative gains or losses previously reported in equity	Impairment made for the reporting period	Balance at the end of the year
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	—	—	—	—
2. Available-for-sale financial assets	271	0	170	0	45
Subtotal of financial assets	271	0	170	0	45
Financial liabilities	—	—	—	—	—
Total	271	0	170	0	45

The Company formulated Accounting Treatment Measures and other internal control policies relating to fair value measurement.

The Company has no financial assets in foreign currency.

(6) Number of Employees, Employees' Qualifications, Salary Policy and Training Programmes of the Company

As of 31 December 2008, the Company had 31,254 employees, of which 21,169 were production staff, 277 were sales staff, 2,883 were technicians, 293 were accounting staff and 1,724 were administration personnel. Of the Company's employees, 5,562 held bachelor or higher degrees, representing 17.8% of the total number of the employees; 7,157 held diplomas, representing 22.9% of the total number of the employees and 14,525 held the certificate of secondary education, representing 46.5% of the total number of the employees.

1. BUSINESS REVIEW *(continued)*

(6) Number of Employees, Employees' Qualifications, Salary Policy and Training Programmes of the Company *(continued)*

In 2008, 350 member counts senior management attended training for, among others, political theory knowledge, strategy management, and 3,854 counts of management technology staff attended training for management knowledge, computer, English, expertise and studying in institutes and colleges. 11,631 production staff counts attended training for technical grades, computer, equipment inspection, security knowledge. 21,160 employee counts attended training for operating skills, 1,836 employees attended training for team and group management knowledge, and 81 employees attended training for on-the-job studying for master's or doctor's degree. As a result of these trainings, the overall quality of employees have been improved, which enabled the Company to achieve production and operation targets.

The Company has adopted a position and performance-based annual remuneration packages for senior management; position-based linked remuneration and new product development incentive packages for research personnel; sales/profit-linked remuneration package for sales personnel; and position-based remuneration packages for other personnel.

2. INVESTMENT OF THE COMPANY

(1) External Investments:

The Company's external investment for 2008 amounted to Rmb1,361 million, representing an increase of 448.79% from Rmb248 million in last year.

In particular, the Company invested Rmb60 million, Rmb975 million, Rmb315 million and Rmb11 million in Angang Steel Logistics (Wuhan) Company Limited, Tainjin Angang Tian Tie Cold Rolled Sheets Company Limited, Angang Holdings Financial Company Limited and Angang Package Steel Strip Company Limited, respectively.

(2) Use of fund raised

From October 2007 to November 2007, the Company raised funds of Rmb20,006 million in total from the rights issue of 1,301,822,150 shares to all shareholders of the Company, with net proceeds of Rmb19,905 million after deducting rights issue related expenses.

Please refer to the statement of Use of the Proceeds attached to the Special Audit Report regarding the Use of Proceeds During the Year below for the specific utilization of the proceeds.

2. INVESTMENT OF THE COMPANY *(continued)*

Special Audit Report regarding Deposit and Actual Use of Proceeds of the Company of Angang Steel Company Limited

Zhong Rui Yue Hua Zhuang Shen Zi [2009] No. 1006

The Board of Angang Steel Company Limited

We accept the engagement to perform a special audit for Special Report regarding Deposit and Actual Use of Proceeds of the Company of Angang Steel Company Limited ("Angang Steel") as at 31 December 2008, which is attached hereto.

Pursuant to the requirements of the Measures of Shenzhen Stock Exchange for Administration on Capitals Raised by Listed Companies issued by Shenzhen Stock Exchange and such other relevant provisions, the Board of the Company is responsible for preparing Special Report regarding Deposit and Actual Use of Proceeds of the Company, and providing truthful, legitimate and complete evidence, original written materials, copies of documents, verbal evidence and the other information which in our opinion is necessary. Our responsibility is to give special audit opinion on Special Report regarding Deposit and Use of Proceeds of the Company based on auditing.

We conducted audit task pursuant to Standards on Other Assurance Engagements for Certified Public Accountants of China No. 3101 — Assurance Engagements other than Audits or Review of Historical Financial Information. Those standards require that we shall comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the Special Report regarding Deposit and Use of Proceeds of the Company are free from material misstatement. In the process of the auditing, we performed inspection on accounting notes, recalculating amount of relevant items and other procedures which in our opinion are necessary. We believe that our audit provides a reasonable basis for our audit opinion.

We are of the opinion that there is no inconsistency between the actual deposit and use of proceeds of the Company for 2008 and the contents set out in Special Report regarding Deposit and Use of Proceeds of the Company prepared by the board as at 31 December 2008.

This special audit report is only for the purpose of the disclosure in the Company's 2008 annual report and shall not be used for any other purposes.

Zhong Rui Yue Hua Certified Public Accountants Co., Ltd	the PRC public certified accountant:	**Cao Bin**
Beijing, the PRC	the PRC public certified accountant:	**Zhao Jinyi**

14 April 2009

2. INVESTMENT OF THE COMPANY *(continued)*

Special Report regarding Deposit and Use of Proceeds of the Company of Angang Steel Company Limited

Pursuant to the requirements of the Measures of Shenzhen Stock Exchange for Administration on Capitals Raised by Listed Companies issued by Shenzhen Stock Exchange and such other relevant provisions, Angang Steel Company Limited (the "Company") prepared Special Report regarding Deposit and Actual Use of Proceeds of the Company as at 31 December 2008.

I. Use of proceeds

Based on the original shares of 5,932,985,697 shares, the Company placed shares on the basis of 2.2 shares for every 10 existing shares to all the shareholders of the Company which were listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange on 25 October 2007 and 14 November 2007 respectively, in accordance with the Notice on Approval of Share Placement of Angang Steel Company Limited (China Securities Regulatory Commission ZJFX Zi [2007] No. 313) dated 24 September 2007 and the Approval of Overseas-Listed Foreign Share Placement of Angang Steel Company Limited (China Securities Regulatory Commission ZJGO Zi [2007] No. 33) dated 28 September 2007.

The Company's proceeds receivable from share placement was Rmb20,006 million; after deducting issue expense of Rmb35 million paid as at capital verification report date, plus the interest of proceeds of Rmb7 million from share placement, the Company's proceeds received from share placement was Rmb19,978 million in total. The Company finally received proceeds of Rmb19,905 million from share placement net of issue expenses of Rmb73 million paid after capital verification report date, with an increase of paid-up capital and capital reserve of Rmb1,302 million and Rmb18,603 million, respectively. KPMG Huazhen verified the proceeds raised from the share placement and issued a capital verification report (KPMG-A(2008)CR No.0001) on 9 January 2008.

On 29 September 2007, the Company disclosed in the Prospectus of Angang Steel Company Limited for 2007 that proceeds from placement will be all used for construction of Bayuquan Iron and Steel Project of Yingkou or repaying bank loans, with total investment amount of Rmb22.6 billion. Before receiving the proceeds from placement, the Company intended to acquire capital by the way of the Company's own resources, bank loans or other market financing ("Internal Funds"). All proceeds raised from the placement will be used for construction of Bayuquan Plant or repaying bank loans.

Construction term of Bayuquan Plant is three years. It is expected to commence operation in 2008 and generate profit in 2009. Financial internal rate of return on all investments in the project is 12.1%, and investment recovery period (excluding construction period) is 5.9 years.

As at 31 December 2007, a total of Rmb11,869 million was utilised out of the proceeds. The use of proceeds was disclosed in Special Audit Report on Deposit and Utilisation of the Subscription Proceeds for 2007 (KPMG-A (2008)OR No. 0037) issued by KPMG.

As the Company utilised proceeds of Rmb8,036 million in 2008, all proceeds were utilised.

2. INVESTMENT OF THE COMPANY *(continued)*

II. Management of proceeds

In order to regulate the use and management of raised proceeds of the Company and to protect the interest of investors of the Company, the Board prepared and implemented Administrative Measures on Use of Proceeds from Fundraising (Document No. CMW/ANSTEEL 2140 18(06)-2007) on 25 September 2007. The measures are formulated based on the actual situation of the Company and in accordance with laws and regulations including Company Law of the People's Republic of China (the "PRC"), Securities Law of the PRC, and Administrative Measures for Issue of Securities by Listed Companies by CSRC as well as the Articles of Association of Angang Steel Company Limited. Under the supervision of secretarial office to the board, Planning and Finance Department is responsible for deposit and routine management of proceeds.

In order to regulate proceeds management and protect interests of medium and minority investors, the Company and CITIC Securities Co., Ltd entered into Agreement for Third Party Supervision of Issue Proceeds with the business department of Bank of China Limited Anshan branch, China Construction Bank Corporation Anshan Angang branch and Industrial and Commercial Bank of China Limited Anshan Angang branch respectively on 16 November 2007 according to relevant laws and regulations and the Measures of Shenzhen Stock Exchange for Administration on Capitals Raised by Listed Companies issued by Shenzhen Stock Exchange. The agreement has no significant discrepancy with sample of Agreement for Third Party Supervision of Issue Proceeds. The Company has implemented the agreement according to Provisions regarding Report for Utilisation of the Last Raised Proceeds and the Measures of Shenzhen Stock Exchange for Administration on Capitals Raised by Listed Companies.

III. Actual utilisation of raised proceeds during the year

For actual utilisation of raised proceeds during the year, please refer to Statement of Use of the Proceeds (Appendix).

IV. Use of proceeds on financed project changed

There was no change of projects financed by raised proceeds.

V. Issues in the use of raised proceeds and related disclosure

The Company has properly used proceeds as required and made relevant information disclosures on a timely, true, accurate and complete basis.

The Board of Angang Steel Company Limited

14 April 2009

2. INVESTMENT OF THE COMPANY *(continued)*

Appendix: Statement of Use of the Proceeds

Unit: Rmb million

Total proceeds	19,905	Total use of proceeds during the year	8,036
Total proceeds with use changed	0	Accumulated proceeds used	19,905
Percentage of total proceeds with use changed	0%		

Investment projects undertaken	Changes in use of proceeds (including part of changes)	Total proceeds undertaken to be utilised	Total investment after adjustment	Proceeds undertaken to be utilised at the period end (1)	Proceeds utilised during the year	Accumulative proceeds utilised at the report end (2)	Difference between accumulative proceeds utilised and proceeds undertaken to be utilised at the report end (3) = (2)-(1)	Ratio of proceed utilisation at the report end (%) (4)=(2)/(1)	Date of availability of the projects for intended use	Net profit for the year	Whether to reach expected profit	Any significant changes to feasibility of the project
Bayuquan Project	No	20,100	19,905	19,905	8,036	19,905	0	100%	—	(2,604)	—	No

Reason for failing to meet planned progress	Project is under construction while proceeds were used as planned.
Reason for there is significant changes to feasibility of the project	Not Applicable
Change to implementation location of investment projects using issue proceeds	Not Applicable
Change to implementation method of investment projects financed by issue proceeds	Not Applicable
Initial investments and fund replacements in investment projects financed by issue proceeds	The Company exchanged for Internal Funds of Rmb6,760 million pre-invested in the project with the fund raised upon receipt of the issue proceeds. Exchange of the raised proceeds had been completed as at 31 December 2007.

2. INVESTMENT OF THE COMPANY *(continued)*

Temporary additional working capital from unused proceeds	To improve efficiency of the raised proceeds, reduce finance cost, improve economic benefit and protect the interests of the Company and its shareholders, the 20th meeting of the fourth Board passed the Proposal that the Company Leverages Unused Capital of Rmb1.95 Billion for Temporary Additional Working Capital on 14 December 2007 pursuant to document of Notice on Further Regulating Use of Proceeds Raised by Listed Companies from Securities Offerings (ZJGS Zi [2007] No. 25) promulgated by CSRC. The Company leveraged unused proceeds of Rmb1.95 billion for temporary additional working capital. The Company has repaid in time the proceeds of Rmb1.95 billion used for temporary additional working capital by the way of Internal Funds in July 2008 according to the proposal of the use of proceeds and progress of Bayuquan Project.
Amount of issue proceeds in surplus of requirements for project implementation and reasons	Not Applicable
other information in use of proceeds	No

Note: The reasons for difference between investment amount undertaken after adjustment and that before adjustment are that issue expenses has not been deducted from the investment amount undertaken and the actual number of A shares placed was less than proposed number, and loss from exchange due to change in exchange rate of HK dollars on the date of receiving proceeds from H Share placement and that on the pricing date of the share placement.

(3) Status of investment of non-publicly raised funds:

Unit: Rmb million

Project Name	Project budget amount	Project Progress	Project benefits
2130 cold rolling production line	2,640	100%	797
Chemical phrase III, benzyl and transformer substation renovation	2,589	86%	1,352
1450 Project in West Area	2,900	92.77%	(18)
High-performance silicon steel project	2,800	65.22%	—
Total	10,929	—	2,131

3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP (PREPARED IN ACCORDANCE WITH IFRSs)

As of 31 December 2008, the Group had long-term loans of Rmb17,565 million (exclusive of loans due within one year) with interest rates ranging from 4.86% to 6.966% per annum. Under the terms of 3 to 25 years, the loans will expire during the period from 2010 to 2030. The loans are mainly used for additional working capital and project fund. The Group's long-term loans due within one year amounted to Rmb1,031 million. With good creditability and relatively high profitability of products, the Group will have sufficient cash to repay the existing liabilities falling due in the future.

As of 31 December 2008, the Group's cash and cash equivalents decreased by Rmb4,759 million to Rmb2,974 million from Rmb7,733 million in the previous year, which was mainly attributable to (1) Rmb10,831 million in net cash inflow from operating activities; (2) Rmb15,979 million in net cash outflow from investment activities; and (3) Rmb389 million in net cash inflow from financing activities.

As at the end of 2008, the Group's total assets less current liabilities amounted to Rmb70,677 million, compared with Rmb66,570 million at the end of 2007.

The shareholders' equity of the Group amounted to Rmb52,971 million in the end of 2008, compared with Rmb54,127 million as at 31 December 2007.

4. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2008, the Group had capital commitment of Rmb5,782 million, which was primarily for signed construction and renovation contracts pending for implementation or full implementation.

As at 31 December 2008, the Group did not have any contingent liabilities.

5. FOREIGN EXCHANGE RISK

The Group did not have a significant foreign currency risk exposure arising from its exported products and the import and procurement of raw materials for production and equipments for projects as the Group adopts locked exchange rates to settle the amounts with main export and import agents.

6. GEARING RATIO

Under the IFRSs, the ratio of the Group's shareholders' equity to liabilities in 2008 was 1.27 times (2007: 1.63 times).

1. STRUCTURE OF CORPORATE GOVERNANCE OF THE COMPANY

The Company operates strictly in accordance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Hong Kong Listing Rules and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and establishes a sound corporate governance system.

Four special committees have been set up by the Board with independent non-executive directors acting as conveners of the Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee, and accounting for the majority of such committees' members.

2. DISCHARGE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has established the independent non-executive directors system in accordance with relevant regulations and laws. The independent non-executive directors have discharged their duties in accordance with the requirements of the relevant laws and regulations, reviewed carefully the financial and other relevant information of the Company and expressed their independent opinions on significant matters of the Company in order to safeguard the interests of the Company and the minority shareholders.

Attendance of the independent non-executive Directors at the Board meetings of the Company in 2008 are set out as follows:

Name of independent non-executive Director	Required attendance at the Board meetings *(number of times)*	Attendance in person *(number of times)*	Attendance by proxy *(number of times)*	Absence *(number of times)*	Remark
WU Xichun	12	12	—	—	—
Wang Linsen	12	12	—	—	—
Liu Yongze	12	12	—	—	—
Francis Li Chak Yan	12	10	2	—	—
Wang Xiaobin	12	10	2	—	—

3. THE COMPANY IS COMPLETELY INDEPENDENT OF ITS CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, STAFF, ASSETS, ORGANIZATION, FINANCE, ETC. SUCH INDEPENDENT CORPORATE STRUCTURE AND OPERATION ARE IN COMPLIANCE WITH THE REQUIREMENTS OF THE RELEVANT LAWS AND REGULATIONS. THE COMPANY HAS AN INDEPENDENT AND COMPLETE BUSINESS AND IS CAPABLE OF OPERATING INDEPENDENTLY.

4. APPRAISAL AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT

The Company has set up position-based and risk-based annual salary distribution schemes for the senior management personnel. The position-based salary scheme is linked to the Company's overall operating results while the risk-based salary system is linked to the performance of and operational indicators assumed by individuals.

5. CORPORATE GOVERNANCE REPORT

(1) Corporate Governance Practice

With shares listed on both The Stock Exchange of Hong Kong Limited and the Shenzhen Stock Exchange, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for establishing good corporate governance practices and procedures and the strict implementation of such practices and procedures, in order to protect the interests of the shareholders and to maximise the investment return for the shareholders in the long term.

Following the implementation of the Code on Corporate Governance Practices ("the Code") issued by Hong Kong Stock Exchange, the Company has further improved its corporate governance pursuant to the Code. During the reporting period, the Company has complied with all code provisions and most of the recommended best practices set out in the Code.

(2) Securities Transactions of Directors

The Board has adopted the relevant code for securities transactions by directors in compliance with the Hong Kong Listing Rules. In the responses to the special enquiries with each of directors, they have confirmed that they have complied with the standards set out in Appendix 10 to the Hong Kong Listing Rules.

The Company has also adopted a code of conduct governing securities transactions by the employees of the Company who may possess or have access to price sensitive information in relation to the Company or its securities.

(3) Independent Non-executive Directors

Throughout the reporting period, the Board has been in compliance with the Rule 3.10(1) of the Hong Kong Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with the Rule 3.10(2) of the Hong Kong Listing Rules, which requires one of those independent non-executive directors to possess appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has verified with its independent non-executive directors in respect of their independence as follows: the Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Hong Kong Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees

1) Composition of the Board

The Board of the Company comprises 14 members including 1 Chairman, 7 executive directors, 1 non-executive director and 5 independent non-executive directors. The number of independent non-executive directors of the Company represents over one-third of members of the Board.

The Board establishes 4 special committees, which are comprised of the Company's directors only. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Evaluation Committee are independent non-executive directors who are also the conveners. There is at least one independent non-executive director in the Audit Committee who possesses appropriate professional qualifications in accounting. Each of the special committees reports to the Board and submits proposals to the Board for consideration and approval.

Name	Position in the Board	Attendance to meetings
Zhang Xiaogang	Chairman	100%
Tang Fuping	Executive Director	100%
Yang Hua	Executive Director	100%
Huang Haodong	Executive Director	100%
Wang Chunming	Executive Director	100%
Lin Daqing	Executive Director	100%
Fu Wei	Executive Director	100%
Fu Jihui	Executive Director, Secretary to the Board	100%
Yu Wanyuan	Non-executive Director	100%
Wu Xichun	Independent non-executive Director	100%
Wang Linsen	Independent non-executive Director	100%
Liu Yongze	Independent non-executive Director	100%
Francis Li Chak Yan	Independent non-executive Director	100%
Wang Xiaobin	Independent non-executive Director	100%

Mr. Huang Haodong resigned from the position of director of the Company in November 2008. Other directors, including the non-executive directors and independent non-executive directors are subject to a term of 3 years and may offer themselves for re-election.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees *(continued)*

2) Duties and Operation of the Board

The Board is accountable to the general meetings and exercises the following powers:

i. to convene and report to shareholders at the general meetings;

ii. to implement the resolutions passed at the general meetings;

iii. to decide the Company's business and investment plans;

iv. to prepare the Company's annual budget and its implementation plan;

v. to prepare the Company's profit distribution plan and loss recovery plan;

vi. to prepare the proposals for the increase or reduction of the Company's registered capital, issue of debentures or other securities as well as listing;

vii. to draw up plans for significant acquisition by the Company, purchase of the Company's shares or the merger, division and dissolution of the Company and change of corporate form;

viii. to determine the Company's internal management structure;

ix. to appoint or dismiss the Company's manager and the Secretary to the Board, to appoint or dismiss the Company's deputy general manager and other senior management including financial controller as nominated by the manager, and determine their remunerations, awards and punishment;

x. to prepare the Company's basic management system;

xi. to prepare amendments to the articles of association of the Company.

Save for the resolutions in respect of the matters specified in sub-paragraphs vi, vii and xi above, which shall be passed by votes of more than two-thirds of the directors, the resolutions in respect of other matters specified above may be passed by votes of at least half of the directors.

The Board of the Company is responsible for the preparation of the financial statements for each financial period, which gives a true and fair view of the state of affairs, results and cash flows of the Company during the relevant period.

In 2008, the Board of the Company held a total of 12 Board meetings.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees *(continued)*

3) *Remuneration and Evaluation Committee*

Members of the Remuneration and Evaluation Committee:

Name	Position in the Committee	Attendance to meetings
Francis Li Chak Yan	convener	100%
Tang Fuping	member	100%
Wang Chunming	member	100%
Wu Xichun	member	100%
Liu Yongze	member	100%

Main duties of the Remuneration and Evaluation Committee are:

i. to research the assessment criteria of directors and senior management; to carry out the assessment and provide advices; and

ii. to study and review the remuneration policies and proposals of employment for the directors and senior management.

In 2008, the Remuneration and Evaluation Committee of the Company held 2 meetings. During the meeting, the performance of the directors and senior management personnel of the Company during 2007 was assessed and their remunerations during 2007 were reviewed, and submitted to the Board for consideration.

In April 2009, the Remuneration and Evaluation Committee of the Company held a meeting, at which the performance of directors and senior management personnel of the Company during 2008 was assessed and the corresponding remunerations during 2008 were examined. The Remuneration and Evaluation Committee was of opinion that remunerations of directors and senior management personnel in 2008 were linked to overall operating results, performance and operating indicators assumed by individuals, which played an active role in stimulating the initiatives of directors and senior management personnel and was in line with the level of domestic counterparts.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees *(continued)*

4) *Nomination Committee*

Composition of the Nomination Committee:

Name	Position in the Committee	Attendance to meetings
Wang Linsen	convener	100%
Zhang Xiaogang	member	100%
Yang Hua	member	100%
Wang Chunming	member	100%
Liu Yongze	member	100%

Main duties of the Nomination Committee are:

i. to study the criteria and procedures of selection of directors and senior management, and provide suggestions;

ii. to conduct extensive search for qualified candidates of directors and senior management personnel; and

iii. to assess the candidates for directors and senior management and provide relevant recommendations.

In 2008, the Nomination Committee of the Company held 1 meeting to nominate directors in accordance with the qualification requirements and the relevant laws and regulations and the articles of association of the Company and to submit the same for the consideration of the Board.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees *(continued)*

5) Audit Committee

Members of the Audit Committee:

Name	Position in the Committee	Attendance to meetings
Liu Yongze	convener	100%
Yu Wanyuan	member	100%
Wang Linsen	member	100%
Francis Li Chak Yan	member	100%

Main duties of the Audit Committee are:

i. to make proposals in relation to the engagement and change of external auditors;

ii. to supervise the Company's internal auditing system and implementation;

iii. to facilitate communication between internal auditing department and external auditors;

iv. to review financial information of the Company and its disclosure; and

v. to review the Company's internal control system.

The Audit Committee of the Company reviewed the internal control system and report of the Company with reference to the latest requirements set out in Rule C.2.2 of the CG Code of the Listing Rules of the Stock Exchange (聯交所上市規則的《企業管治守則》), taking account of the resources of the accounting and financial reporting of the Company, the sufficiency of qualifications and experience of its staff and the training courses for employees and the relevant budget. It will also submit the reviewed internal control report to the Board of the Company for consideration.

In 2008, the Audit Committee of the Company held a total of 4 meetings. During the meetings, the Audit Committee reviewed the quarterly, interim and annual financial statements and financial information set out in the quarterly, interim and annual reports of the Company, reviewed the internal control system of the Company, and made recommendations in relation to the engagement of external auditors.

The Audit Committee of the Board and the management of the Company have jointly reviewed the Group's accounting policy and the audited consolidated financial statements for the year ended 31 December 2008, and have discussed on the issues in relation to the auditing, internal control and financial statements of the Group.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(4) The Board and its Special Committees *(continued)*

5) Audit Committee (continued)

In accordance with relevant regulations of CSRC and Shenzhen Stock Exchange, the Audit Committee of the Company performed their duties with due diligence, and summarised its performance as follows:

- Opinions after reviewing the 2008 Annual Report

  The Company's financial statements for 2008 was prepared based on the requirements of the Accounting Standard for Business Enterprises; expenditures were reasonable; revenues, expenses and profits were recognized truly and accurately; relevant provisions were made as specified by the laws, regulations and relevant systems, which reflected the Company's financial positions and operating results and cash flow on a true, accurate and complete basis; it was approved to be submitted to the Board of the Company for consideration.

- Review opinions on the Audit Work Summary by Accountants for 2008

  Zhong Rui Yue Hua Certified Public Accountants Co., Ltd and RSM Nelson Wheeler performed their duties during the auditing the Company's financial statements for 2008 in accordance with relevant laws and regulations of the PRC and Hong Kong and in compliance with professional ethics of accountants, and expressed their opinion on the Company's financial statements, enabling the Company to satisfy the requirements from the domestic and overseas regulatory institutions.

- Review opinions on the Appointment of Zhong Rui Yue Hua Certified Public Accountants Co., Ltd and RSM Nelson Wheeler as Domestic and Overseas Auditors of the Company for 2009

  The Board is proposed to appoint Zhong Rui Yue Hua Certified Public Accountants Co., Ltd and RSM Nelson Wheeler as domestic and overseas auditors of the Company for 2009 with a term from the close of Annual General Meeting for 2008 to the time of convening of Annual General Meeting for 2009.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(5) Chairman and General Manager

The positions of Chairman and General Manager of the Company are assumed by different persons with definite division of duties.

Duties of the Chairman:

i. to preside over the shareholders' general meetings and to convene and preside over the Board meetings;

ii. to supervise and check the implementation of resolutions of the Board;

iii. to sign the share certificates issued by the Company; and

iv. to exercise other powers conferred by the Board.

Duties of the General Manager:

The General Manager of the Company reports to the Board and exercises the following powers:

i. to take charge of the Company's operation and management and to organize and implement the resolutions of the Board and report to the Board;

ii. to organize and implement the Company's annual business plan and investment plan;

iii. to make proposals in relation to the Company's internal organizational structure;

iv. to make proposals in relation to the Company's basic management system;

v. to prepare the basic rules and regulations of the Company;

vi. to make proposals in relation to the appointment or termination of appointment of the deputy general manager or other senior management personnel of the Company (including the financial controller);

vii. to appoint or dismiss the management personnel other than those required to be appointed or dismissed by the Board; and

viii. other powers as conferred under the articles of association of the Company or granted by the Board.

5. CORPORATE GOVERNANCE REPORT *(continued)*

(6) Auditors' Remuneration

Zhong Rui Yue Hua Certified Public Accountants Co., Ltd and RSM Nelson Wheeler were appointed at the 2007 annual general meeting of the Company as the domestic and international auditors of the Company, respectively, for the year 2008. The remuneration of the Company's auditors for 2008 amounted to Rmb6.1 million. The Company reimbursed the auditors out of pocket expenses arising from auditing.

(7) Internal control

The Company established by integration a relatively sound internal control system in compliance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission, the Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Rules for Corporate Governance of Listed Companies and Guidance for Internal Control of Listed Company of the Shenzhen Stock Exchange, and together with the actual business, organization and operating target. The design of internal control system has fully taken into consideration of regulations and laws as well as other relevant requirements including the listing rules, and there are no material shortcomings and abnormality in the completeness, systematism, efficiency and compliance in the current internal control system, thus providing reasonable assurance to honest and legal operation, true and reliable financial reports, improvement in operation efficiency and results and avoidance of predicable significant risks of the Company. Accordingly, it will help the Company formulate, and realize as scheduled, proper operational targets.

The Company has been equipped with internal auditing mechanism, which requires an overall evaluation of the internal control system on a regular basis. The daily auditing is exercised by functional departments and front units of the Company by adopting on a uniform basis of the mode of "management behaviour evaluation", focusing on activities including examination of financial control, operational control, legal compliance control, and predictable high risk control. Moreover, the auditing also covers the resources for accounting and financial reporting, sufficiency of qualifications and experiences of employees and the sufficiency of the training courses for employees and the related budget. Major part of internal control mechanism is to supervise and ensure the effective operation of internal control system.

The Board of Directors has conducted auditing for the operation of internal control system of the Company in 2008, reporting that the internal control system is sound, comprehensive and effective, and the resources for accounting and financial reporting, the qualifications and experiences of employees and the training courses for employees and the relevant budgets are sufficient.

1. MATERIAL LITIGATION AND ARBITRATION

The Group was not involved in any material litigation or arbitration in 2008.

2. EQUITY IN OTHER LISTED COMPANIES HELD BY THE COMPANY

Unit: Rmb million

Stock Code	Short form of stock	Initial investment amount	Percentage in the company's share capital	Book value at the end of the period	Loss and gain during the reporting period	Change in owner's interest during the reporting period	Accounting items	Source of shares
600961	Zhuzhou Smelter Group	81	1.9%	45	0	170	Available-for-sale financial assets	Subscription of Shares
Total	—	81	—	45	0	170	—	—

3. ACQUISITION AND DISPOSAL OF ASSETS

Counterpart and Assets acquired	Date of acquisition	Consideration *(Rmb million)*	Net profit contributed to the Company since date of acquisition to the year-end	Whether a connected transaction (if so, state the basis of pricing)	Whether all ownership of assets involved transferred	Whether all debts transferred
Acquired part of land of Bayuquan from Angang Holding	22 April 2008	1,265	Nil	A connected transaction. Consideration of the transaction is determined based on the appraised value prepared by Liaoning Guo Di Assets Valuation Company Limited	No	No debts

4. MATERIAL CONNECTED TRANSACTIONS

(1) Continuing connected transactions

In 2008, the Company purchased a portion of the raw materials, energy and services necessary for its production operations from, and sold some of its products to Angang Holding and its subsidiaries. The transaction methods and prices were in compliance with the provisions of Supply of Materials and Services Agreement entered into between the parties.

1) *Purchase of products and receipt of labour services from related parties:*

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Iron Concentrate	Not higher than the average import price of PRC iron concentrate reported to the PRC customs in the preceding half-year reporting period and the railway transportation cost from Baiyuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the preceding half-year. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by Rmb10/tonne. Angang Holding pledged to give discount after the highest price is confirmed. The discount rate is 5% of average import price of iron concentrate reported to the PRC custom in the preceding half-year.	Rmb881/tonne	8,523	59.02

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

1) Purchase of products and receipt of labour services from related parties: (continued)

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year reported period. For every 1 percentage point increase or decrease in the grade of pellets, the price will be increased or decreased by Rmb10/tonne.	Rmb1,126/tonne	5,161	99.45
Sinter ore	The price of iron concentrate plus processing cost of the supplier in the preceding half-year reported period plus 10% gross profit (of which, the processing cost is not higher than that of similar products produced by the Company)	Rmb1,086/tonne	4,069	99.52
Scrap steel	Market prices	—	278	50.33
Billets		—	67	85.58
Electricity	State price	Rmb0.48/kWh	1,609	36.14
Water	State price	Rmb3.55/tonne	33	100.00
Lime stone	Not higher than the selling prices offered by relevant members of Angang Holding to independent third parties	Rmb67/tonne	90	78.69
Lime powder		Rmb345/tonne	738	91.19
Refractory materials		—	219	19.49
Other ancillary materials			158	2.13
Spare parts and tools		—	922	31.40
Total	—	—	21,867	53.03

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

1) Purchase of products and receipt of labour services from related parties: (continued)

Item	Pricing principle	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Railway transportation	State price	612	78.88
Road transportation	Market prices	420	83.32
Agency services: — Import of raw materials, equipment, components and ancillary materials — Export of products — Domestic sales of products	1.5% as commission (not more than the commissions levied by the main state import and export companies of China) or free of charge	386	100.00
Repair and maintenance of equipment	Market prices	770	57.95
Design and engineering services		5,660	48.73
Construction project agency and management services	Free of charge	—	—
Education facilities, vocational education, on-the-job training, translation services	Market prices	6	31.94
Company vehicle services		19	97.19
Charge for arrangement of business and meeting expenses		3	38.73
Greening services	Expenses of labour, materials and management were paid based on market prices	32	89.22
security service		44	86.48
Newspaper and other publications	State price	3	38.75

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

1) Purchase of products and receipt of labour services from related parties: (continued)

Item	Pricing principle	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Telecommunication business and service and information system	State price or depreciation cost plus maintenance costs	66	65.54
Environmental protection and security inspection services	State price	8	93.97
Supply of heat	State price	2	14.36
Production coordination and maintenance	Expenses of labour, materials and management were paid based on market prices	1,150	94.29
Life coordination and maintenance		152	95.54
Processing with supplied materials	Processing cost plus gross profit margin of no more than 5%	—	—
Total	—	9,333	57.43
Interest on fund for settlement	State price	21	57.60
Loans and discounted interest	State price	120	8.37
Payment of Interest on delayed consideration for acquisition of ANSI Company Limited	Interest rate on bank loans	98	100.00

Note: In which, for the twelve months ended 31 December 2008, steel products provided by Angang International Trading Corporation as a domestic and overseas agent amounted to 4,580,000 tonnes and 2,380,000 tonnes respectively.

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

2) *Sale of products and provision of labour services to related parties*

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Cold rolled sheets	The selling price offered by the Company to the independent	Rmb4,620/tonne	1,318	6.09
Thick Plates	third parties; For provision of	Rmb5,370/tonne	234	3.12
Wire rods	new products developed for the	Rmb3,246/tonne	389	12.64
Large steel products	other party, the price is based on the market price if the market	Rmb3,851/tonne	68	2.37
Hot rolled sheets	price exists; if the market price	Rmb3,785/tonne	1,871	7.46
Medium plate	does not exist, the price is based	Rmb4,874/tonne	289	6.09
Galvanized sheets	on the principle of the cost plus	Rmb4,455/tonne	254	3.68
Colour coated sheets	a reasonable profit, while the reasonable profit rate is not	Rmb6,158/tonne	19	1.66
Seamless pipes	higher than the average gross	Rmb4,668/tonne	60	1.87
Molten iron	profit margin of related products	Rmb4,585/tonne	21	51.70
Coke	provided by relevant member	Rmb898/tonne	74	100.00
Chemical by-products	of companies.	—	86	6.87
Subtotal		—	4,683	6.04

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

2) Sale of products and provision of labour services to related parties (continued)

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Scrap copper	Market prices	—	108	92.63
Abandoned materials		—	29	48.74
Minus sieve powder	The difference from the price of sinter ore minus the cost of sintering process of Angang Holding	—	280	100.00
Total		—	417	91.34

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
New water	State price	Rmb2.94/tonne	45	99.89
Clean recycled water	Production cost plus a gross profit margin of 5%	Rmb0.74/tonne	26	99.98
Soft water		Rmb2.84/tonne	0.4	100.00
Gas		Rmb60.46/GJ	441	90.22
Blast furnace gas		Rmb4.00/GJ	33	100.00
Steam		Rmb39.50/GJ	37	98.83
Nitrogen		Rmb71.75/KM^3	0.4	6.55
Oxygen		Rmb492.82/KM^3	2	9.01
Argon		Rmb602.50/KM^3	0.4	6.11
Compressed air		Rmb89.50/KM^3	2	100.00
Unused hot water		Rmb9.14/GJ	31	90.65

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

2) *Sale of products and provision of labour services to related parties (continued)*

Item	Pricing principle	Price	Amount *(Rmb million)*	As a percentage of the contractual value of similar transactions *(%)*
Product testing service	Market prices	—	4	81.49
Transportation service		—	0.8	100.00
Total	—	—	623	47.30

3. *sales of products to joint ventures:*

Item	Amount *(Rmb million)*	As a percentage of the contractual amount of similar transactions *(%)*
Cold hard coils	2,080	12.28
Hot rolled coils	106	0.43

The above connected transactions of the Company were all settled in cash.

Explanation as to the necessity and continuity of connected transactions: production of steel and iron is on a continuous basis. The Company relies on the supply of most of its raw materials from Angang Holding and its subsidiaries and a portion of products of the Company were sold to Angang Holding and its subsidiaries. Therefore, the above continuing connected transactions are necessary to the smooth operation and production of the Company.

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(1) Continuing connected transactions *(continued)*

3. sales of products to joint ventures: (continued)

The above connected transactions, as confirmed by the independent non-executive Directors of the Board who are independent of the controlling shareholder, were entered into (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms or on the terms not less favourable to the terms offered by independent third parties; or on the terms which are fair and reasonable as far as the shareholders of the Company are concerned if no comparable reference is available; (3) in accordance with the terms of Supply of Materials and Services Agreement which are fair and reasonable and in the interest of the Company and its shareholders as a whole; and (4) in 2008, the total amount of ongoing connected transactions of the Company did not exceed the relevant caps as set out in Supply of Materials and Services Agreement.

The auditors to the Company have reviewed the above connected transactions and issued a letter to the Board confirming that the above continuing connected transactions (a) have received the approval of the Board; (b) so far as they are aware, there is no instance of non- compliance with provisions of Supply of Materials and Services Agreement; and (c) the actual amounts of such connected transactions did not exceed the relevant caps under the waiver.

(2) Connected transactions arising from transfer of assets and investment

1) Acquisition of assets

The 26th meeting of the 4th session of the Board of the Company was held on 22 April 2008. The Board approved the Land Use Rights Acquisition Agreement entered into between the Company and Angang Holding, according to which the Company acquires the land use rights of a parcel of land with a total area of 3,594,000 square metres located in Bayuquan Port. The value of such land use rights amounted to Rmb1,265 million as appraised by Liaoning Guo Di Assets Valuation Company Limited* (遼寧國地資產評估有限公司). And the consideration was determined to be Rmb1,265 million based on such valuation, and shall be settled in cash.

2. Investment

The 26th meeting of the 4th session of the Board of the Company was held on 22 April 2008. The Board has approved the Proposal relating to Investment by the Company in Angang Holding Financial Company Limited (hereafter referred to as "Angang Holding Financial Company"), according to which the Company will invest Rmb315 million in Angang Holding Financial Company and then will hold 20% of registered capital in it.

4. MATERIAL CONNECTED TRANSACTIONS *(continued)*

(3) Amounts due to or from related parties of the Company or guarantee provided from related parties to the Company

There was no claims or obligations between the Company and the connected parties for non-operating purpose as at 31 December 2008.

As at 31 December 2008, Rmb1.2 billion of the Company's bank loan was guaranteed by Angang Holding.

5. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(1) The Company did not enter into any trust, contractual or lease arrangement during the reporting period.

(2) There was no material guarantee granted by the Company at the end of reporting period.

(3) The Company did not entrust any financial management during the reporting period.

(4) There were no other material contracts entered into by the Company during the reporting period.

Opinions of independent Directors in relation to cumulative and current external guarantees and capital occupied by the controlling shareholders and other related parties:

In accordance with the principles of the "Notice in Relation to Certain Issues Concerning the Regulation of Funds Transfer Between Listed Companies and Connected Parties, and External Guarantees Granted by Listed Companies" [2003] No. 56 (the "Notice") issued by CSRC, we have faithfully and carefully reviewed and finalized the Company's external guarantee and flow of funds between the Company and its related parties, and hereby make the following statements and opinions:

(1) The Company has complied with the relevant requirements of the Listing rules since its listing, and has not provided any guarantee to its controlling shareholders, any other connected party which has a less than 50% shareholding in the Company, any non-legal person unit or any individual.

(2) The Company has not provided any guarantee for any other company during the reporting period.

(3) During the reporting period, none of the controlling shareholders or other related parties had occupied the Company's capital.

5. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION *(continued)*

(4) To date, the Company has not been subjected to penalty, criticism or condemnation by the securities regulatory authorities in respect of the Company's external guarantees.

(5) In strict compliance with relevant regulations, the Company has clearly specified relevant procedures and requirements concerning external guarantee in the Articles of Association. The Company also formulated Administrative Procedures for External Guarantee so as to strengthen the management of the external guarantee. The regulations of the Articles of Association of the Company and Administrative Procedures for External Guarantee are in compliance with the requirements of the relevant domestic and foreign regulations.

6. UNDERTAKINGS OF CONTROLLING SHAREHOLDER

(1) During the reformation of non-tradable shares, Angang Holding, the controlling shareholder of the Company, in addition to the undertakings required under the relevant laws and regulations, has made the following special undertakings in relation to the State-owned Share Reform Plan:

1) The shares held by Angang Holding following the implementation of the State-owned Share Reform Plan will be subject to a trading moratorium of 36 months from the listing date of such shares on the Shenzhen Stock Exchange except for the shares corresponding to the exercise of the warrants by any holder of tradable A shares.

2) For the tradable A shares of the Company issued to Angang Holding for the acquisition of the entire equity interests in ANSI, such shares will also be subject to a trading moratorium of 36 months from the day on which the shares are deposited to Angang Holding's account.

3) Angang Holding will maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of the entire equity interests in ANSI till 31 December 2010.

4) Angang Holding will reimburse other shareholders for any loss arising from its failure to fulfil the whole or part of its undertakings.

5) Angang Holding will arrange for the deposit of the relevant shares of the Company as compensation under the State-owned Share Reform Plan with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfilment of its obligations under such arrangement.

6) Angang Holding will pay for all the costs arising from the implementation of the State-owned Share Reform Plan.

6. UNDERTAKINGS OF CONTROLLING SHAREHOLDER *(continued)*

(1) During the reformation of non-tradable shares, Angang Holding, the controlling shareholder of the Company, in addition to the undertakings required under the relevant laws and regulations, has made the following special undertakings in relation to the State-owned Share Reform Plan: *(continued)*

Angang Holding further undertakes that:

"Angang Holding will perform its undertakings on a good faith basis and accepts the liabilities thereunder. Unless the transferee agrees and is eligible and capable to make the undertakings, Angang Holding will not transfer any share held by it."

During the reporting period, none of breach of Angang Holding's undertakings was found.

(2) On 24 October 2007, the Company and Angang Holding entered into the Supply of Materials and Services Agreement (2008-2009), pursuant to which, Basic Price of iron concentrate is "not higher than the average free-on-board import price reported to the PRC Customs for the previous six months ("Average Import Price") plus railway transportation expenses from Bayuquan Port to the Company and adjustment according to grade. Among other things, adjustment according to grade is on the basis of weighted average grade of iron concentrate imported in the previous six months. Price adjustment for every 1% of grade is Rmb10/tonne." Angang Holding made the undertaking to give a 5% discount to the maximum price of Average Import Price which was confirmed by Basic Price. The undertaking shall be valid from 1 January 2008 to 31 December 2009.

During the reporting period, none of breach of Angang Holding's undertakings was found.

(3) On 28 October 2008, the Company received a notice from Angang Holding that according to the Approval Reply Relating to the Whitewash Waiver to Angang Holding from General Offer to Acquire Shares in Angang Steel Company Limited from CSRC, Angang Holding intended to increase the shareholding in the Company from the secondary markets within 12 months since the date of share acquisition (i.e. 28 October 2008) in a quantity no more than 361,000,000 shares or 4.99% of the issued shares of the Company. On 28 October 2008, Angang Holding had acquired additional 1,000,000 shares in the Company through trading system of the Shenzhen Stock Exchange, accounting for 0.014% of total share capital of the Company.

Angang Holding undertook to the Company that it would not reduce its shareholding in the Company within the period of shareholding increase and the statutory period.

During the reporting period, none of breach of Angang Holding's undertakings was found.

(4) On 3 December 2008, 526,795,621 shares in the Company held by Angang Holding was released from trading moratorium according to the Company's State-owned Share Reform Plan, representing 7.28% of total shares of the Company. According to shareholding purpose and divestment plan for shares not subject to trading moratorium of Angang Holding, Angang Holding has no plan to sell any shares not subject to trading moratorium within six months after upon such release of shares from trading moratorium.

During the period, Angang Holding has performed such plan.

Annual General Meeting

The 2008 annual general meeting of the Company will be convened on 12 June 2009, details of which and the proposed resolutions are set out in the accompanying notice of the annual general meeting.

Zhongrui YueHuashenzi [2009] No.04168

All Shareholders of Angang Steel Company Limited:

We have audited the accompanying financial statements of Angang Steel Company Limited (the Company), which comprise the balance sheet and consolidated balance sheet as at 31 December 2008, the income statement and consolidated income statement, the statement of changes in shareholders' equity and consolidated statement of changes in shareholders' equity, the cash flow statement and consolidated cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: 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; 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. We conducted our audit in accordance with China Standards on Auditing for 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.

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position and consolidated financial position of the Company as at 31 December 2008, the results of operation and consolidated results of operation, the cash flow and consolidated cash flow of the Company for the year then ended.

Zhongrui Yuehua Certified Public Accountants

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

Cao Bin

Zhao Jinyi

China Beijing
14 April 2009

Consolidated Balance Sheet

Prepared by : Angang Steel Company Limited
At as 31 December 2008
Monetary unit:Rmb million

Assets	*Note*	**At the end of year 2008**	At the end of year 2007
Current assets:			
Cash at banks and on hand	7(1)	**2,974**	7,733
Tradable financial assets			
Bills receivable	7(2)	**2,583**	6,083
Accounts receivable	7(3)	**1,235**	932
Prepayments	7(4)	**2,731**	6,600
Interest receivable			
Other receivables	7(5)	**78**	66
Inventories	7(6)	**10,372**	8,701
Total current assets		**19,973**	30,115
Non-current assets			
Available-for-sale financial assets	7(7)	**45**	271
Long-term equity investments	7(8)	**2,262**	885
Investment real estate			
Fixed assets	7(9)	**43,252**	32,656
Construction in progress	7(10)	**12,547**	9,985
Construction material	7(11)	**6,242**	7,130
Intangible assets	7(12)	**6,761**	5,577
Deferred tax assets	7(13)	**1,097**	164
Other non-current assets			
Total non-current assets		**72,206**	56,668
Total assets		**92,179**	86,783

Consolidated Balance Sheet *(Continued)*

Prepared by : Angang Steel Company Limited
At as 31 December 2008
Monetary unit:Rmb million

Liabilities and shareholders' equity	Note	At the end of year 2008	At the end of year 2007
Current liabilities			
Short-term loans	7(15)	**7,570**	4,512
Bills payable	7(16)	**4,585**	1,052
Accounts payable	7(17)	**3,427**	1,908
Advances from customers	7(18)	**3,629**	4,569
Employee benefits payable	7(19)	**329**	310
Taxes payable	7(20)	**(2,771)**	(251)
Other payables	7(21)	**3,523**	2,737
Non-current liabilities due within one year	7(22)	**1,031**	5,138
Total current liabilities		**21,323**	19,975
Non-current liabilities			
Long-term loans	7(23)	**17,565**	12,297
Deferred tax liabilities	7(24)	**47**	102
Other non-current liabilities	7(25)	**141**	146
Total non-current liabilities		**17,753**	12,545
Total liabilities		**39,076**	32,520
Shareholders' equity			
Share capital	7(26)	**7,235**	7,235
Capital reserve	7(27)	**31,423**	31,593
Surplus reserves	7(28)	**3,301**	2,992
Undistributed profit	7(29)	**11,144**	12,443
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to parent company		**53,103**	54,263
Minority interest			
Total shareholders' equity		**53,103**	54,263
Total liabilities and shareholders' equity		**92,179**	86,783

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Consolidated Income Statement

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	Note	For the year 2008	For the year 2008
1. Operating income	7(30)	**79,616**	65,499
including: Operating income from main business	7(30)	**79,616**	65,499
2. Operating costs		**75,834**	55,119
including: Operating cost for main business	7(30)	**66,611**	48,346
Business tax and surcharges	7(31)	**948**	764
Selling expenses		**1,687**	1,598
Administrative expenses		**3,788**	3,509
Financial expenses	7(32)	**694**	755
Impairment losses on assets	7(33)	**2,106**	147
Add: gains/losses from fair value variation			
Investment income	7(34)	**96**	81
Including: Income from investment in jointly controlled enterprises and associates	7(34)	**80**	77
3. Operating profit		**3,878**	10,461
Add: Non-operating income	7(35)	**33**	44
Less: Non-operating expenses	7(36)	**69**	121
Including: Loss from non-current assets disposal	7(36)	**63**	119
4. Profit before income tax	7(37)	**3,842**	10,384
Less: Income tax expense	7(37)	**853**	2,851
5. Net profit for the year		**2,989**	7,533
including: net profit of acquiree realized before acquiring day in combination under same control			
Net profit attributable to shareholder of parent company		**2,989**	7,533
Gains/losses attributable to minority shareholder			
6. earning per share			
(1) basic earning per share	7(38)	**0.413**	1.121
(2) diluted earning per share	7(38)	**0.413**	1.121

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Consolidated Statement of Changes in Shareholders' Equity

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	For the year 2008								For the year 2007							
	Shareholders' equity attributable to parent company								Shareholders' equity attributable to parent company							
	Share capital	Capital reserve	less: treasury stock	Surplus reserve	Undistributed profit	other	Minority interest	Total of shareholders' equity	Share capital	Capital reserve	less: treasury stock	Surplus reserve	Undistributed profit	other	Minority interest	Total of shareholders' equity
1. balance at the end of last year	7,235	31,593		2,981	12,446			54,255	5,933	12,847		2,228	8,832			29,840
Add: change of accounting policy				11	(3)			8					283			283
Correction of error of last period																
2. balance at beginning of the year	7,235	31,593		2,992	12,443			54,263	5,933	12,847		2,228	9,115			30,123
3. variation of the year		(170)		309	(1,299)			(1,160)	1,302	18,746		764	3,328			24,140
(1) net profit					2,989			2,989					7,533			7,533
(2) gains/losses that attributed to shareholders equity directly		(170)						(170)		143						143
i. net variation of fair value in available for sale financial assets		(226)						(226)		190						190
ii. effects of other shareholder's equity of investee under equity method																
iii. effects of income tax related to gains/losses that attributed to shareholders equity directly		56						56		(47)						(47)
iv. other																
Subtotal of (1)(2)above		(170)			2,989			2,819		143			7,533			7,676
(3) variation of share									1,302	18,603						19,905
i. capital injection									1,302	18,603						19,905
ii. share-based payment attributable to shareholder's equity																
3. other																
(4) profit distribution				309	(4,288)			(3,979)				764	(4,205)			(3,441)
i. Appropriation for surplus reserve				299	(299)							753	(753)			
ii. Distribution to shareholders					(3,979)			(3,979)					(3,441)			(3,441)
iii. special reserve				10	(10)							11	(11)			
(5) transfer internally of shareholder's equity																
i. Capital reserve transferred to share capital																
ii. Surplus reserve transferred to share capital																
iii. losses covered by Surplus reserve																
4. balance at the end of year	7,235	31,423		3,301	11,144			53,103	7,235	31,593		2,992	12,443			54,263

Legal representative: **Zhang Xiaogang** *Chief Accountant:* **Ma Lianyong** *Controller:* **Ma Lianyong**

Consolidated Cash Flow Statement

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	*Note*	**For the year 2008**	For the year 2008
1. Cash flows from operating activities			
Cash received from sale of goods		**92,862**	70,531
Refund of taxes			123
Cash received in relation to other operating activities		**59**	6
Sub-total of cash inflows		**92,921**	70,660
Cash paid for goods and services		**68,780**	52,255
Cash paid to and for employees		**2,589**	2,027
Cash paid for all types of taxes		**8,611**	7,384
Cash paid relating to other operating activities		**1,003**	1,088
Sub-total of cash outflows		**80,983**	62,754
Net cash inflow from operating activities		**11,938**	7,906
2. Cash flows from investing activities			
Cash received from return on investments			
Cash received from investment income		**17**	4
Net cash received from the disposal of fixed assets, intangible assets		**5**	61
Net cash received from the disposal of subsidiary, other business unit			
Cash received in relation to other investing activities		**409**	405
Sub-total of cash inflows		**431**	470
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**14,684**	18,181
Cash paid for acquisition of investments		**1,301**	248
Net cash paid for acquisition of subsidiary, other business unit			
Cash paid relating to other investing activities			
Sub-total of cash outflows		**15,985**	18,429
Net cash outflow from investing activities		**(15,554)**	(17,959)

Consolidated Cash Flow Statement *(Continued)*

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	*Note*	**For the year 2008**	For the year 2008
3. Cash flows from financing activities			
Cash received from rights issue			19,978
including: received of subsidiary from minority shareholder			
Cash received from borrowings		**16,220**	19,122
Cash received in relation to other financing activities			
Sub-total of cash inflows		**16,220**	39,100
Cash repayments of borrowings		**11,795**	17,917
Cash paid for dividends, profits distribution or interest		**5,509**	4,797
including: dividends, profits of subsidiary paid to minority shareholder			
Cash paid relating to other financing activities		**59**	57
Sub-total of cash outflows		**17,363**	22,771
Net cash outflow from financing activities		**(1,143)**	16,329
4. Effect of foreign exchange rate changes on cash and cash equivalents			(23)
5. Net increase in cash and cash equivalents		**(4,759)**	6,253
Add: Cash and cash equivalents at the beginning of the year		**7,733**	1,480
6. Cash and cash equivalents at the end of the year		**2,974**	7,733

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Balance Sheet

Prepared by : Angang Steel Company Limited
At as 31 December 2008
Monetary unit:Rmb million

Assets	*Note*	**At the end of year 2008**	At the end of year 2007
Current assets:			
Cash at banks and on hand		**2,914**	7,733
Tradable financial assets			
Bills receivable		**2,583**	6,083
Accounts receivable	8(1)	**1,235**	932
Prepayments		**2,731**	6,600
Interest receivable			
Other receivables		**78**	66
Inventories	8(2)	**10,372**	8,701
Total current assets		**19,913**	30,115
Non-current assets			
Available-for-sale financial assets		**45**	271
Long-term equity investments		**2,322**	885
Investment real estate	8(3)		
Fixed assets		**43,252**	32,656
Construction in progress		**12,547**	9,985
Construction material		**6,242**	7,130
Intangible assets		**6,761**	5,577
Deferred tax assets		**1,097**	164
Other non-current assets			
Total non-current assets		**72,266**	56,668
Total assets		**92,179**	86,783

Balance Sheet *(Continued)*

Prepared by : Angang Steel Company Limited
At as 31 December 2008
Monetary unit:Rmb million

Liabilities and shareholders' equity	*Note*	**At the end of year 2008**	At the end of year 2007
Current liabilities			
Short-term loans		**7,570**	4,512
Bills payable		**4,585**	1,052
Accounts payable		**3,427**	1,908
Advances from customers		**3,629**	4,569
Employee benefits payable		**329**	310
Taxes payable		**(2,771)**	(251)
Other payables		**3,523**	2,737
Non-current liabilities due within one year		**1,031**	5,138
Total current liabilities		**21,323**	19,975
Non-current liabilities			
Long-term loans		**17,565**	12,297
Deferred tax liabilities		**47**	102
Other non-current liabilities		**141**	146
Total non-current liabilities		**17,753**	12,545
Total liabilities		**39,076**	32,520
Shareholders' equity			
Share capital		**7,235**	7,235
Capital reserve		**31,423**	31,593
less: treasury stock			
Surplus reserves		**3,301**	2,992
Undistributed profit		**11,144**	12,443
Total shareholders' equity		**53,103**	54,263
Total liabilities and shareholders' equity		**92,179**	86,783

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Income Statement

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	Note	For the year 2008	For the year 2007
1. Operating income	8(4)	**79,616**	65,499
including: Operating income from main business	8(4)	**66,611**	48,346
2. Operating costs		**948**	764
including: Operating cost for main business		**1,687**	1,598
Business tax and surcharges		**3,788**	3,509
Selling expenses		**694**	755
Administrative expenses		**2,106**	147
Financial expenses			
Impairment losses on assets	8(5)	**96**	81
Add: gains/losses from fair value variation		**80**	77
Investment income		**3,878**	10,461
Including: Income from investment in jointly controlled enterprises and associates		**33**	44
3. Operating profit		**69**	121
Add: Non-operating income		**63**	119
Less: Non-operating expenses	8(7)	**3,842**	10,384
Including: Loss from non-current assets disposal	8(7)	**853**	2,851
4. Profit before income tax		**2,989**	7,533
5. Earning per share			
(1) basic earning per share		**0.413**	1.121
(2) diluted earning per share		**0.413**	1.121

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Statement of Changes in Shareholders' Equity

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	For the year 2008 Share capital	Capital reserve	less: Gtreasury stock	Surplus reserve	Undistributed profit	Total of shareholders' equity	For the year 2007 Share capital	Capital reserve	less: Gtreasury stock	Surplus reserve	Undistributed profit	Total of shareholders' equity
1. balance at the end of last year	7,235	31,593		2,981	12,446	54,255	5,933	12,847		2,228	8,832	29,840
Add: change of accounting policy				11	(3)	8					283	283
Correction of error of last period												
2. balance at beginning of the year	7,235	31,593		2,992	12,443	54,263	5,933	12,847		2,228	9,115	30,123
3. variation of the year		(170)		309	(1,299)	(1,160)	1,302	18,746		764	3,328	24,140
(1) net profit					2,989	2,989					7,533	7,533
(2) gains/losses that attributed to shareholders equity directly		(170)				(170)		143				143
i. net variation of fair value in available for sale financial assets		(226)				(226)		190				190
ii. effects of other shareholder's equity of investee under equity method												
iii. effects of income tax related to gains/losses that attributed to shareholders equity directly		56				56		(47)				(47)
iv. other												
Subtotal of (1)(2)above		(170)			2,989	2,819		143			7,533	7,676
(3) variation of share							1,302	18,603				19,905
i. capital injection							1,302	18,603				19,905
ii. share-based payment attributable to shareholder's equity												
3. other												
(4) profit distribution				309	(4,288)	(3,979)				764	(4,205)	(3,441)
i. Appropriation for surplus reserve				299	(299)					753	(753)	
ii. Distribution to shareholders					(3,979)	(3,979)					(3,441)	(3,441)
iii. special reserve				10	(10)					11	(11)	
(5) transfer internally of shareholder's equity												
i. Capital reserve transferred to share capital												
ii. Surplus reserve transferred to share capital												
iii. losses covered by Surplus reserve												
4. balance at the end of year	7,235	31,423		3,301	11,144	53,103	7,235	31,593		2,992	12,443	54,263

Legal representative:	Chief Accountant:	Controller:
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

Cash Flow Statement

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	*Note*	For the year 2008	For the year 2007
1. Cash flows from operating activities			
Cash received from sale of goods		**92,862**	70,531
Refund of taxes			123
Cash received in relation to other operating activities		**59**	6
Sub-total of cash inflows		**92,921**	70,660
Cash paid for goods and services		**68,780**	52,255
Cash paid to and for employees		**2,589**	2,027
Cash paid for all types of taxes		**8,611**	7,384
Cash paid relating to other operating activities		**1,003**	1,088
Sub-total of cash outflows		**80,983**	62,754
Net cash Inflow from operating activities		**11,938**	7,906
2. Cash flows from investing activities			
Cash received from return on investments			
Cash received from investment income		**17**	4
Net cash received from the disposal of fixed assets, intangible assets		**5**	61
Net cash received from the disposal of subsidiary, other business unit			
Cash received in relation to other investing activities		409	405
Sub-total of cash inflows		**431**	470
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**14,684**	18,181
Cash paid for acquisition of investments		**1,361**	248
Net cash paid for acquisition of subsidiary, other business unit			
Cash paid relating to other investing activities			
Sub-total of cash outflows		**16,045**	18,429
Net cash outflow from investing activities		**(15,614)**	(17,959)

Cash Flow Statement *(Continued)*

Prepared by : Angang Steel Company Limited
For the year 2008
Monetary unit:Rmb million

Items	*Note*	**For the year 2008**	For the year 2007
3. Cash flows from financing activities			
Cash received from rights issue			19,978
Cash received from borrowings		**16,220**	19,122
Cash received in relation to other financing activities			
Sub-total of cash inflows		**16,220**	39,100
Cash repayments of borrowings		**11,795**	17,917
Cash paid for dividends, profits distribution or interest		**5,509**	4,797
Cash paid relating to other financing activities		**59**	57
Sub-total of cash outflows		**17,363**	22,771
Net cash outflow from financing activities		**(1,143)**	16,329
4. Effect of foreign exchange rate changes on cash and cash equivalents			(23)
5. Net increase in cash and cash equivalents		**(4,819)**	6,253
Add: Cash and cash equivalents at the beginning of the year		**7,733**	1,480
6. Cash and cash equivalents at the end of the year		**2,914**	7,733

Legal representative:	*Chief Accountant:*	*Controller:*
Zhang Xiaogang	**Ma Lianyong**	**Ma Lianyong**

1. COMPANY STATUS

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 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. 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 proposed to issue A shares and H rights shares to all shareholders with 5,932,985,697 outstanding shares on the basis of 2.2 Rights Shares for every 10 existing Shares in October 2007. The subscription price for A shares and H shares is Rmb15.40 per share and HKD15.91 respectively. The entitlements to the Rights Shares under the Share Rights Issue represent a total of 1,301,822,150 shares, including 1,106,022,150 A shares ordinary share, and the remaining 195,800,000 H shares. The new shares are listed for trade on Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited on 25 October 2007 and 14 November 2007 respectively. The Company had obtained the revised business license on 31 March 2008.

1. COMPANY STATUS *(continued)*

At the balance sheet day, the company's legal representative: Zhang xiaogang; registered capital:RMB7,234,807,847;business certificate code: 210000400006026;registered address: Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the People's Republic of China (the "PRC") On 26 June 2008 the Company invested RMB60 million to establish Angang Steel Logistics (Wuhan) Co., Ltd ("Angang Wuhan"), and of which registered capital wholly hold by the company is RMB60 million.

The Company and its subsidiary ("the Group") are principally engaged in ferrous metal smelting and steel pressing and processing.

The financial statements has been approved by the Board of Directors in 14 April 2009

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the requirements of the China Accounting Standards for Business Enterprises (2006) ("New Standards") issued by the Ministry of Finance ("MOF"). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Group.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission ("CSRC") in 2007.

3. BASIS OF PREPARATION

These financial statements have been translated into English from the company financial statements issued in Chinese. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

The financial statements of the group are based on the assumption of going concern principal and the transactions and events are recognized and measured in accordance with "New Standards" and 38 specific accounting standards

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting year

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

(2) Functional currency and presentation currency

The group's functional currency is RMB.

(3) Measurement basis

The financial statements is prepared on accrual basis and generally, measured in historical cost, and when the accounting elements meet the requirements of "New Standards" and could be measured reliably, then the replacement cost, net realizable value, present value and fair value could be adopted.

(4) Cash equivalents

Cash equivalents refer to the investment of short term (due within three month from the purchasing day) and of high liquidity, which are readily converted into known amounts of cash and are subject to an insignificant risk of change in value

(5) Translation of foreign currencies

The share capital received is translated to RMB at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates (A spot exchange rate is an exchange rate quoted by the People's Bank of China) on the day of transaction.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange at the balance sheet day. The resulting exchange differences are recognized in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see note 7(10)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which is recognized in capital reserve.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities

(a) Classification of financial assets and financial liabilities

Financial assets shall be classified into the following categories on initial recognition according to business character and requirement of risk management of the group:

(i) The financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period.

(ii) held-to-maturity investments

(iii) Loans and the account receivables;

(iv) Available for sale financial assets.

(v) Other financial liabilities.

(b) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognized in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities, measured at fair value and the variation of its fair value be recognized as current losses or gains, its transaction costs are charged to profit or loss, and for others are recognized as initial cost of financial assets and financial liabilities.

Subsequent measurement of financial assets and liabilities:

- the financial assets and financial liabilities which are measured at fair values and the variation of which is ascertained as profits or losses of the current period. Subsequent recognition is measured at fair value, all realized and unrealized profits and losses are recognized as profits or losses of the current period.

  Held-to-maturity investments and Receivables are subsequently stated at post-amortization cost using the effective interest method. But if the effect of discounting to present value is not significant, it is measured at cost deducted by bad debts provision.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities *(continued)*

(b) Recognition and measurement of financial assets and financial liabilities *(continued)*

- Available-for-sale financial assets

  Available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is removed from equity and recognized in profit or loss.

- The equity instrument investments, for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument, shall be measured on the basis of their costs.

- Other financial liabilities

  Among other financial liabilities, 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, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognized less accumulated amortization and the amount of a provision determined in accordance with the principles of contingent liabilities.

  Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at post-amortization cost using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities *(continued)*

(c) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis. The Group calibrates the valuation technique and tests it for validity periodically.

(d) Recognition and measurement of transfer of financial assets

While the Group has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not derecognizes the financial asset. Where the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it shall deal with it according to the circumstances as follows, respectively:

(i) The financial assets shall be derecognized while the control over it is given up.

(ii) The financial assets shall be recognized according to the extent of continuous involvement in transferred financial assets of the group, and the relevant financial liability shall be recognized correspondingly while the control over it is not given up.

If the transfer of an entire financial asset satisfies the conditions for derecognizing, the difference between the amounts of the following 2 items shall be recorded into the profits and losses of the current period:

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities *(continued)*

(d) Recognition and measurement of transfer of financial assets *(continued)*

(i) The book value of the transferred financial asset;

(ii) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded into the owner's equities

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped, be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period:

(i) The book value of the portion whose recognition has been stopped;

(ii) The sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded into the owner's equities which is corresponding to the portion whose recognition has been stopped.

(e) Impairment of financial assets

(i) Scope and objective evidence for Impairment of financial assets

The group reviewed the carrying amounts of financial assets (other than those at fair value through profit or loss) at each balance sheet day to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. The objective evidence refers to the events which has influence on estimated future cash flow of the financial assets and can be measured reliably after its initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities *(continued)*

(e) Impairment of financial assets *(continued)*

(ii) Test and measurement method for impairment of financial assets

Financial asset is measured on the basis of post-amortization costs

while objective evidence shows an impairment occurred to the financial assets, it's book value shall be written down to estimated future cash flow(excluding the loss of future credits not yet occurred), and the written down shall be recorded into current profits. The estimated future cash flow shall be determined according to the capitalization of the original actual interest rate of the said financial asset, taking into account the value of the relevant guarantee.

An impairment test shall be made on the financial assets with significant single amounts. If any objective evidence shows that it has been impaired, the impairment-related losses shall be recognized and shall be recorded into the profits and losses of the current period. With regard to the financial assets with insignificant single amounts, an independent impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test. Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment. The way of impairment testing and impairment measurement Is disclosed In "note 4(7) receivables".

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(6) Financial assets and financial liabilities *(continued)*

(e) Impairment of financial assets *(continued)*

(ii) Test and measurement method for impairment of financial assets *(continued)*

Financial asset is measured on the basis of costs

While objective evidence shows impairment occurred to financial asset, the amount of the impairment loss shall be measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, such impairment loss is not reversed.

For other long-term equity investments measured on the basis of costs which according to "New Standards"No.2 Long-term Equity Investments, there is no quotation in the active market and whose fair value cannot be measured reliably, and impairment shall be measured comply with the same way above-mentioned.

Available-for-sale financial asset

While objective evidence shows impairment occurred to available-for-sale financial asset, the accumulative losses arising from the decrease of the fair value of the capital reserve which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

(f) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Group.

The consideration received from the issuance of equity instruments net of transaction costs is recognized in share capital and capital reserve.

Consideration and transaction costs paid by the Group for repurchasing its own equity instrument are deducted from shareholders' equity.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(7) Account receivables

(a) measurement standard in provision of bad debt

the Group carry out an inspection, on the balance sheet day, on the carrying amount of the account receivables. Where there is any objective evidence as followings proving that such account receivables has been impaired, an impairment provision shall be made.

(i) A serious financial difficulty occurs to the issuer or debtor;

(ii) The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;

(iii) The debtor will probably go bankrupt or carry out other financial reorganizations;

(iv) Other objective evidences showing the impairment of the account receivables.

(b) measurement method in provision of bad debt

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

An independent impairment test shall be made on the financial assets with significant single amounts and insignificant single amounts but will be risky when they include in a combination of credit risk features.

Account receivables with insignificant single amounts and those has not been impaired upon independent test are divided to a series of combination, and then conduct impairment test.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The Group would impair the carrying amount of the receivables to that present value. All impairment losses are recognized in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(7) Account receivables *(continued)*

(b) measurement method in provision of bad debt *(continued)*

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable figures reflecting present economic conditions.

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 recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

(8) Inventories

(a) Classification of inventory

The inventory of the group comprises raw material, work in process, finished goods, reusable material, spare parts, goods in transportation, etc.

(b) Pricing method of purchase and assumption of inventory

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average and specific identification method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labor costs and an appropriate allocation of production overheads.

(c) Amortization of reusable material

Reusable materials such as low-value consumables, packaging materials and other reusable materials are amortized in full when received for use, in proportion to the amount consumed or in two equal installments when they are first used and when they have been used up) depending on their nature. The amounts of the amortization are included in the cost of the related assets or profit or loss.

(d) The Group maintains a perpetual inventory system.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(8) Inventories *(continued)*

(e) Recognition and measurement of provision

On balance sheet day, the inventories shall be measured whichever is lower in accordance with the cost and the net realizable value.

Net realizable 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. including: as to inventory for sales such as finished products, commodities and tradable material, Net realizable value is the estimated selling price in the normal course of business less the estimated expenses and related taxes necessary to make the sale; as to inventory of which processing is required before selling, Net realizable 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.; as to inventory held for contract of sales or service rendering, net realizable value is calculated on the basis of contractual price. If held inventory is more than amounts prescribed, Net realizable value of the excessive inventory is calculated on the basis of the general selling price.

Except spare parts, any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. Provision for diminution of spare parts is calculated according to the actual situation and the estimation of the management.

On balance sheet day, if cost of the inventory is higher than net realizable value, provision for diminution shall be recorded into profits or losses of the current period. If the factors which lead to the written-down of Inventory previously disappear, the written-down, which is no more than the amount accrued previously, shall be resumed and recorded into profits or losses of the current period.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Long-term equity investments

(a) Initial Measurement

For the long-term equity investment in subsidiaries arose from common control enterprise, the Group based on the date of common control to recognize the share of book value of the shareholders' equity of subsidiaries as the initial investment costs of the long-term investments. The difference of the initial investment costs of the long-term investment and the book value of the consideration would adjust to the share premium (or capital premium) in the capital reserve and if the share premium (or capital premium) in the capital reserve insufficient to set off such amount, the insufficient part would adjust to the retained earnings The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment and legal services, be recorded into the profits and losses at the current period. The bonds issued for a business combination or the handling fees, commissions and other expenses for assuming other liabilities shall be recorded into the amount of initial measurement of the bonds or other debts. The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.

For the long-term equity investment in subsidiaries not arose from common control enterprise, the Group recognize the initial investment costs based on the cost at the date of acquisition. The combination costs shall be the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. All relevant direct costs incurred to the acquirer for the business combination shall also be recorded into the cost of business combination. For a business combination realized by two or more transactions of exchange, the combination costs shall be the summation of the costs of all separate transactions. Where any future event that is likely to affect the combination costs is stipulated in the combination contract or agreement, if it is likely to occur and its effects on the combination costs can be measured reliably, the acquirer shall record the said amount into the combination costs. The bonds issued for a business combination or the handling fees, commissions and other expenses for assuming other liabilities shall be recorded into the amount of initial measurement of the bonds or other debts. The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be offset against the surplus of equity Securities; if the surplus is not sufficient, the retained earnings shall be offset.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Long-term equity investments *(continued)*

(a) Initial Measurement *(continued)*

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid. The initial cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement except the unfair value stipulated in the contract or agreement.

The initial cost of a long-term investment obtained by the exchange of nonmonetary assets shall be ascertained in accordance with the Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets.

The initial cost of a long-term equity investment obtained by Destruction of liabilities shall be ascertained in accordance with Accounting Standards for Enterprises No. 12 - Debt Restructuring.

The initial cost of a long-term investment shall be recognized according to its revaluation price while the book value is adjusted in the light of its appraised value in the reformation of its mechanism.

Except the direction cost related to business combination, the initial cost of long-term investment, acquired by other ways, comprise direct acquisition cost, relevant tax and other expenditures necessary.

The cash dividends and profits announced, which Is Included In consideration, shall not be recognized as initial cost of long-term investment but receivables.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Long-term equity investments *(continued)*

(b) Subsequent Measurement

(i) A long-term equity investment of an investing enterprise, which is able to control the invested enterprise. Or does not do joint control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured, are stated at cost method.

The price of a long-term equity investment measured by employing the cost method shall be included at its initial investment cost. If there are additional investments or disinvestments, the cost of the long-term equity investment shall be adjusted. The dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income. The investment income recognized by the investing enterprise shall be limited to the amount received from the accumulative net profits that arise after the invested entity has accepted the investment. Where the amount of profits or cash dividends obtained by the investing entity exceeds the aforesaid amount, it shall be regarded as recovery of initial investment cost.

(ii) A long-term equity investment of the investing enterprise that does joint control or significant influences over the invested entity shall be measured by employing the equity method. If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

After an investing enterprise obtains a long-term equity investment, it shall, in accordance with the attributable to the net profits or losses of the invested entity, recognize the investment profits or losses and adjust the book value of the long-term equity investment.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(9) Long-term equity investments *(continued)*

(b) Subsequent Measurement *(continued)*

The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the distributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies and accounting periods adopted by the invested entity are different from those adopted by the investing enterprise, an adjustment shall be made to the financial statements of the invested entity in accordance with the accounting policies and accounting periods of the investing enterprise and recognize the investment profits or losses. The investing enterprise shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the proportion it shall obtain, and shall reduce the book value of the long-term equity investment correspondingly. An investing enterprise shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially from the net investment made to the invested entity are reduced to zero, unless the investing enterprise has the obligation to undertake extra losses. Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity.

(iii) Definition of the joint control and significant influences

Joint control: The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing he control power over the relevant important financial and operating decisions. Where an investing enterprise and other parties do joint control over an invested entity, the invested entity shall be their joint enterprise.

Significant influences: The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. Where an investing enterprise is able to have significant influences on invested entity, the invested entity shall be its associated entity.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(10) Fixed assets

(a) Fixed assets represent the tangible assets held by the Group for use in the production of goods, service rendering, and renting and operation management purposes with useful lives over one year.

No fixed asset may be recognized unless it simultaneously meets the conditions as follows:

(i) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and

(ii) The cost of the fixed asset can be measured reliably.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labor, capitalized borrowing costs, and any other costs directly attributable to bringing the asset to working condition for its intended use.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(10) Fixed assets *(continued)*

(b) Classification and depreciation method

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to The Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate fixed asset.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual value rates of each class of fixed assets are as follows:

Items	Estimated Useful-lives	Estimated residual value rate
Plants and buildings	10 to 20 years	3% 5%
Machinery and equipment	3 to 15 years	3% 5%
Other fixed assets	2 to 12 years	3% 5%

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

(11) Construction in progress

Construction in progress includes Technical Renovation Project, Technical measures to project, project formed with scattered fixed assets. Construction in progress shall be initially measured according to its cost.

Construction in progress is stated in the balance sheet at cost less impairment losses.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Intangible assets

(a) Initial Measurement

The intangible assets shall be initially measured according to its cost.

(b) Subsequent measurement

(i) Estimation of useful life of intangible assets

Intangible assets owned or controlled by the Group is come from contractual rights or legal rights, and its useful life is no longer than the period stipulated in contract or statutory period; There are evidences show that no significant cost is required to prolong the contract period, then the prolonged contract period shall be recognized as useful life; If there are no contractual life and statutory life, the useful life of intangibles shall be ascertained according to the historical experiences and the suggestions from relevant experts. An intangible asset is regarded as having an indefinite useful life and is not amortized when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for The Group.

(ii) Check of useful life

At the end of any fiscal year, The Group checks useful life and the amortization method of intangible assets, and adjust it when necessary

(iii) Amortization

For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortized on the straight-line method over its estimated useful life. The respective amortization periods for each intangible asset are as follows:

Items	Amortization period
Land using rights	50 years
Acquired software	3 to 10 years
Industrial technology	6 to 10 years

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(12) Intangible assets *(continued)*

(b) Subsequent measurement *(continued)*

(iii) Amortization *(continued)*

For an intangible asset with infinite useful life, the impairment shall be tested but amortization at the end of every fiscal year. At the end of this year the Group has no intangible assets with infinite useful life.

(13) Expenditures on research and development

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously:

(a) It is feasible technically to finish intangible assets for use or sale;

(b) It is intended to finish and use or sell the intangible assets;

(c) The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;

(d) It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;

(e) The development expenditures of the intangible assets can be reliably measured.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(14) Long-term deferred expenses

Long-term deferred expenses refer to the incurred expenses that amortized in current period and the periods following, mortised period is longer than one year. Long-term deferred expenses are initially measured according to its actual payment and amortized based on line-method during the amortized periods.

(15) Impairment of assets

(a) The following assets subject to this article: long-term investment (excluding investment without joint control or significant influences over Invested enterprise, and the investment, of which the fair value can't be measured reliably and no quoted price in active market), investment real estate, fixed assets, construction in progress, construction material, intangible assets (including capitalized expenditures), asset group, combination of assets group, goodwill, etc.

(b) Recognition of probable impairment

On balance sheet day, the group made a judgment on whether or not the impairment exists among all assets. At the end of every fiscal year, impairment testing must be conducted among good will and intangible assets with infinite useful life.

There may be an impairment of assets when one of the following signs occurs:

(i) The current market price of assets falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;

(ii) The economic, technological or legal environment in which The Group position, or the market where the assets is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;

(iii) The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of The Group for calculating the expected future cash flow of the assets will be affected, which will result in great decline of the recoverable amount of the assets;

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(15) Impairment of assets *(continued)*

(b) Recognition of probable impairment *(continued)*

(iv) Any evidence shows that the assets have become obsolete or have been damaged substantially;

(v) The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;

(vi) Any evidence in the internal report of The Group shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the excepted amount, etc.; and

(vii) Other evidence indicates that the impairment of assets has probably occurred.

(c) Measurement of the recoverable amount

Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the basis of the price as stipulated in the sales agreement in the fair transaction minus the disposal expenses directly attributable to the asset. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset.

(d) Determination of Losses of Asset Impairment

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be written down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, provision for the asset impairment shall be made accordingly.

After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual useful life of the asset. Once any loss of asset impairment is recognized, it shall not be switched back in the future accounting periods

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(15) Impairment of assets *(continued)*

(e) Recognition of Group Assets and Treatments of Impairment

Where there is any evidence indicating a possible impairment of assets, The Group shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs.

The recognition of an asset group shall base on whether the main cash inflow generated by the asset group is independent of those generated by other assets or other group assets. Simultaneously, when recognizing an asset group, The Group shall take into consideration how its managers manage the production and business activities (for example, according to the production lines, business varieties or according to the regions or areas), and the ways of decision-making for the continuous use or disposal of the assets, etc.

Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter' assets and good will are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and good will that have been apportioned to), it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the carrying value of the headquarter' assets and good will which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the good will excluded. The charges against the carrying value of the assets above shall be treated as the impairment loss of the assets (including the good will) and recorded as profit or loss for the current period. The carrying value of each asset after charging against shall not be lower than the highest one of the following three: the net amount of the fair value of the asset minus the disposal expenses (if determinable), the current value of the expected future cash flow of the asset (if determinable), and zero.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(15) Impairment of assets *(continued)*

(f) Good will

Good will of the Group formed by merger of enterprises shall be subject to an impairment test at least at the end of each year. The Good will shall, together with the related asset group or combination of asset group, be subject to the impairment test. When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the good will formed by merger of enterprises to the relevant asset groups by a reasonable method. Where it is difficult to do so, it shall be apportioned to the relevant combinations of asset groups. The related asset group or combination of asset groups shall be the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger, and shall be smaller than the reporting segments

When making an impairment test on the relevant asset groups or combination of asset groups containing good will, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, The Group shall first make an impairment test on the asset groups or combinations of asset groups not containing good will, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss. Then The Group shall make an impairment test of the asset groups or combinations of asset groups containing good will, and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the good will apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the good will, and treat them according to the method mentioned above.

(16) Borrowing costs

(a) Recognition and Measurement:

The borrowing costs include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange difference on foreign currency translation concerning borrowings. Borrowing costs incurred directly attributable to the acquisition, construction of a qualified asset are capitalized as part of the cost of the asset. Except for the above, other borrowing costs are recognized as financial expenses in the income statement when incurred.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(16) Borrowing costs *(continued)*

(a) Recognition and Measurement: *(continued)*

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(i) The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

(ii) The borrowing costs has already incurred; and

(iii) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(b) capitalization period

For the borrowing costs incurred before a qualified asset under acquisition, construction or production is ready for the intended use or sale shall be capitalized at the incurred amount when they are incurred, and shall be recorded into the costs of the asset eligible for capitalization; those incurred after a qualified asset under acquisition and construction or production is ready for the intended use or sale shall be recognized as expenses on the basis of the incurred amount when they are incurred, and shall be recorded into the profits and losses of the current period. Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended.

(c) Calculation of borrowings:

During the period of capitalization, the to-be-capitalized amount of interests (including the amortization of discounts or premiums) in each accounting period shall be determined according to the following provisions:

(i) As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(16) Borrowing costs *(continued)*

(c) Calculation of borrowings: *(continued)*

(ii) Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, The Group shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

(d) Recognition of the interest rates:

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

(17) Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, The Group has joined a defined contribution basic retirement scheme for the employees arranged by local Labor and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organization. The contributions are charged to profit or loss or are recognized as cost of assets on an accrual basis. When employees retire, the local Labor and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. The Group does not have any other obligations in this respect.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(17) Employee benefits *(continued)*

(b) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, The Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance and injury insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rate(s) based on the employees' salaries. The contributions are recognized as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When The Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognized in profit or loss when both of the following conditions have been satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly;

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(18) Contingent liabilities

(a) Recognition

The obligation, pertinent to Contingencies such as guarantee, product quality assurance, downsizing, loss contracts, reorganization, disposal of fixed assets, shall be recognized as estimated debts when the following conditions are satisfied simultaneously:

(i) That obligation is a current obligation of the enterprise;

(ii) It is likely to cause any economic benefit to flow out of the group as a result of execution of the obligation;

(iii) The amount of the obligation can be measured in a reliable way.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(18) Contingent liabilities *(continued)*

(a) Recognition *(continued)*

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, 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 can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(b) Measurement

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, an enterprise shall fully take into consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash. An enterprise shall check the book value of the estimated debts on the balance sheet day. If there is any exact evidence indicating that the book value cannot really reflect the current best estimate, the group shall adjust the book value in accordance with the current best estimate.

(19) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and meet the following conditions respectively:

(a) Sale of goods

Revenue from sale of goods is recognized when all of the general conditions stated above and following conditions are satisfied:

- The significant risks and rewards of ownership of goods have been transferred to the buyer
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.
- Relevant economic benefits is likely to flow in the group
- relevant cost which occurred or will occur can be measured reliably

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(19) Revenue recognition *(continued)*

(b) Revenue from service rendering

When the outcome of a transaction involving the service rendering can be estimated reliably, revenue from the service renderings shall be recognized in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

Where the outcome of service rendering cannot be estimated reliably, the revenue and cost shall be treated as following respectively:

1 if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost;

2 if the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss and no service revenue is recognized.

(c) Revenue from abalienating use right of assets

(i) principle of recognition:

The revenue from abalienating use right of assets consists of interest revenue and royalty revenue.

Revenue from abalienating use right of assets may be recognized when the following conditions are met simultaneously:

The relevant economic benefits are likely to flow into the enterprise;

The amount of revenues can be measured in a reliable way.

(ii) Method of recognition:

- The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate; or

The amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(20) Leases

(a) Classification of Leases

The Group classifies a lease as a financing lease or an operating lease on the lease beginning date.

(b) Standard of recognition:

Where a lease satisfies one or more of the following criteria, it shall be recognized as a finance lease:

(i) The ownership of the leased asset is transferred to the lessee when the term of lease expires;

(ii) The lessee has the option to buy the leased asset at a price which is expected to be far lower than the fair value of the leased asset at the date when the option becomes exercisable. Thus, on the lease beginning date, it can be reasonably determined that the option will be exercised;

(iii) Even if the ownership of the asset is not transferred, the lease term covers the major part of the use life of the leased asset;

(iv) In the case of the lessee, the present value of the minimum lease payments on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date; in the case of the leaser, the present value of the minimum lease receipts on the lease beginning date amounts to substantially all of the fair value of the leased asset on the lease beginning date;

(v) The leased assets are of a specialized nature that only the lessee can use them without making major modifications. Operating lease refer to a lease other than a financing lease.

(c) Accounting Treatments in Finance Leases

(i) Accounting Treatments of Lessees:

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs such as commissions, attorney's fees and traveling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded into the asset value of the current period.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(20) Leases *(continued)*

(c) Accounting Treatments in Finance Leases *(continued)*

(i) Accounting Treatments of Lessees: *(continued)*

When calculates the present value of the minimum lease payments, adopt the interest rate provided in the lease agreement as the discount rate.

The lessee shall adopt the effective interest rate method to calculate and recognize the financing charge in the current period.

In calculating the depreciation of a leased asset, the lessee should adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the lessee.

If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

(ii) Accounting Treatments of leasers

On the beginning date of the lease term, recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

The leaser shall calculate the financing income at the current period by adopting the effective interest rate method.

Contingent rents shall be recorded into the profits and losses of the period in which they actually arise.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(20) Leases *(continued)*

(d) Accounting Treatments in Operating Leases

The rents from operating leases shall be recorded by the leasee and leaser in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred to a leaser and lessee shall be recorded into the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(21) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to The Group at no consideration except for the capital contribution from the government as a shareholder of The Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

(a) Recognition

No government grants may be recognized unless the following conditions are met simultaneously as follows:

(i) The Group can meet the conditions for the government subsidies;

(ii) The Group can obtain the government subsidies.

(b) Measurement

(i) If government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(21) Government grants *(continued)*

(b) Measurement *(continued)*

(ii) Government grant related to an asset is recognized initially as deferred income and amortized to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates The Group for expenses to be incurred in the subsequent periods is recognized initially as deferred income and recognized in profit or loss in the same periods in which the expenses are recognized. A grant that compensates The Group for expenses incurred is recognized in profit or loss immediately.

(iii) If it is necessary to refund any government grants which have been recognized, it shall be treated respectively in accordance with the circumstances as follows:

If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses; and

If there is no deferred income concerned to the government grants, it shall be directly included in the current profits and losses.

(22) Income tax

Current tax expense and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax expense is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

(a) the group' income tax is calculated on the basis of balance sheet liability method.

(b) Temporary Difference

The "temporary difference" shall refer to the difference between the carrying amount of an asset or liability and its tax base. As for an item that has not been recognized as an asset or liability, if its tax base can be determined in light of the tax law, the difference between the tax base and its carrying amount shall also be a temporary difference. Pursuant to the effect of temporary differences on taxable amounts during future periods, they can be classified into taxable temporary differences and deductible temporary differences.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(22) Income tax *(continued)*

(c) Recognition of deferred income tax assets

As for any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax assets shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

Where the deductible temporary difference related to the investments of the subsidiary companies, associated enterprises and joint enterprises can meet the following requirements simultaneously, The Group shall recognize the corresponding deferred income tax assets:

(i) The temporary differences are likely to be reversed in the expected future;

(ii) It is likely to acquire any amount of taxable income tax that may be used for making up the deductible temporary differences.

(d) Deferred income tax liabilities

Except for the deferred income tax liabilities arising from the following transactions, an enterprise shall recognize the deferred income tax liabilities arising from all taxable temporary differences:

(i) The initial recognition of good will; or the initial recognition of assets or liabilities arising from the following: The transaction is not business combination, and at the same time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

(ii) The taxable temporary differences related to the investments of subsidiary companies, associated enterprises and contractual enterprises: The investing enterprise can control the time of the reverse of temporary differences; and the temporary differences are unlikely to be reversed in the excepted future. On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(22) Income tax *(continued)*

(e) Impairment:

The carrying amount of deferred income tax assets shall be reexamined on balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

(23) Segment reporting

Segment information is presented in respect of The Group's business and geographical segments. A business segment is a distinguishable component of The Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component. A geographical segment is a distinguishable component of The Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

The group's segment report is principally prepared in terms of business.

(24) Consolidated financial statements

(See Note 6).

(25) Significant changes of accounting policies and estimates:

(a) The changes of accounting policies

In terms of the requirement of document (cai kuai han [2008] no. 60)and "interpretation of accounting standards for business enterprises (2008)", production safety expenses recognized in the reserve fund in the year of 2007 is adjusted by retrospective adjustment method. Due to that, the beginning balance of long-term payables is decreased by RMB11 million and the beginning balance of Surplus reserves is increased by RMB11 million; the beginning balance of deferred income tax asset is decreased by RMB3 million and the deferred income tax expense of 2007 is increased by RMB3 million. As a result of above adjustment, the beginning balance of shareholders equity is totally increased by RMB8 million.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(25) Significant changes of accounting policies and estimates: *(continued)*

(b) The changes of accounting estimates

From 1 January 2008, on the new Enterprise Income Tax Law issued and implemented which has the following new requirements for the minimum term of depreciation and acceleration of depreciation for fixed assets of the company as follows:

	Item	Old Enterprise Income Tax Law	new Enterprise Income Tax Law
Minimum depreciation term of fixed assets	Electronic equipment	Minimum term of depreciation is 5 years	Minimum term of depreciation is 3 years
	Transportation vehicles other than aircraft, trains and ships	Minimum term of depreciation is 5 years	Minimum term of depreciation is 4 years
Acceleration of depreciation of fixed assets		Accelerated depreciation is applicable to machines or equipment which are key to the facilitation of the technology development, environmental protection and investment projects which are encouraged by the PRC government, and machines or equipment that are exposed to frequent vibration, intensive use or strong corrosion such as acid and alkaline. Shortening of depreciation term is not permitted.	Shortening of depreciation term is applicable to fixed assets which require accelerated depreciation due to technology advances, fast renewal and replacement by new products and exposure to frequent vibration or strong corrosion; provided that the minimum depreciation term shall not lower than 60% of the requisite depreciation term. Alternatively, the double declining balance method

(Expressed in Rmb million unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

(25) Significant changes of accounting policies and estimates: *(continued)*

(b) The changes of accounting estimates *(continued)*

In accordance with the requirement under the new Enterprise Income Tax Law and take the actual situation of the Group into consideration, the Group has decided, from 1 January 2008 on, made the following accounting estimate adjustments in term of depreciation of the following fixed assets of the group. The adoption of the minimum depreciation period for electronic equipment and transportation vehicles newly acquired since 2008, and the adoption of shortening of depreciation period for machines or equipment which are exposed to frequent vibration and intensive use as stipulated by the new Enterprise Income Tax Law. This change of accounting estimation has been approved by the 27th meeting of the 4th session of the board of directors of the group. The details of the adjustments are listed as following:

	Categorization in accounting	Old depreciation term *(years)*	new depreciation term *(years)*
New electronic equipment added in 2008	Conductor facilities	15	3
	Power equipment	11	3
	Tools and apparatus	7	3
	Management tools	5	3
New transportation facilities added in 2008	Transportation facilities	10	4
Facilities exposed to vibration or intensive use	Power equipment	11	6.6
	Tools and apparatus	7	4.2
	Machinery facilities	10	6

The accounting estimate adjustments have no effect on the principal business operations of the Group. The depreciation for this period increased by RMB163 million.

5. TAXATION

(1) Value added tax (VAT)

The Group is VAT General taxpayer the VAT payables are output deductible tax minus input tax during the current period. The VAT rate is 17% or 13%. Angang Wuhan is a small-scale taxpayer, VAT rate is 6%.

(Expressed in Rmb million unless otherwise indicated)

5. TAXATION *(continued)*

(2) Business tax

Business tax rate: 5%

(3) City construction and maintenance tax, education surcharge and local education surcharge

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

(4) Income tax

The income tax rate applicable to The Group for the year is 25% (2007: 33%).

Pursuant to Liao Cai yu (2008) No. 876 issued by the Finance bureau of Liaoning province and Liao zheng (2008) No. 233 issued by the government of Liaoning province on 18 December 2008, taxation payment of Bayuquan branch was directly paid to the local taxation bureau of Yingkou city.

(5) Others

In accordance with prevalent taxation laws of PRC

6. CONSOLIDATED FINANCIAL STATEMENTS

(1) Consolidated scope

(a) Recognition principle:

The scope of consolidation of consolidated financial statements shall be determined on the basis of control power. The term "control" refers to the power of an entity to govern the financial and operating policies of another entity so as to obtain benefits from it. The company consolidated all entity in which the company holds more than 50% share capital or even less than 50% but essentially control its financial and operation activities.

(b) Particulars of the subsidiary as at 31 December 2008 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
Angang Steel Distribution (Wuhan) Company Limited	Limited liability company	PRC	Rmb60 million	100%	Not yet commence business

6. CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(1) Consolidated scope *(continued)*

(c) The change of the consolidation scope

On 26 June 2008 The Group invested RMB60 million to establish Angang Steel Logistics (Wuhan) Co., Ltd ("Angang Wuhan") which registered capital is RMB60 million. The Group held 100% of its registered capital and the condition of investment in Angang Wuhan. From 26 June 2008 Angang Wuhan is included in the consolidated financial statements of the Group.

(2) Preparation of consolidated financial statements

(a) Principle preparation of consolidated financial statements

The consolidated financial statements shall, on the basis of the financial statements of the parent company and its subsidiaries, be prepared by the parent company after the long term equity investments in the subsidiaries are adjusted through the equity method. The long-term equity investments of a parent company in its subsidiaries shall be offset against its portion of owner's equities in the subsidiaries, after the effects of the internal transactions and the items of credits and debts between the parent company and its subsidiaries are offset. Minority interest is presented separately in the consolidated balance sheet within equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

(b) Accounting treatment of newly increased subsidiary or disposal of a subsidiary

If the parent company has a new subsidiary due to business combination under a same control during a reporting period, it shall adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. If it is not under a same control the parent company shall not adjust the beginning balance in the consolidated balance sheets when preparing consolidated balance sheets. If the parent company disposes of a subsidiary within a reporting period, when it prepares consolidated balance sheets, it shall not adjust the beginning balance in the consolidated balance sheets.

If the parent company obtained the subsidiaries under the same control, the sales, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated Profit statements; If it is not under the same control, the sales, expenses and profits of the subsidiaries from the acquisition date to the end of the reporting are not included in the parent company's consolidated profit statements. If the parent company disposes of a subsidiary within reporting period, the sales, expenses and profits of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent company's consolidated profit statements.

(Expressed in Rmb million unless otherwise indicated)

6. CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(2) Preparation of consolidated financial statements *(continued)*

(b) Accounting treatment of newly increased subsidiary or disposal of a subsidiary *(continued)*

If the parent company obtained the subsidiaries under the same control, the cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements; If it is no under the same control, the cash flow of the subsidiaries from the acquisition date to the end of the reporting period are included in the parent company's consolidated cash flow statements. If the parent company disposes of a subsidiary within reporting period, the cash flow of the subsidiaries from the beginning of the reporting period to the disposal date are included in the parent's consolidated cash flow statements.

(c) The differences of accounting policies between parent company and its subsidiary

There are no differences of accounting policies between parent company and it subsidiary.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) CASH AT BANK AND ON HAND

	31 December 2008			31 December 2007		
	Original Currency	**Exchange rate**	**Rmb/Rmb Equivalent**	Original Currency	Exchange rate	Rmb/Rmb Equivalent
Cash on hand RMB	**1**		**1**	1		1
HK Dollars						
Subtotal1	**1**		**1**	1		1
Cash at bank RMB	**2,973**		**2,973**	7,672		7,672
HK Dollars				64	0.936	60
Subtotal1	**2,973**		**2,973**	7,736		7,732
Total			**2,974**			7,733

Note: The ending balance decreases by 62% comparing with beginning balance due to amount of 5,845 million which included in beginning balance has been invested in Bayuquan project.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(2) BILLS RECEIVABLE

(a) Analysis of bills receivable

	Ending balance	Beginning balance
bank acceptance bills	**2,583**	6,083
total	**2,583**	6,083

Note: The ending balance of bills receivable decreases by 58% comparing beginning balance due to lower product price at the year end and clearing account payable using bank acceptance bills.

(b) All bills receivable held by the Group are bank acceptance bills which have not been pledged.

(c) For the current year, there is no acceptance bills transferred to accounts receivable due to non-performance of the issuers.

(d) Outstanding undue endorsed and discounted bills

issuer	Issuing date	Expire date	Amount	notes
Zhejiang ouhua ship manufactory Ltd, etc 50	3 July 2008 to 27 November 2008	2 January 2009 to 26 May 2009	418	

(e) No amount due from shareholders who hold 5% or more of the voting rights of the group is included in the above balance of bills receivable.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(3) ACCOUNTS RECEIVABLE

(a) Accounts receivable by risk type:

	31 December 2008				
	Book value	(%)	Bad debt Provision	Carrying value	Percentage of bad debt provision
Single significant accounts receivable	1,119	91		1,119	
Insignificant single amounts but will be risky when they include in a combination of credit risk features.					
Other not significant accounts receivable	116	9		116	
Total	1,235	100		1,235	

	31 December 2007				
	Book value	(%)	Bad debt Provision	Carrying value	Percentage of bad debt provision
Single significant accounts receivable	839	90		839	
Insignificant single amounts but will be risky when they include in a combination of credit risk features					
Other not significant accounts receivable	93	10		93	—
Total	932	100		932	

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(3) ACCOUNTS RECEIVABLE *(continued)*

(b) The aging analysis of Accounts receivable is as follows:

	31 December 2008			31 December 2007		
	Book value	**(%)**	**Bad debt Provision**	Book value	(%)	Bad debt Provision
Within 1 year (inclusive)	**1,231**	**100**		928	100	—
1 and 2 years (inclusive)	**1**			1		
2 and 3 years (inclusive)	**1**			1		
Over 3 years	**2**			2		
Total	**1,235**	**100**		932	100	

Note: (i) The ending balance increased by 33% comparing beginning balance due to increase of Accounts receivable from exported product and Accounts receivable to Angang Group holding.

(iii) The management considers that major accounts receivable can be recovered, and the debtors have repayment capabilities, so proportion of bad debt provision is low.

(c) At 31 December 2008, the total amounts of accounts receivable due from the group's top five debtors are as follows:

debtor	**Amount**	**Percentage to total** *(%)*	**Due within**
Angang Trade	643	52	One month
China Petroleum Material Co.	101	8	One month
Angang Holding	97	8	One month
China Petroleum Chemical Co. Ltd	79	7	Two month
FAW Auto Co.	63	5	Four month
Total	983	80	

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(3) ACCOUNTS RECEIVABLE *(continued)*

(d) There is amount of 97 million in ending balance which is due from Angang holding (holding 67.30% of the group), which account for 8% of accounts receivable, that related party transaction disclosed in Note: 9 (3)(g)

(e) There is amount of 721 million in ending balance which is due from other related parties, which account for 58% of accounts receivable, that related party transaction disclosed in Note: 9 (3)(g).

(4) PREPAYMENTS

(a) The aging analysis of prepayments

	31 December 2008		31 December 2007	
	Amount	**(%)**	Amount	(%)
Within 1 year (inclusive)	**1,579**	**58**	6,597	99
1 and 2 years (inclusive)	**1,152**	**42**	3	1
Total	**2,731**	**100**	6,600	100

Note: (i) The prepayments over one year are prepaid to Angang Group International Trade Corporation for importing equipment and spare parts.

(ii) The ending balance decreased by 59% comparing beginning balance due to clearance of prepayment for Bayuquan project which are completed in large part and reduction of expenditure in prepayment at the end of this year.

(b) Single prepayment which is 30% or above of ending balance

Debtors	**Reason for prepayment**	**31 December 2008**	31 December 2007
Angang Trade	equipment and raw materials	**1,692**	3,657
Percentage to total (%)		**62**	55

(c) No amount due from shareholders who hold 5% or more of the voting rights of the group is included in the above balance of prepayments.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(5) OTHER RECEIVABLES

(a) Other receivables by risk type

	31 December 2008				
	Book value	*(%)*	Bad debt Provision	Carrying value	Percentage of bad debt provision
Single significant other receivables	60	77	—	60	—
Insignificant single amounts but will be risky when they include in a combination of credit risk features.					
Other not significant accounts receivable	18	23	—	18	—
Total	78	100		78	

	31 December 2007				
	Book value	*(%)*	Bad debt Provision	Carrying value	Percentage of bad debt provision
Single significant other receivables	60	91	—	60	—
Insignificant single amounts but will be risky when they include in a combination of credit risk features.					
Other not significant accounts receivable	6	9	—	6	—
Total	66	100		66	

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(5) OTHER RECEIVABLES *(continued)*

(b) The aging analysis of other receivables is as follows:

	31 December 2008			31 December 2007		
	Book value	**(%)**	**Bad debt Provision**	Book value	(%)	Bad debt Provision
Within 1 year (inclusive)	**18**	**23**		6	9	—
1 and 2 years (inclusive)				10	15	—
2 and 3 years (inclusive)	**10**	**13**		50	76	
Over 3 years	**50**	**64**				
Total	**78**	**100**		66	100	

(c) At 31 December 2008, the total amount of other receivables due from the Company's top five debtors were as follows:

	31 December 2008	31 December 2007
Amount *(Rmb million)*	**75**	65
Years past due	**1-4 years**	1-3 years
Percentage to total *(%)*	**96**	98

Note: As at 31 December 2008, the proposed investment to Heilongjiang Longmei Mining Group amounting Rmb60 million (2007: Rmb60 million). The re-organization of Heilongjiang Longmei Mining Group is still under way. Pursuant to the "Investment Re-arrangement Agreement" and the informal communication between the Company and Longmei Mining Group Organizing Office, the investment can offset the coal purchase amount if the re-organization could not succeed as scheduled. As result, the proposed investment is free from impairment risk.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(5) OTHER RECEIVABLES *(continued)*

(d) Single other receivables with significant ending balance

debtor	amount	(%)	Reasons of the receivables
Longmei Mining Group	60	77	proposed investment
Total	60	77	

(e) No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

(6) INVENTORIES

(a) An analysis of inventories by types

		Ending balance		
	Book value	therein: capitalized borrowing cost	Provision for decline of inventory value	Carrying value
Raw materials	4,284		978	3,306
Work in progress	3,866		644	3,222
Finished goods	1,234		382	852
Consumables	1,084			1,084
Spare parts	1,906			1,906
Materials in transit	2			2
Total	12,376		2,004	10,372

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(6) INVENTORIES *(continued)*

(a) An analysis of inventories by types *(continued)*

		Beginning balance		
	Book value	therein: capitalized borrowing cost	Provision for decline of inventory value	Carrying value
Raw materials	2,602			2,602
Work in progress	1,736			1,736
Finished goods	1,861			1,861
Consumables	887		39	848
Spare parts	1,674		36	1,638
Materials in transit	16			16
Total	8,776		75	8,701

(b) An analysis of provision for diminution in value of inventories is as follows:

			Decline during the year			
	Opening Balance	Provision Made for The year	Written back during the year	Written off During the year	Total	Closing Balance
Raw materials		978				978
Work in progress		644				644
Finished goods		382				382
Consumables	39			39	39	
Spare parts	36	38		74	74	
Materials in transit						
Total	75	2,042		113	113	2,004

Note: Due to the increase of cost of steel product and decline of product price, realizable value of Finished goods and relevant Raw materials is lower than recoverable value, so the provision for loss on decline in value of inventories is made.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(6) INVENTORIES *(continued)*

(c) There is no inventories used for debt guarantee at the end of the year.

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Closing balance	opening balance
Available-for-sale equity instrument	45	271
Total	45	271

Note: The closing balance decreased by 83% due to the Company subscribed 10 million A share common stock of Zhuzhou Smelter Company Ltd through non-public offering. Market value of the stock is 271 million at the end of last year. (Rmb27.13 per share) Market value of the stock is 45 million at the end of the year. (Rmb4.49 per share)

(8) LONG-TERM EQUITY INVESTMENTS

(a) Analysis of the movement of long-term equity investment

	Opening balance	Increase of the year	Reduction of the year	Closing balance
Investment in jointly controlled enterprises	825	48	9	864
Investment in associates	50	1,340	2	1,388
Other equity investment	10			10
Less: Provision for impairment of long-term equity investment				
Total	885	1,388	11	2,262

Note: The closing balance increased by 156% due to investment of 315 million to Angang finance in June and 975 million to Tianjin Tiantie in December.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(8) LONG-TERM EQUITY INVESTMENTS *(continued)*

(b) Analysis of investment to jointly controlled enterprises and associates

(i) Investment in jointly controlled enterprises

Name Of investee	Balance Opening	Addition Of the year	Reduction Of the year	Closing balance	Registration Place	Business nature
ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	548	39		587	Dalian	Steel processing
ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited (formally "ANSC-Xinchuan", "ANSC-Dachuan")	190	1		191	Dalian	Steel processing and sale
Changchun FAM Steel Processing and Distribution Company Limited ("Changchun FAM")	46	8		54	Changchun	Steel production processingand service
ANSC-TKS Changchun Steel Logistics Co., Ltd. ("TKAS-SSC")	41		9	32	Changchun	Steel processing and sale
Total	825	48	9	864		

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(8) LONG-TERM EQUITY INVESTMENTS *(continued)*

(b) Analysis of investment to jointly controlled enterprises and associates *(continued)*

(i) Investment in jointly controlled enterprises *(continued)*

Name Of investee	Registered capital	The company's shareholding	Voting right	Total Net asset at the end of the year	Total revenue the current year	Net profit of the current year
ANSC-TKS	USD132 million	50%	50%	1,227	2,663	99
ANSC-Dachuan	RMB380 million	50%	50%	382	37	2
Changchun FAM	RMB90.374 million	50%	50%	104	583	11
TKAS-SSC	USD12 million	50%	50%	65	154	(17)

(ii) Investment in associates

Name Of investee	Balance Opening	Addition Of the year	Reduction Of the year	Closing balance	Registration Place	Business nature
TKAS (Changchun) Tailored Blanks Ltd ("TKAS")	37	3		40	Changchun	Tailored blanks processing
Angang Shenyang Steel Product Processing and Distribution Company Limited ("Angang Shenyang")	13	5	1	17	Shenyang	Steel processing and logistic
Angang Entity Group Steel Packing Belt Co. Ltd ("Angang steel belt")		11	1	10	Anshan	Packaging steel belt and steel processing
Angang Finance Corporation		346		346	Anshan	Deposit finance
Tianjing Tantie		975		975	Tianjin	Steel processing
Total	50	1,340	2	1,388		

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(8) LONG-TERM EQUITY INVESTMENTS *(continued)*

(b) Analysis of investment to jointly controlled enterprises and associates *(continued)*

(ii) Investment in associates *(continued)*

Name Of investee	Registered capital	The company's shareholding	Voting right	Total Net asset at the end of the year	Total revenue the current year	Net profit Of the current year
TKAS	USD10 million	45%	45%	87	130	7
Angang Shenyang	RMB48 million	30%	30%	49	693	
Angang steel belt	RMB35.73 million	30%	30%	31		(4)
Angang finance	RMB1,000 million	20%	20%	1,852	414	277
Tianjing tantie	RMB3,700 million	34.51%	34.51%	2,426	839	(399)

(c) Long-term equity investment accounted for under equity method

Name Of investee	Initial investment cost	Opening balance	Addition (Reduction) Of investment cost	Addition (Reduction) Of Investee Equity (excluding Cash dividend)	Unrealized inter-company Profit adjustment	Cash Dividend received	Balance at the end of the year
ANSC-TKS	533	548		49	10		587
ANSC-Dachuan	190	190		1			191
Changchun FAM	45	46		6	(2)		54
TKAS-SSC	48	41		(9)			32
TKAS	37	37		3			40
Angang Shenyang	14	13			(5)	1	17
Entity packing	11		11	(1)			10
Angang finance	315		315	31			346
Tianjing tantie	975		975				975
Total	2,168	875	1,301	80	3	1	2,252

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(8) LONG-TERM EQUITY INVESTMENTS *(continued)*

(c) Long-term equity investment accounted for under equity method *(continued)*

Note:

(i) The share capital invested in Angang Steel Belt by the company has been verified by Liaoning yongxingda CPAs firm and the capital verification report issued on 31 January 2008. As at 31 January 2008, the registered capital of Angang Steel Belt has been fully paid up in according to its Articles of Association

(ii) The share capital invested in Angang Finance by the company has been verified by Anshan zhongkehua CPAs firm and the capital verification report issued on 27 June 2008. As at 27 June 2008, the registered capital of Angang Finance hasbeen fully paid up in according to its Articles of Association

(iii) The share capital invested in Tianjin tiantie by the company has been verified by Tianjin southeast CPAs firm and the capital verification report issued on 26 December 2008.

(d) Long-term equity investment accounted for under cost method

Name Of investee	Initial investment cost	Balance at the beginning of the year	Addition of current year	Reduction Of current year	Balance at the end of the year
WISDRI Engineering Research Incorporation Limited ("WISDRI")	10	10			10
Total	10	10			10

(e) Provision for Impairment of long-term equity investment

As at 31 December 2008, there is no indication that carrying value of long-term equity investment is lower than recoverable value.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(9). FIXED ASSETS

(a) Analysis of fixed assets

	Opening balance	Addition of Current year	Reduction of Current year	Balance at the end of the year
Cost				
Buildings and plant	12,165	4,548	28	16,685
Machinery and equipment	30,773	10,164	117	40,820
Others	2,224	776	15	2,985
Total	45,162	15,488	160	60,490
Accumulated depreciation				
Buildings and plant	2,267	829	7	3,089
Machinery and equipment	9,199	3,612	48	12,763
Others	906	333	9	1,230
Total	12,372	4,774	64	17,082
Provision for impairment				
Buildings and plant	14	13	4	23
Machinery and equipment	116	49	38	127
Others	4	2		6
Total	134	64	42	156
Net book value				
Buildings and plant	9,884			13,573
Machinery and equipment	21,458			27,930
Others	1,314			1,749
Total	32,656			43,252

Note: The closing balance increased by 32% due to transferred in from Bayuquan project.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(9). FIXED ASSETS *(continued)*

(b) Fixed assets transferred from construction in progress

Project	Transferred-in date	Amount
Bayuquan project	Mar.-Dec.2008	12,124
New # 4 and 5 furnace	Jan.-Dec.2008	99
continuous rolling line of western district	Jun.2008	212
chemical plant renovation	May.2008	1,064
1450 cold rolling production line	Oct.2008	977
177 seamless petroleum pipeline production	Jun.2008	548
Others	Jan.-Dec.2008	439
Total		15,463

(c) Fixed asset that not in use temporally

	Cost	Accumulated depreciation	Provision for impairment	Net book value
Machinery and equipment	88	66	17	5
Others	23	15	6	2
Total	111	81	23	7

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(9). FIXED ASSETS *(continued)*

(d) The Company's assets pending disposal are set out as follows:

	Book value	Accumulated depreciation	Provision for impairment	Net book value	Estimated disposal time
Large section steel plant	42	23	18	1	Apr.-May.2009
1st melting plant	39	6	32	1	Mar.2009
Chemical plant	30	9	19	2	May-Oct.2009
Cold rolling plant	14	5	8	1	Jun-Dec.2009
Middle plate plant	10	8	1	1	Mar-Dec.2009
Total	135	51	78	6	

(e) Operational leased out fixed asset

Item	Book value	Accumulated depreciation	Provision for impairment	Carrying amount
Buildings	1			1
Total	1			1

(f) Mortgaged fixed assets

The Company has no mortgaged fixed assets at the end of the year.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(9). FIXED ASSETS *(continued)*

(g) Provision for impairment of fixed assets

	Opening balance	Reduction in current year	Provided In current year: Written back	Provided In current year: Written off	Provided In current year: total	Closing balance
Buildings and plant	14	13		4	4	23
Machinery and equipment	116	49		38	38	127
Others	4	2				6
Total	134	64		42	42	156

Note: According to the expert opinion of the asset management departments, the Company made provision for impairment of the fixed assets which can not bring economic benefits to the enterprise, due to technological obsolescence, damage, or other reasons, amounting the difference between the carrying amount and recoverable amount. The recoverable amount was calculated based on estimated net cash flows arising from the normal usage during the estimated useful life and the asset disposal.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(10). CONSTRUCTION IN PROGRESS

(a) Analysis of construction in progress

Projects	Budget	Balance at the Beginning Of the year	Addition Of the year	Transferred to Fixed assets	Other reductions	Balance at the end Of the year	Source of funds	Percentage Of input to budget
Bayuquan project	33,800	8,421	12,178	12,124		8,475	Operating fund bank loan rights issue fund	73%
New 4#, 5#furnace	2,302	146	790	99		837	Operating fund	88%
chemical plant renovation	2,589	717	657	1,064		310	Operating fund	86%
1450 cold rolling production line	2,900	34	1,065	977		122	Operating fund bank loan	93%
Cold rolling silicon steel line	2,800	134	1,133			1,267	Operating fund	65%
3# casting machine	830		16			16	Operating fund	2%
Seamless 177 petroleum pipeline	817	108	460	548		20	Operating fund	75%
Wire production line renovation	583		58			58	Operating fund	10%
Oxygen producer	518	11	251			262	Operating fund	75%
Central power station	350	9	133			142	Operating fund	47%
Continuous rolling line of western district	253	129	88	212		5	Operating fund	86%
3rd furnace renovation	249	5	138			143	Operating fund	63%
Subtotal		9,714	16,967	15,024		11,657		
Others		271	1,058	439		890	Operating fund, bank loan	
Total		9,985	18,025	15,463		12,547		

Note: Operating funds refer to non-specified loans and funds arising from normal business operations which are used in project expenditure.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(10). CONSTRUCTION IN PROGRESS *(continued)*

(b) Capitalized borrowing cost

Projects	Capitalization rate	Opening balance	additions	Transferred to Fixed assets	Other Reductions	Closing Balance
Bayuquan project	6.64%	520	518	349		689
New 4#, 5#furnace	6.33%	3	34			37
Chemical plant renovation	6.33%	2	32	17		17
1450 cold rolling production line	6.37%	1	39	34		6
Cold rolling silicon steel line	6.33%	8	78			86
Seamless 177 petroleum pipeline	6.33%		13	12		1
Wire production line renovation	6.33%		3			3
oxygen producer	6.33%	3	15			18
Central power station	6.33%		4			4
Western district continuing rolling and tailoring line	6.33%		4	4		
3rd furnace renovation	6.33%		5			5
Other	6.33%	23	39	61		1
Total		560	784	477		867

(c) Provision for impairment of construction in progress

As at 31 December 2008, there is no indication that carrying value of construction in progress is lower than recoverable value.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(11). CONSTRUCTION MATERIAL

	At the end of the year			At the beginning of the yeat		
	Book value	Provision for impairment	Net value	Book value	Provision for impairment	Net value
Bayuquan project	4,998	—	4,998	6,074	—	6,074
New 4#, 5#furnace	24		24	91		91
chemical plant renovation	82		82	189		189
1450 cold rolling production line	96		96	570		570
cold rolling silicon steel line	645		645	37		37
3# casting machine	1		1			
Seamless 177 petroleum pipeline	60		60	51		51
Wire production line renovation						
oxygen producer	143		143			
central power station	26		26			
3rd furnace renovation	18		18			
other	149		149	118		118
Total	6,242		6,242	7,130		7,130

Note: As at 31 December 2008, there is no indication that carrying value of construction material is lower than recoverable value.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(12). INTANGIBLE ASSETS

(a) Analysis of intangible assets

	Initial cost at the beginning Of the year	Opening balance	Additions				
			For the year	Decrease for the year	Charge for the year	Accumulated amortization	Closing balance
Land use rights	5,854	5,552	1,327		140	442	6,739
Acquired software	7	3	3	1	1	5	4
Industrial technology	32	22			4	14	18
Total	5,893	5,577	1,330	1	145	461	6,761

Note:

(i) Land use rights of the Group include contribution of RMB227 million made by Angang Holding, the amount of RMB5,627 million acquired by the Company. The additions include the Bayuquan land use rights amounted to RMB1,317 million (of which deed taxes: RMB52 million) acquired from Angang Holding and the amount of RMB10 million acquired from the third parties. Land use rights are amortized over a remaining period of 30 to 50 years.

(ii) Up to the date of this report, the Company 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 acquisition of ANSI. As at 30 June 2008, the carrying amount of such land use rights is RMB20 million (31 December 2007: RMB193 million). Pursuant to the acquisition agreement of ANSI, the directors are of the opinion that the Company is entitled to lawfully and validly occupy or use the above mentioned land use right.

(iii) Up to the date of this report, the company was in the process of applying for changing registration of the title certificates of certain of the land use right acquired from Angang Holding. On the balance sheet day, the carrying amount of such land use rights is RMB1,297 million

(b) Provision for impairment of intangible assets

As at 31 December 2008, there is no indication that carrying value of intangible assets is lower than recoverable value.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(13). DEFERRED TAX ASSETS AND LIABILITIES

(a) Schedule of Deferred tax assets

	Closing balance	Opening balance
Deferred tax assets due to the difference between the carrying amount of assets and its tax base.	**1,004**	80
Deferred tax assets due to the difference between the carrying amount of liabilities and its tax base.	**93**	84
Total	**1,097**	164

Note: The closing balance increased by 569% due to deductible loss of Bayuquan Company and provision for diminution in value of inventories and impairment against fixed assets.

(b) Temporal differences

	Closing balance	Opening balance
Provision for diminution in value of inventories	**2,004**	75
Provision for impairment against fixed assets	**156**	134
Accumulated depreciation of fixed asset	**22**	22
Wages payable	**169**	145
One-off house allowance		1
Termination benefits	**146**	198
Employee training expenses	**22**	
deductible loss of Bayuquan Company	**1,753**	70
Adjustment for unrealized inter-company profit	**45**	13
Fair value change on available-for-sale financial asset	**36**	
Government grant	**36**	
Total	**4,389**	658

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(14). PROVISIONS FOR IMPAIRMENT

	Opening balance	Provided In the year	Reduction: Write back	Reduction: Write off	Reduction: Total	Closing balance
1. provision for bad debt						
Therein: account receivable						
Other receivables						
2. Provision for diminution in value of inventories	75	2,042		113	113	2,004
Therein: Finished goods		382				382
Raw material		978				978
3. Provision for impairment of available-for-sale financial asset						
4. Provision for impairment of holding to maturity investment						
5. Provision for impairment of long-term equity investment						
6. Provision for impairment of investment real estate						
7. Provision for impairment of fixed assets	134	64		42	42	156
Therein; Buildings and plant	14	13		4	4	23
Machinery and equipment	116	49		38	38	127
8. Provision for impairment of construction material						
9. Provision for impairment of construction in progress						
10. Provision for impairment of intangible assets						
therein:patent						
Trademark						
11. Provision for impairment of good will						
12. other						
Total	209	2,106		155	155	2,160

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(15). SHORT-TERM LOANS

(a) Analysis of short-term loans

	Closing balance	Opening balance
Credit loan	**7,570**	4,250
Pledge loan		262
Total	**7,570**	4,512

Note: The closing balance increased by 68% due to increased operational capital need of Bayuquan Company.

(b) No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of short-term loans

(c) Over-due short-term loans

There are no over-due short-term loans at the end of the year.

(16) BILLS PAYABLE

	Closing balance	Opening balance	**Repaid in next accounting period**
bank acceptance bills	**4,585**	1,052	4,585
Total	**4,585**	1,052	4,585

Note:

(a) The closing balance increased by 336% due to using bills to purchase fuel and part of metal materials in last two months of the year.

(b) No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of bills payable.

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

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(17). ACCOUNTS PAYABLE

(a) Aging analysis of accounts payable

aging	Closing balance amount	Closing balance percentage (%)	Opening balance amount	Opening balance percentage (%)
Within 1 year (inclusive)	**3,366**	**98**	1,851	97
1 and 2 years (inclusive)	**5**		4	
2and 3 years (inclusive)	**3**			
Over 3 years	**53**	**2**	53	3
Total	**3,427**	**100**	1,908	100

Note: The closing balance increased by 80% due to change of clearing type for change of steel market.

(b) The closing balance includes amount of 5 million owing to Angang Holding (hold 67.30% shares of the company) which is 0.15% of total closing balance. Relevant related party transaction is disclosed In Note: 9 (3)(g)

(c) The closing balance includes amount of 202 million accounts payable for products and project owing to other related parties which is 6% of total closing balance. Relevant related party transaction Is disclosed In Note: 9 (3)(g)

(d) No individually significant accounts payable of the Company as at 31 December 2008 are more than one year past due.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(18). ADVANCES FROM CUSTOMERS

(a) Aging analysis of Advances from customers

aging	Closing balance amount	Closing balance percentage (%)	Opening balance amount	Opening balance percentage (%)
Within 1 year (inclusive)	**3,614**	**100**	4,556	100
1 and 2 years (inclusive)	**3**		4	
2and 3 years (inclusive)	**4**		1	
Over 3 years	**8**		8	
Total	**3,629**	**100**	4,569	100

(b) The closing balance includes amount of 1 million owing to Angang Holding (hold 67.30% shares of the company) relevant related party transaction Is disclosed In Note: 9 (3)(g)

(c) The closing balance includes amount of 1,010 million Advances from customers for products owing to other related parties which is 28% of total closing balance. Relevant related party transaction is disclosed in Note: 9 (3)(g)

(d) No individually significant Advances from customers of the Company as at 31 December 2008 are more than one year past due.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(19). EMPLOYEE BENEFITS PAYABLE

Balance at the	Beginning of the year	**Accrued during The year**	**Paid during The year**	**Balance at the end of the year**
Salaries, bonus, and allowance	213	1,476	1,454	**235**
Staff welfare		130	130	
Social insurance		465	465	
therein: 1. Basic pension		297	297	
2. Unemployment insurance		30	30	
3. medicl insurance		115	115	
4. Staff and worker' injury insurance		23	23	
Housing fund		164	164	
Labor union fee and staff education fee	45	55	50	**50**
Termination benefits	52	185	193	**44**
Others		138	138	
Total	310	2,613	2,594	**329**

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(20). TAX AND SURCHARGE PAYABLE

	rate	At the end of the year	At the beginning of the year
VAT	17%, 13%	**(1,836)**	(426)
City maintenance and construction tax	7%	**15**	31
Enterprise income tax	25%	**(985)**	102
Individual income tax		**9**	6
Deductible tax	17%, 13%	**(6)**	
Housing tax	12%, 1.2%	**9**	4
Education surcharge	3%	**6**	13
Local education surcharge	1%	**2**	4
Stamp duty		**15**	15
Total		**(2,771)**	(251)

Note: The closing balance decreased by 1004% due to addition of deductible VAT tax of fixed assets; increase of deductible VAT of Bayuquan branch; refunded income tax prepaid from January to September owing to the loss of the forth quarter.

(21). OTHER PAYABLES

(a) Analysis of other payable

	Closing balance	Opening balance
Construction costs	**1,686**	1,614
Freight charges	**78**	178
Withholding tax payable	**44**	30
Land use fee	**92**	27
Rights issuance fee		58
Deposit for steel shelves	**60**	40
Performance guarantee	**94**	91
Guarantee - project/spare parts	**1,359**	652
Others	**110**	47
Total	**3,523**	2,737

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(21). OTHER PAYABLES *(continued)*

(b) The closing balance includes amount of 5 million owing to Angang Holding (hold 67.30% of the company share) relevant related party transaction Is disclosed in Note: 9 (3)(g)

(c) The closing balance includes amount of 941 million Advances from customers for products owing to other related parties which is 27% of total closing balance. Relevant related party transaction is disclosed In Note: 9 (3)(g)

(d) the other payables with aging of over one year

Creditor	Closing balance	Reasons	Whether paid after balance date
Angang Construction Group	161	guarantee-project	no
Zhongyiejiaonai Engineering Co.	66	guarantee-project	no
Zhongyie Northeast Construction Co.	48	guarantee-project	no
Angang Heavy Machine Co	25	guarantee-project equipment	no
Angang Trade	19	guarantee-project	no
China 5th Smelting Construction Co.	12	guarantee-project	no
Others	394		
Total	725		

(22). NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

(a) Long-term liability due within one year

	Closing balance	Opening balance
Long term loans	**1,031**	2,814
Long term payables		2,324
Total	**1,031**	5,138

Note: The closing balance decreased by 80% due to following reasons amount of 2,324 million payable for new steel company 100%share right was paid and non-current liabilities due within one year of last year has been paid. Non-current liabilities due within one year of the year decreased.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(22). NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(continued)*

(b) The analysis of loans due within one year is set out as follows:

	currency	**Terms of reference**	**Closing balance**	Opening balance
Bank loan	RMB	Credit loan	**700**	800
Bank loan	RMB	Guarantee loan	**200**	1,403
Bank loan	Euro	Credit loan	**1**	1
Bank loan	Yen	Credit loan	**130**	110
Angang finance corporation loan	RMB	Credit loan		500
Total			**1,031**	2,814

(c) Long term payables due within one year

	term	**Closing balance**	Opening balance
Acquisition consideration payable			2,324
Total			2,324

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(23). LONG-TERM LOANS

	currency	Terms of reference	Closing balance	Opening balance
Bank loan	RMB	Credit loan	**15,860**	11,810
Bank loan	RMB	Guarantee loan	**1,000**	200
Bank loan	Euro	Credit loan	**10**	12
Bank loan	Yen	Credit loan	**195**	275
Angang finance corporation loan	RMB	Credit loan	**500**	
Total			**17,565**	12,297

Note: The closing balance increased by 43% due to loan to Bayuquan project and increase in long-term operational capital loan.

(24). DEFERRED TAX LIABILITIES

(a) Analysis of deferred tax liabilities

	Closing balance	Opening balance
Deferred tax liabilities due to the difference between the carrying amount of assets and its tax base	**47**	102
Deferred tax liabilities due to the difference between the carrying amount of liabilities and its tax base		
Total	**47**	102

Note: The closing balance decreased by 54% due to the influence of price change of financial assets available-for-sale.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(24). DEFERRED TAX LIABILITIES *(continued)*

(b) Temporal difference

	Closing balance	Opening balance
Capitalized borrowing cost of general purpose loan	**189**	217
Fair value change of financial assets available-for-sale		190
Total	**189**	407

(25). OTHER LONG-TERM LIABILITIS

	nature	**Closing balance**	Opening balance
Termination benefits	Employee benefit payable more one year	**102**	146
Deferred revenue	Amortization of government grant for War industry project	**36**	
Deferred revenue	Government grant for construction of furnace platform	**3**	
Total		**141**	146

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(26). SHARE CAPITAL

	Opening balance amount	Opening balance percentage	**changes(+ -)**	**Closing balance amount**	**Closing balance percentage**
(1) Ordinary A shares issued with restricted condition					
State-owned shares	4,868	67.28%	(527)	4,341	60%
(2) Shares issued with no restricted condition					
a. Ordinary A shares	1,281	17.71%	527	1,808	24.99%
b. Overseas-listed foreign invested ordinary shares ("H shares")	1,086	15.01%		1,086	15.01%
Total	7,235	100%		7,235	100%

(27). CAPITAL RESERVE

	Opening balance	**Addition During the year**	**Reduction During the year**	**Closing balance**
Share premium	31,439			**31,439**
Other capital reserve	154		170	**(16)**
Total	31,593		170	**31,423**

Note: Reduction of Other capital reserve is due to Available-for-sale financial assets fair value change, see in the Note: 7 (7)

(28). SURPLUS RESERVE

	Opening balance	**Addition During the year**	**Reduction During the year**	**Closing balance**
Statutory surplus reserve	2,981	299		**3,280**
Reserve fund	11	34	24	**21**
Total	2,992	333	24	**3,301**

Note: Due to production safety expense appropriated after income tax, adjustment is made to opening balance of surplus reserve (Reserve fund) which adding amount of 11 million to Reserve fund, also see Note: 4 (25)

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(29). UNDISTRIBUTED PROFIT

(a) Change of undistributed profit

	The year	Last year
Balance at the end of last year	**12,446**	8,832
add: change of accounting policy	**(3)**	283
Correction on error of previous years		
Balance at the beginning of the year	**12,443**	9,115
add: consolidated net profit	**2,989**	7,533
Compensation to loss from surplus reserve		
Other transferred-in		
less: appropriation of Statutory		
surplus reserve	**299**	753
appropriation of reserve fund	**10**	11
Distributed to shareholder	**3,979**	3,441
Minority interest		
Balance at the end of the year	**11,144**	12,443

Note: Change of accounting policy sees Note: 4 (25)

(b) Pursuant to the shareholder's approval at the Annual General Meeting on 12 June 2008, the Company was authorized to declare cash dividend of Rmb0.55 per share to ordinary shareholders. On 27 June 2007, the Company paid cash dividend for the year 2007 totaling Rmb3,382 million to ordinary A shareholders and Rmb597 million to H shareholders respectively.

(c) The Board of Directors proposed on 14 April 2009 the appropriation of a cash dividend of RMB0.21 per share to the Company's ordinary shareholders, totaling RMB1,519 million. The proposal is subject to the approval by the Shareholders' Meeting. Such cash dividend has not been recognized as a liability at the balance sheet day.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(30). Operating income and operating cost

(a) Operating income and operating cost

	2008	2007
Operating income from principle operation	**78,985**	65,294
Other operating income	**631**	205
Total	**79,616**	65,499
Operating cost from principal activities	**65,939**	48,099
Other operating expense	**672**	247
Total	**66,611**	48,346

Note: Operating income and operating cost increase 22% and 38% respectively which due to the increasing of product price in the previous three quarter of this year, and the adjustment of product mix, and the increase of fuel and raw material price respectively.

(b) Analysis of operating income operating cost operating profit from principal operations by type

		2008	
product(business)	**operating income**	**operating profit**	**cost operating**
Galvanized steel sheets and colour coating plates	8,035	6,916	1,119
Cold rolled sheets	17,074	13,827	3,247
Cold rolling silicon plant	4,587	3,696	891
Hot rolled sheets	25,022	21,316	3,706
Wire rods	3,080	2,531	549
Large section products	2,935	2,769	166
Thick plates	7,506	5,181	2,325
Medium plate plant	4,738	3,559	1,179
Seamless steel plant	3,188	2,805	383
Others	2,820	3,339	(519)
Total	78,985	65,939	13,046

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(30). Operating income and operating cost *(continued)*

(b) Analysis of operating income operating cost operating profit from principal operations by type *(continued)*

		2007	
product(business)	**operating income**	**operating profit**	**cost operating**
Galvanized steel sheets and colour coating plates	7,309	5,757	1,552
Cold rolled sheets	13,008	9,330	3,678
Cold rolling silicon plant	4,674	3,292	1,382
Hot rolled sheets	22,719	16,503	6,216
Wire rods	2,681	2,139	542
Large section products	1,716	1,501	215
Thick plates	5,084	3,389	1,695
Medium plate plant	3,458	2,464	994
Seamless steel plant	2,463	1,978	485
Others	2,182	1,746	436
Total	65,294	48,099	17,195

(c) Analysis of operating income and cost by area

	2008	
	Closing balance	Opening balance
Within PRC	**65,729**	56,375
export	**13,887**	10,236
Total	**79,616**	66,611

	2007	
	Closing balance	Opening balance
Within PRC	**51,588**	38,123
export	**13,911**	10,223
Total	**65,499**	48,346

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(30). Operating income and operating cost *(continued)*

(d) The Company's sales to the top five customers for the year mounted to Rmb14,472 million which accounted for 18% of the total sales income of the Company for the year ended 31 December 2008.

(31). BUSINESS TAXES AND SURCHARGES

	2008		2007	
	Taxation basis and rate	**Rmb million**	Taxation basis and rate	Rmb million
City maintenance and construction tax	**7% of VAT and Business Tax payable**	**357**	7% of VAT and Business Tax payable	377
Education surcharge and local education surcharge	**3% and 1% of VAT and Business Tax payable**	**204**	3% and 1% of VAT and Business Tax payable	215
Custom duty	**5% -10% of FOB**	**384**	5% -10% of FOB	169
Resources tax and Business Tax		**3**		3
Total		**948**		764

(32). FINANCIAL EXPENSES

	2008	2007
Interest expenditure	**769**	720
less:interest income	**37**	27
exchange losses	**101**	120
less:exchange gains	**147**	61
Procedure fee	**4**	3
other	**4**	
Total	**694**	755

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(33). IMPAIRMENT LOSSES

	2008	2007
Inventories	**2,042**	36
Fixed assets	**64**	111
Total	**2,106**	147

Note: The impairment loss increase 1,333% by 2008, due to Provision made for diminution in value of inventories

(34). INVESTMENT INCOME

Investee	**2008**	2007
Zhongyie south	**15**	4
ANSC-TKS	**49**	80
ANSC-Dachuan	**1**	
Changchun FAM	**6**	1
TKAS	**3**	3
TKAS-SSC	**(9)**	(7)
Angang finance	**31**	
Angang steel belt	**(1)**	
Zhuyie group	**1**	
Total	**96**	81

Note: There are no severe restrictions in the transfer of investment income to the Company.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(35). NON-OPERATING INCOME

(a) Analysis of non-operating income

	2008	2007
Gain on disposal of fixed assets	**17**	38
therein: gains on scrap fixed assets	**17**	38
Government grant	**9**	
Penalty	**7**	4
Others		2
Total	**33**	44

(b) Government grant

	2008		2007	
	amount	**therein:in profit/loss**	amount	therein:in profit/loss
Military project grant	**45**	**9**		
Total	**45**	**9**		

(36). NON-OPERATING EXPENSES

	2008	2007
Loss on disposal of non-current assets	**63**	119
therein: loss on scrap fixed assets	**62**	114
Loss on disposal of intangible assets		1
others	**1**	4
Public donation		2
compensation	**6**	
Total	**69**	121

Note: Non-operating expense decrease 43% in 2008 due to net loss on disposal of fixed assets decreased.

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(37). INCOME TAX expense

(a) Income tax expenses for the year represent:

	2008	2007
Current tax expense	**1,783**	2,907
Deferred tax expense	**(930)**	(56)
Total	**853**	2,851

Note: Income tax expenses decrease 70% in 2008 due to reduction of profit before tax decrease of Income tax rate and loss of Bayuquan branch.

(b) Reconciliation between income tax expenses and accounting profits is as follows:

	2008	2007
Accounting profit	**3,842**	10,384
Add:adjustment to accounting profit	**3,291**	1,245
Taxable income	**7,133**	11,629
Current tax expense	**1,783**	2,907
Deferred tax expense	**(930)**	(56)
therein: change of Deferred income tax assets	**(923)**	(32)
change of Deferred income tax liabilities	**(7)**	(24)
Total	**853**	2,851

Note: The adjustment to accounting profit of this year, based on the measurement and calculation of the group, is subject to the approval of tax bureau.

(38). BASIC EPS AND DILUTED EPS

	2008	2007
Basic EPS	**0.413**	1.121
Diluted EPS	**0.413**	1.121

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(38). BASIC EPS AND DILUTED EPS *(continued)*

Note:

(a) Computation of basic EPS

Basic EPS = net profit attributable to ordinary shareholders divided by average amount of issued ordinary shares

weighted average amount of issued ordinary shares = $S_0+S_1+S_i\times M_i\div M_0-S_j\times M_j\div M_0-S_k$

S_0 refers to the sum of shares at the beginning of period

S_1 refers to the increases of shares due to transferred from capital reserve or share dividend

S_i refers to the increases of shares due to right issue or convertible bond.

S_j refers to the decreases of shares due to shares repurchase

S_k refers to the decreases of shares due to stock reserve split-up in the reporting period

M_0 refers to the amount of month in reporting period

M_i refers to the amount of months from the next month of that increase of shares to the end of the period

M_j refers to the amount of months from the next month of that decrease of shares to the end of the period

(b) Computation of diluted EPS

diluted EPS = [enet profit attributable to ordinary shareholders + (interest derived from dilatable potential ordinary shares that has been recognized as expense-conversion cost) (1-income tax rate)]/($S_0+S_1+S_i\times M_i\div M_0-S_j\times M_j\div M_0-S_k$+ increase of weighted average amount of ordinary shares due to warrant °Ashare option or convertible bond)

S_0 refers to the sum of shares at the beginning of period

S_1 refers to the increases of shares transferred from capital reserve or share dividend

S_i refers to the increases of shares due to right issue or convertible bond.

S_j refers to the decreases of shares due to shares repurchase

S_k refers to the decreases of shares due to stock reserve split-up in the reporting period

M_0 refers to the amount of month in reporting period

M_i refers to the amount of months from the next month of that increase of shares to the end of the period

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(39). SUPPLEMENT TO CASH FLOW STATEMENT

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

Items	2008	2007
Reconciliation of net profit to cash flows from operating activities:		
Net profit	**2,989**	7,533
Add: provision for impairment	**2,106**	147
Depreciation of fixed assets	**4,774**	4,133
Amortization of intangible assets	**145**	124
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets	**1**	4
Loss on scrap of fixed assets	**45**	77
Loss on fair value change		
Financial expenses	**690**	752
Investment loss	**(96)**	(81)
Increase in deferred tax assets	**(923)**	(32)
Decrease in deferred tax liabilities	**(7)**	(24)
decrease in inventories	**(3,904)**	(1,609)
Decrease in operating receivables	**3,828**	(5,501)
Increase in operating payables	**2,287**	2,370
others	**3**	13
Net cash inflow from operating activities	**11,938**	7,906
2. Change in cash and cash equivalents:		
Cash at the end of the year	**2,974**	7,733
Less: Cash at the beginning of the year	**7,733**	1,480
add: cash equivalents at the end of the year		
Less: cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**(4,759)**	6,253

(Expressed in Rmb million unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

(39). SUPPLEMENT TO CASH FLOW STATEMENT *(continued)*

(b) Cash and cash equivalents held by the Company are as follows

	2008	2007
1. Cash at bank and on hand	**2,974**	7,733
therein:Cash	**1**	1
Bank deposits available on demand	**2,973**	7,732
Other deposits available on demand		
2. cash equivalents		
therein:bond due within 3 months		
3. Closing balance of cash and cash equivalents	**2,974**	7,733

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT

(1). Accounts receivable

See Note: 7 (3)

(2). Other receivables

See Note: 7 (5)

(3). Long-term equity investment:

(a) Analysis of long-term equity investment

	Opening balance	Increase of the year	Reduction of the year	Closing balance
Investment in subsidiaries		60		**60**
Investment in jointly controlled enterprises	825	48	9	**864**
Investment in associates	50	1,340	2	**1,388**
Other equity investment	10			**10**
less: Provision for impairment of long-term equity investment				
Total	885	1,448	11	**2,322**

(Expressed in Rmb million unless otherwise indicated)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(3). long-term equity investment: *(continued)*

(a) Analysis of long-term equity investment

(b) Investment in jointly controlled enterprise and associates

See Note: 7 (8)(b)

(c) Long-term equity investment accounted for under equity method

See Note: 7 (3)(c)

(d) Long-term equity investment accounted for under cost method

Name of investee	Initial investment cost	Balance at the beginning of the year	Addition of current year	Reduction Of current year	Balance at the end of the year
Angang wuhan	60		60		**60**
Zhongyie south	10	10			**10**
Total	70	10	60	—	**70**

(e) Provision for impairment of long-term equity investment

As at 31 December 2008, there is no indication that carrying value of long-term equity investment is lower than recoverable value.

(4). Operating income and cost

See Note: 7 (30)

(5). Investment income

See Note: 7 (34)

Note: There are no severe restrictions in the transfer of investment income to the Company.

(Expressed in Rmb million unless otherwise indicated)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(6). Provision for impairment of assets

See Note: 7 (14)

(7). Income tax expense

(a) Income tax expenses for the year represents

	2008	2007
Current tax expense	**1,783**	2,907
Deferred tax expense	**(930)**	(56)
	853	2,851

(b) Reconciliation between income tax expenses and accounting profits is as follows

	2008	2007
Accounting profit	**3,842**	10,384
Add:adjustment to accounting profit	**3,291**	1,245
Taxable income	**7,133**	11,629
Current tax expense	**1,783**	2,907
Deferred tax expense	**(930)**	(56)
Therein: change of Deferred income tax assets	**(923)**	(32)
change of Deferred income tax liabilities	**(7)**	(24)
Total income tax expense	**853**	2,851

Note: The adjustment to accounting profit is the estimation of the company, Adjustment that approved by tax authority is prevail.

(Expressed in Rmb million unless otherwise indicated)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(8). Supplement to cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities

	2008	2007
1 Reconciliation of net profit to cash flows from operating activities		
Net profit	**2,989**	7,533
Add: provision for impairment	**2,106**	147
Depreciation of fixed assets	**4,774**	4,133
Amortization of intangible assets	**145**	124
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets	**1**	4
Losses form scrap of fixed assets	**45**	77
Loss on fair value change		
Financial expenses	**690**	752
Investment loss	**(96)**	(81)
Decrease in deferred tax assets	**(923)**	(32)
Increase in deferred tax liabilities	**(7)**	(24)
decrease in inventories	**(3,904)**	(1,609)
Decrease in operating receivables	**3,828**	(5,501)
Increase in operating payables	**2,287**	2,370
Others	**3**	13
Net cash inflow from operating activities	**11,938**	7,906
2. Change in cash and cash equivalents:		
Cash at the end of the year	**2,914**	7,733
Less: cash at the beginning of the year	**7,733**	1,480
Add: cash equivalents at the end of the year		—
Less: cash equivalents at the beginning of the year		—
Net increase in cash and cash equivalents	**(4,819)**	6,253

(Expressed in Rmb million unless otherwise indicated)

8. NOTES TO PRINCIPLE ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(8). Supplement to cash flow statement *(continued)*

(b) Cash and cash equivalents held by the Company are as follows

	2008	2007
1. Cash at bank and on hand	**2,914**	7,733
Therein:Cash	**1**	1
Bank deposits available on demand	**2,913**	7,732
Other deposits available on demand		
2. cash equivalents		
Therein:bond due within 3 months		
3. Closing balance of cash and cash equivalents	**2,914**	7,733

9. RELATED PARTY RELATIONSHIP AND TRANSACTION

(1) Related party relationship

(a) Criteria on related party

The company's criteria on related party is: when a party control, jointly control or exercise significant influence over another party, or when two or more parties are under control, jointly control or significant influence of the same party, the related party relationship are constituted

(b) Information on the parent of the Company

Company name	Organization Code	Registered place	Business nature	Registered Capital	% of sharing	proportion of voting rights
Angang Holding	24142001-4	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament Tubes, and metal structures	10,794	67.30%	67.30%

(c) Information on the subsidiary of the Company

See Note: 6 (1)(b)

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(1) Related party relationship *(continued)*

(d) Related parties without control relationship

Name of enterprise	Organization code	Relation with the company
ANSC-TKS	71093688-2	Jointly controlled enterprises
TKAS-SSC	785926056	Jointly controlled enterprises
Changchun FAM	76717649-0	Jointly controlled enterprises
TKAS	767159789	Jointly controlled enterprises
Angang Trade	24142372-5	Fellow subsidiary
Angang Finance	1188857-2	Fellow subsidiary
Angang Construction Group	94129158-3	Fellow subsidiary
Angang Heavy machine Co., Ltd	24150326-6	Fellow subsidiary
Angang Fire-resistant material Co	94126547-3	Fellow subsidiary
Angang Steel rope Co., Ltd.	94126496-4	Fellow subsidiary
Angang Anshan Mining Co	24150404-X	Fellow subsidiary
Angang Entity Group	24142765-4	Fellow subsidiary
Angang House Property Co.	94126840-4	Fellow subsidiary
Angang Railway transport facilities Construction Co.	94121854-6	Fellow subsidiary
Angang real estate Co., Ltd	11886337-0	Fellow subsidiary
Angang mechanized loading Co	94126489-2	Fellow subsidiary
Angang Design and Research	664557266	Fellow subsidiary
Angang Design and Research	79159132-8	Fellow subsidiary
Angang Electric Co., Ltd	94126485-X	Fellow subsidiary
Angang Automatism Co	94126643-3	Fellow subsidiary
Angang Auto Transport Co., Ltd	94126444-6	Fellow subsidiary
Angang Reception Service Co.	94121967-X	Fellow subsidiary

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(2) Pricing policy

(a) 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

The Company sold minus sieve powder to Angang Group at prices for sintered iron ore less the cost of sintering procedures conducted by Angang Group.

(b) Sales of assets

The Company sold assets to Angang Group at selling prices based on fair value of market.

(c) 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 not 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)

(d) 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.

(e) Energy and power supplies

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

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(2) Pricing policy *(continued)*

(f) Fees paid for 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 repair and maintenance; 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) Asset acquisition

The company acquires assets from Angang Group at the rate of market price.

(h) Interest income/expenses

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.

(3) Related party transaction

(a) Purchase from Angang Holding and its subsidiaries

Items	**2008**		2007	
	Amount million *RMB*	**Percent of Related transactions**	Amount million *RMB*	Percent of Related transactions
Raw materials	**18,098**	**74.33%**	13,781	83.20%
Ancillary materials and spare parts	**2,127**	**17.15%**	1,910	19.38%
Energy and power supplies	**1,642**	**36.60%**	1,413	35.89%
Total	**21,867**		17,104	

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(b) Accept service from Angang Holding and its subsidiaries

	2008		2007	
	Amount million *RMB*	**Percent of Related transactions**	Amount million *RMB*	Percent of Related transactions
support services	**9,333**	**57.43%**	8,000	57.03%
ERP system services			30	100%
Total	**9,333**		8,030	

(c) Sales to Angang Holding and its subsidiaries

	2008		2007	
	Amount million *RMB*	**Percent of Related transactions**	Amount million *RMB*	Percent of Related transactions
Product	**4,683**	**6.04%**	4,133	6.45%
Scrap materials and minus sieve powder	**417**	**91.34%**	285	97.27%
Total	**5,100**		4,418	

(d) Provide service to Angang Holding and its subsidiaries

	2008		2007	
	Amount million *RMB*	**Percent of Related transactions**	Amount million *RMB*	Percent of Related transactions
General service	**623**	**47.30%**	519	50.38%

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(e) Details of the Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group")

(i) Accept agency service from Angang Trade

The Company accepts agency services for domestic sales and export of products amount to 4.58 million tons and 2.38 million tons respectively for the year ended 31 December 2008 (4.01 million tons and 3.14 million tons in 2007)

(ii) Sales of products from the Company to associate

Sales of products from the Company to ANSC-TKS

The Company sold products to ANSC-TKS totaling Rmb2,061 million for the year ended 31 December 2008 (2007: Rmb1,591 million.)

Sales of products from the Company to Changchun FAM

The Company sold products to Changchun FAM totaling Rmb114 million for the year ended 31 December 2008 (2007: none.)

Sales of products from the Company to TKAS-SSC

The Company sold products to TKAS-SSC totaling Rmb 9 million for the year ended 31 December 2008 (2007: none.)

Sales of products from the Company to associate

The Company sold products to TKAS totaling Rmb 2 million for the year ended 31 December 2008 (2007: none.)

(iii) Guarantee of loans

As at 31 December 2008, total bank loans of the Company amounting to Rmb1,200 million (2006: Rmb1,603 million) were guaranteed by Angang Holding.

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(e) Details of the Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group") *(continued)*

(iv) Investment

The company's board of director authorized "proposal on invest in Angang group finance" in April 2008.according to this proposal, the company invest in Angang group finance 315 million, account for 20% of it's registered capital.

The company's board of director authorized "proposal on jointly invest in Angang steel belt co. ltd with Angang Entity co ltd" in Jan 2008.according to this proposal, the company invest in Angang Steel Belt 11 million, account for 30% of it's registered capital.

(v) Sales of assets

The Company sold assets to Angang Group totaling Rmb4 million for the year ended 31 December (2007: Rmb25 million.)

(vi) Asset acquisition

The Company acquired assets from Angang Group totaling Rmb1,289 million for the year ended 31 December (2007: Rmb4 million.)

(vii) Loan deposit interest paid in and to Angang Finance

	Annul interest rate	Balance at the beginning of the year	Addition of current year	Reduction of current year	Balance at the end of the year	Terms of reference
Loan from Angang Finance	6.723%-6.804%	520	3,100	520	3,100	credit
Deposit in Angang Finance		1,878			2,878	N/A

The company's interest income of deposit in Angang finance id 21 million (2007: Rmb10 million)borrowing cost and is Rmb120 million (2007: Rmb210 million)

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(e) Details of the Company's material related party transactions with Angang Holding and its subsidiaries ("Angang Group") *(continued)*

(viii) 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. The amount of interest expenses of consideration of the acquisition paid is Rmb98 million in 2008 (2007: Rmb249 million).

(f) Remuneration to key management staff

The Company paid Remuneration to key management staff amounting to 5 million (2007: Rmb6 million)

(g) The balances of transactions with related parties

	Closing balance	Opening balance	**Terms Of reference**	**Mortgage**
Account receivables				
Angang Trade	**643**	505	N/A	No
Angang Holding	**97**	1	N/A	No
Angang Fire-resistant material Co.	**40**		N/A	No
Angang House Property Co.	**19**	4	N/A	No
Angang Steel rope Co., Ltd.	**14**	7	N/A	No
Angang Electric Co., Ltd	**2**	2	N/A	No
Other related parties	**3**	1	N/A	No
Total	**818**	520		

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(g) The balances of transactions with related parties *(continued)*

	Closing balance	Opening balance	**Terms of reference**	**Mortgage**
prepayment				
Angang Trade	**1,692**	3,657	N/A	No
Angang Construction Group	**71**	709	N/A	No
Angang Automatism Co	**41**	112	N/A	No
Angang Heavy machine Co., Ltd.	**29**	45	N/A	No
Angang Design and Research	**10**	8	N/A	No
Angang Entity Group	**7**	13	N/A	No
Angang Electric Co., Ltd	**3**	28	N/A	No
Other related parties	**2**	11	N/A	No
Total	**1,855**	4,583		
Account payable			N/A	
Angang Trade	**110**	69	N/A	No
Angang Fire-resistant material Co.	**36**		N/A	No
Angang Entity Group	**23**	49	N/A	No
Angang Auto Transport Co., Ltd	**12**	13	N/A	No
Angang Construction Group	**8**	39	N/A	No
Angang Holding	**5**	13	N/A	No
Angang Automatism Co.	**4**	7	N/A	No
Angang House Property Co.	**3**	6	N/A	No
Angang Steel rope Co., Ltd.	**2**	2	N/A	No
Angang Electric Co., Ltd	**1**	7	N/A	No
Angang Heavy machine Co., Ltd.	**1**	11	N/A	No
Angang Railway transport facilities Construction Co.		4	N/A	No
Angang Anshan Mining Co		16	N/A	No
Other related parties	**2**	6	N/A	No
Total	**207**	242		

(Expressed in Rmb million unless otherwise indicated)

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(g) The balances of transactions with related parties *(continued)*

	Closing balance	Opening balance	Terms of reference	Mortgage
Advance from customer				
Angang Trade	**902**	491	N/A	No
Tianjin tiantie	**42**		N/A	No
Angang Heavy machine Co., Ltd.	**21**	14	N/A	No
angchun FAM	**14**	7	N/A	No
ANSC-TKS	**11**	139	N/A	No
Angang Entity Group	**9**	6	N/A	No
Angang Construction Group	**8**	135	N/A	No
Angang Anshan Mining Co.	**3**	11	N/A	No
Angang Holding	**1**		N/A	No
Total	**1,011**	803		
Other payable				
Angang Trade	**335**	345	N/A	No
Angang Construction Group	**317**	431	N/A	No
Angang Heavy machine Co., Ltd.	**91**	107	N/A	No
Angang Automatism Co.	**65**	25	N/A	No
Angang Entity Group	**45**	37	N/A	No
Angang Anshan Mining Co	**32**		N/A	No
Angang Electric Co., Ltd	**20**	15	N/A	No
Angang Design and Research	**16**	14	N/A	No
Angang House Property Co.	**12**	14	N/A	No
Angang Auto Transport Co., Ltd	**5**	6	N/A	No
Angang Holding	**5**	30	N/A	No
Angang Railway Transport Facilities Construction Co.	**2**		N/A	No
Angang Anshan Mining Co	**1**	16	N/A	No
Other related parties		1	N/A	No
Total	**946**	1,041		

9. RELATED PARTY RELATIONSHIP AND TRANSACTION *(continued)*

(3) Related party transaction *(continued)*

(h). Significant contract and agreement among related parties

At 24 October 2007 the company signed "Agreement on supply of raw material and service rendering" with Angang Group which take effectiveness from 1 Jan 2008 to 31 Dec. 2009. Six months prior to termination of the agreement, two parties could discuss new agreement to ensure normal operation of both parties. Relevant pricing policy is seen in Note: 9 (2)

If either of two parties ask the other party provide extra raw material, ancillary material, spare parts, energy and power, supportive service, finance service, product, scrap materials and general service (if applicable), the other should do it's best to provide required product or service on terms of reference that the supplying price is not higher than the price given to any other parties.

10. ACCOUNTING TREATMENT OF SECURITIZED ASSETS

The Company has no securitized assets transaction for the year ended 31 December 2008

11. SHARE-BASED PAYMENT

The Company has no Share-based payment for the year ended 31 December 2008

12. CONTINGENCIES

As at 31 December 2008, there are no contingencies that need to be disclosed.

13. CAPITAL COMMITMENT

As at 31 December, the capital commitments of the Company are summarized as follows:

	2008	2007
	Rmb million	*Rmb million*
Investment contracts entered into but not performed or performed partially	**915**	
Construction and renovation contracts entered into but not performed or performed partially	**4,867**	12,887
Total	**5,782**	12,887

Note: The company's 4th board of director 29th meeting approved "contract on Angang steel co., ltd and Tiantie steel group jointly operating Tiantie steel plate"signed by the two companies. The company propose to add investment in Tianijin Tiantie with 1,890 million, Tianjin Tiantie registered capital amount to 3.7 billion. The company and Tian steel group holds 50% shares respectively. the investment has been announced in 26 Sep.2008.and 975 million has been invested in 19 Dec 2008.

14. EVENTS AFTER BALANCE SHEET DAY

1. The company held 1st general meeting of shareholder in 6 Feb. 2009 in Anshan Liaoning, in which approving "proposal on public offering company debenture which total amount not exceeding 10billion"this work is in progress.

2. After the balance sheet day the directors proposed a final dividend. Further details are disclosed in Note 7(29).

15. OTHER SIGNIFICANT TRANSACTION

(1). Exchange of Non-monetary Assets

As at 31 December 2008, there is no significant Exchange of Non-monetary Assets that needs to be disclosed.

(2). Debt restructuring

As at 31 December 2008, there is no significnt debt restructuring that need to be disclosed.

1. EXTRAORDINARY GAIN AND LOSS

In accordance with Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No. 1 Extraordinary Gain and Loss (2007 revised), the extraordinary gain and loss of the Company is listed as follows:

Items	**2008** ***Rmb(million)***	2007 *Rmb(million)*
Gains/losses from disposal of non-current assets including written-down of provision for impaired assets	**(46)**	(81)
Tax refund or exemption from unauthorized approval or non-official approved document or contingency		
Government grant which recorded into profit/loss of current period except that relevant to enterprise operation and according with government policies	**9**	
Capital occupation income from non-financial enterprise credited to current income statement		
gains from the excess of the enterprise share of the net fair value of identifiable net assets over the cost of acquisition of the subsidiary, jointly controlled entity, associate		
gains/losses from the exchange of non-monetary assets		
gains/losses from trusted investment or assets of management		
Losses of provision of impairment of assets due to force majeure i.e. natural disaster		
Debt restructuring gains/loss		
Reorganization expense		
Gains/losses from the excess over fair value of an unfair transaction		
Current net profit/loss of subsidiary under the common control from beginning day to acquisition day		
gains/losses from contingencies which is irrelevant to principle business		

1. EXTRAORDINARY GAIN AND LOSS *(continued)*

Items	2008 Rmb(million)	2007 Rmb(million)
investment income from disposal of tradable financial assets, tradable financial liabilities, available-for-sale financial assets and gains/losses from variation of fair value of tradable financial assets, tradable financial liabilities, available-for-sale financial assets except hedging relevant to principle business		
Reversal of provision for impairment of receivable under independent test		
Gains/losses from trusted loan		
Gains/loss of fair value change of investment property		
Effects of One-off adjustment on profit/loss in accordance with taxation accounting regulation		
Agency fee		
Other non-operating income and expense Except above	**1**	4
Other extraordinary gains/ losses		
subtotal	**(36)**	(77)
less: effect on taxation	**(9)**	11
Net extraordinary gain and loss	**(27)**	(88)
Net extraordinary gain and loss attributable to minority interest		
Net extraordinary gain and loss attributable to shareholder of parent	**(27)**	(88)
Net profit attributable to shareholder of the company after deducting extraordinary gain and loss	**3,016**	7,621
Effects of extraordinary gain and loss on net profit	**(0.90%)**	(1.15%)

Note: "+" refer to gains or income, "-" refer to loss or expenditure.

2. RETURN ON NET ASSETS OF THE COMPANY

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9-Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2007 revised) issued by the CSRC, the Company's return on net assets is calculated as follows:

		RONA		EPS	
profit	**period**	**Fully diluted**	**Weighted average**	**Basic EPS**	**Diluted EP**
Net profit attributable to shareholder of the parent	2008	5.63%	5.57%	0.413	0.413
	2007	13.88%	21.34%	1.121	1.121
Net profit attributable to shareholder of the company after deducting extraordinary gain and loss	2008	5.68%	5.62%	0.417	0.417
	2007	14.04%	21.59%	1.134	1.134

3. THE DIFFERENCE BETWEEN IFRS AND PRC GAAP

		Net assets		Net profit	
	notes	**2008. 12.31**	2007. 12.31	**for the year 2008**	for the year 2007
Under PRC GAAPs		**53,103**	54,263	**2,989**	7,533
adjustment:					
— convertible debentures	1				(7)
— pre-operating expenses	2				3
— revaluation of land use right	3	**(176)**	(181)	**5**	5
— deferred income tax assets	4	**44**	45	**(1)**	
Under IFRSs		**52,971**	54,127	**2,993**	7,534

3. THE DIFFERENCE BETWEEN IFRS AND PRC GAAP *(continued)*

Note:

1. The amounts represent the different treatments on transaction costs and discount on convertible debentures between the IFRSs and PRC GAAP ("Old PRC GAAP"). Adjustment in current year represents the difference in balance arising from the difference accounting treatment after adoption of the New Standards on 1 January 2007.

2. Before 31 December 2006, in the Old PRC GAAP, pre-operating expenses are capitalized in long-term deferred expenses before the commencement of operation and will be charged to expense in the month when operations commence. However, after the adoption of New Standards, pre-operating expenses are expensed when incurred, which is same to the treatment under IFRSs. Adjustment for the year represents the reversal of the balance of pre-operating expenses as at 1 January 2007 charged to income statement.

3. Under the Old PRC GAAP, land use rights are carried at revalued amount. Land use rights are carried at historical cost under IFRSs. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset and accumulated amortized amount was reversed from shareholder's equity and the amortization of the surplus was added back to the net profit in the financial statements prepared under IFRSs.

4. According above 3 adjustment ,recognized income tax expense under liability method in IFRSs and recognized relevant deferred income tax assets.

4. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

— Credit risk

— Liquidity risk

— Interest rate risk

— Foreign currency risk

This note presents information about the Company's exposure to each of the above risks and their sources, the Company's objectives, policies and processes for measuring and managing risks, etc.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

4. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(continued)*

(1) Credit risk

The Company's credit risk is primarily attributable to receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

In respect of receivables, the Company has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. The Company requires most of the customer prepay full amount either in cash or by issuing bills before delivering goods to them. Receivables are due within 90 days from the date of billing. Debtors with balances that are more than one months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

Most of the Company's customers have been transacting with the Company for many years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to some factors, such as ageing and maturity date.

At 31 December 2008, there were no significant debtors that were past due and impaired.

At the balance sheet day, the Company had a certain concentration of credit risk, as 80.64% of the total accounts receivable and other receivables was due from the Company's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet. The Company does not provide any other guarantees which would expose the Company to credit risk.

(2) Liquidity risk

The Company is responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.°C

4. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(continued)*

(3) Interest rate risk

The interest-bearing financial instruments held by the Company at 31 December 2008 are set out at Note 7(1), (15), (22) and (23).

Sensitivity analysis:

In managing interest rate and foreign currency risks the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, However, permanent changes in foreign exchange and interest rates would have an impact on earnings.

At 31 December 2008, it is estimated that a general increase of one percentage point in interest rates of cash at bank and on hand, short-term loans, non-current liabilities due within one year, long-term borrowings and long-term payables, with all other variables held constant, would decrease the Company's net profit and equity by RMB51 million (2007: RMB95 million).

The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet day and had been applied to the Company's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet day. The analysis is performed on the same basis for 2007.

(4) Foreign currency risk

The Company did not have a significant foreign currency risk exposure arising from its exports products and importing raw material for production and equipments for projects as the Company adopt locked exchanges rates to settle the amounts with main export and import agent.

(a) The Company's exposure to currency risk based on nominal amounts at 31 December is set out at Note 7(22) and (23).

4. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(continued)*

(4) Foreign currency risk *(continued)*

(b) The following are the significant exchange rates applied by the Company:

	Average rate		Reporting date mid-spot rate	
	2008	2007	**2008**	2007
Japanese yen	**0.0674**	0.0645	**0.0757**	0.0641
EUR	**10.24**	10.45	**9.66**	10.67
HKD	**—**	0.973	**—**	0.936

(c) Sensitivity analysis

A 5% appreciation of the RMB against the Japanese yen, Euro and HK dollar at 31 December would have decreased /increased equity and profit or loss by the amount shown below

	Shareholder's equity *Rmb million*	**Profit and loss** *Rmb million*
31 December 2008		
Japanese yen	(16)	(16)
EUR	(1)	(1)
HKD		
31 December 2007		
Japanese yen	(13)	(13)
EUR	(1)	(1)
HKD	2	2

4. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS *(continued)*

(4) Foreign currency risk *(continued)*

(c) Sensitivity analysis *(continued)*

A 5% depreciation of the RMB against the Japanese yen, Euro and HK dollar at 31 December would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet day and had been applied to the Company's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the period until the next annual balance sheet day. The analysis is performed on the same basis for 2007.

5. FAIR VALUE

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
ANGANG 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 207 to 267, which comprise the consolidated balance sheet as at 31 December 2008, 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 issued by the International Accounting Standards Board and the disclosure requirements of the 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 and to report our opinion 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.

AUDITOR'S RESPONSIBILITY *(continued)*

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 Group as at 31 December 2008 and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
14 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	**2008** ***Rmb million***	2007 *Rmb million*
Turnover	5	**78,985**	65,294
Cost of sales		**(69,891)**	(50,031)
Sales related taxes		**(948)**	(764)
Gross profit		**8,146**	14,499
Other operating loss, net	6	**(114)**	(218)
Distribution and other operating expenses		**(1,687)**	(1,598)
Administrative expenses		**(1,884)**	(1,626)
Profit from operations		**4,461**	11,057
Net finance costs	8(a)	**(694)**	(755)
Share of profits less losses of associates		**33**	3
Share of profits less losses of jointly controlled entities		**47**	77
Profit before tax		**3,847**	10,382
Income tax expense	7(a)	**(854)**	(2,848)
Profit for the year attributable to equity holders of the Company	8	**2,993**	7,534
Dividends to equity holders of the Company for the year			
Final dividend proposed after the balance sheet date	10	**1,519**	3,979
Earnings per share	11		
— Basic		**Rmb0.414**	Rmb1.121

Consolidated Balance Sheet

At 31 December 2008

	Note	**2008** **Rmb million**	2007 Rmb million (restated)
Non-current assets			
Property, plant and equipment	12	**43,256**	32,659
Intangible assets	13	**18**	22
Construction in progress	14	**18,789**	17,115
Lease prepayments	15	**6,563**	5,370
Interests in jointly controlled entities	17	**864**	825
Interests in associates	18	**1,388**	50
Other investments	19	**55**	281
Deferred tax assets	7(b)	**1,093**	108
		72,026	56,430
Current assets			
Inventories	20	**10,372**	8,701
Amount due from ultimate parent	34	**97**	—
Amounts due from fellow subsidiaries	34	**2,576**	5,102
Trade receivables	21	**3,000**	6,495
Prepayments, deposits and other receivables		**2,796**	2,920
Current tax assets		**985**	—
Cash and cash equivalents	22	**2,974**	7,733
		22,800	30,951
Current liabilities			
Trade payables	23	**7,805**	2,718
Amount due to ultimate parent	34	**11**	41
Amounts due to fellow subsidiaries	34	**2,087**	1,898
Amounts due to jointly controlled entities	34	**25**	147
Amounts due to associates	34	**42**	—
Current tax liabilities		**—**	102
Other payables		**5,578**	6,255
Current portion of bank loans	24	**8,601**	7,326
Current portion of long-term payable to ultimate parent	32	**—**	2,324
		24,149	20,811
Net current (liabilities)/assets		**(1,349)**	10,140
Total assets less current liabilities carried forward		**70,677**	66,570

At 31 December 2008

	Note	**2008** **Rmb million**	2007 Rmb million (restated)
Total assets less current liabilities brought forward		**70,677**	66,570
Non-current liabilities			
Bank loans	24	**17,565**	12,297
Provisions	25	**102**	146
Deferred income		**39**	—
		17,706	12,443
NET ASSETS		**52,971**	54,127
CAPITAL AND RESERVES			
Share capital	26	**7,235**	7,235
Share premium	27	**31,414**	31,414
Reserves	28	**3,107**	2,968
Retained profits	29	**11,215**	12,510
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**52,971**	54,127

Approved and authorised for issue by the Board of Directors on 14 April 2009

Zhang Xiaogang
Chairman

Fu Jihui
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2008

	Note	Share capital Rmb million	Share premium Rmb million	Reserves Rmb million	Retained profits Rmb million	Total Rmb million
At 1 January 2007		5,933	12,811	2,076	9,181	30,001
Change in fair value of available-for-sale financial assets		—	—	143	—	143
Expenses related to rights issue		—	(101)	—	—	(101)
Net income recognised directly in equity		—	(101)	143	—	42
Profit for the year		—	—	—	7,534	7,534
Total recognised income and expense for the year		—	(101)	143	7,534	7,576
Issuance of shares for rights issue		1,302	18,704	—	—	20,006
Proposed transfer between reserves (restated)	28, 29	—	—	764	(764)	—
Effect of change in deferred tax relating to revaluation surplus		—	—	(15)	—	(15)
Final dividends — 2006	10(b)	—	—	—	(3,441)	(3,441)
At 31 December 2007 (restated)		7,235	31,414	2,968	12,510	54,127
At 1 January 2008 (restated)		7,235	31,414	2,968	12,510	54,127
Change in fair value of available-for-sale financial assets		—	—	(170)	—	(170)
Net expense recognised directly in equity		—	—	(170)	—	(170)
Profit for the year		—	—	—	2,993	2,993
Total recognised income and expense for the year		—	—	(170)	2,993	2,823
Proposed transfer between reserves	28, 29	—	—	309	(309)	—
Final dividends — 2007	10(b)	—	—	—	(3,979)	(3,979)
At 31 December 2008		7,235	31,414	3,107	11,215	52,971

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	**2008** **Rmb million**	2007 Rmb million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	**15,217**	10,494
Interest received	8(a)	**37**	27
Interest paid	8(a)	**(1,553)**	(1,402)
Income tax paid		**(2,870)**	(2,546)
Net cash generated from operating activities		**10,831**	6,573
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(14,684)**	(17,840)
Proceeds from disposal of property, plant and equipment		**5**	61
Capital contribution to associates/jointly controlled entities		**(1,301)**	(167)
Dividend income from associates		**1**	—
Payment for purchase of available-for-sale financial assets		**—**	(81)
Net cash used in investing activities		**(15,979)**	(18,027)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(3,977)**	(3,440)
Proceeds from right issue		**—**	20,014
Payment of transaction costs relating to rights issue		**(59)**	(49)
Proceeds of bank loans		**16,220**	19,122
Repayment of bank loans		**(9,471)**	(15,593)
Repayment of long-term payable to ultimate parent		**(2,324)**	(2,324)
Net cash generated from financing activities		**389**	17,730
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(4,759)**	6,276
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**7,733**	1,480
EFFECT OF EXCHANGE RATE FLUCTUATIONS		**—**	(23)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,974**	7,733

1. GENERAL INFORMATION

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 liability company. The address of its registered office is Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC. The Company's A-shares and H-shares are listed on the Shenzhen Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") respectively.

The Company is 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. The principal activities of its subsidiary are set out in note 16 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2008, Anshan Iron and Steel Group Complex ("Angang Holding"), a state-owned enterprise incorporated in the PRC is the ultimate parent.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2008. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, the applicable disclosure requirements of the 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 (the "Listing Rules").

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of other investments which are carried at their fair values.

The Group also prepares a set of financial statements which complies with the Accounting Standards for Business Enterprises in the PRC (the "PRC GAAP"). A reconciliation of the Group's profit for the year and the equity attributable to equity holders of the Company under IFRSs and the PRC GAAP is presented on page 268.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 38 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 31 December. Subsidiary is entity over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recorded at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits and losses on transactions between the Group's and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign currency translation *(continued)*

(iii) Translation on consolidation *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	10 to 20 years
Plant, machinery and equipment	3 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.

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

The gain or loss on disposal of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the relevant assets and is recognised in the income statement on the date of retirement or disposal.

3. 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. 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 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.

Depreciation begins when the relevant assets are available for use.

(g) Lease prepayments

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

(h) 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.

(i) Intangible assets

Intangible assets represent industrial technology acquired by the Group and are stated at cost less accumulated amortisation and impairment losses.

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 lives of 6 to 10 years.

Both the period and method of amortisation are reviewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories

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

Cost is determined using the weighted average cost formula or the specific identification method. The cost of inventories 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 and tools are stated at cost less any allowance for obsolescence.

(k) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Other investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss, available-for-sale financial assets or unlisted equity securities.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement.

(iii) Unlisted equity securities

Investments in unlisted 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequent measured at amortised cost using the effective interest method less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(n) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

(o) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Financial liabilities and equity instruments *(continued)*

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sale of goods

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Dividend income

Dividend income is recognised when the shareholder's rights to receive payment are established.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Employee benefits

(i) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(r) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

(t) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(u) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) 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.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, other intangible assets, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(w) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Impairment of assets *(continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provisions and contingent liabilities

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

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

(y) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. SEGMENT INFORMATION

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:

	2008 **Rmb million**	2007 *Rmb million*
Turnover		
— The PRC	**65,098**	51,383
— Other countries	**13,887**	13,911
	78,985	65,294

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

5. TURNOVER

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

6. OTHER OPERATING LOSS, NET

	2008 **Rmb million**	2007 *Rmb million*
Loss on disposals of property, plant and equipment	**(46)**	(80)
Impairment losses on property, plant and equipment	**(64)**	(111)
Loss from sales of raw and scrap materials	**(72)**	(51)
Government grant	**9**	—
Written back of long outstanding accounts payables	**—**	2
Packaging materials income	**—**	1
Insurance compensation	**11**	9
Dividend income from other investments	**16**	4
Others	**32**	8
	(114)	(218)

7. INCOME TAX

(a) Income tax expense in the income statement

	2008 **Rmb million**	2007 *Rmb million*
Current tax expense		
— Provision for PRC enterprise income tax for the year	**1,783**	2,907
Deferred tax expense *(note 7(b))*	**(929)**	(59)
	854	2,848

The provision for PRC enterprise income tax is based on a statutory rate of 25% (2007: 33%) of the estimated assessable profits of the Group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

The reconciliation between the income tax expense and the product of profit before tax multipled by the PRC enterprise income tax rate is as follows:

	2008 **Rmb million**	2007 *Rmb million*
Profit before tax	**3,847**	10,382
Tax at a statutory tax rate of 25% (2007: 33%)	**961**	3,426
Tax effect of non-taxable income	**(45)**	(75)
Tax effect of non-deductible expenses	**10**	112
Additional deduction*	**(72)**	(598)
Tax credit*	**—**	(17)
	854	2,848

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

7. INCOME TAX *(continued)*

(b) Deferred taxation

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

	Assets		Liabilities		Net	
	2008	2007	**2008**	2007	**2008**	2007
	Rmb million	*Rmb million*	***Rmb million***	*Rmb million*	***Rmb million***	*Rmb million*
Borrowing costs capitalised	**—**	—	**(47)**	(54)	**(47)**	(54)
Revaluation of lease prepayments *(note)*	**44**	45	**—**	—	**44**	45
Allowance of inventories	**501**	19	**—**	—	**501**	19
Impairment losses on property, plant and equipment	**39**	34	**—**	—	**39**	34
Depreciation of property, plant and equipment	**5**	5	**—**	—	**5**	5
Expenses to be claimed on paid basis	**47**	36	**—**	—	**47**	36
Change in fair value of available-for-sale financial assets	**8**	—	**—**	(48)	**8**	(48)
Provision for termination benefits	**36**	49	**—**	—	**36**	49
Deductible expenses relating to Bayuquan port connected projects ("Bayuquan Project")	**438**	18	**—**	—	**438**	18
Others	**22**	4	**—**	—	**22**	4
	1,140	210	**(47)**	(102)	**1,093**	108
Set-off within legal tax units and jurisdictions	**(47)**	(102)	**47**	102	**—**	—
Net deferred tax assets	**1,093**	108	**—**	—	**1,093**	108

Note: As described in note 28(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 holders of the Company.

7. INCOME TAX *(continued)*

(b) Deferred taxation *(continued)*

(ii) Movement in temporary differences during the year:

	Balance at 1 January 2007	Recognised in income statement	Recognised in reserves	Balance at 31 December 2007 and 1 January 2008	Recognised in income statement	Recognised in reserves	Balance at 31 December 2008
	Rmb million	*Rmb million*	*Rmb million*	*Rmb million*	*Rmb million*	*Rmb million*	*Rmb million*
Borrowing costs capitalised	(80)	26	—	(54)	7	—	(47)
Revaluation of lease prepayments	61	(1)	(15)	45	(1)	—	44
Allowance of inventories	28	(9)	—	19	482	—	501
Impairment losses on property, plant and equipment	39	(5)	—	34	5	—	39
Depreciation of property, plant and equipment	7	(2)	—	5	—	—	5
Expenses to be claimed on paid basis	55	(19)	—	36	11	—	47
Change in fair value of available-for-sale financial assets	—	—	(48)	(48)	—	56	8
Provision for termination benefits	—	49	—	49	(13)	—	36
Deductible expenses relating to Bayuquan Project	—	18	—	18	420	—	438
Others	2	2	—	4	18	—	22
	112	59	(63)	108	929	56	1,093

8. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

(a) Net finance costs

	2008 Rmb million	2007 Rmb million
Interest and other borrowing costs	1,553	1,402
Less: Amount capitalised as construction in progress*	(784)	(682)
Net interest expenses	769	720
Net exchange (gain)/loss	(46)	59
Interest income	(37)	(27)
Bank charges	4	3
Others	4	—
	694	755

* The borrowing costs have been capitalised at an average rate of 6.33% (2007: 5.99%) per annum for construction in progress.

(b) Other items

	2008 Rmb million	2007 Rmb million
Auditors' remuneration	6	9
Cost of inventories sold	69,891	50,031
Depreciation	4,775	4,142
Amortisation of intangible assets (included in administrative expenses)	4	5
Amortisation of lease prepayments	135	114
Impairment losses on property, plant and equipment (included in other operating loss, net)	64	111
Net allowance/(reversal of allowance) for inventories *(note 20)*	1,929	(12)
Staff costs		
— Salaries and wages, welfare and other costs	1,933	1,708
— Contributions to defined contribution scheme	633	528
	2,566	2,236
Repairs and maintenance	3,401	2,983
Research and development costs	25	21

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

Directors' and supervisors' remunerations were as follows:

	Directors' and supervisors' fees *Rmb million*	Salaries, allowance and benefits in kind *Rmb million*	Discretionary bonuses *Rmb million*	Retirement scheme contributions *Rmb million*	2008 Total *Rmb million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.54	—	0.09	0.63
Tang Fuping	—	0.54	—	0.09	0.63
Huang Haodong (resigned on 28 November 2008)	—	0.35	—	0.06	0.41
Fu Jihui	—	0.35	—	0.06	0.41
Fu Wei	—	0.35	—	0.06	0.41
Lin Daqing	—	0.35	—	0.06	0.41
Wang Chunming	—	0.35	—	0.06	0.41
Non-executive director					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Wang Linsen	0.09	—	—	—	0.09
Liu Yongze	0.09	—	—	—	0.09
Francis Li Chak Yan	0.09	—	—	—	0.09
Wang Xiaobin	0.09	—	—	—	0.09
Wu Xichun	—	—	—	—	—
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin	—	0.21	—	0.03	0.24
Zhang Lifen	—	0.33	—	0.06	0.39
Shan Mingyi	—	0.35	—	0.06	0.41
Li Ji	—	0.28	—	0.04	0.32
	0.36	4.00	—	0.67	5.03

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

Directors' and supervisors' remunerations were as follows: *(continued)*

	Directors' and supervisors' fees *Rmb million*	Salaries, allowance and benefits in kind *Rmb million*	Discretionary bonuses *Rmb million*	Retirement scheme contributions *Rmb million*	2007 Total *Rmb million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.53	—	0.09	0.62
Tang Fuping	—	0.53	—	0.09	0.62
Huang Haodong	—	0.38	—	0.07	0.45
Fu Jihui	—	0.38	—	0.07	0.45
Fu Wei	—	0.37	—	0.06	0.43
Lin Daqing	—	0.38	—	0.07	0.45
Wang Chunming	—	0.37	—	0.07	0.44
Non-executive director					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Wang Linsen	0.09	—	—	—	0.09
Liu Yongze	0.09	—	—	—	0.09
Francis Li Chak Yan	0.09	—	—	—	0.09
Wang Xiaobin	0.09	—	—	—	0.09
Wu Xichun	0.09	—	—	—	0.09
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin	—	0.15	—	0.03	0.18
Zhang Lifen	—	0.35	—	0.06	0.41
Shan Mingyi	—	0.38	—	0.07	0.45
Li Ji	—	0.29	—	0.05	0.34
	0.45	4.11	—	0.73	5.29

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2007: Rmb Nil).

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Rmb Nil).

The five highest paid individuals of the Group in 2008 and 2007 were all executive directors whose emoluments are disclosed above.

10. DIVIDENDS

(a) Dividend for the year

	2008 ***Rmb million***	2007 *Rmb million*
Final dividend proposed after the balance sheet date of Rmb21 cents per share (2007: Rmb55 cents per share)	**1,519**	3,979

Pursuant to a resolution passed at the directors' meeting on 14 April 2009, a final dividend of Rmb21 cents (2007: Rmb55 cents) per share totalling Rmb1,519 million (2007: Rmb3,979 million) was approved for shareholders' approval at the forthcoming 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) Dividend for the previous financial year, approved and paid during the year

	2008 ***Rmb million***	2007 *Rmb million*
Final dividend in respect of the previous financial year, approved and paid during the year, of Rmb55 cents per share (2007: Rmb58 cents per share)	**3,979**	3,441

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of Rmb2,993 million (2007: Rmb7,534 million) and the weighted average number of shares of 7,235 million in issue during the year (2007: 6,721 million) as follows:

Weighted average number of shares

	2008	2007
	Million	*Million*
Issued shares at 1 January	**7,235**	5,933
Effect of rights issue *(note 26(b))*	**—**	788
Weighted average number of shares for the year	**7,235**	6,721

(b) Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive potential equity shares in existence during the two years ended 31 December 2008.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *Rmb million*	Plant, machinery and equipment *Rmb million*	Transportation vehicles and other related equipment *Rmb million*	Total *Rmb million*
Cost:				
At 1 January 2007	10,726	27,222	1,680	39,628
Additions	39	39	—	78
Transfer from construction in progress *(note 14)*	1,068	3,196	308	4,572
Reclassification	(501)	406	95	—
Disposals	(131)	(171)	(29)	(331)
At 31 December 2007 and 1 January 2008	11,201	30,692	2,054	43,947
Additions	13	11	1	25
Transfer from construction in progress *(note 14)*	4,535	10,281	647	15,463
Disposals	(28)	(113)	(18)	(159)
At 31 December 2008	15,721	40,871	2,684	59,276
Accumulated depreciation and impairment:				
At 1 January 2007	1,140	5,663	414	7,217
Charge for the year	756	3,048	338	4,142
Reclassification	(10)	7	3	—
Written back on disposal	(82)	(82)	(18)	(182)
Impairment losses *(note (b))*	27	81	3	111
At 31 December 2007 and 1 January 2008	1,831	8,717	740	11,288
Charge for the year	829	3,613	333	4,775
Written back on disposal	(11)	(86)	(10)	(107)
Impairment losses *(note (b))*	13	51	—	64
At 31 December 2008	2,662	12,295	1,063	16,020
Carrying amount:				
At 31 December 2008	13,059	28,576	1,621	43,256
At 31 December 2007	9,370	21,975	1,314	32,659

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Note:

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

(b) During the year ended 31 December 2008, the Group planned to dispose of certain machinery which were obsolete. The recoverable amounts of these machinery were assessed based on their scrap value less costs to sell. As a result, the carrying amount of the machinery was written down by Rmb64 million (2007: Rmb111 million). The impairment loss for the year is included in "Other operating loss, net" in the consolidated income statement.

(c) During the year the Group changed the estimated useful lives of certain plant and machinery from the range of 5 to 15 years to the range of 3 to 6.6 years. As a result of this change in accounting estimate, the depreciation charge increased by Rmb163 million for the year and will also increase by Rmb168 million in the year 2009.

13. INTANGIBLE ASSETS

	Industrial technology *Rmb million*
Cost:	
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	32
Accumulated amortisation:	
At 1 January 2007	5
Amortisation for the year	5
At 31 December 2007 and 1 January 2008	10
Amortisation for the year	4
At 31 December 2008	14
Carrying amount:	
At 31 December 2008	18
At 31 December 2007	22

The remaining useful lives of the intangible assets are in the range of 3 to 7 years.

14. CONSTRUCTION IN PROGRESS

	2008	2007
	Rmb million	*Rmb million*
At 1 January	**17,115**	8,257
Additions	**17,137**	13,430
	34,252	21,687
Transfer to property, plant and equipment *(note 12)*	**(15,463)**	(4,572)
At 31 December	**18,789**	17,115

15. LEASE PREPAYMENTS

Lease prepayments represent the land use rights on land located in the PRC under medium term leases. The remaining periods of the land use rights of the Group range from 39 to 48 years.

At 31 December 2008, the Group was in the process of applying for or changing registration of the title certifications of certain of its land use rights, which related to acquisition of Angang New Steel and Iron Company Limited ("ANSI") as mentioned in note 32 and the circular published by the Company on 11 November 2005, with an aggregate carrying value of approximately Rmb20 million as at 31 December 2008 (2007: Rmb193 million). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned land.

16. SUBSIDIARY

Particulars of the subsidiary as at 31 December 2008 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼鋼材配送(武漢)有限公司 (Angang Steel Logistics (Wuhan) Company Limited)	Limited liability company	PRC	Rmb60 million	100%	Not yet commence business

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008 Rmb million	2007 Rmb million
Unlisted investments		
— Share of net assets	**864**	825

Details of the Group's interests in the jointly controlled entities are set out below:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼新軋－蒂森克虜伯鍍鋅鋼板有限公司 (ANSC-TKS Galvanizing Co., Ltd.) ("ANSC-TKS")	Sino-foreign equity joint venture	PRC	US$132 million	50%	Production and sale of hot dip galvanised steel products
鞍鋼股份－大船重工大連鋼材加工配送有限公司 (ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Co., Ltd) ("ANSC-Dachuan")	Equity joint venture	PRC	Rmb380 million	50%	Sale, processing and distribution of steel products
長春一汽鞍井鋼材加工配送有限公司 (Changchun FAM Steel Processing and Distribution Company Limited) ("Changchun FAM")	Sino-foreign equity joint venture	PRC	Rmb90 million	50%	Sale, processing, distribution and storage of steel products
鞍鋼蒂森克虜伯鋼材配送(長春)有限公司 (TKAS (Changchun) Steel Service Center Ltd. formerly known as ANSC-TK Changchun Steel Logistics Co., Ltd.) ("TKAS-SSC")	Sino-foreign equity joint venture	PRC	US$12 million	50%	Production, processing and sale of anti-fluorin steel and connected commercial activities

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The following amounts are the Group's share of the jointly controlled entities that are accounted for by the equity method of accounting.

	2008 Rmb million	2007 Rmb million
At 31 December		
Non-current assets	**1,172**	1,008
Current assets	**504**	495
Non-current liabilities	**(496)**	(327)
Current liabilities	**(292)**	(334)
Net assets	**888**	842
Year ended 31 December		
Revenue	**1,729**	1,368
Expenses	**(1,682)**	(1,291)
	47	77

18. INTERESTS IN ASSOCIATES

	2008 Rmb million	2007 Rmb million
Unlisted investments		
— Share of net assets	**1,388**	50

18. INTERESTS IN ASSOCIATES *(continued)*

Details of the Group's interests in the associates are set out below:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼瀋陽鋼材加工配送有限公司 (Angang Shenyang Steel Product Processing And Distribution Company Limited) ("Angang Shenyang")	Equity joint venture	PRC	Rmb48 million	30%	Sale, processing and distribution of steel products
蒂森克虜伯鞍鋼新軋(長春)激光拼焊板有限公司 (TKAS (Changchun) Tailored Blanks Ltd) ("TKAS")	Sino-foreign equity joint venture	PRC	US$10 million	45%	Production and sale of tailored blanks
鞍鋼實業集團包裝鋼帶有限公司 (Angang Package Steel Strip Company Limited) ("Angang Steel Strip") *	Equity joint venture	PRC	Registered capital of Rmb36 million	30%	Production and sales of package steel strip
鞍鋼集團財務有限公司 (Angang Holdings Financial Company Limited) ("Angang Finance") **	Equity joint venture	PRC	Rmb1,000 million	20%	Provision of financial service of deposit, lending, financing and etc.
天津鞍鋼天鐵冷軋薄板有限公司 (Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited) ("Tianjin Tiantie") ***	Equity joint venture	PRC	Registered capital of Rmb3,700 million	34.51%	Steel rolling processing

18. INTERESTS IN ASSOCIATES *(continued)*

Summary financial information in respect of the Group's associates is set out below:

	2008 Rmb million	2007 Rmb million
At 31 December		
Total assets	**26,909**	258
Total liabilities	**(22,065)**	(127)
Net assets	**4,844**	131
Group's share of associates' net assets	**1,408**	51
Year ended 31 December		
Total revenue	**2,076**	585
Total (loss)/profit for the year	**(119)**	7
Group's share of associates' profit for the year	**33**	3

* During the year, the Group and a fellow subsidiary set up Angang Steel Strip and the Group invested Rmb11 million in Angang Steel Strip which represented 30% of the registered capital of Angang Steel Strip.

** During the year, the Group invested Angang Finance (a limited liability company set up by three fellow subsidiaries of the Group) of Rmb315 million which represented 20% of the enlarged registered capital of Angang Finance.

*** On 26 September 2008 the Group entered into a contract with the then sole equity holder of Tianjin Tiantie to inject Rmb1,890 million in Tianjin Tiantie in two phases to acquire 50% equity interest of the enlarged equity capital of Tianjin Tiantie. During the year the Group contributed Rmb975 million to Tianjin Tiantie.

19. OTHER INVESTMENTS

	2008 *Rmb million*	2007 *Rmb million*
Available-for-sale financial assets		
Equity securities, at fair value		
— Listed in the PRC	**45**	271
Unlisted equity securities, at cost	**10**	10
	55	281

The fair values of listed securities are based on current bid prices. Unlisted equity securities with carrying amount of Rmb10 million was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

20. INVENTORIES

	2008 *Rmb million*	2007 *Rmb million*
Raw materials and fuels	**3,238**	2,556
Work in progress	**3,222**	1,736
Finished goods	**852**	1,861
Spare parts, tools and ancillary materials	**3,060**	2,548
	10,372	8,701

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

	2008 *Rmb million*	2007 *Rmb million*
Carrying amount of inventories sold	**67,962**	50,043
Allowance of inventories	**2,042**	36
Reversal of allowance of inventories	**(113)**	(48)
	69,891	50,031

The reversal of allowance of inventories arose due to usage of the impaired spare parts, tools and ancillary materials which were written down in current and prior years.

21. TRADE RECEIVABLES

	2008	2007
	Rmb million	*Rmb million*
Accounts receivables	**417**	412
Bills receivables	**2,583**	6,083
	3,000	6,495

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2008	2007
	Rmb million	*Rmb million*
Less than 3 months	**2,386**	4,652
More than 3 months but less than 12 months	**610**	1,839
More than 1 year	**4**	4
	3,000	6,495

As of 31 December 2008, trade receivables of Rmb48 million (2007: Rmb106 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008	2007
	Rmb million	*Rmb million*
Less than 3 months	**44**	6
More than 3 months but less than 12 months	**—**	96
More than 1 year	**4**	4
	48	106

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

22. CASH AND CASH EQUIVALENTS

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

As at 31 December 2008, a deposit of Rmb2,878 million (2007: Rmb1,878 million) was placed in Angang Finance, an associate and a fellow subsidiary of the Group.

Conversion of Rmb into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. TRADE PAYABLES

	2008 *Rmb million*	2007 *Rmb million*
Accounts payables	**3,220**	1,666
Bills payables	**4,585**	1,052
	7,805	2,718

The ageing analysis of trade payables at the balance sheet date is as follows:

	2008 *Rmb million*	2007 *Rmb million*
Due on demand	**751**	154
Due within 3 months	**7,054**	2,200
Due after 3 months but within 6 months	**—**	364
	7,805	2,718

24. BANK LOANS

At 31 December 2008, the bank loans were repayable as follows:

	2008 Rmb million	2007 Rmb million
On demand or within one year	**8,601**	7,326
In the second year	**7,742**	900
In the third to fifth years, inclusive	**7,419**	7,885
After five years	**2,404**	3,512
	26,166	19,623
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(8,601)**	(7,326)
Amount due for settlement after 12 months	**17,565**	12,297

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2008 Rmb million	2007 Rmb million
Rmb	**25,830**	19,225
Euro	**11**	13
Japanese Yen	**325**	385
	26,166	19,623

The interest rate at 31 December is as follows:

	2008	2007
Bank loans	**0.25% to 6.966%**	0.25% to 7.05%

Among the bank loans of the Group as at 31 December 2008, Rmb1,200 million (2007: Rmb1,603 million) were guaranteed by Angang Holding.

As at 31 December 2008, loans from Angang Finance, an associate and fellow subsidiary of the Group, amounted to Rmb3,100 million (2007: Rmb500 million).

25. PROVISIONS

	2008	2007
	Rmb million	*Rmb million*
At 1 January	**198**	—
Provision for the year	**—**	198
Provision used	**(52)**	—
At 31 December	**146**	198
Less: Amount included under "other payables"	**(44)**	(52)
	102	146

Taking into consideration the relevant laws and regulations and the actual situation, as certain employees stay at home awaiting job assignment no longer generate economic benefits for the Group, they have been treated by the Group for compensation purposes by providing them with termination benefits. The termination benefits are calculated based on the salaries and welfare payable to these employees from 1 January 2008 to the normal retirement. The present value of the future cash flow expected to be required to settle the obligation is recognised as provision for termination benefits.

26. SHARE CAPITAL

	2008		2007	
	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	**4,868**	**4,868**	3,990	3,990
Transfer *(note (a))*	**1**	**1**	—	—
Issuance of shares for rights issue *(note (b))*	**—**	**—**	878	878
At 31 December	**4,869**	**4,869**	4,868	4,868
A shares of Rmb1 each				
At 1 January	**1,281**	**1,281**	1,053	1,053
Transfer *(note (a))*	**(1)**	**(1)**	—	—
Issuance of shares for rights issue *(note (b))*	**—**	**—**	228	228
At 31 December	**1,280**	**1,280**	1,281	1,281
H shares of Rmb1 each				
At 1 January	**1,086**	**1,086**	890	890
Issuance of shares for rights issue *(note (b))*	**—**	**—**	196	196
At 31 December	**1,086**	**1,086**	1,086	1,086
	7,235	**7,235**	7,235	7,235

26. SHARE CAPITAL *(continued)*

Notes:

(a) During the year, Angang Holding acquired additional 1,000,000 A shares of Rmb1 each of the Company from the public.

(b) As authorised by the documents "Notice Regarding Approval of Placement of Angang Steel Company Limited" (Zheng Jian Fa Xing Zi* [2007] No.313) and "Approval Reply Regarding Placement of Foreign Investors' Shares of Angang Steel Company Limited Listed Outside of the PRC" (Zheng Jian Guo He Zi* [2007] No. 33 issued by the China Securities Regulatory Commission ("CSRC") on 24 September 2007 and 28 September 2007 respectively, the Company proposed to issue domestic rights shares and H rights shares ("Right Shares Issue") to all shareholders with 5,932,985,697 outstanding shares on the basis of 2.2 rights shares for every 10 existing shares in October 2007. The entitlements to the rights shares under the Right Shares Issue represent a total of 1,301,822,150 shares, including 1,106,022,150 domestic shares, and the remaining 195,800,000 H shares. The subscription price for domestic shares and H shares is Rmb15.40 per share and HK$15.91 per share respectively.

The total subscription fund amounted to Rmb20,006 million. Deducted by the issuance fee of Rmb108 million and the interest income of the subscription fund of Rmb7 million, the Company received the net subscription fund of Rmb19,905 million. This increased the paid-up capital and share premium by Rmb1,302 million and Rmb18,603 million respectively.

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

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain the net debt-to-adjusted capital ratio at a reasonable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

26. SHARE CAPITAL *(continued)*

Notes: (continued)

(d) Capital management *(continued)*

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

	2008	2007
	Rmb million	*Rmb million*
Current liabilities		
Trade and other payables	**13,383**	8,921
Amount due to ultimate parent	**11**	41
Amounts due to fellow subsidiaries	**2,087**	1,898
Amounts due to jointly controlled entities	**25**	147
Amounts due to associates	**42**	—
Current portion of bank loans	**8,601**	7,326
Current portion of long-term payable to ultimate parent	**—**	2,324
	24,149	20,657
Non-current liabilities		
Bank loans	**17,565**	12,297
Total debt	**41,714**	32,954
Add: Proposed dividends	**1,519**	3,979
Less: Cash and cash equivalents	**(2,974)**	(7,733)
Net debt	**40,259**	29,200
Total equity	**52,971**	54,127
Less: Proposed dividends	**(1,519)**	(3,979)
Adjusted capital	**51,452**	50,148
Net debt-to-adjusted capital ratio	**78%**	58%

26. SHARE CAPITAL *(continued)*

Notes: (continued)

(d) Capital management *(continued)*

The increase in the debt-to-adjusted capital ratio during 2008 resulted primarily from the increase of the trade and other payables and bank loans as at 31 December 2008 as the operational requirement.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2008, 32.70% (2007: 32.72%) of the shares were in public hands.

27. SHARE PREMIUM

	Rmb million
At 1 January 2007	12,811
Issuance of new shares *(note 26(b))*	18,603
At 31 December 2007, 1 January 2008 and 31 December 2008	31,414

28. RESERVES

	Statutory surplus reserve *(note (a))* Rmb million	Reserve fund — specified reserve *(note (b))* Rmb million	Excess over share capital *(note (c))* Rmb million	Fair value reserve *(note (d))* Rmb million	Total Rmb million
2007					
At 1 January 2007	2,228	—	(152)	—	2,076
Proposed transfer for the year *(note 29)*					
— as previously stated	753	—	—	—	753
— change in accounting treatment *(note (b))*	—	11	—	—	11
— as restated	753	11	—	—	764
Change in fair value of available-for-sale financial assets, net of deferred tax	—	—	—	143	143
Effect of change in deferred tax relating to revaluation surplus	—	—	(15)	—	(15)
At 31 December 2007	2,981	11	(167)	143	2,968
2008					
At 1 January 2008 (restated)	2,981	11	(167)	143	2,968
Proposed transfer for the year *(note 29)*	299	10	—	—	309
Change in fair value of available-for-sale financial assets, net of deferred tax	—	—	—	(170)	(170)
At 31 December 2008	3,280	21	(167)	(27)	3,107

28. RESERVES *(continued)*

Notes:

(a) Under the Company's Articles of Association, the Company's net profit after tax as reported in the financial statements prepared in accordance with the PRC GAAP 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 of at least 10% of the net profit after tax, as determined under the PRC GAAP; and

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

(b) In 2007, according to the document (Cai Qi* [2007] No. 478), entities involved in mining, construction, land transport and/or production of dangerous goods are required to accrue production safety expenses to the relevant period's income statement at fixed rates on production volume or turnover. In 2008, according to the requirements of the document (Cai Hui Han [2008] No. 60) and "Interpretation of Accounting Standards for Business Enterprises (2008)", production safety expenses are changed to recognise in the "Reserve fund - specified fund" retrospectively.

(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.

(d) The fair value reserve comprises the cumulative change in the fair value of available-for-sale financial assets net of deferred tax held at the balance sheet date.

29. RETAINED PROFITS

	2008	2007
	Rmb million	*Rmb million*
		(restated)
At 1 January	**12,510**	9,181
Profit for the year	**2,993**	7,534
Transfer between reserves *(note 28)*	**(309)**	(764)
Dividend approved in respect of the previous year *(note 10(b))*	**(3,979)**	(3,441)
At 31 December	**11,215**	12,510

30. 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 GAAP and the amount determined under IFRSs. As at 31 December 2008, the reserve available for distribution was Rmb11,144 million (2007: Rmb12,443 million (restated)). Final dividend of Rmb1,519 million (2007: Rmb3,979 million) in respect of the financial year 2008 was proposed after the balance sheet date.

31. NOTE TO THE CASH FLOW STATEMENT

Reconciliation of profit before tax to cash generated from operations

	2008 *Rmb million*	2007 *Rmb million*
Operating activities		
Profit before tax	**3,847**	10,382
Adjustments for:		
Interest income	**(37)**	(27)
Interest expenses	**769**	720
Share of profits less losses of associates	**(33)**	(3)
Share of profits less losses of jointly controlled entities	**(47)**	(77)
Depreciation	**4,775**	4,142
Amortisation of intangible assets	**4**	5
Amortisation of lease prepayments	**135**	114
Loss on disposals of property, plant and equipment	**46**	80
Net exchange (gain)/loss	**(46)**	59
Government grant	**(9)**	—
Net allowance/(reversal of allowance) of inventories	**1,929**	(12)
Impairment losses on property, plant and equipment	**64**	111
Operating profit before changes in working capital	**11,397**	15,494
Increase in inventories	**(3,904)**	(1,561)
Decrease/(Increase) in amounts due from fellow subsidiaries	**421**	(526)
Increase in accounts receivables	**(5)**	(221)
Decrease/(Increase) in bills receivables	**3,238**	(4,674)
Increase in amount due from ultimate parent	**(97)**	—
Decrease/(Increase) in prepayments, deposits and other receivables	**83**	(52)
Increase in accounts payables	**1,554**	467
Increase/(Decrease) in bills payables	**3,533**	(286)
Increase in amount due to ultimate parent	**7**	25
Increase in amounts due to fellow subsidiaries	**552**	962
Decrease in amounts due to jointly controlled entities	**(122)**	—
Increase in amounts due to associates	**42**	—
(Decrease)/Increase in other payables	**(1,527)**	720
Increase in provisions	**—**	146
Increase in deferred income	**45**	—
Cash generated from operations	**15,217**	10,494

32. LONG-TERM PAYABLE TO ULTIMATE PARENT

According to the acquisition agreement dated 20 October 2005 ("Acquisition Agreement"), the Group acquired the entire equity interest of ANSI ("Acquisition") from Angang Holding, 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 Rmb12.741 billion) to Angang Holding as a partial payment for the consideration of the Acquisition. The remaining balance of the purchase consideration amounted to Rmb6,971 million were paid in three equal instalments and bears interest at rates quoted by the People's Bank of China for the same period.

During the year, the Group has fully repaid the remaining balance of Rmb2,324 million.

33. COMMITMENTS

The Group had capital commitments outstanding at 31 December 2008 not provided for in the financial statements as follows:

	2008 ***Rmb million***	2007 *Rmb million*
Authorised and contracted for:		
— Construction projects of production lines	**4,867**	12,887
— Investment in an associate *(note 18)*	**915**	—
Authorised but not contracted for:		
— Improvement projects of production lines	**—**	3,873
	5,782	16,760

34. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group, Angang Holding and its subsidiaries other than the Group (collectively referred to as "Angang Group"), the jointly controlled entities and associates during the year.

(a) Significant transactions and balances with Angang Group

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

	Note	**2008** **Rmb million**	2007 Rmb million
Sales of finished goods (before deducting sales related taxes)	(a)	**4,683**	4,133
Sales of scrap materials and minus sieve powder (before deducting sales related taxes)	(a)	**417**	285
Fee received for utilities and services provided	(b)	**623**	519
Sales of assets	(c)	**4**	25
Purchase of raw materials	(d)	**18,098**	13,781
Purchase of ancillary materials and spare parts	(e)	**2,127**	1,910
Utility supplies	(f)	**1,642**	1,413
Fees paid for welfare and other support services	(g)	**9,333**	8,000
ERP service fee	(h)	**—**	30
Purchase of assets	(i)	**1,289**	4
Interest received	(j)	**21**	10
Interest paid	(j)	**218**	459

Notes:

(a) The Group 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.

The Group sold minus sieve powder to Angang Group at prices for sinter ore less the costs of producing the same by Angang Group.

(b) The Group 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 Group sold certain assets to Angang Group for their own use at selling prices based on market value.

34. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Group *(continued)*

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

Notes: (continued)

(d) The Group 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 Group for importing principal raw materials of similar quality plus freight charges in the previous interim period or the average purchase prices charged by independent suppliers plus 10% mark up of processing costs (if applicable).

(e) The Group 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.

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

(g) Angang Group provided certain supporting services to the Group. These services include railway and road transportation services; agency services for import of raw material, 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.

(h) The Group paid service fee to Angang Group for use of the ERP information management system at a price based on the total depreciation and maintenance expenses incurred by Angang Group for the ERP information management system.

(i) The Group purchased certain assets (included the lease prepayments) from Angang Group at prices based on market value.

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

As at 31 December 2008, the deposit placed with Angang Finance amounted to Rmb2,878 million (2007: Rmb1,878 million) and the loans from Angang Finance amounted to Rmb3,100 million (2007: Rmb500 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. Interest paid for the year in respect of the deferred cash payment amounted to Rmb98 million (2007: Rmb249 million).

34. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Group *(continued)*

(ii) Bank loans

As at 31 December 2008, certain bank loans amounted to Rmb1,200 million (2007: Rmb1,603 million) were guaranteed by Angang Holding.

(iii) Amount due from/to ultimate parent

Amount due from/to ultimate parent mainly represents fees receivables for utilities and services provided and fees payable for support services.

The amount due from/to ultimate parent 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 Group 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 parent

The amount represents deferred cash payment for the acquisition of 100% equity interest in ANSI. For details, please refer to note 32.

(vi) New Supply of Materials and Services Agreement

The Company entered into a new Supply of Material and Services Agreement 2008/09 ("New Supply Agreement") with Angang Holding on 24 October 2007, which will become effective on 1 January 2008 for 2 years. According to the New Supply Agreement, the cap of total transactions for the year amounted to Rmb52,340 million.

34. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant transactions with other related parties

(i) Significant transactions with ANSC-TKS

Sales of finished goods to ANSC-TKS by the Group

The Group sold finished goods to ANSC-TKS amounting to Rmb2,061 million (2007: Rmb1,591 million) for further processing.

(ii) Significant transactions with Changchun FAM

Sales of finished goods to Changchun FAM by the Group

The Group sold finished goods to Changchun FAM amounting to Rmb114 million (2007: Rmb Nil) for further processing.

(iii) Significant transactions with TKAS-SSC

Sales of finished goods to TKAS-SSC by the Group

The Group sold finished goods to TKAS-SSC amounting to Rmb9 million (2007: Rmb Nil) for further processing.

(iv) Significant transactions with TKAS

Sales of finished goods to TKAS by the Group

The Group sold finished goods to TKAS amounting to Rmb2 million (2007: Rmb Nil) for further processing.

(v) Amounts due to jointly controlled entities and associates

Amounts due to jointly controlled entities and associates mainly represent the amounts received by the Group in respect of sales of finished goods.

The amounts due to jointly controlled entities and associates are unsecured, interest free and have no fixed terms of repayment.

34. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant transactions with other related parties *(continued)*

(vi) Transactions with key management personnel

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

	2008	2007
	Rmb million	*Rmb million*
Directors' and supervisors' fees	**0.36**	0.47
Salaries, allowance and other benefits in kind	**4.34**	4.52
Retirement scheme contributions	**0.73**	0.78
	5.43	5.77

(c) Transactions 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.

35. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Group is required to contribute to the retirement benefits scheme based on 20% (2007: 20%) 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. Except as disclosed in note 25, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

36. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, interest rate risk and equity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has no significant foreign currency risk exposure arising from the export of products and import of raw material for production and equipments for construction as the Group has fixed the exchange rates to settle the amounts with the export and import agents.

At 31 December 2008, if the Rmb had weakened 5 per cent against the Japanese Yen with all other variables held constant, consolidated profit after tax for the year would have been Rmb16 million (2007: Rmb13 million) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in Japanese Yen. If the Rmb had strengthened 5 per cent against the Japanese Yen with all other variables held constant, consolidated profit after tax for the year would have been Rmb16 million (2007: Rmb13 million) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in Japanese Yen.

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, investments, amount due from ultimate parent and amounts due from fellow subsidiaries included in the balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has certain concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from fellow subsidiaries are closely monitored by the directors.

The credit risk on cash and bank balances limited.

36. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year *Rmb million*	Between 1 and 2 years *Rmb million*	Between 3 and 5 years *Rmb million*	Over 5 years *Rmb million*
At 31 December 2008				
Trade payables	**7,805**	**—**	**—**	**—**
Amount due to ultimate parent	**11**	**—**	**—**	**—**
Amounts due to fellow subsidiaries	**2,087**	**—**	**—**	**—**
Amounts due to jointly controlled entities	**25**	**—**	**—**	**—**
Amounts due to associates	**42**	**—**	**—**	**—**
Other payables	**5,578**	**—**	**—**	**—**
Bank loans	**8,601**	**7,742**	**7,419**	**2,404**
At 31 December 2007				
Trade payables	2,718	—	—	—
Amount due to ultimate parent	41	—	—	—
Amounts due to fellow subsidiaries	1,898	—	—	—
Amounts due to jointly controlled entities	147	—	—	—
Other payables	6,255	—	—	—
Bank loans	7,326	900	7,885	3,512
Long term payable to ultimate parent	2,324	—	—	—

36. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank loans. The Group's bank deposits and certain of the Group's bank loans of bear interests at variable rates varied with the then prevailing market condition. The Group's other bank loans bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

At 31 December 2008, if the interest rate at that date had been decreased by 1 per cent with all other variables held constant, the Group's consolidated profit would have been Rmb51 million (2007: Rmb95 million) higher, arising mainly as a result of lower interest expense on bank loans. If the interest rate at that date had been increased by 1 per cent with all other variables held constant, the Group's consolidated profit would have been Rmb51 million (2007: Rmb95 million) lower, arising mainly as a result of higher interest expense on bank loans.

(e) Equity price risk

The Group's available-for-sale financial assets are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 31 December 2008, if the equity share price increased by 10 per cent with all other variables held constant, the Group's consolidated equity would have been Rmb4 million (2007: Rmb20 million) higher. If the equity share price decreased by 10 per cent with all other variables held constant, the Group's consolidated equity would have been Rmb4 million (2007: Rmb20 million) lower.

(f) Fair value

Except as disclosed in note 19 to the financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

37. EVENTS AFTER THE BALANCE SHEET DATE

The directors proposed a final dividend after the balance sheet date. Details please refer to note 10.

38. 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 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment for property, plant and equipment and intangible assets

If circumstances indicate that the carry amounts of property, plant and equipment and intangible assets 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 property, plant and equipment and intangible 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.

38. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Depreciation

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

(c) Allowance for inventories

As explained in note 3(j), the Group's inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value. Spare parts and tools are stated at cost less any allowance 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.

Differences Between Financial Statements

For the year ended 31 December 2008
Prepared in accordance with International Financial Reporting Standards ("IFRSs") and Accounting Standards for Business Enterprises in the PRC ("PRC GAAP")

	Note	**2008** **Rmb million**	2007 Rmb million
Profit attributable to equity shareholders of the Company under IFRSs		**2,993**	7,534
Adjustments:			
— Additional borrowing costs capitalised	(i)	**—**	7
— Pre-operating expenses	(ii)	**—**	(3)
— Lease prepayment amortised	(iii)	**(5)**	(5)
— Deferred tax charge	(iv)	**1**	—
Profit attributable to equity shareholders of the Company under PRC GAAP		**2,989**	7,533
Total equity attributable to equity shareholders of the Company under IFRSs		**52,971**	54,127
Adjustments:			
— Revaluation of land use rights	(iii)	**176**	181
— Deferred tax	(iv)	**(44)**	(45)
Total equity attributable to equity shareholders of the Company under PRC GAAP		**53,103**	54,263

Notes:

(i) The amounts represent the different treatments on transaction costs and discount on convertible debentures between the IFRSs and the applicable PRC Accounting Rules and Regulations (the "Old PRC Accounting Rules and Regulations") before 31 December 2006. Adjustments for 2007 represent the difference in balance arising from the different accounting treatments after adoption of the PRC GAAP on 1 January 2007.

(ii) Under the Old PRC Accounting Rules and Regulations before 31 December 2006, pre-operating expenses are capitalised in long-term deferred expenses before the commencement of operation and will be charged to expense in the first month of operation once and for all. After the adoption of the PRC GAAP on 1 January 2007, pre-operating expenses are expensed when incurred, which is consistent with the accounting treatment of IFRSs. Adjustments for 2007 represent the reversal of the balance of pre-operating expenses as at 1 January 2007.

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

(iv) According to the above adjustment made in (iii), income tax is recognised by liability method under IFRSs, whereas deferred tax assets are provided.

A PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC

	2008 ***Rmb million***	2007 *Rmb million* (restated)	2006 *Rmb million*	2005 *Rmb million*	2004 *Rmb million*
Principal operating revenue	**79,616**	65,499	54,330	26,632	23,228
Net profit	**2,989**	7,533	7,003	2,079	1,776
Total assets	**92,179**	86,783	58,385	14,290	15,343
Total liabilities	**(39,076)**	(32,520)	(28,262)	(2,961)	(5,209)
Net assets	**53,103**	54,263	30,123	11,329	10,134

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2008 ***Rmb million***	2007 *Rmb million*	2006 *Rmb million*	2005 *Rmb million*	2004 *Rmb million*
Turnover	**78,985**	65,294	54,283	26,488	23,228
Profit attributable equity shareholders of the Company	**2,993**	7,534	7,094	2,117	1,798
Non-current assets	**72,026**	56,430	46,923	9,671	7,966
Current assets	**22,800**	30,951	11,590	4,553	6,934
Current liabilities	**(24,149)**	(20,811)	(17,377)	(2,369)	(3,633)
Net current (liabilities)/assets	**(1,349)**	10,140	(5,787)	2,184	3,301
Total assets less current liabilities	**70,677**	66,570	41,136	11,855	11,267
Non-current liabilities	**(17,706)**	(12,443)	(11,135)	(604)	(1,245)
Net assets	**52,971**	54,127	30,001	11,251	10,022

B PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Note:

(a) Turnover was stated as the amount before deducting sales related taxes.

(b) In 2007, the Group changed its accounting policy relating to interest in jointly controlled entities. The new accounting policy has been applied retrospectively by restating opening balance at 1 January 2006 and 2007.

(c) Figures in years earlier than 2006 are stated in accordance with the policies before the change on a consistent basis.

INCORPORATION OF THE COMPANY:

Date:	8 May 1997
Place:	396 Nan Zhong Hua Road, Tie Dong District, Anshan City, Liaoning Province, the PRC

BUSINESS ADDRESS OF THE COMPANY IN HONG KONG:

33/F Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong

REGISTRATION NUMBER OF LEGAL PERSON BUSINESS LICENSE HELD BY THE COMPANY:

210000400006026

TAXATION REGISTRATION NUMBER:

210302242669479

AUDITORS:

Name of the international auditors	:	RSM Nelson Wheeler
Place of Business	:	29th Floor, Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong
Name of the PRC auditors	:	Zhongrui Yuehua Certified Public Accountants Co., Ltd
Place of Business	:	8-9/F, Block A, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing, PRC

Documents Available for Inspection

1. Financial statements of the Company signed by the Legal Representative, Chief Accountant and Head of the Accounting Department of the Company and with seal affixed;

2. Original of the auditors' report of the Company sealed by the accounting firm and signed and sealed by certified public accountants;

3. Originals of all documents and manuscripts of announcements disclosed by the Company in the China Securities Journal and the Securities Times in 2008;

4. Annual report of the Company submitted to the Hong Kong Stock Exchange.

The above documents are available for inspection at the secretarial office of the Board of Directors, Angang Steel Company Limited situated at No. 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province.

Note: This report is prepared in both Chinese and English. The Chinese version shall prevail in case of any inconsistency in the interpretation of the two versions.

Angang Steel Company Limited
The Board of Directors

14 April 2009