2009 Annual Report

MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Code: 323
A Share Code: 600808

Contents

IMPORTANT NOTICE

The board of directors, the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jiangang, Director and General Manager overseeing the accounting operations, and Mr. Zhang Qianchun, Planning and Finance Manager in charge of the Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the annual report.

No appropriation of funds on a non-operating basis by the controlling shareholder or its related parties was found in the Company. The Company did not provide external guarantees which were in violation of stipulated decision-making procedures.

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

The Company/Company/Magang:	Maanshan Iron & Steel Company Limited
The Group:	The Company and its subsidiaries
Holding:	Magang (Group) Holding Company Limited
The Board:	The Board of Directors of the Company
Directors:	Directors of the Company
The Supervisory Committee:	The Supervisory Committee of the Company
Supervisors:	Supervisors of the Company
Hong Kong Stock Exchange:	The Stock Exchange of Hong Kong Limited
SSE:	The Shanghai Stock Exchange
A shares:	Ordinary shares of an nominal value of RMB1.00 each in the capital of the Company which are listed on the SSE, and are subscribed for and traded in RMB
H shares:	Foreign shares of an nominal value of RMB1.00 each in the capital of the Company which are listed on the Hong Kong Stock Exchange, and are subscribed for and traded in Hong Kong dollars
CSDCC Shanghai Branch:	The China Securities Depository and Clearing Corporation Limited, Shanghai Branch
Hong Kong:	The Hong Kong Special Administrative Region
RMB:	Renminbi
China:	The People's Republic of China
CSRC:	The China Securities Regulatory Commission
Articles:	The articles of association of Maanshan Iron & Steel Company Limited
Bonds with Warrants:	Convertible corporate bonds, in which bonds and subscription warrants are tradable separately

Company Profile

1. BASIC INFORMATION

Company Name	:	馬鞍山鋼鐵股份有限公司 (abbreviated "馬鋼")
Company Name in English	:	MAANSHAN IRON & STEEL COMPANY LIMITED (MAS C.L.)
Legal Representative	:	Gu Jianguo
Secretary to the Board	:	Gao Haijian
Representative for Securities Affairs	:	Hu Shunliang
Correspondence Address	:	No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Telephone	:	86-555-2888158/2875251
Fax	:	86-555-2887284
Email Address	:	mggfdms@magang.com.cn
Company's Registered and Office Address	:	No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal Code	:	243003
Company's Website	:	http://www.magang.com.cn; http://www.magang.com.hk
Email Address	:	mggfdms@magang.com.cn
Newspapers for Information Disclosure	:	Shanghai Securities News
Website Designated by CSRC for Publishing of Annual Report	:	http://www.sse.com.cn
The Company's Annual Report is Available at	:	Secretariat Office for the Board of Maanshan Iron & Steel Company Limited
Places of Listing	:	SSE (A Share)/Hong Kong Stock Exchange (H Share)
Stock Abbreviation	:	Magang Stock (A Share)/Maanshan Iron & Steel (H Share)
Stock Code	:	600808 (A Share)/323 (H Share)

Company Profile (continued)

Date of First Registration	1 September 1993
Place of Registration	Anhui Provincial Administration for Industry and Commerce
Corporate Business License	340000400002545
Tax Registration No.	State Tax: 340504610400837; Local Tax: 340504610400837
Organisation Code	61040083-7
Accountants Appointed by the Company	Ernst & Young Hua Ming Office Address: Level 16, (Block 3), Ernst & Young Tower East Tower, Oriental Economic and Trade City Oriental Plaza, No. 1 Changan Street East City, East District Beijing, PRC, Postal code: 100738 Ernst & Young Hong Kong Office Address: 18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

2. ISSUE AND LISTING

The Company was set up on 1 September 1993 and was regarded by the State as one of the nine pilot joint-stock limited enterprises which formed the first batch of overseas listed companies. The Company's H shares were issued overseas during 20-26 October 1993 and were listed on The Hong Kong Stock Exchange on 3 November 1993. The Company issued RMB denominated ordinary shares in the domestic market during 6 November through 25 December 1993. These shares were listed on the SSE in three batches on 6 January, 4 April and 6 September in the following year.

On 13 November 2006, the Company issued Bonds with Warrants on the SSE. On 29 November 2006, the Company's bonds and warrants were listed on the SSE. On 3 December 2008, the Company's warrants matured and were delisted from the SSE.

3. PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacture and sale of iron and steel products. The manufacturing process primarily involves iron-making, steel-making and steel rolling projects. The Company's principal product is steel products which come in four major categories, namely, steel plates, section steel, wire rods and train wheels.

Steel Plates

Major products include thin plates and medium plates. Thin plates can be further categorised into hot and cold-rolled thin plates, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanised plates are positioned to be used in plates of automobile, home electrical appliances, high-grade construction plates, and plates used in businesses such as packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of construction projects, home electrical appliances and steel windows. Standards adopted by thin plate products of the Company include GB, the national standard of China, Japan's JIS standard, Germany's DIN standard and the US ASTM standard. Medium plates are widely used in boilers, pressurised utensils, ship-building, container manufacturing, and so forth. Plates used for building ship structures have been endorsed by certificates issued by six countries including the PRC, the United Kingdom, Germany, the United States, France and Norway.

Section Steel

Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under the Japanese JIS standards and accredited by European Union CE mark certification. The H-shaped steel used in manufacturing oceanographic platforms has been endorsed by certificates of both China and Germany. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. It has also been awarded the "Golden Cup Prize of Quality Metal Products". The stable corten steel has passed the on-site review of China Railways Product Certification Center ("CRCC").

Company Profile (continued)

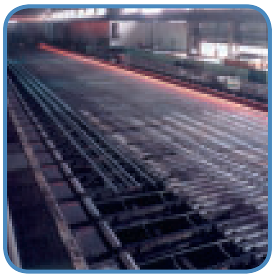
Wire Rods

Major products include high-speed wire rod materials and hot-rolled reinforcing steel used in armoured concrete. High-speed wire rod products are mostly used in the production of robust materials, pre-stressing strand steel wires and spring steel wires, and are occasionally used in construction materials. The Company owns the core technology and patent of the high-efficiency, low-cost cold-forged steel with wire-softening treatment. Hot-rolled reinforcing steel used in armoured concrete is mainly used in construction. It has been acclaimed "The First Lot of Quality Products Exempted from Inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association. It has also been endorsed by the registered BS standard in Hong Kong. Hot-rolled reinforcing steel and hot-rolled wire rods have been endorsed by the quality control system certification and product certification of the UK Certification Authority for Reinforcing Steels (CARES).

Train Wheels

Major products include train wheels and wheel rims, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth. Train wheel products are bestowed the honour of "Famous Brand of China". The Company owns the core technology and patent of train wheels used for high-speed railroads. The production quality assurance system for train wheels is accredited with authoritative certifications including the ISO9000: 2000 quality system, the AAR issued by the North American Railway Committee, the DB of Deutsche Bahn AG and RISAS (former GM/RT2470 and GM/RT2005) issued by British Rail.






Extracts of Accounting and Business Data

1. PROFIT AND CASH FLOW OF THE GROUP PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (UNIT: RMB'000):

Item	2009
Operating income	**374,216**
Total profit	**562,876**
Net profit attributable to shareholders of the Company	**392,475**
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**242,094**
Net cash flow from operating activities	**6,668,701**

2. NON-RECURRING GAINS OR LOSSES OF THE GROUP RECORDED FOR THE YEAR PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (UNIT: RMB'000):

Item	2009
Subsidy income	**95,218**
Other non-operating income and expenses, net	**13,939**
Amortization of deferred income	**79,503**
Other investment income	**197**
Fair value gains and losses of financial assets held for trading	**224**
Income tax effect	**(29,494)**
Non-recurring gains or losses attributable to minority shareholders	**(9,206)**
Net effect of non-recurring gains or losses	**150,381**

3. ITEMS ACCOUNTED UNDER THE FAIR VALUE METHOD OF THE GROUP PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES DURING THE REPORTING PERIOD (UNIT: RMB'000)

Item	Balance at the beginning of the reporting period	Balance at the end of the reporting period	Changes during the reporting period	Effects on the profit for the reporting period
Financial assets held for trading	813	1,037	224	224
Total	813	1,037	224	224

4. THE GROUP'S MAJOR ACCOUNTING FIGURES AND FINANCIAL INDICATORS FOR THE LAST FIVE YEARS (UNIT: RMB'000)

(1) Major Accounting Figures and Financial Indicators Prepared under China Accounting Standards for Business Enterprises

Index item	2009	2008	2007	2006	2005
Operating income	**51,859,970**	71,259,739	50,670,879	35,419,347	32,537,088
Profit before tax	**562,876**	805,874	2,796,705	2,801,535	3,368,402
Income tax	**29,010**	74,645	220,591	347,378	415,334
Minority interests	**141,391**	20,995	100,732	57,901	40,282
Net profit attributable to shareholders of the Company	**392,475**	710,234	2,475,382	2,396,256	2,912,786
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**242,094**	626,027	2,485,197	2,351,864	2,894,277
Net cash flow from operating activities	**6,668,701**	8,387,795	3,624,951	5,282,804	6,170,942
Basic earnings per share (RMB)	**0.051**	0.104	0.382	0.371	0.451
Diluted earnings per share (RMB)	**N/A**	N/A	0.350	0.369	0.451
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.031**	0.091	0.383	0.364	0.448
Net cash flow from operating activities per share (RMB)	**0.8660**	1.2256	0.5592	0.8184	0.9559
Return on net assets (weighted average) (%)	**1.50**	3.06	11.39	12.15	15.75
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**0.92**	2.70	11.44	11.92	15.65

Index item	At the end of 2009	At the end of 2008	At the end of 2007	At the end of 2006	At the end of 2005
Total assets	**67,984,107**	66,144,556	71,126,024	54,873,612	38,968,688
Shareholders' equity attributable to shareholders of the Company	**26,464,654**	26,006,983	23,017,264	20,470,065	18,527,740
Net assets per share attributable to shareholders of the Company (RMB)	**3.44**	3.80	3.55	3.17	2.87

(2) Major Accounting Figures and Financial Indicators Prepared under Hong Kong Financial Reporting Standards

Index item	**2009**	2008	2007	2006	2005
Turnover	**50,411,554**	70,009,580	49,052,851	34,319,874	32,083,096
Profit before tax	**562,876**	805,874	2,788,575	2,799,931	3,366,149
Income tax	**29,010**	74,645	220,591	347,378	415,334
Minority interests	**141,391**	20,995	100,731	57,901	40,872
Net profit from ordinary activities attributable to shareholders	**392,475**	710,234	2,467,253	2,394,652	2,909,943
Net cash flow from operating activities	**6,668,701**	8,387,795	3,624,951	5,282,804	5,859,943
Basic earnings per share (RMB)	**0.051**	0.104	0.381	0.371	0.451
Diluted earning per share (RMB)	**N/A**	N/A	0.349	0.369	0.451
Basic earnings per share excluding non-recurring gains or losses (RMB)	**0.0314**	0.0915	0.382	0.364	0.455
Net cash flow per share from operating activities (RMB)	**0.8660**	1.2256	0.5592	0.8184	0.9078
Return on net assets (weighted average) (%)	**1.50**	2.69	11.36	12.15	15.75
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**0.93**	2.37	11.41	11.93	15.91

Index item	**At the end of 2009**	At the end of 2008	At the end of 2007	At the end of 2006	At the end of 2005
Total assets	**68,126,067**	66,283,579	70,914,865	54,716,446	38,933,765
Shareholders' equity attributable to shareholders of the Company	**26,464,654**	26,006,983	23,008,971	20,461,771	18,514,504
Net assets per share attributable to shareholders of the Company (RMB)	**3.44**	3.80	3.55	3.17	2.87

Note: The above earnings per share and return on net assets are calculated based on the formula stipulated in the "Regulations for the Preparation of Information Disclosure by Listed Securities Companies (No.9) – Calculation and Disclosure of Return on Net Assets and Earnings per Share" (《公開發行證券公司信息披露編報規則第9號—淨資產收益率和每股收益的計算及披露》)(2010 Amendment) issued by the CSRC on 11 January 2010.

5. THE GROUP'S MAJOR BUSINESS DATA FOR THE LAST THREE YEARS (UNIT: '000 TONNES):

Product category	Sales of 2009 Volume	Sales of 2009 Percentage (%)	Sales of 2008 Volume	Sales of 2008 Percentage (%)	Sales of 2007 Volume	Sales of 2007 Percentage (%)
Steel plates	**6,630**	**47**	6,760	48	5,390	41
Section steel	**2,490**	**18**	2,480	17	2,790	21
Wire rods	**4,780**	**34**	4,630	33	4,670	36
Train wheels and wheel rims	**150**	**1**	260	2	240	2
Total	**14,050**	**100**	14,130	100	13,090	100

6. MOVEMENTS IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD (UNIT: RMB'000)

(1) Prepared under China Accounting Standards for Business Enterprises

Item	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Minority interests	Shareholders' equity
At the beginning of the year	7,700,681	8,338,359	3,008,523	7,007,195	(47,775)	520,119	26,527,102
Increase during the year	–	–	49,397	392,475	65,195	210,063	717,130
Decrease during the year	–	–	–	(49,397)	–	(9,973)	(59,370)
At the end of the year	7,700,681	8,338,359	3,057,920	7,350,273	17,420	720,209	27,184,862

(2) Prepared under Hong Kong Financial Reporting Standards

Item	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Minority interests	Shareholders' equity
At the beginning of the year	7,700,681	8,338,359	3,008,523	7,007,195	(47,775)	520,119	26,527,102
Increase during the year	–	–	49,397	392,475	65,195	210,063	717,130
Decrease during the year	–	–	–	(49,397)	–	(9,973)	(59,370)
At the end of the year	7,700,681	8,338,359	3,057,920	7,350,273*	17,420	720,209	27,184,862

* Included the proposed 2009 dividend.

Reasons for movements: (1) the increase in surplus reserves was due to the Group's profit for the year and the relevant requirement in the provision amount; (2) the increase in retained profits was mainly due to the increase in the Group's profit for the year; the decrease in retained profits was mainly due to the provision of surplus reserve for the year; (3) the decrease in exchange fluctuation reserve was mainly due to the appreciation of Australian dollars as book currencies of the Company's wholly owned subsidiary Maanshan Iron and Steel (Australia) Proprietary Limited against RMB.

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2009.

First of all, on behalf of the Board, I would like to express my heartfelt thanks to all our shareholders and various sectors of the society for their care and support to the Company.

In accordance with the China Accounting Standards for Business Enterprises, the Group's sales income for 2009 amounted to RMB51,860 million, representing a decrease of 27.22% over the previous year; net profit attributable to shareholders of the Company in 2009 amounted to RMB392 million, representing a decrease of 44.74% over the previous year; and basic earnings per share amounted to RMB0.051, representing a decrease of 50.96% over the previous year. In accordance with the Hong Kong Financial Reporting Standards, the Group's sales income for 2009 amounted to RMB50,412 million, representing a decrease of 27.99% over the previous year; net profit from ordinary activities attributable to shareholders of the Company in 2009 amounted to RMB392 million, representing a decrease of 44.74% over the previous year; and basic earnings per share amounted to RMB0.051, representing a decrease of 50.96% over the previous year. The year-on-year decline in the Group's operating results was mainly attributable to a significant fall in average selling prices of the Company's steel products during the reporting period from the previous year. Considering the Company's profit level, future development needs and shareholders' interests, the Board recommended the payment of a cash dividend of RMB0.04 (tax inclusive) per share for 2009 but no capital reserve fund will be transferred to share capital.

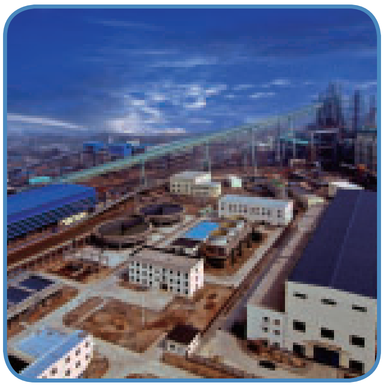
Looking back to 2009, the international financial crisis had a far-reaching impact on the global economy, resulting in a slow recovery and a dramatic shrink in the total global demand for steel. Due to China's implementation of a package of plans for "sustaining growth, boosting domestic demand, adjusting the structure and benefiting people's livelihood" by committing tremendous efforts to boosting people's consumption and promoting rapid growth in investment, it recorded a GDP growth of 8.7% year-on-year for the year. In 2009, yearly fixed asset investments of the society at-large rose 30.1% over the previous year to approximately RMB22.49 trillion; 344,769 new projects commenced, an increase of 87,694 projects; and total investment in new projects amounted to RMB1.52 trillion, up 67.2% from the previous year. As China continuously implemented an array of policies and initiatives to cope with the global financial crisis, demand in the steel market began to rise, and prices picked up in May to August. However, in 2009 as a whole, due to overcapacity and falling exports, steel prices remained volatile at a low level in general and steel enterprises' sales income declined and profits plummeted *(Source: National Bureau of Statistics)*.

Chairman's Statement (continued)

Unprecedented changes in the market environment had led to enormous hardships and challenges to our production and operation. We treated the reduction in operating costs as a fundamental task to cope with the crisis by continuing to carry out benchmarking management; we regarded the enhancement of variety and quality as a basic mission to cope with challenges by fully leveraging the supportive role of technology and management innovation, improving physical quality and developing new products with "comparable profits"; we formed a rapid market response decision-making team and a close-to-market flexible production model by modifying production and business policy in a flexible way to maintain stable and smooth production and optimise resources allocation; we achieved a "win-win" situation in environmental protection and cost efficiency by treating energy conservation and emissions reduction as an essential measure to protect the environment and reduce costs; we saw crisis as an opportunity to strengthen management, consolidate fundamental management and smoothen management mechanism. We compiled and published the "Internal Control Manual" on schedule.

In 2009, the Group produced 14,130,000 tonnes of pig iron, 14,830,000 tonnes of crude steel and 14,120,000 tonnes of steel products (among which the Company produced 12,840,000 tonnes of pig iron, 13,380,000 tonnes of crude steel and 12,690,000 tonnes of steel products), basically in par with 2008. In the entire year, around 1,650,000 tonnes of new products were developed, 45 research projects were completed and 105 patent applications were submitted. This has improved the Company's core competitiveness.

During the reporting period, the Company remained committed to promoting the coordinated development between the Company itself, the society and the environment as a whole by conscientiously fulfilling its social responsibilities, emphasising environmental protection and developing a recycling economy. During 2009, chemical oxygen demand decreased by 1,003 tonnes; consumption of new water per tonne of crude steel decreased by 1.74 tonnes; consumption of washed coal per tonne of coke decreased by 17 kg; and the pass rate of metallurgical coke increased by 11.09 percentage points. The water recycling rate was approximately 97.23% and the integrated utilization rate of industrial solid wastes was approximately 94.59%. National financial incentives amounting to approximately RMB80.08 million were granted to energy-saving and technological upgrade projects. The Company also focused its attention on production safety by improving the long-term mechanism for production safety and devising annual work plans for occupational health and safety management in order to effectively prevent, control and eliminate occupational hazards, to protect the health of its staff and to further reinforce the base for production safety.



Looking forward to 2010, the global economic scene should be gradually improving and demand in the global steel market is very likely to be higher than 2009. To consolidate the achievements in economic recovery, China will maintain the continuity and stability of its macroeconomic policies by further implementing a package of plans for sustaining growth and boosting domestic demand. It will aggressively push forward the coordinated development of urbanisation and regional economy, and investment in infrastructure construction will remain comparatively high, which will raise the demand for steel products. However, the declining growth in investment will sustain an oversupply in the domestic steel market, and the mounting pressure upon steel production costs due to rising prices of iron ores will increase uncertainties for the operation of steel enterprises, the production and business environment for steel enterprises will remain challenging in 2010.

The Group's production targets for 2010 are: 14,670,000 tonnes of pig iron, 15,800,000 tonnes of crude steel and 14,920,000 tonnes of steel products (among which the Company plans to produce 13,470,000 tonnes of pig iron, 14,300,000 tonnes of crude steel and 13,470,000 tonnes of steel products). To this end, the Company will take "building a competitive edge; improving profitability" as its business theme. Focusing on core elements such as product variety, quality and cost, it will fully capitalise on the advantages of its product mix comprising "steel plates, section steel, wire rods and train wheels". It will strengthen the Company's market orientation, global view, innovation concept and sense of responsibility, striving to enhance the overall business performance of the Company.

In the new year, the Company's Board will continue to work more diligently and responsibly with the support from our shareholders and various sectors as well as the endeavours of both the management and all the staff, striving to deliver good performance so as to promote corporate development, to contribute to the society and to create returns for our shareholders and benefits for our staff.

Gu Jianguo
Chairman

30 March 2010
Maanshan City, Anhui Province, the PRC

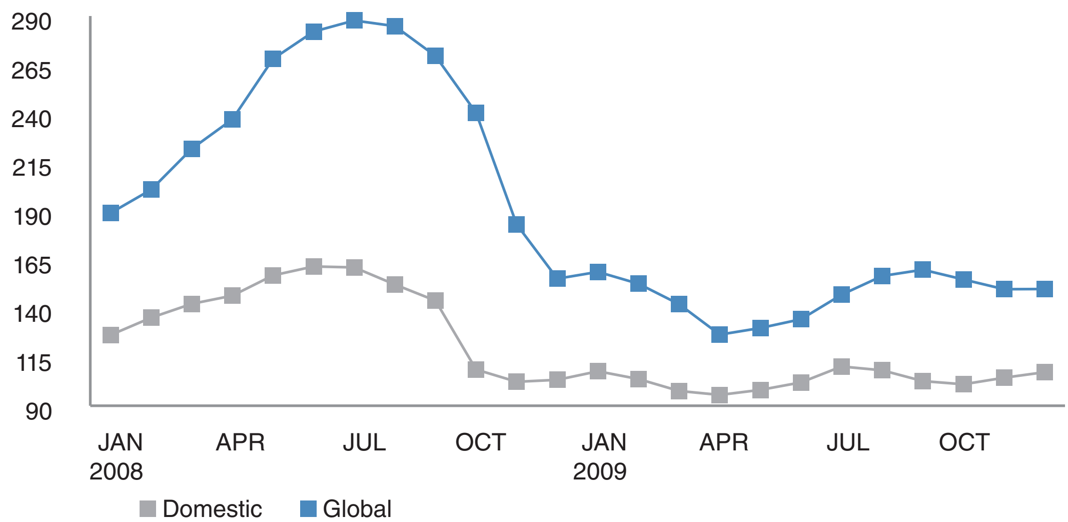
Management Discussion and Analysis

1. BUSINESS ENVIRONMENT

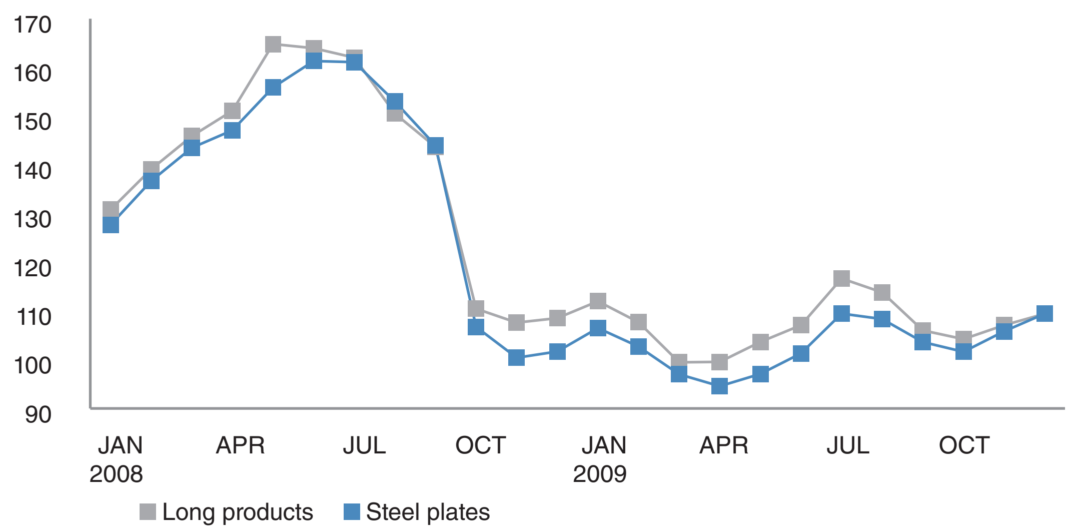
(1) The Steel Product Market

The average consolidated price index for global steel products in 2009 was 146.7, representing a decrease of 37.6%, of which the average price index for long products was 167.7, representing a decrease of 37.4% and that for steel plates was 136.3, representing a decrease of 37.6%. The biggest difference in price index for global steel products was 33.3, a decrease of 74.87% from 132.5 in the previous year *(Source: China Iron and Steel Association).*

2009 Consolidated Price Indices for Global and Domestic Steel Products



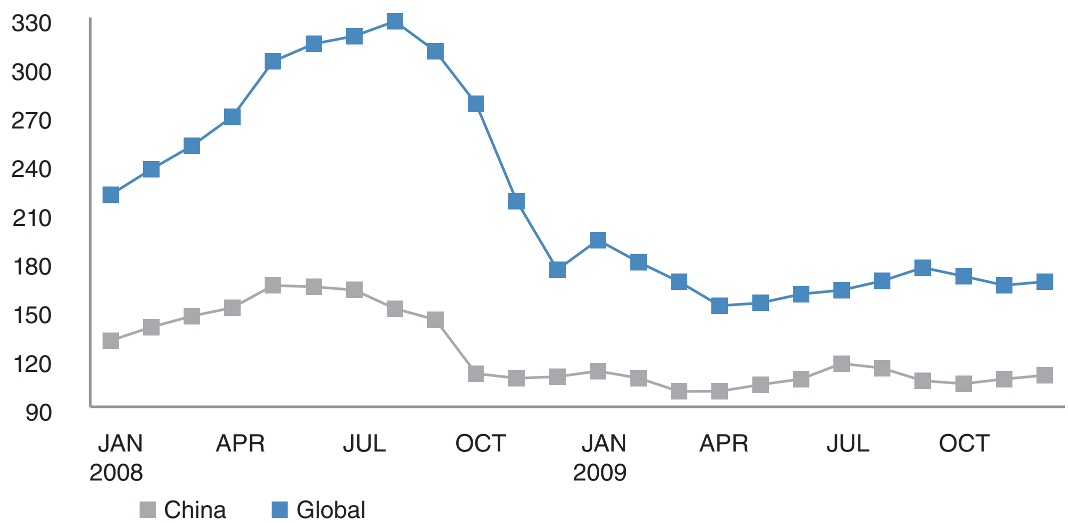
2009 Price Indices for Domestic Long Products and Steel Plates



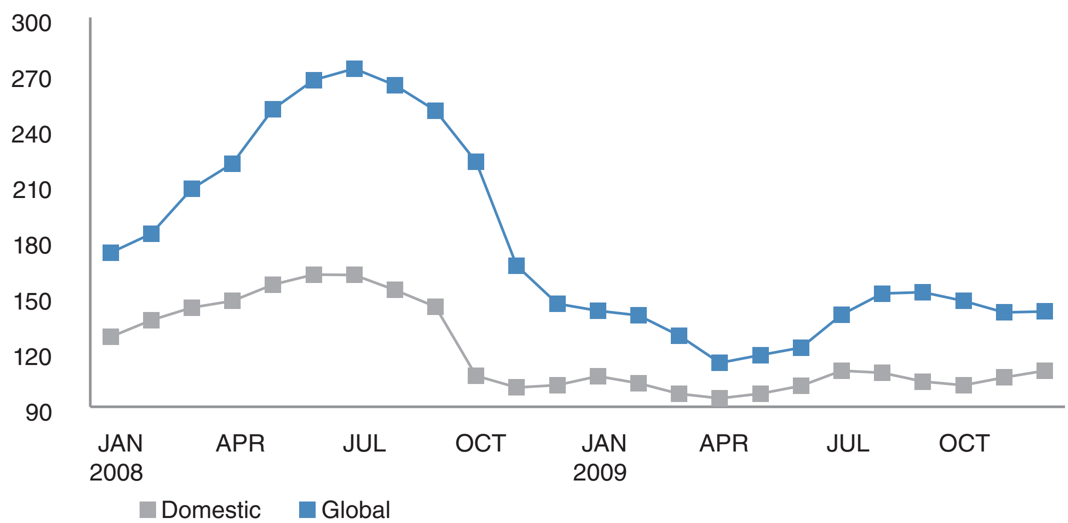
The average consolidated price index for domestic steel products during the reporting period was 103.12, representing a decrease of 24.54%, of which the annual average price index for long products was 107.11, representing a decrease of 23.42% and that for steel plates was 103.05, representing a decrease of 24.56%. The biggest difference in consolidated price index for domestic steel products was 14.59, a decrease of 75.34% from 59.17 in the previous year. The cycle of volatility in steel prices had apparently become shorter with magnitude decreased *(Source: China Iron and Steel Association).*

Hit by contracted external demand and trade protection, China's steel product exports dropped significantly. Of the total nationwide imports and exports of steel products and steel billets in 2009, there was a net crude steel export equivalent to 2,860,000 tonnes, a decrease of 94% from 47,640,000 tonnes in 2008 *(Source: China Customs).*

2009 Price Indices for Global and Domestic Long Products



2009 Price Indices for Global and Domestic Steel Plates



Generally speaking, both the domestic and global steel prices remained weak in 2009. The release of domestic steel production capacity and the substantial decline in exports had further widened the gap between supply and demand in the domestic market, and as a result domestic steel prices have been staying low.

(2) The Markets of Fuels and Raw Materials

Prices of fuels and raw materials fell from the previous year. In 2009, the consolidated average manufacturing cost for steel-making of pig iron by large and medium-sized iron and steel enterprises dropped by 28.46% year-on-year: of which the consolidated average procurement costs for coke, injection coal, metallurgical coke, domestic iron concentrates and imported iron ore decreased by 24.66%, 16.68%, 25.21%, 47.11% and 34.19% respectively.

In 2009, fallen prices of raw materials and fuels and increased enterprises' efforts to reduce costs had partially relieved the pressure on business operations, but the change in the mode of iron ore imports and market price adjustments had, to a certain extent, affected the operating results of steel and iron enterprises.

2. MAJOR WORK

In 2009, the Company treated variety and quality enhancements as the top priority for switching the mode of development, and cost reduction and efficiency enhancement as the basic mission to cope with the crisis. By making devoted efforts to the implementation of detailed initiatives, defining responsibilities and strengthening management, achievements were accomplished in the Company's production management after the Company had strived to eliminate the adverse impact of the changes in the business environment due to the adjusted mode of imports of iron ore and frequent fluctuations in steel prices. In the entire year, the Company produced 6,540,000 tonnes of steel plates, 2,620,000 tonnes of section steel, 4,800,000 tonnes of wire rods and 160,000 tonnes of train wheels and rings. The Company's principal products had a market share of approximately 2.6%.

Achievements were accomplished in the Company's brand strategy. Stable corten steel passed the on-site review by the China Railway Product Certification Center (CRCC); certification was granted to train wheel products by Deutsche Bahn AG for the first time and these products passed the RISAS (former GM/RT2470 and GM/RT2005) review by British Rail; the "Magang & Logo" trademark (Class 12: Wheels) was recognised by the State Administration for Industry and Commerce as a Chinese Well-known Trademark; "Gold Cup Award" was awarded to color-coated steel strips and carbonic cold-heading hot-rolled wire rods for the physical quality of metallurgical products.

Construction of key projects progressed smoothly. The construction of some projects such as the sintering flue gas desulphurisation project at Iron Plant 2 and Phase II of the capacity enhancement project for the train wheel rolling system, the Liufenhe sewage treatment project, the rotary hearth furnace dezincification project at the New Area, the sintering waste-heat power generation project and the blast-furnace blast dehumidification project were completed smoothly. The Chinese-Japanese cooperation agreement was entered into for a demonstration project for energy conservation by means of coal moisture control, and the environmental impact assessment for the New Area was accepted by the State Environmental Protection Department.

Ancillary industries grew steadily. The steel structure branch obtained certification for H grade for Japanese steel structure manufacturing; the construction company obtained the qualification from the General Administration of Quality Supervision, Inspection and Quarantine for the manufacturing of pressure vessel Type III; and the heavy machinery company gained the access of its heavy machinery to the United States, India and other international markets.

3. RESULTS OF THE GROUP'S PRINCIPAL OPERATING ACTIVITIES FOR THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(1) Analysis of Income from principal operation by Segment and by Product

The iron and steel segment accounted for 95.63% of the Group's income from principal operation. The iron and steel segment also accounted for 81.46% of the Group's gross profit of income from principal operation. (Unit: RMB million)

Business segment/ product segment	Operating income	Operating cost	Gross profit margin (%)	Year-on-year increase/ (decrease) of operating income (%)	Year-on-year increase/ (decrease) of operating cost (%)	of gross profit Year-on-year increase/ (decrease) margin (%)
Iron and steel	48,210	45,933	4.72	-27,48	-25.33	A decrease of 2.74 percentage-points
Product segment						
Steel plates	23,533	23,093	1.87	-29.33	-26.39	A decrease of 3.92 percentage-points
Section steel	7,681	7,072	7.93	-29.29	-27.29	A decrease of 2.54 percentage-points
Wire rods	14,456	13,829	4.34	-23.63	-22.95	A decrease of 0.84 percentage-points
Train wheels and wheel rims	1,397	873	37.51	-51.53	-55.86	An increase of 6.14 percentage-points

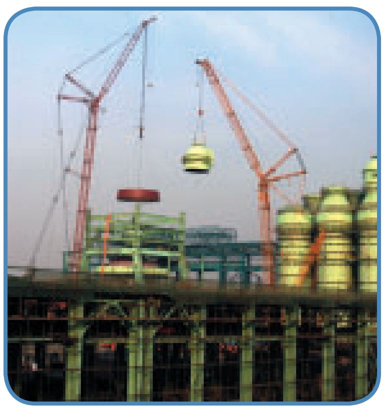
(2) Geographical Analysis of the Group's Operating Income (RMB million)

Region	Ratio (%)	Operating income	Year-on-year increase/ (decrease) of operating income (%)
Anhui	43.31	22,459	–19.40
Jiangsu	16.17	8,386	–0.85
Shanghai	10.01	5,193	–57.19
Zhejiang	8.95	4,644	–32.10
Guangdong	7.34	3,807	–21.69
Other PRC regions	12.77	6,621	21.35
Exports	1.45	750	–86.73

During the reporting period, the Group's gross profit margin of principal operation was 5.54%, a decrease of 3.07 percentage-points as compared to the corresponding period of the previous year. This was mainly attributable to the low sales prices of the Company's steel products in 2009.

4. ASSETS AND LIABILITIES OF THE GROUP AS AT THE END OF THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(1) Assets



As compared to the end of the previous year, cash and balances increased by 46.20% mainly due to the increase in issuing bills payables during the reporting period; bills receivable increased by 248.88% mainly due to an increase in bankers' acceptance bills received in sales; trade receivables increased by 31.31% mainly due to an increase in sales volume in the fourth quarter of 2009 compared to the same period of the previous year; other receivables decreased by 38.56% mainly due to the decrease in prepayment of customs duties; non-current assets due within one year decreased by 100% mainly due to the fact that the electricity bonds with a term of 10 years acquired by the Company were all matured and called back in December 2009; investment properties increased by 292.02% mainly due to the fact that certain of the Company's subsidiaries have leased out certain office buildings to external parties; construction materials decreased by 53.17% mainly due to the decrease of construction projects during the reporting period.

As compared to the end of the previous year, there were no material differences in the proportions of the Group's bills receivable, trade receivables, prepayments, inventories, long-term equity investments, fixed assets, construction in progress and intangible assets out of total assets as at the end of the reporting period.

During the reporting period, except for the Company's financial assets held-for-trading which were accounted for under the fair value method, other assets were accounted for under the cost method in subsequent measurement. There were no material changes in the basis of accounting for all of the Company's assets.

(2) Liabilities

As compared to the end of the previous year, bills payable increased by 414.74% mainly due to an increase in the amount of procurement paid by acceptance bills during the year; payroll and benefits payable increased by 39.57% mainly due to an increase in accrued unpaid bonuses at the end of the year; tax payable decreased by 112.87% mainly due to the payment of 2008 unpaid value-added tax payable during the reporting period; dividend payable decreased by 36.31% mainly due to the payment of dividend to Holding by the Company at the end of the reporting period; interests payable decreased by 81.54% mainly due to a decrease in borrowing rates during the year; deferred income tax liabilities decreased by 100% mainly due to a decrease in temporary differences in deferred income tax liabilities; other non-current liabilities decreased by 100% mainly due to the fact that the Group had paid all the liabilities in relation to the early retirement benefits; and converted differences in foreign currency statements increased by 136.46% mainly due to the appreciation of book currencies (Australian dollars) of the Company's subsidiaries in Australia against Renminbi during 2009; minority interests increased by 38.47% mainly due to the increase in profits of some of the Company's non-wholly owned subsidiaries during the reporting period.

As compared to the end of the previous year, there were no material differences in the proportions of short-term loans, bill payables, accounts payable, deposits received, other payables, long-term loans and bonds payable out of total assets as at the end of the reporting period.

5. EXPENSES AND INCOME TAX OF THE GROUP FOR THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

During the reporting period, the Group's selling expenses decreased by 37.59% over the previous year mainly due to the decrease in the Company's transportation and packing costs; administrative expenses were generally in par with the previous year's; financial expenses decreased by 40.41% over the previous year mainly due to the fact that the bank borrowing rates were lowered and interest payments for borrowings decreased during the reporting period; assets impairment losses decreased by 96.79 % over the previous year mainly due to a decrease in the provisions made for the declined value of inventories during 2009; non-operating income increased by 56.71% over the previous year mainly due to an increase in income from government subsidies received by the Group during 2009; non-operating expenses decreased by 69.49% over the previous year mainly due to a decrease in relief donation expenses during 2009; and minority interests increased by 573.45% mainly due to an increase in profits from some of the non-wholly owned subsidiaries during the reporting period.

During the reporting period, the enterprise income tax expenses amounted to RMB29 million, representing a decrease of 61.14% over the previous year mainly due to a decrease in the total profit of the Company during the reporting period.

6. OPERATING RESULTS DURING THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

In 2009, the Group's operating income fell by 27.22% over the same period of the previous year mainly due to the fact that prices of steel products in 2009 decreased over the same period of the previous year; sales tax and surcharges decreased by 71.80% mainly due to the fact that sales income in 2009 decreased as compared with that of 2008; cost of sales decreased by 24.63% over the same period of the previous year mainly due to a fall in the costs of raw materials; gain from changes in fair value increased by 121.70% over the same period of the previous year mainly due to the increase in fair value of held-for-trading financial assets; operating profit decreased by 46.04% over the same period of the previous year, total profit decreased by 30.15% over the same period of the previous year and net profit attributable to equity holders of the Company decreased by 44.74% over the same period of the previous year, mainly due to a substantial decrease in operating income during 2009.

7. ANALYSIS OF THE GROUP'S CASH FLOWS FOR THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

In 2009, the Group realised a net profit attributable to equity holders of the Company amounting to RMB392 million, a difference of RMB6,277 million when compared to the net increase of cash flows from operating activities amounting to RMB6,669 million, mainly due to increases in the provision of depreciation charges for fixed assets, accounts payables and bills payables. Net cash flows from operating activities decreased by RMB1,719 million as compared to the same period of the previous year, mainly due to decreases in accounts receivables and bills receivables. Net cash outflows for payment to investing activities increased by RMB681 million as compared to the same period of the previous year mainly due to decreases in construction of fixed assets and intangible assets during the reporting period. Net cash outflow from financing activities decreased by RMB2,493 million as compared to the same period of the previous year mainly due to increases in bank borrowings and other loans.

8. MAJOR SUPPLIERS AND CUSTOMERS

In 2009, the Group's purchase from the top five suppliers totalled RMB27,895 million, accounting for 46% of the Group's total purchase amount for the year. The Group's sales to the top five customers totalled RMB7,303 million, representing 14% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is a controlling shareholder of the Company. Other than that, in 2009, none of the directors, supervisors, their connected parties and other shareholders (to the knowledge of the Board holding 5% or more of the Company's shares) held any beneficial interest in the Group's top five suppliers or customers.

9. THE OPERATIONS AND RESULTS OF THE GROUP'S MAJOR CONTROLLING SUBSIDIARIES AND INVESTED ENTITIES

- Ma Steel (Hefei) Iron & Steel Co. Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB167 million. As at the end of the reporting period, it had total assets amounting to RMB2,379 million and net assets of RMB811 million.

- Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary, has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net profit for the reporting period amounted to RMB3 million. As at the end of the reporting period, it had total assets amounting to RMB3,963 million and net assets of RMB37 million.

- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB100 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB50 million. As at the end of the reporting period, it had total assets amounting to RMB287 million and net assets of RMB174 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB14 million. As at the end of the reporting period, it had total assets amounting to RMB138 million and net assets of RMB112 million.

- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB30 million. As at the end of the reporting period, it had total assets amounting to RMB1,134 million and net assets of RMB98 million.

- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB21 million. As at the end of the reporting period, it had total assets amounting to RMB1,230 million and net assets of RMB190 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB12 million. As at the end of the reporting period, it had total assets amounting to RMB433 million and net assets of RMB144 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB711 million and net assets of RMB181 million.

- Anhui Masteel Holly Industries Co. Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB95 million. As at the end of the reporting period, it had total assets amounting to RMB435 million and net assets of RMB239 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB46 million. As at the end of the reporting period, it had total assets amounting to RMB312 million and net assets of RMB300 million.

- Maanshan Harbor Group Co., Ltd has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB30 million. As at the end of the reporting period, it had total assets amounting to RMB883 million and net assets of RMB379 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB136 million. As at the end of the reporting period, it had total assets amounting to RMB697 million and net assets of RMB618 million.

- Ma Steel (Hefei) Processing and Distribution Co., Ltd has a registered capital of RMB 120 million, in which the Company holds direct and indirect stakes of 61% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB36 million. As at the end of the reporting period, it had total assets amounting to RMB782 million and net assets of RMB129 million.

10. PROJECT CONSTRUCTION

In 2009, the Group's expenses on construction projects amounted to RMB1,848 million, representing an increase of 2.04% over the previous year.

Major Investment Projects Financed by Non-Fundraising Proceeds: (Unit: RMB million)

Project name	Total investment	Construction progress
Phase II of the capacity enhancement project of train wheel rolling system	450	Completed and commenced operation in February 2009
Liufenhe sewage treatment project	90	Completed and commenced operation in March 2009
Dezincification rotary hearth furnace project at the New Area	265	Completed and commenced operation in June 2009
Large-scale forged backup rolling line (Note)	287	Completed and commenced operation in December 2009
Recovered coal gas power generation project at the thermal power plant	220	Preparatory stage before construction
Coal moisture controlling project at the coke plant	54	Preparatory stage before construction
Mold alloy plating project at No.2 machinery plant	45	Under construction

Note: Large-scale forged backup roiling line is the key project of Magang-Union Electric Steel Roll Co., Ltd., a controlling subsidiary of the Company.

11. FINANCIAL POSITION AND EXCHANGE RISKS

As at 31 December 2009, the total amount of loans borrowed by the Group amounted to RMB15,593 million, including loans of RMB1,173 million for working capital and long-term loans of RMB14,420 million. Except for foreign currency loans amounting to US$930 million, all other loans were denominated in Renminbi. US dollar loan mainly carried interests at LIBOR plus basis points, among the Renminbi loans, loans amounting to RMB3,296 million carried fixed interest rates and loans amounting to RMB5,945 million carried floating interest rates. The amounts of all the Group's loans varied according to the scale of production and construction projects. No overdue loans have been recorded so far.

As at 31 December 2009, in accordance with China Accounting Standards for Business Enterprises, the Group's gearing ratio (total liabilities/total assets) was 60.01%; under the Hong Kong Financial Reporting Standards, the Group's gearing ratio (total liabilities/total assets) was 60.09%.

At present, except for the Company's own fund, all capital required for the Company's construction projects were financed through bank loans. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB55,490 million.

As at 31 December 2009, the Group's cash and balances with financial institutions amounted to RMB8,700 million. Bills receivable amounted to RMB4,421 million (of which bankers' acceptance bills due within three months amounted to RMB3,406 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the US dollar to RMB exchange rate depreciated slightly in 2009, an exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate has no direct adverse effect to the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payment was relatively small. During the reporting period, while the borrowing rates of US loan were lower than that of RMB borrowing rates, the foreign exchange fluctuation was insignificant. As such, the Company has increased part of the US financing while reducing part of RMB financing.

12. IMPORTANT ACCOUNTING ESTIMATES AND JUDGMENTS BY THE COMPANY AND THEIR IMPACT ON THE COMPANY'S FINANCIAL POSITION AND OPERATING RESULTS

The Group's inventories are calculated at the lower of the costs and net realisable values. Provisions are made for the declined value of inventories whose costs are higher than the net realisable values and which are obsolete and slow-moving items (including spare parts). At the end of each year, the Group will review whether a single inventory is an obsolete and slow-moving inventory and whether the net realisable value is lower than the cost of the inventory.

The net realisable values of inventories are the estimated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made on the basis of the current market condition and the historical experience of manufacturing and selling products of a similar nature. The management reassesses these estimates at each balance sheet date.

The Group's inventories mainly comprise raw materials, goods in process, finished goods and spare parts. By comparing the procurement costs of these inventories with the re-assessed net realisable values, a provision of approximately RMB34 million was made for price decreases in raw materials, and a provision of approximately RMB24 million was made for price decreases in spare parts in 2009. Total provisions for price decreases in inventories amounted to approximately RMB58 million during the reporting period, and these provisions did not have a material impact on the Company's operating results in 2009.

13. RECENT CHANGES IN THE PRODUCTION AND OPERATING ENVIRONMENT AND COPING STRATEGIES

- **Changes in the overseas and domestic operating environment**

  At present, the impact of the global financial crisis on the world economy has weakened as the U.S. economy has improved and international trade volume and investments have showed a recovery growth. The global economy and market demand are expected to improve in 2010. In the new year, the Chinese government has set the target for GDP growth at around 8%. It places the focus of its economic program on changing the mode of development, striving to achieve an organic unity of maintaining steady and relatively fast economic development and accelerating the change in the mode of economic development. To consolidate the foundation for its economic recovery, the State will continue its proactive fiscal policies and moderately relaxed monetary policies, aimed at boosting domestic demand on an ongoing basis. By further implementing the restructuring and revitalisation program for key industries, it will steadily proceed with urbanisation to maintain the driving effect of an appropriate investment growth on the economy. By increasing the supply of ordinary commodity housing, it aims to support residents' demand to purchase their own homes for self-occupation and improvement of living conditions; and by continuing the subsidy policy for rural residents to buy household appliances and automobiles, it aims to enhance the driving effect of residents' consumption on the economy.

As the construction of investment projects in the State's package of plans proceeds, the demand of the society for resources will continue to rise in 2010. The infrastructure industry and iron and steel downstream sectors such as automotive, machinery and equipment manufacturing industries will demonstrate a growth momentum, with the demand for steel products anticipated to rise. However, the production and operation of iron and steel enterprises will still be under tremendous pressure in 2010, given the State's stringent controls over the commencement of new projects, and the limited ability for investments to drive economic growth further, coupled with the constraints of a number of factors such as excess iron and steel production capacity, export obstacles and uncertainties over the negotiations on the import of iron ores.

- **Coping strategies of the Company**

In the new year, the Company will start with the enhancement of the overall quality and efficiency of the economic operation to create competitive advantages in variety, quality and cost, striving to minimise operation costs and maximise profits:

a. Focus on adjustment to the Company's product mix, execute a marketing strategy aimed at big clients and establish a new operating mechanism for extensive strategic cooperation.

b. Consolidate the advantage of conventional premier products by increasing the market shares of the automotives and home appliances segments, and build up new premier products by speeding up the research and development of products such as high-grade electrical steel, automobile panels, high power locomotive wheels and wheels of motor train unit and by gradually increasing the capacity thereof.

c. Continue to proceed with logistics optimisation solutions by implementing a joint transportation scheme for steel products, coal and ore to utilise the advantages of joint railway operations, thereby further reducing logistics costs.

d. Continue to carry out benchmarking management, unleash potential and identify a system-wide mode of the economic operation by committing adequate resources to process control, analysis, evaluation and assessment of the production and operation to achieve an optimal allocation of production factors and offset cost pressure.

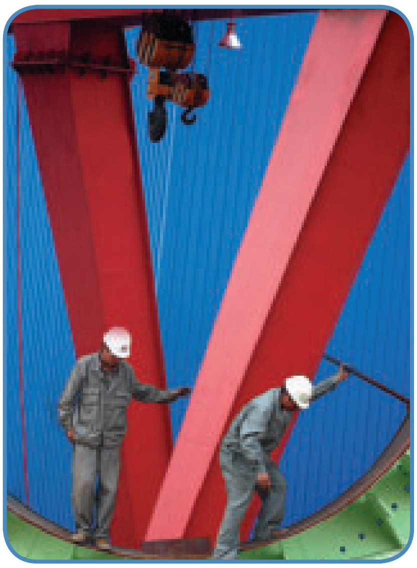
e. Establish an appraisal mechanism for related units by linking the iron making system and the steel rolling system with the relevant units or departments respectively for appraisal to achieve a new breakthrough in cost efficiency.

f. Put the concept of a low-carbon, recycling economy into practice by implementing an accountability system for energy conservation targets and continuing to treat energy conservation and emissions reduction as a key growth point.

g. Cultivate the value orientation on profit creation by improving the incentive and check-and-balance mechanism; strengthen the responsibilities of each position and improve the accountability system.

14. LONG-TERM STRATEGIES OF THE COMPANY

In the long run, as China is in the process of urbanisation and industrialisation, there remains significant room for the development of the iron and steel industry as a major primary industry and a pillar industry in China's national economy in the future. The basic assurance bestowed upon the Company for achieving rapid development remains unchanged. The State's guidance work on industries re-development, as well as its work on developing regional economies and accelerating rail transportation construction, has provided favourable conditions for the Company to leverage the advantages of its product mix comprising "steel plates, section steel, wire rods and train wheels". The State's decision to establish a "city belt" at Wanjiang, Anhui Province for serving as a demonstration area to carry out the industries re-development has generated new development opportunities for the Company.



To this end, the Company has formulated a new set of development outlines that focus on a development path based on variety, quality and efficiency of products, striving to build itself into a value-oriented enterprise. It will further improve the processing structure, the product mix and the organisational structure to enhance management standards. It will carry out integration of related resources and technologies to identify a new economic growth point.

Report of the Directors

1. DAILY WORK OF BOARD

(1) Description of the Board's Meetings in 2009 and Details of the Resolutions:

- On 21 January 2009, the Company held the third meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 22 January 2009.

- On 15 April 2009, the Company held the fourth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 16 April 2009.

- On 28 April 2009, the Company held the fifth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 29 April 2009.

- On 29 June 2009, the Company held the sixth meeting of the sixth session of the Board. The major detail of the meeting was to approve the implementation of Internal Control Manual.

- On 18 August 2009, the Company held the seventh meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 19 August 2009.

- On 15 October 2009, the Company held the eighth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 16 October 2009.

- On 27 October 2009, the Company held the ninth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 28 October 2009.

- On 15 December 2009, the Company held the tenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 16 December 2009.

- On 31 December 2009, the Company held the eleventh meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 4 January 2010.

(2) Implementation of the Resolutions of the Shareholders' Meetings by the Board

During the reporting period, all the members of the Company's Board have carried out their duties in accordance with the relevant laws and regulations and the Articles of Association, and have faithfully implemented the resolutions passed at the annual general meeting and fully accomplished various assignments allocated at the annual general meeting.

(3) Discharge of Duties by the Audit Committee during the Reporting Period

In 2009, the Audit Committee held five meetings and all members attended each meeting. The meeting was chaired by Mr. Wong Chun Wa. Major details of the meetings are as follows:

- Reviewed financial statements for the year 2008 prepared by the Company and considered that the Company had complied with the requirements of the Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards in every material respect and had made adequate disclosure with no material omissions.

- Reviewed the 2008 annual accounts, 2009 first quarterly accounts, 2009 interim accounts and 2009 third quarterly accounts and considered that the Company had complied with the requirements of domestic and foreign regulations on the preparation of accounting statements in every material respect and had made adequate disclosure with no material omissions.

- Conducted an audit on the status of the Company's external guarantees as at 31 December 2008 and 30 June 2009 and issued an independent opinion requesting the Company to continuously enhance management and actively monitor and control guarantee risks.

- Reviewed the connected transactions between the Company and Holding during 2008 and considered that such transactions were conducted during the ordinary course of business between the two parties and the transactions conducted were under normal business terms or terms which were not less favourable than those provided to independent third parties, and that such transactions were in the best interests of the Company and shareholders. The yearly total amounts for the Company's transactions conducted in 2008 pursuant to the Sale and Purchase of Ore Agreement did not exceed the cap amounts for the Hong Kong Stock Exchange's waiver.

- Agreed that the Company would pay a fee totalling RMB5.75 million to Ernst & Young Hua Ming and Ernst & Young for their annual audit and execution of discussion processes for year 2008 and agreed that the two said accounting firms would be re-appointed as the Company's domestic and international auditors for the Company for the year of 2009.

- Reviewed the Report on the Performance of Duties by the Audit Committee for the year of 2008.

- Listened to the corporate management department's report on the execution of the Company's internal control system in the first half of 2009 and considered that the Company's internal control and risk management procedures were effective.

(4) Discharge of Duties by the Remuneration Committee during the Reporting Period

In 2009, the Remuneration Committee held one meeting and all members attended the meeting in person. The meeting was chaired by Mr. Su Yong. Major details of the meetings are as follows:

- In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of the Company" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations as well as completion of operation targets, together with a reference to respective scopes of work and major duties for the relevant directors and senior management, the Remuneration Committee conducted appraisals on 2008 operating performance of the Company's relevant directors and senior management, and the appraisal results were submitted to the Board meeting held on 15 April 2009 for consideration. The Board approved the 2008 remunerations for the relevant directors and senior management according to the mandate granted by the general meeting.

- Reviewed the Report on the Performance of Duties by the Remuneration Committee for the year of 2008.

(5) Discharge of Duties by the Nomination Committee during the Reporting Period

In 2009, the Nomination Committee held two meetings and all committee members attended each meeting in person. The meetings were chaired by Mr. Hui Leung Wah. Major details of the meetings are as follows:

- Considered and approved "Rules of Procedures for the Nomination Committee of the Board of the Company", which explicitly stipulate the composition, duties and working procedures of the Committee.

- Considered and approved the Report on the Performance of Duties by the Committee for the year of 2008.

- Examined the appointment criteria of the Deputy General Manager cum Chief Engineer whom the Company requested the Board to employ and offered suggestions.

2. PROFIT DISTRIBUTION

- **Distribution of cash dividend of the Company in the past 3 years (unit: RMB million)**

Year of distribution of dividend	Amount of cash dividend (tax inclusive)	Net profit attributable to shareholders of the Company	Ratio of cash dividend to net profit (%)
2006	839	2,396	35.02
2007	879	2,475	35.52
2008	–	710	–

- Profit distribution proposal for the current period: The Board of the Company recommended the payment of a final cash dividend for year 2009 to be RMB 0.04 per share (tax inclusive), but no capital reserve fund will be transferred to share capital.

As audited by the domestic and international auditors, the Company's net profit amounted to RMB90.76 million under China Accounting Standards for Business Enterprises and RMB15.97 million under Hong Kong Financial Reporting Standards for the year 2009. After appropriating 10% as the Company's statutory reserves, together with the retained profit as at the beginning of 2009, profit available for distribution to shareholders as at the end of 2009 amounted to RMB6,664.52 million under China Accounting Standards for Business Enterprises and RMB6,290.05 million under Hong Kong Financial Reporting Standards. In accordance with the Articles of Association of the Company, the Company distributed after-tax profits based on the lower of the profit amounts reported in the two financial statements respectively under China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards. As a result, profit available for distribution to shareholders for year 2009 should be RMB6,290.05 million. In order to realize sustainable and stable development of the Company, the Company recommended the payment of cash dividend of RMB0.04 (tax inclusive) for 2009 and no capital reserve fund will be transferred to share capital. The retained profit of the Company will be carried forward to the year 2010.

As stipulated in the "Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which are Overseas Non-resident Enterprises" (Guoshuihan Document No. 897 (2008)), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%. As stipulated in the "Circular on Some Policy Questions Concerning Individual Income Tax Issued by the Ministry of Finance and the State Administration of Taxation" (Cai Chui Zi [1994] Document No.20), the dividends and bonuses received by foreign individuals from foreign investment enterprise shall be temporarily exempted from individual income tax.

3. SPECIFIC STATEMENT OF REGISTERED ACCOUNTANTS ON THE APPROPRIATION OF FUNDS BY THE CONTROLLING SHAREHOLDER OF THE COMPANY AND OTHER RELATED PARTIES

Pursuant to the requirements stated in the Circular Zheng Jian Fa [2003] Document No.56 issued by the CSRC, Ernst & Young Hua Ming has issued the "Specific Statement on the Funds Receivables from the Controlling Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties". In the opinion of the auditors, as at 31 December 2009, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, there was no misappropriation of funds by the controlling shareholder of the Company and other related parties as stated in the Circular Zheng Jian Fa [2003] Document No.56.

4. SPECIFIC STATEMENT AND INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON ACCUMULATED EXTERNAL GUARANTEES AND EXTERNAL GUARANTEES FOR THE PERIOD OF THE COMPANY

In accordance with the relevant requirements of the CSRC, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all are independent directors of the Company, conducted conscientious audit on the Company's external guarantees accumulated up to the year 2009 as well as for the period, which are stated as follows:

(1) As at 31 December 2009, the approval procedures of all the external guarantees of the Company were legal and in compliance with regulations.

(2) As at 31 December 2009, no external guarantees were provided to any controlling shareholder, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.

(3) As at 31 December 2009, the total amount of accumulated and current portions of external guarantees was lower than 50% of the net assets of the Company as reported in the 2009 consolidated financial statements.

5. OTHER MATTERS

(1) For segment information on business analysis as at 31 December 2009, please refer to Note 34 to the financial statements prepared under China Accounting Standards for Business Enterprises and Notes 4 and 5 to the financial statements prepared under Hong Kong Financial Reporting Standards.

(2) The Group's profit for the year ended 31 December 2009 and the Group's operating status as at that date are set out in the financial statements prepared under China Accounting Standards for Business Enterprises and the financial statements prepared under Hong Kong Financial Reporting Standards.

(3) Fixed Assets

Details of changes in fixed assets of the Company and the Group for the year ended 31 December 2009 are set out in Note 13 to the financial statements prepared under China Accounting Standards for Business Enterprises and Note 14 to the financial statements prepared under Hong Kong Financial Reporting Standards, respectively.

(4) Pre-emptive Rights

Neither the Articles of Association of the Company nor the Laws of the PRC provide for any pre-emptive rights.

(5) Purchase, Sale and Redemption of Listed Shares

During 2009, the Company has not redeemed any of its listed shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

(6) Reserves

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2009 are set out in the statement of changes in equity and the consolidated statement of changes in equity prepared under China Accounting Standards for Business Enterprises and Note 37 to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Financial Reporting Standards.

(7) Service Contracts of Directors and Supervisors

The current session of the Board and the Supervisory Committee was elected at the Extraordinary General Meeting held on 31 August 2008 with a term of office of three years commencing from 31 August 2008. Directors and Supervisors so elected entered into service contracts with the Company with the same term of office of three years.

None of the Directors has any service contract with the Company that is not terminable by the Company within one year without compensation other than statutory compensation.

(8) Directors' and Supervisors' Interests in Contracts

During the year, none of the directors and supervisors had any direct or indirect material interests in any contract to which the Company, its subsidiaries, Holding or any of the subsidiaries of Holding was a party during the year.

(9) Directors' Interests in Competing Businesses

During the year and as at the disclosure date of this annual report, none of the directors were or had been deemed, pursuant to the Hong Kong Listing Rules, to be directly or indirectly interested in any business that was competing or in possible competition with the Group's business, except for businesses for which the directors of the Company are appointed as directors for the interests of the Company or the Group.

(10) Work System of the Audit Committee

The Board of the Company set up the Audit Committee with sound work system. Please refer to "(4) Audit Committee" of 1. Corporate Governance Report in "6. Corporate Governance" of this report for the composition and major duties of the Committee.

(11) System Governing External Information User

To enhance the management of external information disclosure of the Company, amended Administrative Measures for Information Disclosure of the Company was considered and approved at the 13th meeting of the sixth session of the Company's Board held on 30 March 2010. It enhanced the management of external information disclosure of the Company and defined the responsibility of external information user.

Report of the Supervisory Committee

Dear shareholders,

Entrusted by the Supervisory Committee of the Company and pursuant to the relevant requirements of the Company Law and the Articles of Association of the Company, I hereby report to you the major work of the Supervisory Committee in 2009.

1. MEETINGS OF THE SUPERVISORY COMMITTEE

According to working needs, the Supervisory Committee held seven meetings in 2009. On the premise of timely and thoroughly understanding of the Company's production, operation and financial positions, the Supervisory Committee approved resolutions on the relevant matters after conscientious reviews. Major matters discussed at the meetings include:

(1) Considering and approving the annual report, interim report and quarterly report of the Company.

(2) Considering and approving the "2008 Work Report of the Supervisory Committee" and the "Report on the Performance Duties by Supervisors".

(3) Considering and approving the resolution on increasing the registered capital of the Company and "Amendments to the Articles of Association of Maanshan Iron & Steel Company Limited".

(4) Considering and approving the report on the saving and use of fundraising proceeds by the Company in 2008.

(5) Considering and approving the resolution on the change in provision for price decrease of inventories.

(6) Considering and approving matters related to connected transactions of the Company and the "Sale and Purchase of Ore Agreement" for 2010 to 2012 between the Company and Holding.

(7) Considering and approving the resolution on the Company's issuance of debt financing instrument of non-financial institutions in the inter-bank bond market in an aggregate amount of not exceeding RMB4 billion.

(8) Considering and approving the resolution on the Continued Provision of Guarantees for Ma Steel International Trade and Economics Corporation, a wholly-owned subsidiary of the Company.

2. SUPERVISION OVER THE MATERIAL MATTERS OF THE COMPANY IN 2009

(1) Operations in Compliance with the Law

The Board conscientiously executed each resolution approved at the general meeting and operated in strict compliance with the requirements of the State's laws and regulations and the Articles of Association of the Company. In 2009, a series of significant decisions made by the Board were regulated in procedures, lawfully and validly and with authorities in execution. The senior management conscientiously exercised their authorities and discharged their duties within the scope stipulated by the Articles of Association and authorised by the Board. The internal control mechanism of the Company is sound and executed effectively. The directors, general managers and senior management executed their duties dutifully with well organised management. Not only they respected and protected the Company's interests, but also actively protected the interests of the shareholders as a whole. No breaches on laws, regulations and Articles of Association of the Company or acts that damaged the interests of the Company and its shareholders have been discovered.

(2) Operations of the Company

In 2009, the Company operated in line with the theme of "Focusing on variety and quality, enhancing internal control". The scientific development concept was embodied and the Company endeavoured to make substantial progress. The Supervisory Committee was of the view that no material breaches on financial disciplines and the financial system were found in the Company during the reporting period, and the auditors' reports issued by the accounting firms truthfully reflected the financial position and operating results of the Company.

(3) Fundraising and Use of Proceeds of the Company

Fundraising proceeds from the exercise of "Magang CWB1 Warrants" were fully utilised at the end of 2008. The fundraising and use of proceeds of the Company complied with the Company's operating needs and the relevant requirements of the Board, with no breaches on regulations found.

(4) Implementation of the Company's Investment Projects

The Supervisory Committee was of the view that the investment projects implemented by the Company during the year were in the interests of its shareholders and complied with the spirit of the resolutions approved at the shareholders' general meetings. Such projects are beneficial to the protection of the interests of the shareholders and the sustainable development of the Company, without prejudicing the interests of the Company and its shareholders.

(5) Connected transactions of the Company

In 2009, the prices on the connected transactions were fair and no acts that damaged the interests of the Company and its shareholders were found.

(6) Acquisition and Sales of Assets of the Company

In 2009, the Company did not undergo any material debt restructuring activities, material non-monetary transactions, material assets swap, transfer or disposal, or any significant matters affecting the decision-making of investors. No events prejudicing the interests of the Company and its shareholders or causing asset losses to the Company were found.

Zhang Xiaofeng
Chairman of the Supervisory Committee
30 March 2010

Corporate Governance

In accordance with the requirements of relevant laws and regulations, the Company has set up a corporate governance structure, with check and balance capability, comprising the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager were clear and unambiguous.

During the reporting period, the Company continued to commit itself to the standard operation, enhance fundamental system and improve its corporate governance. In accordance with the requirements of the CSRC, the Board timely amended and perfected the Company's "Annual Report Work Regulations for the Audit Committee of the Board", together with the Articles of Association, "Rules of Procedures for the Company's Audit Committee", and systems such as "Work System of the Company's Independent Directors", "Annual Report Work System of the Company's Independent Directors" and "Administrative Measures for Information Disclosure of the Company", to form the comparatively complete system of the Company's management on annual report information disclosure.

In order to further increase the level of information disclosure and continuously optimize the preparation work of annual report, the sixth session of the Company's Board considered and approved the newly amended "Administrative Measures for Information Disclosure of the Company" at the 13th meeting of the Board held on 30 March 2010. Additional details such as accountability for significant mistakes in information disclosure including the annual report was added in the measures, so as to safeguard the legal rights of the Company, shareholders and other related interested parties.

1. CORPORATE GOVERNANCE REPORT

In 2009, the Company has complied with all code provisions of the Code on Corporate Governance (the "Code") in Appendix 14 of the Listing Rules.

(1) Directors

The Directors and the composition of the Board

In 2009, the Company's Board comprised nine directors, of whom four were executive directors and five were non-executive directors. Among the non-executive directors, four of them were independent directors, accounting for four-ninth of the members of the Board.

All executive directors and one non-executive director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction, and are capable of making rational decisions on the matters to be resolved by the Board. Among the four independent directors, there is a director of a consultancy in Hong Kong, with years of experience in the accounting profession; a general manager in corporate finance at the MTR Corporation Limited in Hong Kong with extensive experience in finance management; a head of the Enterprise Management Department of the School of Management of Fudan University who is knowledgeable in the aspect of corporate management; and a professor of the School of Law at Minzu University of China who is very experienced in legal matters. These independent directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board fully complied with the requirements of the relevant laws, regulations and regulatory documents within and outside the PRC. The names of all directors were published in the Company's correspondence and specifications were made on independent directors.

During the reporting period, so far as the Board is aware of, there are no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board (including Chairman and General Manager) that are required to be disclosed.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

The Company received from the four independent directors' independence confirmation letters which were submitted in accordance with Rule 3.10 of Chapter 3, "Sponsors, Authorised Representatives and Directors" in the Listing Rules. The Company's Board is therefore of the opinion that the four independent directors are all independent.

Attendance of Directors at Board meetings in 2009:

Name	Number of Board Meetings (Times)	Attendance in person (Times)	Attendance by proxy (Times)	Absence (Times)	Attendance rate (%)
Executive Director					
Gu Jianguo	9	9	0	0	100
Su Jiangang	9	9	0	0	100
Gao Haijian	9	9	0	0	100
Hui Zhigang	9	6	3	0	100
Non-executive Director					
Zhao Jianming	9	8	1	0	100
Independent Non-executive Director					
Wong Chun Wa	9	9	0	0	100
Su Yong	9	7	2	0	100
Hui Leung Wah	9	9	0	0	100
Han Yi	9	9	0	0	100

Chairman and General Manager

The positions of the Company's Chairman and General Manager are assumed by different individuals.

The Chairman is the authorised representative of the Company, and shall be elected or removed by a simple majority of all directors in the Board. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board, ensuring that the Board will review all matters involved in an appropriate manner, and facilitating an effective operation of the Board.

The Chairman is entitled to chair shareholders' general meetings, to convene and chair Board meetings, to review the implementation of resolutions by the Board, and to sign the issue of the Company's securities and other important documents. With the authorisation by the Board, the Chairman may convene shareholders' general meetings. Between sessions of the Board meeting, the Chairman shall give guidance to the major business activities of the Company. In the event of force majeure, the Chairman is authorised to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board, and shall be accountable to the Board. The General Manager leads the senior management, and is responsible for the usual course of operation in production and management, and organising the implementation of various resolutions by the Board. The General Manager shall regularly report to the Board or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board or the Supervisory Committee.

Non-executive Directors

The term of office of the Company's non-executive directors (including independent directors) is three years, from 31 August 2008 to 31 August 2011.

In order to protect the legal rights and interests of minority shareholders and the stakeholders, the Company established the "Work System of Independent Directors". The system specifies in detail the appointment criteria and nomination procedures of independent directors and working conditions that the Company shall provide to independent directors. It also stipulates that independent directors shall issue independent opinions on matters such as connected transactions and external guarantees.

Duties and authorities of the Board and the management

The Board performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association of the Company, mainly including:

– To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;

– To decide on the annual operating plans and key investment proposals of the Company;

– To formulate the financial budget, the profit appropriation plan, the fundamental management system, substantial acquisitions or disposal plans;

– To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;

– To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's senior management such as deputy general managers and financial officers pursuant to the General Manager's nomination;

– To appoint or remove the Secretary to the Board;

– To manage information disclosures of the Company;

– To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;

– To receive the report from the Company's General Manager and to review the work of the General Manager;

– To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and finance management within the limit as stipulated in the Articles of Association of the Company.

There are three committees under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Please refer to "1. (4), (5) and (6)" of this section for the major duties of the committees.

The Company's management performed their major responsibilities in accordance with the duties and power conferred by the Articles of Association of the Company:

– To organise the implementation of the Company's annual operating plans and investment proposals;

– To propose the establishment schemes of the Company's internal management structure;

– To propose the Company's fundamental management system;

– To formulate the Company's basic constitutions;

– To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;

– To decide on the rewards and penalty, promotions and demotions, increase or decrease of salaries, appointments, recruitment or removal and termination of the Company's staff;

– To deal with the important external businesses of the Company on its behalf;

– To propose the convening of extraordinary board meetings.

Board meeting

The Board convenes four regular meetings annually, and notifies directors about the time and date, location and agenda of a regular Board meeting 14 days in advance so as to ensure all directors could attend the meetings. All directors are given opportunities to raise matters for discussion and such matters will be included in the agendas of the regular meetings. If required by the directors, the management is able to timely provide adequate information to the directors and such information can help the directors make appropriate decisions. All or most of the directors shall attend each regular Board meeting in person. When the Board vote on connected transactions, the connected directors shall abstain from voting and the connected transactions shall be approved by the non-connected directors. All directors are entitled to and have the opportunity to access to the minutes of Board meetings.

The secretary to the Board is responsible for organising and preparing the Board meetings, and assist the Chairman to ensure the procedures for the meetings comply with the requirements of relevant laws, regulations and regulatory documents.

(2) Remuneration of the Directors, Supervisors and Senior Management

Directors' remuneration

The annual aggregate remuneration of all directors of the sixth session of the Board of the Company shall not exceed RMB5.15 million (tax inclusive) during their term of office. Each of the independent directors receives a fixed annual remuneration of not more than RMB100,000 (tax inclusive). The Company has adopted an annual salary system for the remaining directors who receive remuneration from the Company. Taking into account the performance of the Company and the directors' personal contribution, the Remuneration Committee of the Board proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board' approval. No director may determine his/her own remuneration.

Supervisors' remuneration

The annual aggregate remuneration of all supervisors of the sixth session of the Company's Supervisory Committee shall not exceed RMB1.3 million (tax inclusive) during their term of office. Each of the independent supervisors receives a fixed annual remuneration of not more than RMB62,500 (tax inclusive). As for the remaining supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for supervisors approved by the general meeting, and such remuneration shall be reported to the annual general meeting.

Senior management's remuneration

The Company has adopted an annual salary system for the senior management. Taking into account the performance of the Company and the senior management member's personal contribution, the Remuneration Committee of the Board proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the senior management will be implemented accordingly subject to the Board's approval.

(3) Nomination of Directors

A new session of the Board of the Company shall be elected every three years. The term of office of all directors is the same as the term of office of the Board for such session. Upon the expiry of the session, re-election must be held.

Candidates for directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 5% of the issued shares of the Company. Candidates for independent directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

The nomination of a director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an independent director, the Board will give its opinion on the nominee's qualifications and independence of holding the position of independent director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for independent directors to the SSE.

(4) Audit Committee

The Audit Committee of the sixth session of the Board of the Company (the "Audit Committee") comprises Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all of whom are independent directors. Mr. Wong Chun Wa is the Chairman of the Committee. The major duties of the Committee are:

– To propose the appointment or change of external auditors;

– To monitor the Company's internal audit system and its implementation;

- To be responsible for the communication between the internal and external auditors;

- To review the Company's financial information and its disclosure;

- To review the Company's internal control systems.

Furthermore, in order to fully leverage the role of the Audit Committee, the Company has also specifically worked out "Annual Report Work Rules of the Audit Committee", which has streamlined the duties of the Audit Committee in the process of preparation of annual report and the disclosure thereof.

(5) Remuneration Committee of the Board

The Remuneration Committee of the sixth session of the Board of the Company comprises independent directors Mr. Su Yong, Mr. Wong Chun Wa, Mr. Hui Leung Wah and Mr. Han Yi while Mr. Su Yong is Chairman of the Committee. The major duties of the Committee are as follows:

- To recommend to the Board with respect to the remuneration policies for all directors and senior management of the Company, and the procedures of formulating such policies in a proper and transparent manner;

- To review the remuneration of the directors and senior management in accordance with the corporate objectives formulated by the Board;

- To review the compensation to be paid to the directors or senior management with respect to their removal or appointment;

- To ensure that none of the directors nor their associates could decide on their own remuneration; and

- Other responsibilities as delegated by the Board.

(6) Nomination Committee

In 2009, the Nomination Committee of the sixth session of the Board of the Company comprises independent directors Mr. Hui Leung Wah, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Han Yi and Company Chairman Mr. Gu Jianguo, with Mr. Hui Leung Wah as Chairman of the Committee. The major duties of the Committee are as follows:

– To regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes;

– To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board;

– To seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and makes recommendations to the Board in this regard;

– To examine the independence of Independent Directors; and

– To make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

(7) Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for year 2009. They have audited the enclosed financial reports prepared under China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively. The remuneration for the two accounting firms amounted to RMB5,175,000 in aggregate. Among the total remuneration, RMB4,590,000 represented the annual audit fee and RMB585,000 represented the fee for execution of discussion processes. Both the audit fee and the fee for execution of discussion processes were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2009, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Group for 16 consecutive years. Mr. Li Di and Ms. Zhao Ning were the certified public accountants who have signed the Company's 2009 auditors' report. Mr. Li Di has provided auditing services to the Company for three consecutive years; while Ms. Zhao Ning has provided auditing services to the Company for two consecutive years.

In addition, Ernst & Young Hua Ming provided verification service for the increase of registered capitals and share capitals of the Company as at 21 January 2009 and issued the "Capital Verification Report". The fee was RMB100,000. Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. The fee was HK$15,580.

(8) Internal Control

Master plan of internal control system

Five ministries of the Central Government including the Ministry of Finance jointly published the "Internal Control of Enterprises – Basic Principles" on 28 June 2008, setting out more specific requirements on the establishment of the internal control system of listed companies. In this regard, the Company repeatedly invited experts to provide trainings to the management, persons-in-charge of the respective departments and other relevant personnel of the Company as well as conducting preliminary evaluations on the status of the existing internal control of the Company. The Board of the Company considered and approved the "Opinions on the Implementation of the 'Internal Control of Enterprises – Basic Principles' to Establish an Internal Control System of the Company" on 21 January 2009, and approved the implementation of Internal Control Manual on 29 June 2009. The Company has appointed Deloitte Touche Tohmatsu to help the Company to enhance and implement the internal control system so as to ensure that the Company could enhance the internal control system as scheduled.

Sound condition of internal control regulations

The five main factors considered by the Company in establishing and implementing its internal control system include internal environment, risk evaluation, control activities, information and communication and internal supervision. The internal control system encompasses the whole process of production operation and management which includes monetary capitals, procurement and payment, external investments, construction projects, sales and payment collection, costs and expenses, external guarantees, connected transactions, preparation of financial reports, budget management, information system and information disclosure. The system ensures orderly conduct of various work of the Company and forms a regulated management system, giving effective identification and control over operating risks. Meanwhile, the Company amends the Company's existing management system from time to time pursuant to the requirements of laws, regulations and regulatory documents and the changes in the actual condition of the Company, so as to ensure that the internal management system of the Company is effective all the time.

Implementation of self-assessment report on internal supervision and control

The Enterprise Management Department of the Company is responsible for organising and coordinating the establishment and implementation of internal control. The Procurement, Sales and Financial Departments of the Company and its subsidiaries are the main executors of the internal control system. The Audit Department is responsible for supervising the execution of the internal control system of the Company and its subsidiaries. In performing the annual audit, the auditors will issue a " Written Management Recommendations" by evaluating the internal control systems and their execution by the Company and its subsidiaries and identifying relevant issues. The Audit Committee monitors the execution of the Company's internal control and risk management procedures through evaluating the work of the Audit Department and the auditors. The Board confirms whether the internal control systems and the risk management procedures of the Company and its subsidiaries are effective or not in accordance with the report from the Audit Committee.

On 30 March 2010, the 13th meeting of the sixth session of the Board considered and approved the "Self-assessment Report on Internal Control of the Company by the Board of the Company" and confirmed that the internal control and risk management procedures of the Company and its subsidiaries in 2009 were effective.

Deficiencies of internal control and rectification situation

During the reporting period, the Board has discovered no material deficiencies in the internal control system of the Company and its implementation.

In the future, the Company will continue to improve the internal control system, promote the continuous intensification of various works of internal control and ensure the soundness and effectiveness of internal control system.

(9) Communication with Shareholders

Effective communication

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encouraging them to attend the general meetings.

During the reporting period, the Company stated clearly in the annual general meeting notice in 2008 and the first extraordinary general meeting notice in 2009 that A-share holders holding the Company's A-shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by CSDCC, and H-share holders holding the Company's H-shares on the same date and registered in the register of members maintained by The Hong Kong Registrars Limited were eligible for attending the respective general meetings after completing the registration procedures for attending the meetings.

During the reporting period, two general meetings were attended in person and chaired by the Company's Chairman. Mr. Su Jiangang, the Company's Director, General Manager and the person-in-charge of financial operations, and Mr. Gao Haijian, the Director, Deputy General Manager and the Secretary to the Board attended the general meetings in person and fully prepared for answering questions of shareholders' concern. At the general meetings, the chairmen of the meetings proposed individual resolutions for each independent matter.

Voting by poll

The Company states clearly in the Articles of Association of the Company that the voting at general meetings shall be conducted by poll. Shareholders (including proxies) exercise their voting rights according to the number of shares with voting rights they represent and each share is entitled to the right of one vote. According to the results of voting by poll, the chairman of the meeting shall announce the approval of the proposed resolution at the meeting and shall record such items in the meeting minutes as the final proof. If the chairman of the meeting has any doubts on the resolutions submitted for approval, he/she may conduct a count of votes. If the chairman of the meeting does not conduct a count of votes, attended shareholders or proxies who disagree with the results announced by the chairman of the meeting are entitled to request a count of votes immediately after the announcement of voting results. The chairman of the meeting shall immediately conduct a count of votes. If a count of votes takes place at a general meeting, the vote-counting results shall be recorded in the meeting minutes.

The minutes of the meeting, together with the signed shareholder attendance book and the proxy forms of proxies attending the meeting shall be kept in the premises of the Company. Shareholders may view copies of the general meeting minutes for free during office hours. If any shareholder requests the Company for copies of the relevant meeting minutes, the Company can send such copies within 7 days upon receiving the relevant reasonable fees.

(10) Other Provisions as Set Out in the Code Apart from the Above

During the reporting period, the Company's directors acknowledged their responsibilities on preparing for the Company's accounts. Ernst & Young, the auditors, disclosed a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young Hua Ming and Ernst & Young, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firms as the auditors for the Company for year 2009. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2008 annual general meeting held on 16 June 2009.

2. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

In 2009, the independent directors of the Company strictly carried out the working rules of independent directors, faithfully fulfilled their duties and fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association and actively attended the meetings of the Board and its specialised committees. They also involved in the decision making on material matters of the Company, provided constructive suggestions on the Company's corporate governance and production operation, and audited and issued independent opinions on matters such as connected transactions and external guarantees. During the reporting period, the independent directors did not have any contrary opinion on any matters of the Company.

The Company's independent directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company's substantial shareholders, de facto controllers, or other units or individuals who have conflict of interests with the Company. As such, the interests of the Company as a whole as well as the lawful interests of the public shareholders were protected.

3. SPECIFIC CORPORATE GOVERNANCE MATTERS

During the reporting period, in accordance with the requirements of the CSRC and the CSRC Anhui Regulatory Bureau, the Company reviewed once again the implementation progress of the various rectification measures taken since the commencement of specific corporate governance matters, so as to consolidate the achievements. There is no case in which the Company has not implemented the rectification measures.

4. SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDERS

(1) As regards employees, the Company's personnel in production, technical, financial and sales are independent of the controlling shareholder. Senior management such as the Company's General Manager and Deputy General Manager are on the Company's payroll.

(2) As regards assets, the Company owns separate production systems, complementary systems and ancillary facilities. Industry property rights, trademarks and non-patent technologies are independently owned by the Company, as are systems for purchasing and marketing.

(3) As regards finance, the Company has established an independent financial department and independent accounting systems; and has also formulated a sound financial management system.

(4) As regards organisation, the Company has established a sound corporate organisation structure. The Board and the Supervisory Committee have been operating independently. Other internal departments are not subordinated to any functional departments at the controlling shareholder.

(5) As regards business operations, the Company possesses independent and complete operating businesses and business autonomy. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.

Directors, Supervisors, Senior Management and Staff

1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Current Directors

Mr. Gu Jianguo, aged 57, Chairman of the Company. Mr. Gu became Director and Deputy General Manager of the Company in September 1993. He was appointed Vice Chairman and General Manager of the Company in July 1995 and became General Manager of Maanshan Magang Holding Company ("Magang Holding") and Chairman of the Company in June and July 1997, respectively. In September 1998, Magang Holding was restructured into Holding and Mr. Gu was appointed General Manager of Holding. He has ceased to be General Manager of the Company since September 1999. Mr. Gu has also held the office of Secretary of the Party Committee of Holding and of the Company since January 2009, and has been Chairman of Holding since January 2010. Mr. Gu is also Chairman of Maanshan Iron & Steel (HK) Limited and Chairman of MG Trading and Development GmbH. Mr. Gu held 3,886 shares in the Company.

Mr. Su Jiangang, aged 55, Director and General Manager of the Company. Mr. Su became Director of the Company in September 1997 and Deputy General Manager of the Company in September 1999. He has been General Manager of the Company since January 2008. Mr. Su has been Secretary of the Party Committee of Holding and of the Company since December 2009 and Director of Holding since January 2010. Mr. Su is also a Director of Maanshan Iron & Steel (HK) Limited and Director of MG Trading and Development GmbH. Mr. Su held 3,886 shares in the Company.

Mr. Zhao Jianming, aged 56, Director of the Company. Mr. Zhao was appointed Deputy General Manager of the Company and Deputy Secretary of the Party Committee of the Company in June 1997 and has been Director of the Company since September 1997. Since September 1999, he has ceased to be Deputy General Manager of the Company and became Director of Holding on 1 January 2010. Mr. Zhao also holds the office of Deputy Secretary of the Party Committee of Holding.

Mr. Gao Haijian, aged 53, Director, Deputy General Manager and Secretary to the Board of the Company. Mr. Gao was appointed Deputy General Manager of the Company in June 1997. He has been Director of the Company since September 1999 and became Secretary to the Board of the Company on 3 January 2008.

Mr. Hui Zhigang, aged 56, Director and Deputy General Manager of the Company. Mr. Hui was appointed Deputy General Manager of the Company in June 2001 and became Director of the Company on 19 February 2008. He is also Chairman of Maanshan Harbour Group Co., Ltd.

Current Independent Directors

Mr. Wong Chun Wa, aged 36, Independent Director of the Company. Mr. Wong is associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he became Qualified Accountant of Zhongtian International Limited from February 2006 to October 2006. He established 毅行顧問有限公司 in December 2006 and acted as the company's Director. Mr. Wong has been Independent Director of the Company since 31 August 2005. Mr. Wong is also Independent Director of China Zhongwang Holdings Limited.

Mr. Su Yong, aged 55, Independent Director of the Company. Mr. Su was appointed Head of the Enterprise Management Department of the School of Management of Fudan University in October 2003, and Deputy Director of the University's Eastern Management Research Centre in October 2004 respectively. He has been Independent Director of the Company since 31 August 2005. Mr. Su also serves as Independent Director of Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Baosight Software Co. Ltd and Shanghai International Airport Co. Ltd.

Mr. Hui Leung Wah, aged 47, Independent Director of the Company. Mr. Hui joined HSBC Investment Banking in 1990 and served as Corporate Finance Director, Chief Operations Officer of the Asia-Pacific region and other positions. He joined MTR Corporation Limited in Hong Kong since August 2004 as General Manager of Corporate Finance, and has been an Independent Director of the Company since 31 August 2005.

Mr. Han Yi, aged 46, Independent Director of the Company. Mr. Han was appointed Professor of the School of Law and Advisor of master degree students of Anhui University from May 2002 to June 2008. From September 2004 to May 2007, Mr. Han joined the programme for postdoctoral fellows at Renmin University of China. He was appointed Professor of the School of Law of Minzu University of China in June 2008. Mr. Han is a Professor of the School of Law and Advisor of master degree students at Zhongnan University of Finance and Political Law. He has been an Independent Director of the Company since 31 August 2005.

Resigning Directors

Mr. Gu Zhanggen, aged 63, Deputy Chairman of the Company. Mr. Gu has ceased to be Deputy General Manager, Secretary of the Party Committee of Holding and Secretary of the Party Committee of the Company since January 2009. Mr. Gu has also ceased to be Director, Deputy Chairman and member of the Nomination Committee under the Board of the Company since 21 January 2009.

Current Supervisors

Mr. Zhang Xiaofeng, aged 48, Chairman of the Supervisory Committee of the Company. Mr. Zhang was appointed Director of the Publicity Department (United Front Work Department) in July 1997 and Chairman of the Labor Union of Holding and the Company in August 2008. Mr. Zhang has ceased to be Director of the Publicity Department (United Front Work Department) since September 2008, and has been Chairman of the Supervisory Committee of the Company since 31 August 2008.

Mr. Fang Jinrong, aged 46, Supervisor of the Company. Mr. Fang was appointed Deputy Supervisor of the Finance Department of Magang Holding in November 1997. In September 1998, Magang Holding was restructured into Holding, and Mr. Fang was appointed Deputy Manager of the Finance Department. He has been Manager of the Finance Department since February 2004. He became a Supervisor of the Company on 31 August 2005.

Mr. Liu Xianli, aged 55, Supervisor of the Company. Mr. Liu was appointed Factory Manager of Medium-gauge Plate Factory and Hot-rolled Plate Factory of the Company in January 1997. Mr. Liu was appointed Secretary of the Party Committee of the Hot-rolled Plate Factory of the Company in February 2004, and Secretary of the Party Committee and Deputy Factory Manager of First General Steel Making and Rolling Factory in March 2005. Mr. Liu was appointed Manager of the Enterprise Management Department of the Company in February 2006. He has been a Supervisor of the Company since 31 August 2008.

Current Independent Supervisors

Madam Cheng Shaoxiu, aged 67, Independent Supervisor of the Company. Madam Cheng was Chief Accountant of Anhui Guoyuan Holding (Group) Company Limited from May 2001 to September 2004. She was Independent Director of the Company from September 1999 to August 2005. She has been an Independent Supervisor of the Company since 31 August 2005.

Madam An Qun, aged 47, Independent Supervisor of the Company. Madam An has been Chief Supervisor of the Teaching and Research Department of Law Studies of School of Party Committee, Anhui Province since June 2003 and Professor of Law since December 2004. She has been Independent Supervisor of the Company since 31 August 2005.

In accordance with sections 100 and 143 of the Articles of Association of the Company, the term of office for directors and supervisors is three years. The term of office of members of the Board and Supervisory Committee is from 31 August 2008 to 31 August 2011.

Current Senior Management

Mr. Shi Xiongliang, aged 57, Deputy General Manager of the Company. Mr. Shi was appointed Deputy Chief Engineer of the Company in August 1999, and Deputy General Manager and Chief Engineer of the Company in June 2001. Mr. Shi has ceased to be Chief Engineer of the Company since 1 January 2010.

Mr. Ding Yi, aged 46, Deputy General Manager of the Company. Mr. Ding was appointed Assistant to General Manager of the Company in January 2002 and Deputy General Manager of the Company in January 2004. Mr. Ding was also Chairman of Maanshan BOC-Ma Steel Gases Company Limited.

Mr. Su Shihuai, aged 50, Deputy General Manager and Chief Engineer of the Company. Mr. Su was appointed Deputy Chief Engineer of the Company in January 2002, and concurrently served as Executive Vice Director of the Technology Centre and Director of the New Product Development Centre. Mr. Su was appointed Deputy Chief Engineer of the Company in February 2007 and served concurrently as Deputy Director of the Technology Centre. He has been Deputy General Manager cum Chief Engineer of the Company since 1 January 2010.

Current senior management members of the Company were appointed by the sixth session of the Board of the Company. Except for Mr. Su whose term of office is from 1 January 2010 to 31 August 2011, the term of office of other senior management members is from 31 August 2008 to 31 August 2011.

As at the end of the reporting period, there was no change to the shareholdings of the current directors Mr. Gu Jianguo and Mr. Su Jiangang in the Company and none of the other current directors, supervisors and senior management held any shares of the Company.

Save as disclosed above, as at 31 December 2009, none of the current directors, supervisors or senior management had any interests or short positions in any of the shares, relevant shares or bonds of the Company or any of its associated corporations (within the meaning of Part XV of the "Securities and Futures Ordinance") which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance, or required to notice the Company and the Hong Kong Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

During the reporting period, none of the Company's directors, supervisors, senior management or their respective spouses or minor children received any benefits from any rights granted to them to acquire shares in or debentures of the Company, nor were there any exercising of such rights by any such persons. Neither the Company, the Company's subsidiaries, Holding nor Holding's subsidiaries had taken part in any arrangements that allow directors, supervisors and senior management of the Company to benefit from acquiring shares in or debentures of any other corporations.

2. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Annual emoluments of executive directors and senior management of the Company were determined by the Remuneration Committee of the Board based on their respective appraisals and in accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management", with recommendations thereof to be proposed to the Board. Emoluments were taken effect by the Board with the authorisation granted by the shareholders' general meeting. Details of the emoluments of the Company's executive directors and senior management received in 2009 are listed as follows (Unit: RMB'000):

Name	Position	Annual emoluments (tax inclusive)
Gu Jianguo	Chairman	901
Su Jiangang	Director and General Manager	896
Gao Haijian	Director, Deputy General Manager and Secretary to the Board	721
Hui Zhigang	Director and Deputy General Manager	721
Shi Xiongliang	Deputy General Manager and Chief Engineer	716
Ding Yi	Deputy General Manager	720

The above-mentioned emoluments for executive directors and senior management of the Company include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2009 in accordance with the pension scheme of the Company.

Annual emoluments received by non-independent supervisors from the Company were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for independent supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholders' general meeting. Details of the emoluments received by non-independent supervisors from the Company in 2009 are listed as follows (Unit: RMB'000):

Name	Position	Annual emoluments (tax inclusive)
Zhang Xiaofeng	Chairman of the Supervisory Committee	720
Liu Xianli	Supervisor	258

The above-mentioned emoluments received by non-independent supervisors from the Company include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2009 in accordance with the pension scheme of the Company.

In 2009, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors of the sixth session of the Board received an allowance for independent director of RMB100,000 (tax inclusive; RMB80,000 tax exclusive) each from the Company. Madam Cheng Shaoxiu and Madam An Qun, both independent supervisors of the sixth session of the Supervisory Committee, received an allowance for independent supervisor of RMB62,500 (tax inclusive; RMB50,000 tax exclusive) each from the Company.

Mr. Zhao Jianming, director and Mr. Fang Jinrong, supervisor, received their emoluments at Holding.

In 2009, the total salaries for directors, supervisors and senior management who received emoluments or allowances from the Company amounted to RMB6,178,000 (tax inclusive).

3. PERSONNEL MOVEMENT

Mr. Gu Zhanggen has reached retirement age. After getting approval at the third meeting of the sixth session of the Board, Mr. Gu ceased to be Director, Vice Chairman and member of the Nomination Committee of the Board since 21 January 2009.

The resignation of Mr. Shi Xiongliang from his office of Chief Engineer was approved at the 11th meeting of the sixth session of the Board on 31 December 2009; and Mr. Su Shihuai was elected Deputy General Manager and Chief Engineer of the Company. The term of office of Mr. Su is from 1 January 2010 to 31 August 2011.

There was no new appointment or removal of other senior management.

4. EMPLOYEES

As at the end of 2009, the Company had a total of 42,183 employees, of whom 34,190 were workers at production lines, 365 were sales representatives, 4,069 were technicians, 300 were financial staff and 3,259 were managerial staff. There were 11.26% of employees who had postgraduate qualifications or above. The number of resigned or retired staff for whom the Company was responsible for pensions amounted to 21,994.

Movements in Share Capital and Shareholders

1. SHARE MOVEMENTS

(1) Table on Share Movements

Unit: Share

	Prior to current movements		Current movements (+, -)					After current movements	
	Number of shares	(%)	Issue of new shares	Bonus share	Transferred from reserves	Others	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions	3,830,560,000	49.743	-	-	-	-3,830,560,000	-3,830,560,000	0	0
1. State-owned shares	3,830,560,000	49.743	-	-	-	-3,830,560, 000	-3,830,560,000	0	0
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Foreign owned shares	-	-	-	-	-	-	-	-	-
Including:									
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	3,870,121,186	50.257	-	-	-	3,830,560,000	3,830,560,000	7,700,681,186	100
1. RMB-dominated ordinary shares	2,137,191,186	27.753	-	-	-	3,830,560,000	3,830,560,000	5,967,751,186	77.496
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	22.504	-	-	-	-	-	1,732,930,000	22.504
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	7,700,681,186	100	-	-	-	0	0	7,700,681,186	100

Note: The above shares not subject to selling restrictions include 55,863,927 A shares held by Holding, the controlling shareholder, due to the shares acquisition plan and 3,886 A shares held respectively by two current directors each, Mr. Gu Jianguo and Mr. Su Jiangang.

(2) Table on Movement of Shares with Selling Restrictions

Unit: Share

Name of Shareholder	Number of shares subject to selling restrictions as at the beginning of the year	Number of shares with selling restrictions relieved during the year	Number of shares with selling restrictions increased during the year	Number of shares subject selling to instructions as at the end of the year	Reasons for selling restrictions or relief of selling restrictions	Date of relief of selling restrictions
Holding	3,830,560,000	3,830,560,000	Not applicable	Not applicable	Share reform and the expiry of selling restrictions undertakings	14 September 2009

2. ISSUANCE AND LISTING OF SECURITIES IN RECENT YEARS

(1) Issuance and Listing of Bonds with Warrants

Upon receiving approval from the CSRC through the notice Zheng Jian Fa Xing Zi [2006] Document No. 111, the Company successfully issued RMB5,500 million of Bonds with Warrants at the SSE on 13 November 2006. Prior to the listing, the Bonds with Warrants were segregated into two types of securities, namely, corporate bonds and warrants. Holders of the Bonds with Warrants were distributed with 1,265 million warrants for zero consideration. The abbreviation of the corporate bonds is "06馬鋼債"; the abbreviation of the warrants is "馬鋼CWB1", whereas the abbreviation of exercise rights is ES081128 and the code of exercise rights is 582010. On 29 November 2006, both "06馬鋼債" and "馬鋼CWB1" were listed on the SSE under respective trading codes of "126001" and "580010".

"06馬鋼債" has a term of five years and carries a fixed interest rate. The coupon rate is 1.4% per annum, with interests paid in annual arrears. Interest accrual began on 13 November 2006 and the maturity date is 13 November 2011, with the redemption date being five working days after the maturity date of 13 November 2011.

The proportion of exercise rights for the "馬鋼CWB1" warrants is 1:1. Accordingly, each warrant represents the right to subscribe for one A share issued by the Company. The initial exercise price is RMB3.40 per share. The term of the warrants is 24 months upon the listing of the warrants. Holders of the warrants may exercise the warrants in the 10 trading days before 29 November 2007 (ie: 15-16 November 2007, 19-23 November 2007, 26-28 November 2007), or in the 10 trading days before 29 November 2008 (ie: 17-21 November 2008 and 24-28 November 2008). On 11 July 2007, the A shares of the Company began to trade on an ex-dividend basis and the Board of the Company adjusted the exercise price of the "馬鋼CWB1" warrants in accordance with the relevant regulations of the SSE. After the adjustment, the exercise price of the warrants became RMB3.33 per share. On 10 July 2008, the A shares of the Company began to trade on an ex-dividend basis and the Board of the Company adjusted the exercise price of the "馬鋼CWB1" warrants in accordance with the relevant regulations of the SSE. After the adjustment, the exercise price of the warrants became RMB3.26 per share.

(2) The Exercise of "馬鋼CWB1" Warrants

The first exercise of "馬鋼CWB1" warrants took place on 15-16 November 2007, 19-23 November 2007, 26-28 November 2007. Under this exercise, 303,251,716 warrants were successfully exercised. After the exercise, the Company's total number of shares increased from 6,455,300,000 shares to 6,758,551,716 shares, while the number of warrants in circulation decreased from 1,265,000,000 warrants to 961,748,284 warrants.

The second exercise of "馬鋼CWB1" warrants took place on 17-21 November 2008, 24-28 November 2008. Under this exercise, 942,129,470 warrants were successfully exercised. After the exercise, the Company's total number of shares increased from 6,758,551,716 shares to 7,700,681,186 shares, while 19,618,814 unsuccessfully exercised warrants were written off in accordance with the regulations.

3. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

(1) The Number of Shareholders and Details of Top Ten Shareholders

Unit: Share

Total number of shareholders

As at the end of the reporting period, the Company had a total of 381,886 shareholders.

Shareholdings of top ten shareholders

Name of the shareholders	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Holding	State-owned shareholder	50.47	3,886,423,927	0	0
HKSCC (Nominees) Limited	Foreign shareholder	22.19	1,708,535,997	0	Not applicable
鵬華價值優勢股票型證券投資基金	Others	1.38	106,199,655	0	Unknown
南方成份精選股票型證券投資基金	Others	0.52	39,715,631	0	Unknown
長盛同慶可分離交易股票型證券投資基金	Others	0.50	38,549,630	0	Unknown
諾安平衡證券投資基金	Others	0.42	32,514,511	0	Unknown
南方穩健成長貳號證券投資基金	Others	0.41	31,326,152	0	Unknown
景順長城精選藍籌股票型證券投資基金	Others	0.31	23,650,587	0	Unknown
華夏成長證券投資基金	Others	0.29	21,965,132	0	Unknown
南方穩健成長證券投資基金	Others	0.25	19,335,107	0	Unknown

Shareholdings of top ten shareholders without selling restrictions

Name of the shareholders	Number of shares held without selling restrictions	Type of shares
Holding	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,708,535,997	Overseas-listed foreign shares
鵬華價值優勢股票型證券投資基金	106,199,655	RMB-denominated ordinary shares
南方成份精選股票型證券投資基金	39,715,631	RMB-denominated ordinary shares
長盛同慶可分離交易股票型證券投資基金	38,549,630	RMB-denominated ordinary shares
諾安平衡證券投資基金	32,514,511	RMB-denominated ordinary shares
南方穩健成長貳號證券投資基金	31,326,152	RMB-denominated ordinary shares
景順長城精選藍籌股票型證券投資基金	23,650,587	RMB-denominated ordinary shares
華夏成長證券投資基金	21,965,132	RMB-denominated ordinary shares
南方穩健成長證券投資基金	19,335,107	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the above-mentioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). The manager of 南方成份精選股票型證券投資基金, 南方穩健成長貳號證券投資基金 and 南方穩健成長證券投資基金 is China Southern Fund Management Co., Ltd. (南方基金管理公司). Save for disclosed above, the Company is not aware of whether the other nine shareholders mentioned above had connected relationship or whether they were concerted parties.

As at the end of the reporting period, Holding held a total of 3,886,423,927 shares of the Company, including 3,830,560,000 A shares of the Company on behalf of the State. Holding increased a total of 55,863,927 A shares of the Company via the trading system of the SSE. Holding was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. Holding had a registered capital of RMB6,298,290,000. Its operating scopes include: mining and sorting of mineral products; construction, materials, machine manufacturing, maintenance and design of building projects; external trading; domestic trading; distribution and storage of materials; consulting service; rental services; and agriculture.

HKSCC (Nominees) Limited held 1,708,535,997 H shares of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody.

As at 31 December 2009 and 28 February 2010, which is the latest practicable date for the publication of this report, to the best knowledge of the directors, the Company had sufficient public float as stipulated by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange ("Hong Kong Listing Rules").

Movements in Share Capital and Shareholders (continued)

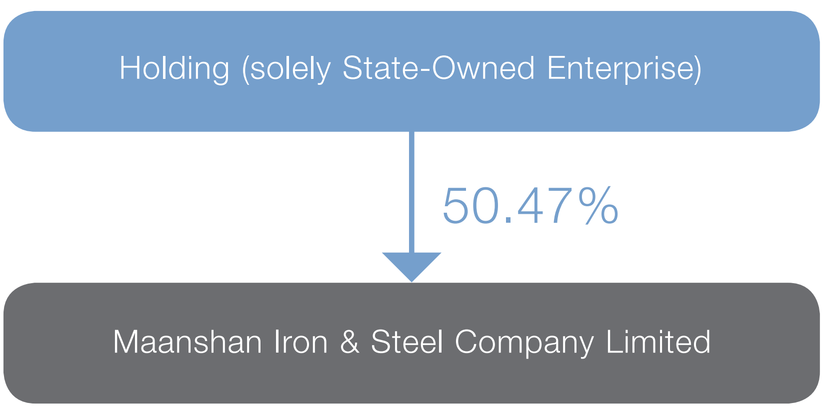
(2) Save as disclosed above, details of the holders of the Company's H Shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2009 were as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares interested or deemed interested (shares)	Approximate percentage of the Company's issued H shares (%)
JP Morgan Chase & Co.	Note 1	227,343,631 (Long position)	13.12
		8,908,800 (Short position)	0.51
		80,224,000 (Lending pool)	4.63
UBS AG	Note 2	102,513,948 (Long position)	5.92
		25,490,110 (Short position)	1.47

Note 1: JP Morgan Chase & Co. has a long position of 227,343,631 shares of the Company, including 13,163,631 shares as the actual owner, 133,956,000 shares as an investment manager, 80,224,000 shares as a custodian. It has a short position of 8,908,800 shares as the beneficial owner and a lending pool of 80,224,000 shares as a custodian.

Note 2: UBS AG has a long position of 102,513,948 shares of the Company, including 62,547,578 shares as the beneficial owner, 33,357,370 shares in the form of interests held by legal entities controlled by the substantial shareholder and 6,609,000 shares as an entity entitled to guaranteed interests in the shares; it also has a short position of 25,490,110 shares, including 16,640,710 shares held as the beneficial owner, 8,781,400 shares in the form of interests held by legal entities controlled by the substantial shareholder and 68,000 shares as an entity entitled to guaranteed interests in the shares.

(3) Flow chart indicating the proprietorship and controlling relationship between the Company and the de facto controller



Relevant Details of "06 Magang Warrants"

1. DETAILS OF TOP TEN HOLDERS OF "06馬鋼債" AS AT THE END OF THE REPORTING PERIOD

Unit: RMB

Name of bond holder	Number of bonds held
China Pacific Life Insurance Co., Ltd.	549,146,000
Ping An Insurance (Group) Company of China, Ltd.	414,046,000
China Life Reinsurance Co., Ltd.	383,595,000
China Marine Finance Co., Ltd.	336,830,000
China Continent Property & Casualty Insurance Company Ltd	300,000,000
National Social Security Fund No.304	280,884,000
National Social Security Fund No.305	272,536,000
National Social Security Fund No.306	241,727,000
Industrial and Commercial Bank of China -南方避險增值基金	211,476,000
Sino Life Insurance Co., Ltd	162,196,000

2. DURING THE REPORTING PERIOD, THERE WERE NO MATERIAL CHANGES IN THE PROFITABILITY, ASSET CONDITION AND CREDIT CONDITION OF HOLDING, THE GUARANTOR OF "06馬鋼債".

Shareholders' General Meeting

During the reporting period, the Company held two general meetings in strict accordance with the notifying, convening and holding procedures stipulated in relevant laws, regulations and the Articles of Association. The particulars are as follows:

1. ANNUAL GENERAL MEETING

On 16 June 2009, the Company held the 2008 annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News, and the websites of the SSE and the Hong Kong Stock Exchange on 17 June 2009.

2. EXTRAORDINARY GENERAL MEETING

On 15 December 2009, the Company held the 2009 first extraordinary general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 16 December 2009.

Significant Matters

1. The Company had no material litigation and arbitration during the reporting period.

2. During the reporting period, no matters in relation to bankruptcy or restructuring occurred in the Company.

3. As at the end of the reporting period, save for the shares issued by the following listed companies, the Company did not hold any equity interests in other listed companies, companies that were seeking listing status, or non-listed financial enterprises (shareholding unit: shares; amount: RMB'000):

Item No.	Type of securities	Securities code	Abbreviation	Initial investment amount	Number of shares held	Book value at the end of the reporting period	Proportion in securities investment at the end of the reporting period	Gain/loss during the reporting period
1	Stock	601857	PetroChina	585	35,000	483	46.58	128
2	Stock	601390	China Railway Group	158	33,000	208	20.06	29
3	Stock	601898	China Coal Energy	202	12,000	163	15.72	85
4	Stock	601186	China Railway Construction Corporation Limited	182	20,000	183	17.65	–18
Other securities investments held at the end of the reporting period				–	–	–	–	–
Gain/loss from disposal of securities investments				–	–	–	–	–
Total				1,127		1,037	100	224

4. There were no other significant acquisitions, sales or disposals of assets or mergers and acquisitions undertaken by the Company that took place during the reporting period or took place in previous periods but subsisted until the reporting period; nor did the Company or its subsidiaries repurchase, sell and redeem any listed shares of the Company during the reporting period.

5. CONNECTED TRANSACTIONS

Usual Business Transactions between the Company and Holding

The usual business transactions between the Company and Holding were carried out in the normal course of business of the Company and Holding and were settled in cash or bills. The details of which are as follows:

(1) To ensure that the Company has sufficient ore to meet the production demands, Holding agreed to continuously provide the Company with ore on a first priority basis. The Company entered into the Sale and Purchase of Ore Agreement for 2007 to 2009 with Holding on 18 October 2006 which was subsequently approved at the extraordinary general meeting held on 14 December 2006.

The price of iron ore per tonne purchased every year by the Company from Holding will be determined from time to time by both parties after negotiation, and shall not be higher than the weighted average ex factory price per tonne charged by the top three independent suppliers supplying the largest amounts of iron ore to the Company in the previous year of the contracting year for the similar type of iron ore supplied to the Company.

The price of limestone purchased every year by the Company from Holding will be determined from time to time by both parties after negotiation, and shall not be higher than the weighted average ex factory price charged by the top three independent suppliers supplying the largest amounts of limestone to the Company in the previous year of the contracting year for the similar type of limestone supplied to the Company.

The payment made by the Company to Holding in respect of the Sale and Purchase of Ore Agreement from 1 January 2009 to 31 December 2009 was as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore and limestone	2,337,035	24.66

All directors of the Board who are not associated with Holding (including independent non-executive directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. Such transactions were conducted pursuant to the terms as set out in the Sales and Purchase of Ore Agreement with effect from 2007 to 2009. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB3,827,363,500.

The continuing connected transactions between the Company and Holding under the "Sale and Purchase of Ore Agreement" for the year 2009 have been approved by the Board of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange have not been exceeded. Ernst & Young, the auditors of the Company, has executed discussion processes for such financial information and issued reports regarding such execution.

(2) Save for the connected transactions made pursuant to the aforementioned Sale and Purchase of Ore Agreement, amounts of other connected transactions in the ordinary course of business with Holding are as follows (RMB'000):

	Amount paid	**Proportion of transaction of the same category (%)**
Steel products and other products purchased by Holding from the Company	4,819	0.01
Water, electricity, telephone and other services acquired by Holding from the Company	129,742	16.38
Payment by the Company for fixed assets and construction services	162,378	7.66
Payment by the Company to Holding for other services and products	244,791	100

All directors of the Board who are not associated with Holding (including independent non-executive directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms and that those transactions, whilst adopting market prices as the pricing basis, were on terms no less favourable to the Company than normal commercial terms.

The total amount of these transactions, accounting for approximately 2.2% of the audited net tangible asset value of the Company for the year ended 31 December 2009 and did not have any adverse impact on the Company's profits.

- As at 31 December 2009 save for ordinary business transactions and dividends due to Holding, there is no amount due to or from the Company and connected parties.

Material Contracts with the Controlling Shareholder

Save for the "Sale and Purchase of Ore Agreement" for 2007 to 2009 and "Sale and Purchase of Ore Agreement" for 2010 to 2012 entered into by the Company and Holding, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder at any time during the year ended 31 December 2009.

6. The Company did not entrust, contract or lease any assets of other companies, or vice versa, and did not entrust any other parties to implement cash assets arrangement.

7. External guarantees provided by the Company as at the end of the reporting period

Unit: RMB million

External guarantees provided by the Company (excluding guarantees for subsidiaries)

Guaranteed entity	Date of incurrence	Guarantee amount	Type of guarantee	Guarantee period	Completed or not	Guarantee for connected parties (Yes or No)
Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Total guarantee amount during the reporting period						0
Balance of guarantees during the reporting period						0
Guarantees provided by the Company for subsidiaries						
Total change in guarantee amount for subsidiaries during the reporting period						43
Balance of guarantees for subsidiaries at the end of the reporting period						3,857
Total guarantee amount provided by the Company (including guarantees for subsidiaries)						
Total guarantee amount						3,857
Total guarantee amount as a percentage of net assets of the Company						14.57%
Including:						
Guarantee amount provided for shareholders, the de facto controller and connected parties						0
Guarantee amount provided directly or indirectly for entities with gearing (assets-liabilities) ratio exceeding 70% (Note)						3,800
Total guarantee amount exceeding 50% of net assets						0
Total amount of the three guarantees mentioned above						3,800

Note: The gearing (assets-liabilities) ratio of Ma Steel International Trade and Economic Corporation, a wholly-owned subsidiary of the Company, exceeded 70%. The 2008 annual general meeting has considered and approved the Company to provide guarantee to the subsidiary. As at the end of 2009, the Company's guarantees provided to it amounted to RMB3,800 million as banking facilities.

The guarantees provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB57 million.

The above-mentioned guarantees were all guarantees with joint and several liabilities. All the guarantees were approved by the Board of the Company beforehand. The guarantees for Ma Steel International Trade and Economic Corporation were only provided for the specified import items designated by the Company, that were loans needed for the general businesses of importing ores, coke, hot-pressed iron plates, coal, scrap steel, equipment and spare parts; guarantees of credit facilities for businesses regarding the issuing of letters of credit for import, letters of indemnity, financing for bills purchased of import and export, guarantees for taking delivery and bank acceptances; and guarantees for tax payment security deposit regarding imported ores. All the guarantees were not applicable for investments in properties, stocks, bonds, funds, or external investments, provision of guarantees for external parties, provisions of loans to external parties, or grants to external parties.

8. UNDERTAKINGS BY THE COMPANY OR SHAREHOLDERS WITH A SHAREHOLDING OF MORE THAN 5% (INCLUDING 5%)

In the process of the Company's 2006 State Share Reform, Holding made the following special undertakings:

(1) After the implementation of the State Share Reform, the Company's shares held by Holding Company will not be listed for trading or transferred within 12 months from the date of listing, and the State-owned shares held by Holding also will not be listed for trading or transferred in the following 24 months. However, so far as it is permitted under the scope of prevailing policies, Holding may carry out incentive stock option plan(s) or share transfer to particular investor(s). Target(s) of the incentive stock option plan(s) should hold the shares for such period as prescribed under the relevant policies and the particular investor(s) should, after acquiring the shares from Holding, continue to hold such transfer for the same period as undertaken by Holding.

(2) Holding pays all the costs and expenses arising from the State Share Reform.

Moreover, Holding makes representations as follows:

(1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the CSRC and the SSE, and will bear any legal liabilities accordingly.

(2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares held by it otherwise.

During the reporting period, Holding has fully complied with such undertakings.

Holding acquired 13,760,000 A shares of the Company for the first time via the trading system of the SSE on 12 September 2008. Meanwhile, Holding undertook that: It would continue to acquire A shares of the Company via the trading system of the SSE within 12 months from the date of publishment of the announcement of increase in holding of shares (i.e. 12 September 2008). The accumulated acquisition ratio would not exceed 2% of the total share capital of the Company (including the shares acquired that time) and that it would not sell the shares of the Company it held during the implementation of the continuous acquisition plan and during the statutory period.

As at 11 September 2009 when the period of acquisition expired, Holding acquired a total 55,863,927 A shares of the Company. Such number of shares acquired did not exceed 2% of the issued share capital of the Company. Nor did Holding sell the shares of the Company it held. It completely carried out these undertakings.

Save for the above-mentioned undertakings, there were no undertakings which may incur significant impact on the Company's operating results and financial position made during, or already made but extending into, the reporting period, by the Company or shareholders holding 5% or more of the Company's shares, and no extension of shares lock-up undertakings was reported.

9. During the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, the de facto controller, were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges.

10. INDEX OF INFORMATION DISCLOSURES ON NEWSPAPERS

No.	Announcement title	Newspapers	Date of announcement
1	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	22 January 2009
2	Estimated Results of Maanshan Iron & Steel Company Limited	Shanghai Securities News	27 February 2009
3	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 April 2009
4	Announcement on Resolutions of the Fourth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 April 2009
5	The Special Report on Depositing and Actual Utilisation of Fundraising Proceeds of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 April 2009
6	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	28 April 2009
7	Announcement on Resolutions of the Fifth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Shanghai Securities News	28 April 2009
8	Announcement on the Continued Provision of Guarantees by Maanshan Iron & Steel Company Limited to Ma Steel International Trade and Economics Corporation, A Wholly Owned Subsidiary	Shanghai Securities News	28 April 2009
9	Notice of 2008 Annual General Meeting of Maanshan Iron & Steel Company Limited	Shanghai Securities News	28 April 2009

No.	Announcement title	Newspapers	Date of announcement
10	Announcement on Relocation of Maanshan Iron & Steel Company Limited	Shanghai Securities News	5 June 2009
11	Announcement on Resolutions Passed at the 2008 Annual General Meeting of Maanshan Iron & Steel Company Limited	Shanghai Securities News	17 June 2009
12	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	19 August 2009
13	Announcement on Resolutions of the Sixth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Shanghai Securities News	19 August 2009
14	Announcement on Listing of Circulating Shares with Selling Restrictions in Share Reform Plan of Maanshan Iron & Steel Company Limited	Shanghai Securities News	9 September 2009
15	Announcement on Completion of Increase in Holding of Shares of the Company by the Controlling Shareholder of Maanshan Iron & Steel Company Limited	Shanghai Securities News	14 September 2009
16	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 October 2009
17	Announcement on Resolutions of the Seventh Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 October 2009
18	Announcement on Connected Transactions of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 October 2009
19	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	28 October 2009
20	Notice of 2009 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Shanghai Securities News	28 October 2009
21	Announcement on Interest Payment on “06馬鋼債” of Maanshan Iron & Steel Company Limited	Shanghai Securities News	9 November 2009

No.	Announcement title	Newspapers	Date of announcement
22	Announcement on Change in Registered Address of Announcement on Interest Payment	Shanghai Securities News	8 December 2009
23	Announcement Relating to the Approval on Waiver of the Obligation of Holding Shareholders to Make a General Offer Received from China Securities Regulatory Commission of Maanshan Iron & Steel Company Limited	Shanghai Securities News	10 December 2009
24	Announcement on the Rating Tracking of "06馬鋼債" of Maanshan Iron & Steel Company Limited	Shanghai Securities News	11 December 2009
25	Announcement on Resolution Passed at the 2009 First Extraordinary General Meeting of Maanshan Iron & Steel Company Limited	Shanghai Securities News	16 December 2009
26	Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited	Shanghai Securities News	4 January 2010

The above announcements are concurrently published on the websites of the SSE (http://www.sse.com.cn) and the Hong Kong Stock Exchange (http://www.hkex.com.hk).

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Maanshan Iron & Steel Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Maanshan Iron & Steel Company Limited set out on pages 78 to 179, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

To the shareholders of Maanshan Iron & Steel Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
30 March 2010

Consolidated Income Statement

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	4, 5	**50,411,554**	70,009,580
Cost of sales		**(47,674,579)**	(65,777,650)
Gross profit		**2,736,975**	4,231,930
Other income and gains	5	**307,770**	314,969
Selling and distribution costs		**(448,636)**	(1,145,342)
Administrative expenses		**(1,170,688)**	(951,063)
Other expenses		**(41,630)**	(3,684)
Finance costs	7	**(1,004,155)**	(1,840,304)
Share of profits and losses of:			
Jointly-controlled entities		**68,245**	68,564
Associates		**114,995**	130,804
PROFIT BEFORE TAX	6	**562,876**	805,874
Income tax expense	10	**(29,010)**	(74,645)
PROFIT FOR THE YEAR		**533,866**	731,229
Attributable to:			
Owners of the parent	11	**392,475**	710,234
Minority interests		**141,391**	20,995
		533,866	731,229
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**5.10 cents**	10.38 cents
Diluted		**N/A**	N/A

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	2009	2008
	RMB'000	RMB'000
PROFIT FOR THE YEAR	**533,866**	731,229
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**65,195**	(57,405)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**65,195**	(57,405)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**599,061**	673,824
Attributable to:		
Owners of the Parent	**457,670**	652,829
Minority interests	**141,391**	20,995
	599,061	673,824

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**38,272,899**	40,769,496
Construction in progress	15	**2,021,193**	2,754,591
Investment properties	16	**4,727**	1,206
Prepaid land premiums	17	**1,746,690**	1,765,348
Other intangible asset	18	**109,090**	85,191
Interests in jointly-controlled entities	20	**309,672**	304,279
Interests in associates	21	**580,959**	501,964
Available-for-sale financial investments	22	**108,772**	102,917
Deferred tax assets	24	**779,581**	612,250
Total non-current assets		**43,933,583**	46,897,242
CURRENT ASSETS			
Inventories	25	**8,835,996**	9,702,503
Construction contracts	26	**152,798**	145,555
Trade and bills receivables	27	**5,244,120**	1,893,983
Prepayments, deposits and other receivables	28	**1,116,255**	1,543,755
Tax recoverable		**141,960**	145,702
Held-to-maturity investments	23	**–**	2,939
Equity investments at fair value through profit or loss	29	**1,037**	813
Pledged time deposits	30	**2,919,782**	513,720
Cash and cash equivalents	30	**5,780,536**	5,437,367
Total current assets		**24,192,484**	19,386,337
CURRENT LIABILITIES			
Trade and bills payables	31	**11,715,391**	8,574,266
Other payables and accruals	32	**7,853,123**	8,549,471
Tax payable		**34,148**	–
Interest-bearing bank and other borrowings	33	**1,989,246**	1,377,579
Provisions	35	**–**	24,856
Total current liabilities		**21,591,908**	18,526,172
NET CURRENT ASSETS		**2,600,576**	860,165
TOTAL ASSETS LESS CURRENT LIABILITIES		**46,534,159**	47,757,407

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**46,534,159**	47,757,407
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**13,603,960**	15,666,296
Bonds with warrants	33, 34	**5,165,410**	4,992,975
Deferred income		**579,927**	563,549
Provisions	35	**–**	7,485
Total non-current liabilities		**19,349,297**	21,230,305
Net assets		**27,184,862**	26,527,102
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**7,700,681**	7,700,681
Reserves	37(a)	**18,455,945**	18,306,302
Proposed final dividends	12	**308,027**	–
		26,464,653	26,006,983
Minority interests		**720,209**	520,119
Total equity		**27,184,862**	26,527,102

Gu Jianguo
Director

Su Jiangang
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

		Attributable to owners of the parent											
	Notes	Issued share capital RMB'000	Capital reserve account RMB'000	Equity component of bonds with warrants RMB'000	Statutory reserve RMB'000	Reserve fund RMB'000	Enterprise expansion fund RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Year ended 31 December 2009													
At 1 January 2009		7,700,681	8,338,359	–	2,928,527	45,729	34,267	(47,775)	7,007,195	–	26,006,983	520,119	26,527,102
Total comprehensive income for the year		–	–	–	–	–	–	65,195	392,475	–	457,670	141,391	599,061
Transfer from/(to) reserves	37	–	–	–	27,755	13,107	8,535	–	(49,397)	–	–	–	–
Proposed final 2009 dividend	12	–	–	–	–	–	–	–	(308,027)	308,027	–	–	–
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(9,973)	(9,973)
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	68,672	68,672
At 31 December 2009		7,700,681	8,338,359*	–	2,956,282*	58,836*	42,802*	17,420 *	7,042,246*	308,027	26,464,653	720,209	27,184,862
Year ended 31 December 2008 (restated)													
At 1 January 2008		6,758,552	5,684,014	372,679	2,837,343	36,642	27,577	9,630	6,403,922	878,612	23,008,971	446,515	23,455,486
Total comprehensive income for the year		–	–	–	–	–	–	(57,405)	710,234	–	652,829	20,995	673,824
Transfer from/(to) reserves	37	–	–	–	91,184	9,087	6,690	–	(106,961)	–	–	–	–
Final 2007 dividend declared		–	–	–	–	–	–	–	–	(878,612)	(878,612)	–	(878,612)
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(48,585)	(48,585)
Adjustment for deferred tax liability of bonds with warrants	24	–	–	167,810	–	–	–	–	–	–	167,810	–	167,810
Issue of shares	34	942,129	2,654,345	(540,489)	–	–	–	–	–	–	3,055,985	–	3,055,985
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	–	–	101,194	101,194
At 31 December 2008		7,700,681	8,338,359*	–	2,928,527*	45,729*	34,267*	(47,775)*	7,007,195*	–	26,006,983	520,119	26,527,102

* These reserve accounts comprise the consolidated reserves of RMB18,455,945,000 (2008: RMB18,306,302,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**562,876**	805,874
Adjustments for:			
Finance costs	7	**1,004,155**	1,840,304
Share of profits and losses of jointly-controlled entities		**(68,245)**	(68,564)
Share of profits and losses of associates		**(114,995)**	(130,804)
Bank interest income	5, 6	**(94,570)**	(115,653)
Gain on disposal of equity investments at fair value through profit or loss	5, 6	**–**	(209)
Dividend income from equity investments at fair value through profit or loss	5, 6	**(13)**	(11)
Dividend income from available-for-sale financial investments	5, 6	**(20,863)**	(290)
Depreciation	6	**4,820,673**	4,565,548
Depreciation of investment properties	6	**86**	34
Recognition of prepaid land premiums	6	**41,586**	40,040
Amortisation of a mine participation right	6	**4,089**	4,179
Recognition of deferred income	5, 6	**(79,503)**	(66,056)
Fair value (gains)/losses on equity investments at fair value through profit or loss	5, 6	**(224)**	1,033
(Gain)/loss on disposal of items of property, plant and equipment, net	5, 6	**(16,899)**	2,789
Provision for inventories	6	**57,811**	1,707,562
Provision/(reversal of provision) for doubtful debts, net	6	**(213)**	690
Foreign exchange (gains)/losses, net	6	**15,146**	(172,813)
		6,110,897	8,413,653
(Increase)/decrease in inventories		**808,696**	(1,849,502)
Increase in construction contracts		**(7,243)**	(69,867)
(Increase)/decrease in trade and bills receivables		**(3,349,924)**	3,310,345
Decrease in prepayments, deposits and other receivables		**452,252**	269,958
Increase/(decrease) in trade and bills payables		**3,141,125**	(20,460)
Increase in other payables and accruals		**(296,312)**	(959,523)
Decrease in provisions for pension benefits and housing subsidies		**(32,341)**	(20,690)
Cash generated from operations		**6,827,150**	9,073,914
Income tax paid		**(158,450)**	(686,119)
Net cash flows from operating activities		**6,668,700**	8,387,795

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows from operating activities		**6,668,700**	8,387,795
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**94,570**	115,653
Proceeds from disposal of equity investments at fair value through profit or loss		**–**	727
Dividend income from equity investments at fair value through profit or loss		**13**	12
Dividend income from available-for-sale financial investments		**20,863**	290
Dividend income from a jointly-controlled entity		**56,600**	32,591
Dividend income from associates		**27,000**	39,065
Government subsidies granted for specific projects		**95,881**	39,180
Purchases of items of property, plant and equipment, construction in progress and other intangible assets		**(1,613,375)**	(3,523,358)
Purchases of prepaid land premiums		**(23,063)**	(285,685)
Proceeds from disposal of items of property, plant and equipment		**33,396**	18,693
Proceeds from disposal of prepaid land premiums		**135**	–
Proceeds from retrieval of held-to-maturity investments		**2,939**	2,660
Investments in equity investments at fair value through profit or loss		**–**	(902)
Investments in available-for-sale financial investments		**(5,855)**	–
Investments in associates		**(9,000)**	–
Investments in a jointly-controlled entity		**(500)**	–
Acquisition of a subsidiary	38	**–**	(14,098)
Increase in non-pledged time deposits with original maturity greater than three months when acquired		**(277,588)**	–
Decrease/(increase) in pledged time deposits		**(2,406,062)**	253,936
Net cash flows used in investing activities		**(4,004,046)**	(3,321,236)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**25,484,947**	19,326,545
Repayment of bank and other borrowings		**(26,931,563)**	(24,754,929)
Proceeds from exercising warrants	36	**–**	3,071,343
Costs associated with the conversion of warrants into ordinary shares	36	**–**	(15,358)
Capital contribution by minority shareholders		**68,672**	101,194
Interest paid		**(831,720)**	(1,712,551)
Dividend paid		**(400,036)**	(1,080,794)
Dividend paid to minority shareholders		**(9,973)**	(48,585)
Net cash flows used in financing activities		**(2,619,673)**	(5,113,135)

	Note	2009 RMB'000	2008 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**44,981**	(46,576)
Cash and cash equivalents at beginning of year		**5,437,367**	5,523,876
Effect of foreign exchange rate changes, net		**20,600**	(39,933)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,502,948**	5,437,367
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	30	**5,502,948**	5,437,367

Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**36,293,704**	38,877,703
Construction in progress	15	**1,726,598**	2,572,902
Investment properties	16	**18,404**	18,809
Prepaid land premiums	17	**1,238,079**	1,269,926
Investments in subsidiaries	19	**1,200,553**	1,118,244
Investments in jointly-controlled entities	20	**234,500**	234,000
Investments in associates	21	**263,276**	263,276
Available-for-sale financial investments	22	**108,772**	102,917
Deferred tax assets	24	**767,990**	603,267
Total non-current assets		**41,851,876**	45,061,044
CURRENT ASSETS			
Inventories	25	**7,576,642**	8,845,460
Construction contracts	26	**152,798**	145,555
Trade and bills receivables	27	**5,254,519**	2,020,994
Prepayments, deposits and other receivables	28	**625,699**	1,621,749
Tax recoverable		**141,960**	141,960
Held-to-maturity investments	23	**–**	2,939
Equity investments at fair value through profit or loss	29	**1,037**	813
Pledged time deposits	30	**2,049,546**	6,000
Cash and cash equivalents	30	**3,759,523**	4,362,314
Total current assets		**19,561,724**	17,147,784
CURRENT LIABILITIES			
Trade and bills payables	31	**8,801,394**	6,937,043
Other payables and accruals	32	**7,288,488**	7,996,926
Interest-bearing bank and other borrowings	33	**816,000**	846,000
Provisions	35	**–**	24,856
Total current liabilities		**16,905,882**	15,804,825
NET CURRENT ASSETS		**2,655,842**	1,342,959
TOTAL ASSETS LESS CURRENT LIABILITIES		**44,507,718**	46,404,003

Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**44,507,718**	46,404,003
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	**13,577,000**	15,654,324
Bonds with warrants	33, 34	**5,165,410**	4,992,975
Deferred income		**562,620**	562,504
Provisions	35	**–**	7,485
Total non-current liabilities		**19,305,030**	21,217,288
Net assets		**25,202,688**	25,186,715
EQUITY			
Issued capital	36	**7,700,681**	7,700,681
Reserves	37(b)	**17,193,980**	17,486,034
Proposed final dividends	12	**308,027**	–
Total equity		**25,202,688**	25,186,715

Gu Jianguo
Director

Su Jiangang
Director

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of iron and steel products and related by-products.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary in prior year was accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given and liabilities incurred at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary,* which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 Amendments and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(CONTINUED)*

HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 44 to the financial statements while the revised liquidity risk disclosures are presented in note 45 to the financial statements.

HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life. The principal annual rates used for this purpose are based on the remaining lease terms of the land use rights.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each financial year end.

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. No development costs have been capitalised during the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets *(continued)*

Mine participation right

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

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

Leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include trade and bills receivables, available-for-sale financial investments, equity investments at fair value through profit or loss, held-to-maturity investments, pledged time deposits, cash and cash equivalents and other receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial investments or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale financial investments revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with policies set out for "Revenue recognition" below.

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

The Group evaluates its available-for-sale financial investments whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expense in the income statement.

Assets carried at cost

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its costs. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; or

- and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, bonds with warrants and interest-bearing loans and borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain and loss recognised in the income statement does not include any interest changed or these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are 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. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Bonds with warrants

The component of bonds with warrants that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of bonds with warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that are recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

Spare parts are stated at cost less provision for obsolescence.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Cash and cash equivalents

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

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

Construction contracts

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

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

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

Foreign currencies

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

The functional currencies of certain subsidiaries in Hong Kong and overseas are stated in currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

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

Pension benefits

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty

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

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

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

Impairment of receivables

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

Provision for inventories under net realisable value

The management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Impairment of available-for-sale financial investments

The Group classifies certain investments as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a single business unit focusing on the manufacture and sale of iron and steel products and related by-products, and, therefore, has no separable operating segment.

Revenue from external customers based on the location of these customers is analysed as follows:

	2009	2008
	RMB'000	RMB'000
The PRC	**49,661,673**	65,516,697
Overseas	**749,881**	4,492,883
	50,411,554	70,009,580

The geographical location of the Group's non-current assets is analysed as follows:

	2009	2008
	RMB'000	RMB'000
The PRC	**42,930,910**	46,092,968
Overseas	**114,320**	89,107
	43,045,230	46,182,075

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The non-current asset information above is based on the location of the assets and excludes financial instruments and deferred tax assets.

The Group has not placed reliance on any single external customer, which accounted for 10% or more of its revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2009	2008
	RMB'000	RMB'000
Revenue		
Sale of goods	**50,411,554**	70,009,580
Other income and gains		
Bank interest income	**94,570**	115,653
Trading of iron ore	**–**	57,992
Dividend income from available-for-sale financial investments	**20,863**	290
Dividend income from equity investments at fair value through profit or loss	**13**	11
Gain on disposal of equity investments at fair value through profit or loss	**–**	209
Subsidies income*	**95,218**	55,705
Fair value gains on equity investments at fair value through profit or loss	**224**	–
Recognition of deferred income (note 6)	**79,503**	66,056
Reversal of provision for doubtful debts, net	**213**	–
Gain on disposal of items of property, plant and equipment, net	**16,899**	–
Others	**267**	19,053
	307,770	314,969

Note:

* Various government subsidies have been received by the Group from local government authorities mainly in respect of business development.

6. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold *		**47,674,579**	65,777,650
Depreciation	14	**4,820,673**	4,565,548
Depreciation of investment properties	16	**86**	34
Recognition of prepaid land premiums	17	**41,586**	40,040
Amortisation of a mine participation right **	18	**4,089**	4,179
Provision/(reversal of provision) for doubtful debts, net #		**(213)**	690
Auditors' remuneration		**5,175**	5,750
Staff costs (excluding directors' and supervisors' remuneration (note 8)):			
Wages and salaries		**2,268,720**	2,089,108
Welfare and benefits		**702,971**	649,694
Pension scheme contributions		**523,621**	471,558
		3,495,312	3,210,360
Contingent rents under operating leases in respect of land and buildings		**44,440**	36,250
Foreign exchange losses/(gains), net		**15,146**	(172,813)
(Gain)/loss on disposal of items of property, plant and equipment, net		**(16,899)**	2,789
Rental income on investment properties		**(1,500)**	(1,250)
Bank interest income		**(94,570)**	(115,653)
Dividend income from available-for-sale financial investments		**(20,863)**	(290)
Dividend income from equity investments at fair value through profit or loss		**(13)**	(11)
Gain on disposal of equity investments at fair value through profit or loss		**–**	(209)
Fair value (gains)/losses on equity investments at fair value through profit or loss		**(224)**	1,033
Recognition of deferred income ##		**(79,503)**	(66,056)

6. PROFIT BEFORE TAX *(CONTINUED)*

Notes:

* Included in the cost of inventories sold for the year is a provision for inventories of RMB57,811,000 (2008: RMB1,707,562,000).

** The amortisation of a mine participation right is included in "Cost of sales" in the consolidated income statement.

The provision and reversal of provision for doubtful debts are included in "Other expenses" and "Other income" in the consolidated income statement, respectively.

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

7. FINANCE COSTS

The Group's finance costs represent interest on bank loans, other loans and bonds with warrants wholly repayable within five years.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2009	2008
	RMB'000	RMB'000
Fees	**524**	274
Other emoluments:		
Salaries, allowances and benefits in kind	**616**	676
Performance related bonuses	**3,574**	3,157
Pension scheme contributions	**25**	29
	4,215	3,862
	4,739	4,136

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

(a) Independent directors and independent supervisors

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

	2009	2008
	RMB'000	RMB'000
Independent directors		
Mr. Wong Chun Wa	**100**	50
Mr. Su Yong	**100**	50
Mr. Hui Leung Wah	**100**	50
Mr. Han Yi	**100**	50
	400	200
Independent supervisors		
Ms. Cheng Shaoxiu	**62**	37
Ms. An Qun	**62**	37
	124	74
	524	274

There were no other emoluments payable to the independent directors and independent supervisors during the year (2008: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

(b) Executive directors and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors					
Mr. Gu Jianguo	–	108	787	5	900
Mr. Gu Zhanggen	–	–	–	–	–
Mr. Su Jiangang	–	108	782	5	895
Mr. Gao Haijian	–	87	630	4	721
Mr. Hui Zhigang	–	87	630	4	721
Mr. Zhao Jianming	–	–	–	–	–
	–	390	2,829	18	3,237
Supervisors					
Mr. Zhang Xiaofeng	–	87	630	3	720
Mr. Liu Xianli	–	139	115	4	258
Mr. Fang Jinrong	–	–	–	–	–
	–	226	745	7	978
	–	616	3,574	25	4,215

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

(b) Executive directors and supervisors *(continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2008					
Executive directors					
Mr. Gu Jianguo	–	108	562	5	675
Mr. Gu Zhanggen	–	108	562	5	675
Mr. Su Jiangang	–	108	562	4	674
Mr. Gao Haijian	–	87	449	4	540
Mr. Hui Zhigang	–	87	449	4	540
Mr. Zhao Jianming	–	–	–	–	–
	–	498	2,584	22	3,104
Supervisors					
Mr. Li Kezhang	–	57	300	3	360
Mr. Dou Qingxun	–	55	76	2	133
Mr. Zhang Xiaofeng	–	29	150	1	180
Mr. Liu Xianli	–	37	47	1	85
Mr. Fang Jinrong	–	–	–	–	–
	–	178	573	7	758
	–	676	3,157	29	3,862

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2008: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2008: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, non-supervisor, highest paid employee for the year are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**87**	87
Performance related bonuses	**630**	449
Pension scheme contributions	**4**	4
	721	540

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000 (2008: Nil to RMB1,000,000).

10. INCOME TAX

	2009	2008
	RMB'000	RMB'000
Group:		
Current – The mainland of the PRC		
Charge for the year	**90,619**	414,752
Under/(over) provision in prior years	**83,610**	(10,285)
Current – Hong Kong	**618**	5,157
Current – Elsewhere	**21,494**	18,975
Deferred (note 24)	**(167,331)**	(353,954)
Total tax charge for the year	**29,010**	74,645

The corporate income tax ("CIT") for the Company for the current year has been provided at the rate of 25% (2008: 25%) on the assessable profits according to the relevant tax rules and regulations.

10. INCOME TAX *(CONTINUED)*

The State Administration of Taxation (the "SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The Circular stated that the difference in CIT arising from the expired preferential CIT rate and the applicable CIT rate (the "CIT Differences") should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% prior to 2007. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applied the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

Based on a notice from the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that, at this stage, it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences in respect of any prior years.

The CIT for the Company's subsidiaries, jointly-controlled entities and associates in the mainland of the PRC is calculated at rates ranging from 15% to 25% on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. Certain of them are foreign investment enterprises and after obtaining the authorisation from the respective tax authorities, these subsidiaries are subject to a full foreign enterprise income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

10. INCOME TAX *(CONTINUED)*

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

	Group			
	2009		2008	
	RMB'000	**%**	RMB'000	%
Profit before tax	**562,876**		805,874	
Tax at the applicable tax rate	**140,719**	**25**	201,469	25
Effect of different tax rates for specific provinces or enacted by the local authority of subsidiaries	**5,029**	**1**	(1,655)	–
Expenses not deductible for tax	**26,064**	**4**	45,041	6
Adjustments in respect of current tax of previous periods	**83,610**	**15**	(10,285)	(1)
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in the PRC*	**–**	**–**	(84,888)	(11)
Other tax concessions	**(43,286)**	**(8)**	(49,394)	(6)
Tax relief granted	**(35,047)**	**(6)**	(12,890)	(2)
Income not subject to tax	**(17,461)**	**(3)**	(127)	–
Profits and losses attributable to jointly-controlled entities and associates	**(45,810)**	**(8)**	(50,303)	(6)
Tax losses utilised	**(86,887)**	**(15)**	–	–
Tax losses not recognised	**2,079**	**–**	37,677	4
Tax charge at the Group's effective rate	**29,010**	**5**	74,645	9

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

10. INCOME TAX *(CONTINUED)*

The share of tax attributable to jointly-controlled entities and associates amounting to RMB117,000 (2008: Nil) and RMB34,405,000 (2008: RMB42,977,000), respectively, are included in "Share of profits and losses of jointly-controlled entities and associates" in the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB15,973,000 (2008: RMB735,290,000) which has been dealt with in the financial statements of the Company (note 37(b)).

12. DIVIDEND

	2009	2008
	RMB'000	RMB'000
Proposed final – RMB4 cents (2008: Nil) per ordinary share	**308,027**	–

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB392,475,000 (2008: RMB710,234,000), and the weighted average of 7,700,681,186 (2008: 6,843,730,545) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2009				
At 1 January 2009:				
Cost	20,263,273	39,137,340	428,963	59,829,576
Accumulated depreciation and impairment	(5,236,313)	(13,514,754)	(309,013)	(19,060,080)
Net carrying amount	15,026,960	25,622,586	119,950	40,769,496
At 1 January 2009, net of accumulated depreciation and impairment	15,026,960	25,622,586	119,950	40,769,496
Additions	2,530	12,796	492	15,818
Transfer from construction in progress (note 15)	524,661	1,789,417	14,284	2,328,362
Depreciation provided during the year (note 6)	(1,165,426)	(3,609,651)	(45,596)	(4,820,673)
Reclassifications	(50,576)	50,577	(1)	–
Transfer to investment properties (note 16)	(3,607)	–	–	(3,607)
Disposals/write-off	(8,036)	(7,086)	(1,375)	(16,497)
At 31 December 2009, net of accumulated depreciation and impairment	14,326,506	23,858,639	87,754	38,272,899
At 31 December 2009:				
Cost	20,723,321	40,896,761	436,314	62,056,396
Accumulated depreciation and impairment	(6,396,815)	(17,038,122)	(348,560)	(23,783,497)
Net carrying amount	14,326,506	23,858,639	87,754	38,272,899

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2008				
At 1 January 2008:				
Cost	18,684,265	36,839,150	425,256	55,948,671
Accumulated depreciation and impairment	(4,116,693)	(10,235,224)	(281,397)	(14,633,314)
Net carrying amount	14,567,572	26,603,926	143,859	41,315,357
At 1 January 2008, net of accumulated depreciation and impairment	14,567,572	26,603,926	143,859	41,315,357
Additions	17,535	71,325	3,053	91,913
Acquisition of a subsidiary (note 38)	9,308	3,236	112	12,656
Transfer from construction in progress (note 15)	1,519,980	2,389,287	27,333	3,936,600
Depreciation provided during the year (note 6)	(1,090,490)	(3,424,807)	(50,251)	(4,565,548)
Reclassifications	7,329	(4,863)	(2,466)	–
Disposals/write-off	(4,274)	(15,518)	(1,690)	(21,482)
At 31 December 2008, net of accumulated depreciation and impairment	15,026,960	25,622,586	119,950	40,769,496
At 31 December 2008:				
Cost	20,263,273	39,137,340	428,963	59,829,576
Accumulated depreciation and impairment	(5,236,313)	(13,514,754)	(309,013)	(19,060,080)
Net carrying amount	15,026,960	25,622,586	119,950	40,769,496

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2009				
At 1 January 2009:				
Cost	19,345,034	37,800,488	397,828	57,543,350
Accumulated depreciation and impairment	(5,131,214)	(13,240,479)	(293,954)	(18,665,647)
Net carrying amount	14,213,820	24,560,009	103,874	38,877,703
At 1 January 2009, net of accumulated depreciation and impairment	14,213,820	24,560,009	103,874	38,877,703
Additions	–	–	–	–
Transfer from construction in progress (note 15)	502,706	1,531,560	14,284	2,048,550
Depreciation provided during the year	(1,117,049)	(3,465,333)	(41,019)	(4,623,401)
Reclassifications	(50,858)	50,858	-	–
Disposals/write-off	(4,457)	(4,618)	(73)	(9,148)
At 31 December 2009, net of accumulated depreciation and impairment	13,544,162	22,672,476	77,066	36,293,704
At 31 December 2009:				
Cost	19,789,647	39,293,802	409,814	59,493,263
Accumulated depreciation and impairment	(6,245,485)	(16,621,326)	(332,748)	(23,199,559)
Net carrying amount	13,544,162	22,672,476	77,066	36,293,704

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Buildings and structures RMB'000	Plant, machinery and equipment RMB'000	Transportation vehicles and equipment RMB'000	Total RMB'000
31 December 2008				
At 1 January 2008:				
Cost	17,891,928	35,856,821	396,410	54,145,159
Accumulated depreciation and impairment	(4,053,492)	(10,080,473)	(269,720)	(14,403,685)
Net carrying amount	13,838,436	25,776,348	126,690	39,741,474
At 1 January 2008, net of accumulated depreciation and impairment	13,838,436	25,776,348	126,690	39,741,474
Additions	–	–	–	–
Transfer from construction in progress (note 15)	1,421,004	2,106,561	27,037	3,554,602
Depreciation provided during the year	(1,049,128)	(3,304,868)	(46,153)	(4,400,149)
Reclassifications	7,329	(4,863)	(2,466)	–
Disposals/write-off	(3,821)	(13,169)	(1,234)	(18,224)
At 31 December 2008, net of accumulated depreciation and impairment	14,213,820	24,560,009	103,874	38,877,703
At 31 December 2008:				
Cost	19,345,034	37,800,488	397,828	57,543,350
Accumulated depreciation and impairment	(5,131,214)	(13,240,479)	(293,954)	(18,665,647)
Net carrying amount	14,213,820	24,560,009	103,874	38,877,703

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

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

At 31 December 2008, certain of the Group's equipment with an aggregate net book value of RMB21,303,000 was pledged to secure a loan granted by Profit Access Investments Limited, a minority shareholder of a subsidiary of the Company. As the loan had been wholly repaid in 2009, the pledged equipment was released accordingly. Further details of the transaction are included in note 33 to the financial statements.

At 31 December 2009, certificates of ownership in respect of the Group's buildings with a total cost of RMB2,410,823,000 (2008: RMB1,671,988,000) have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

15. CONSTRUCTION IN PROGRESS

	Group RMB'000	Company RMB'000
31 December 2009		
Cost:		
At 1 January 2009	**2,754,591**	**2,572,902**
Additions	**1,594,964**	**1,202,246**
Transfer to property, plant and equipment (note 14)	**(2,328,362)**	**(2,048,550)**
At 31 December 2009	**2,021,193**	**1,726,598**
Accumulated impairment:		
At 1 January 2009 and 31 December 2009	**–**	**–**
At 31 December 2009, net of accumulated impairment	**2,021,193**	**1,726,598**

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

	Group RMB'000	Company RMB'000
31 December 2008		
Cost:		
At 1 January 2008	4,021,499	3,792,906
Additions	2,669,432	2,334,598
Acquisition of a subsidiary (note 38)	260	–
Transfer to property, plant and equipment (note 14)	(3,936,600)	(3,554,602)
At 31 December 2008	2,754,591	2,572,902
Accumulated impairment:		
At 1 January 2008 and 31 December 2008	–	–
At 31 December 2008, net of accumulated impairment	2,754,591	2,572,902

16. INVESTMENT PROPERTIES

Group

	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	**1,206**	1,240
Transfer from property, plant and equipment (note 14)	**3,607**	–
Depreciation provided during the year (note 6)	**(86)**	(34)
Carrying amount at 31 December	**4,727**	1,206

Company

	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	**18,809**	19,214
Depreciation provided during the year	**(405)**	(405)
Carrying amount at 31 December	**18,404**	18,809

16. INVESTMENT PROPERTIES *(CONTINUED)*

The Group's and Company's investment properties are situated in the PRC and are held under medium term leases.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

17. PREPAID LAND PREMIUMS

Group

	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**1,765,348**	1,516,155
Additions	**23,063**	285,685
Acquisition of a subsidiary (note 38)	**–**	3,548
Disposals	**(135)**	–
Recognised during the year (note 6)	**(41,586)**	(40,040)
Carrying amount at 31 December	**1,746,690**	1,765,348

Company

	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**1,269,926**	1,214,768
Additions	**–**	86,133
Recognised during the year	**(31,847)**	(30,975)
Carrying amount at 31 December	**1,238,079**	1,269,926

The leasehold lands are held under a medium term lease and are situated in the PRC.

As at 31 December 2009, certain of the Group's prepaid land premiums with an aggregate net carrying amount of RMB26,542,000 (2008: Nil) were pledged to secure bank loans granted for the Group, as further detailed in note 33 to the financial statements.

18. OTHER INTANGIBLE ASSET

Group

	Mine participation right	
	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**85,191**	120,822
Additions	**2,593**	–
Amortisation provided during the year (note 6)	**(4,089)**	(4,179)
Exchange realignment	**25,395**	(31,452)
Carrying amount at 31 December	**109,090**	85,191
At the end of year:		
Cost	**128,553**	96,603
Accumulated amortisation	**(19,463)**	(11,412)
Net carrying amount	**109,090**	85,191

19. INVESTMENTS IN SUBSIDIARIES

Company

	2009	2008
	RMB'000	RMB'000
Unlisted investments, at cost	**1,200,553**	1,118,244

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (notes ii, iii)	PRC	RMB120,000,000	66.67	–	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services
Design & Research Institute of Maanshan Iron & Steel Company Limited (note i)	PRC	RMB100,000,000	58.96	7.86	Planning and design of metallurgical, construction and environmental protection projects; provision of construction supervision and contract services
MG Control Technique Company Limited (notes i, iii)	PRC	RMB12,000,000	93.75	4.18	Design of automation systems; purchase, installation and repair of automation, computer and communication systems
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") (notes ii, iii)	PRC	US$8,389,000	70	–	Production, sale and transportation of slag products and provision of related consultancy services
Maanshan Iron & Steel (HK) Limited ("Masteel HK")	Hong Kong	HKD4,800,000	80	20	Trading of steel and iron ore; and provision of steel trading agency services and transportation services

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes ii, iii)	PRC	RMB35,000,000	70	30	Processing and sale of metallic products; processing of vehicle spare parts; and sale of construction materials and chemical products (except dangerous products)
Maanshan Iron & Steel (Australia) Proprietary Limited (note iii)	Australia	AUD21,737,900	100	–	Production and sale of iron ore through an unincorporated joint venture
MG Trading and Development GmbH (note iii)	Germany	EUR153,388	100	–	Trading of equipment, iron and steel products; and provision of technology services
Ma Steel International Trade and Economic Corporation (notes i, iii)	PRC	RMB50,000,000	100	–	Import of machinery and raw materials; and export of steel products
Ma Steel (Cihu) Processing and Distribution Co., Ltd. (notes i, iii)	PRC	RMB30,000,000	–	92	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") (note ii)	PRC	RMB30,000,000	71	–	Production and sale of packing materials for steel and other products; provision of on-site packing services; research, development, production and sale of vehicle spare parts, electronic engineering products, and macro-molecular compound materials; processing and sale of metallic products
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. (notes i, iii)	PRC	RMB1,000,000	90	–	Provision of equipment inspection and technical consultancy services; and equipment inspection work
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iii)	PRC	RMB120,000,000	75	–	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage, transportation and after-sale services

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") (notes i, iii)	PRC	RMB500,000,000	71	–	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products; power supply; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation; storage, transportation, and construction services; leasing properties; provision of construction services; and repair and maintenance of used equipment
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") (notes ii, iii)	PRC	RMB120,000,000	61	28	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") (notes ii, iii)	PRC	USD20,000,000	71	–	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except dangerous chemical products)
Maanshan Used Vehicle Trading Center Co., Ltd. ("Used Vehicle Trading") (notes i, iii)	PRC	RMB500,000	100	–	Trading of used automobiles, sales of automobiles and accessories; provision of after-sale services; and leasing properties
Ma Steel United Electric Steel Roller Co., Ltd. ("Ma Steel Roller") (note ii)	PRC	USD30,000,000	51	–	Developing, processing manufacturing and sale of steel rollers; provision of after-sale services and technical consultancy services
Ma Steel (Wuhu) Material Technique Co., Ltd. ("Wuhu Technique") (notes i, iii)	PRC	RMB150,000,000	71	–	Provision of storage and transportation services for automobiles related metal components; trading and processing steel products; and provision of related consultancy services

19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Anhui Masteel Stereoscopic Auto-Parking Equipment Company Limited ("Masteel Auto-Parking") (notes ii, iii)	PRC	USD2,500,000	–	78.25	Development, production, installation and sale of automatic parking equipment, storage equipment, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters; and provision of related integration and consulting services

Notes:

(i) Registered as limited companies under PRC law

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

(iii) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

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

20. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**234,500**	234,000
Share of net assets	**309,672**	304,279	**–**	–
	309,672	304,279	**234,500**	234,000

The Group's other receivable and trade payable balances with the jointly-controlled entities are disclosed in notes 28 and 31 to the financial statements, respectively.

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

		Percentage of			
Name	**Place of registration**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	PRC	50	50	50	Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sale services, technical services and other related services
MASTEEL-CMI International Training Center Co., Ltd ("MASTEEL-CMI") (note i)	PRC	50	50	50	Provision of training services on operation, repair and maintenance of cold rolling production lines to CMI customers

Note:

(i) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

20. INTERESTS/INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(CONTINUED)*

The following table illustrates the combined summarised financial information of the Group's jointly-controlled entities (extracted from their financial statements):

	2009	2008
	RMB'000	RMB'000
Assets	**701,065**	775,212
Liabilities	**(81,721)**	(166,654)
Revenue	**466,802**	445,778
Net profit	**136,490**	137,127

21. INTERESTS/INVESTMENTS IN ASSOCIATES

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**–**	–	**263,276**	263,276
Share of net assets	**580,959**	501,964	**–**	–
	580,959	501,964	**263,276**	263,276

The Group's trade receivable, other receivable, trade payable and other payable balances with the associates are disclosed in notes 27, 28, 31 and 32 to the financial statements, respectively.

Particulars of the Group's associates are as follows:

Name	**Place of registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
濟源市金馬焦化有限公司（「濟源市金馬焦化」）(note i)	PRC	36	Production and sale of coke, tar, benzene and coal gas
滕州盛隆煤焦化有限公司（「滕州盛隆煤焦化」）(note i)	PRC	32	Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services

21. INTERESTS/INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Name	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
上海大宗鋼鐵電子交易中心有限公司 (note i)	PRC	20	Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services
馬鞍山市港口（集團）有限責任公司 (「馬鞍山港口公司」) (note i)	PRC	45	Loading/unloading and cargo forwarding agency services; storage, transportation of cargo and division/merge of cargo in containers; provision of general services to ships, repair and manufacture of spare parts of ships
安徽奧馬特汽車變速系統有限公司 (「奧馬特變速系統」) (note i)	PRC	31.95	Development, production, and sale of vehicle automatic transmission products and related spare parts; provision of related design technique, equipment production and transportation services

Note:

(i) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The above equity interests in the associates are held by the Company, except for the equity interest in 奧馬特變速系統 which is held through Holly Industrial, a non-wholly owned subsidiary of the Company.

21. INTERESTS/INVESTMENTS IN ASSOCIATES *(CONTINUED)*

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

	2009	2008
	RMB'000	RMB'000
Assets	**5,506,510**	4,459,008
Liabilities	**(3,394,778)**	(3,092,823)
Revenue	**4,305,904**	4,708,351
Net profit	**364,181**	371,296

22. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Unlisted equity investments, at cost	**108,772**	102,917

The above unlisted equity investments of the Group and the Company are not stated at fair value but at cost, because they do not have quoted market prices in an active market, the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be reasonably assessed. The Group does not intend to dispose of them in the near future.

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Debt investments	**–**	2,939

The debt investments represent electricity debentures issued by the Anhui Provincial Electricity Supply Authority. The debt investments were acquired by the Company in 1994 and are interest-free and collectible by 10 annual instalments starting from 2000. The final annual instalment was received in 2009.

24. DEFERRED TAX

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

Group

Year 2009

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Deductible tax losses RMB'000	Unrealised profit RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	23,383	433,659	21,803	21,226	90,506	–	–	28,352	618,929
Deferred tax credited/(charged) to the income statement during the year (note 10)	(13,695)	(395,615)	(17,350)	6,573	(4,166)	592,628	11,323	(19,046)	160,652
Gross and net deferred tax assets recognised in the consolidated statement of financial position at 31 December 2009	9,688	38,044	4,453	27,799	86,340	592,628	11,323	9,306	779,581

Deferred tax liabilities

	Others RMB'000	Total RMB'000
At 1 January 2009	(6,679)	(6,679)
Deferred tax credited to the income statement during the year (note 10)	6,679	6,679
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2009	–	–
Net deferred tax assets recognised in the consolidated statement of financial position at 31 December 2009		779,581

24. DEFERRED TAX *(CONTINUED)*

Group
Year 2008
Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	37,479	32,793	30,438	56,570	95,424	6,058	258,762
Deferred tax credited/ (charged) to the income statement during the year (note 10)	(14,096)	400,866	(8,635)	(35,344)	(4,918)	22,294	360,167
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2008	23,383	433,659	21,803	21,226	90,506	28,352	618,929

Deferred tax liabilities

	Bonds with warrants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	(167,810)	(466)	(168,276)
Deferred tax credited directly to equity (Note)	167,810	–	167,810
Deferred tax charged to the income statement during the year (note 10)	–	(6,213)	(6,213)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2008	–	(6,679)	(6,679)
Net deferred tax assets recognised in the consolidated statement of financial position at 31 December 2008			612,250

24. DEFERRED TAX *(CONTINUED)*

Company

Year 2009

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Deductible tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	**23,383**	**433,659**	**21,803**	**21,226**	**90,506**	**–**	**12,690**	**603,267**
Deferred tax credited/ (charged) to the income statement during the year	**(13,695)**	**(395,615)**	**(17,350)**	**6,573**	**(4,166)**	**592,628**	**(3,652)**	**164,723**
Gross and net deferred tax assets recognised in the statement of financial position at 31 December 2009	**9,688**	**38,044**	**4,453**	**27,799**	**86,340**	**592,628**	**9,038**	**767,990**

Year 2008

Deferred tax assets

	Repair and maintenance expenses RMB'000	Asset provisions RMB'000	Pre-operation expenses RMB'000	Salary payable RMB'000	Sales incentive payable RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	37,479	32,793	30,438	56,570	95,424	5,621	258,325
Deferred tax credited/ (charged) to the income statement during the year	(14,096)	400,866	(8,635)	(35,344)	(4,918)	7,069	344,942
Gross deferred tax assets recognised in the statement of financial position at 31 December 2008	23,383	433,659	21,803	21,226	90,506	12,690	603,267

24. DEFERRED TAX *(CONTINUED)*

Company

Year 2008

Deferred tax liabilities

	Bonds with warrants RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	(167,810)	(180)	(167,990)
Deferred tax credited directly to equity (Note)	167,810	–	167,810
Deferred tax credited to the income statement during the year	–	180	180
Gross deferred tax liabilities recognised in the statement of financial position at 31 December 2008	–	–	–
Net deferred tax assets recognised in the statement of financial position at 31 December 2008			603,267

Note: Pursuant to the "Circular of the Ministry of Finance and the State Administration of Taxation on the Issues of Enterprise Income Tax Policies Relevant to the Implementation of the Enterprise Accounting Standards", effective interest expense on the bonds with warrants is tax deductible upon accrual if the effective interest rate does not exceed the rate of bank borrowing in the same period. Accordingly, after giving due consideration to the estimated effective interest expenses over the remaining years of the financial instrument, the carrying amount of the deferred tax related to the Bonds with Warrants was recorded as part of the Company's "Reserve – Equity Component of Bonds with Warrants" during the year ended 31 December 2008.

At 31 December 2009, the Group had unrecognised deferred tax assets in respect of tax credits arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credits amounting to RMB158 million and RMB6 million, respectively.

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

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

25. INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**4,501,953**	5,314,200	**4,079,966**	5,005,680
Work in progress	**1,249,927**	856,153	**1,240,867**	793,704
Finished goods	**1,130,116**	1,006,814	**366,399**	609,604
Spare parts	**1,954,000**	2,525,336	**1,889,410**	2,436,472
	8,835,996	9,702,503	**7,576,642**	8,845,460

At 31 December 2009, the carrying amount of the Group's inventories, which were pledged as securities for the Group's trading facilities for the issuance of bank bills, amounted to RMB223,882,000 (2008: RMB329,306,000), as further detailed in note 31 to the financial statements.

26. CONSTRUCTION CONTRACTS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Gross amount due from contract customers	**152,798**	145,555
Contract costs incurred to date plus recognised profits less recognised losses	**269,508**	218,883
Less: Progress billings	**(116,710)**	(73,328)
	152,798	145,555

At 31 December 2009, retentions held by customers for contract work included in the Group's trade receivables amounted to RMB16 million (2008: RMB16 million).

27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**843,471**	646,543	**1,089,393**	857,104
Bills receivable	**4,421,190**	1,267,255	**4,183,147**	1,180,972
	5,264,661	1,913,798	**5,272,540**	2,038,076
Impairment	**(20,541)**	(19,815)	**(18,021)**	(17,082)
	5,244,120	1,893,983	**5,254,519**	2,020,994

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

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables:				
Within three months	**658,413**	187,614	**904,198**	680,803
Four to six months	**64,211**	354,234	**36,585**	68,390
Seven to twelve months	**64,348**	57,782	**62,864**	76,863
One to two years	**27,319**	25,753	**62,300**	12,967
Two to three years	**8,018**	483	**5,351**	494
Over three years	**621**	862	**74**	505
	822,930	626,728	**1,071,372**	840,022
Bills receivable	**4,421,190**	1,267,255	**4,183,147**	1,180,972
	5,244,120	1,893,983	**5,254,519**	2,020,994

Bills receivable will mature within one year.

27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The movements in provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**19,815**	17,355	**17,082**	16,408
Acquisition of a subsidiary	**–**	1,005	**–**	–
Impairment losses recognised	**321**	781	**–**	–
Amount written off as uncollectible	**939**	674	**939**	674
Impairment losses reversed	**(534)**	–	**–**	–
At 31 December	**20,541**	19,815	**18,021**	17,082

The above provision for impairment of the Group's trade and bills receivables is a provision for individually impaired trade receivables, with a carrying amount before provision of RMB31,389,000 (2008: RMB26,312,000). The individually impaired trade receivables relate to customers that were in financial difficulties or the customers were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither overdue nor impaired	**5,199,890**	1,844,402	**5,230,559**	1,991,179
Overdue less than six months	**18,624**	25,313	**12,060**	27,174
Overdue over six months	**25,606**	24,268	**11,900**	2,641
	5,244,120	1,893,983	**5,254,519**	2,020,994

Receivables that were neither overdue nor impaired relate to a number of customers for whom there was no recent history of default.

27. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Receivables that were overdue but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered recoverable.

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries and the Group's associate of RMB27,369,000 (2008: RMB4,066,000) and RMB1,149,000 (2008: Nil), respectively. These balances principally arose from normal trading activities.

As at 31 December 2009, all of the Company's trade receivables were pledged as securities for the Group's bank loans of RMB680,000,000 (2008: Nil), as further detailed in note 33 to the financial statements.

As at 31 December 2009, certain of the Group's bills receivable of RMB29,000,000 (2008: RMB264,000,000) were pledged as securities for the Group's bank loans, as further detailed in note 33 to the financial statements.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**823,339**	1,107,261	**571,603**	1,573,543
Deposits and other receivables	**299,986**	443,564	**61,027**	55,137
	1,123,325	1,550,825	**632,630**	1,628,680
Impairment	**(7,070)**	(7,070)	**(6,931)**	(6,931)
	1,116,255	1,543,755	**625,699**	1,621,749

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(CONTINUED)*

The above impairment was made for deposits and other receivables and the movements are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**7,070**	7,022	**6,931**	6,931
Acquisition of a subsidiary	**–**	139	**–**	–
Impairment losses reversed	**–**	(91)	**–**	–
At 31 December	**7,070**	7,070	**6,931**	6,931

The aged analysis of the deposits and other receivables that are not considered to be impaired is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither overdue nor impaired	**287,452**	435,253	**37,053**	47,446
Overdue less than six months	**3,678**	1,200	**3,679**	535
Overdue over six months	**1,786**	41	**13,364**	225
	292,916	436,494	**54,096**	48,206

Deposits and other receivables that were neither overdue nor impaired relate to a large number of diversified individuals for whom there was no recent history of default.

Other receivables that were overdue but not impaired relate to a number of independent individuals that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered recoverable.

Included in the Group's prepayments, deposits and other receivables are amounts due from Holdings and its subsidiaries, and the Group's jointly-controlled entity and associate of RMB1,438,000 (2008: Nil), RMB6,751,000 (2008: Nil) and RMB25,671,000 (2008: Nil), respectively.

29. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Listed equity investments in the PRC	**1,037**	813

The above equity investments at 31 December 2009 and 2008 were classified as held for trading.

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB**	RMB
Cash and bank balances	**5,502,948**	5,437,367	**3,759,523**	4,362,314
Time deposits	**3,197,370**	513,720	**2,049,546**	6,000
	8,700,318	5,951,087	**5,809,069**	4,368,314
Less: Pledged time deposits for				
– Trade facilities (Note (i))	**(857,575)**	(496,655)	**(1,086)**	(6,000)
– Performance bonds	**(13,747)**	(17,065)	**–**	–
– Other banking facilities (Note (ii))	**(2,048,460)**	–	**(2,048,460)**	–
	(2,919,782)	(513,720)	**(2,049,546)**	(6,000)
Cash and cash equivalents in the statements of financial position	**5,780,536**	5,437,367	**3,759,523**	4,362,314
Less: Non-pledged time deposits with original maturity greater than three months when acquired	**(277,588)**	–		
Cash and cash equivalents in the consolidated statement of cash flows	**5,502,948**	5,437,367		

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(CONTINUED)*

Notes:

(i) At 31 December 2009, these time deposits of the Group were pledged as securities for the Group's trading facilities for the issuance of bank bills amounted to RMB857,575,000 (2008: RMB496,655,000), as further detailed in note 31 to the financial statements.

(ii) At 31 December 2009, these time deposits of the Group comprises of RMB682,820,000 (2008: Nil) and RMB1,365,640,000 (2008: Nil) which were pledged as securities for the Group's bank loans of RMB680,000,000 (2008: Nil) and RMB1,366,112,000 (2008: Nil), respectively, as further detailed in note 33 to the financial statements.

At the end of the reporting period, the above balances of the Group denominated in RMB amounted to RMB6,248,731,000 (2008: RMB5,094,173,000). The RMB is not freely convertible into other currencies, however, under PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control Regulations of the PRC, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of not more than three months, depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

31. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**11,530,506**	8,464,041	**8,689,210**	6,896,229
One to two years	**110,735**	63,044	**86,545**	38,499
Two to three years	**35,436**	44,530	**25,639**	914
Over three years	**38,714**	2,651	**–**	1,401
	11,715,391	8,574,266	**8,801,394**	6,937,043

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

31. TRADE AND BILLS PAYABLES *(CONTINUED)*

Included in the Group's trade and bills payables are amounts due to Holding and its subsidiaries, and the Group's jointly-controlled entities and associates of RMB110,024,000 (2008: RMB65,682,000), RMB13,002,000 (2008: RMB58,947,000) and RMB21,351,000 (2008: RMB47,250,000), respectively. These balances principally arose from normal trading activities.

At 31 December 2009, the carrying amounts of the Group's inventories and time deposits, which were pledged to secure the Group's trading facilities for the issuance of bank bills, amounted to RMB223,882,000 (2008: RMB329,306,000) and RMB857,575,000 (2008: RMB496,655,000), respectively, as further detailed in notes 25 and 30 to the financial statements.

32. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**1,760,760**	2,933,495	**1,703,565**	2,783,928
Advanced from customers	**6,092,363**	5,615,976	**5,584,923**	5,212,998
	7,853,123	8,549,471	**7,288,488**	7,996,926

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

Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries and the Group's associate, amounting to RMB797,018,000 (2008: RMB1,226,029,000) and RMB367,000 (2008: Nil), respectively. These balances principally arose from normal trading activities.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective contractual interest rate (%)	Maturity	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Current						
Bank loans – unsecured	4.779	2010	**1,133,246**	766,000	**–**	242,000
Current portion of long-term bank loans – unsecured	3.51-5.184	2010	**816,000**	–	**816,000**	–
Current portion of long-term bank loans – secured	–	–	**–**	217,197	**–**	216,000
Other loans – unsecured	4.779	2010	**40,000**	388,000	**–**	388,000
Other loans – secured	–	–	**–**	6,382	**–**	–
			1,989,246	1,377,579	**816,000**	846,000
Non-current						
Bank loans – unsecured	0.44-5.184	2011-2012	**11,337,848**	5,784,426	**11,330,888**	5,784,426
Bank loans – secured	2.52-5.40	2011	**2,066,112**	7,398,470	**2,046,112**	7,386,498
Other loans – unsecured	3.50	2011	**200,000**	2,483,400	**200,000**	2,483,400
			13,603,960	15,666,296	**13,577,000**	15,654,324
Bonds with warrants (note 34)	4.43	2011	**5,165,410**	4,992,975	**5,165,410**	4,992,975
			18,769,370	20,659,271	**18,742,410**	20,647,299
			20,758,616	22,036,850	**19,558,410**	21,493,299

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**1,949,246**	983,197	**816,000**	458,000
In the second year	**10,981,000**	1,017,197	**10,961,000**	1,016,000
In the third to fifth years, inclusive	**2,422,960**	12,158,517	**2,416,000**	12,154,924
Beyond five years	**–**	7,182	**–**	–
	15,353,206	14,166,093	**14,193,000**	13,628,924
Other borrowings repayable:				
Within one year	**40,000**	394,382	**–**	388,000
In the second year	**200,000**	–	**200,000**	–
In the third to fifth years, inclusive	**5,165,410**	7,476,375	**5,165,410**	7,476,375
	5,405,410	7,870,757	**5,365,410**	7,864,375
	20,758,616	22,036,850	**19,558,410**	21,493,299

Certain of the bank and other borrowings of RMB9,285,666,000 (2008: RMB13,102,498,000) and nil (2008: RMB13,169,000) are guaranteed by Holding and Sinosteel Trading Company, an independent third party, respectively.

As at 31 December 2009, certain bank loans of RMB40,000,000 (2008: RMB58,000,000) in aggregate were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with an annual interest rate at 4.78%.

Except for bank and other borrowings of RMB5,735,688,000 (2008: RMB1,216,106,000) and nil (2008: RMB13,169,000) which are denominated in the United States dollar and Euro, respectively, all other borrowings are denominated in RMB.

Please refer to note 34 below for the details of bonds with warrants.

In 2008, other loans totalling RMB6,382,000 were granted by Profit Access Investments Limited, a minority shareholder which holds a 30% equity interest in Anhui Masteel K. Wah. Certain of the aforesaid other loans were secured by the pledge of certain of the Group's equipment with an aggregate net book value of RMB21,303,000. Such borrowings had been wholly repaid in 2009.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

As at 31 December 2009, certain of the Group's bank loans of RMB680,000,000 (2008: Nil) were secured by the pledge of all of the Company's trade receivables (2008: Nil) and certain of the Group's time deposits of RMB682,820,000 (2008: Nil), as further detailed in notes 27 and 30 to the financial statements.

As at 31 December 2009, certain of the Group's bank loans of RMB20,000,000 (2008: Nil) and RMB1,366,112,000 (2008: Nil) were secured by the pledge of certain of the Group's prepaid land premiums with an aggregate net carrying value of RMB26,542,000 (2008: Nil) and certain of the Group's time deposits of RMB1,365,640,000 (2008: Nil), respectively, as further detailed in notes 17 and 30 to the financial statements.

As at 31 December 2009, certain of the Group's bank loans of RMB29,000,000 (2008: RMB264,000,000) were secured by the pledge of certain of the Group's bills receivable of RMB29,000,000 (2008: RMB264,000,000), as further detailed in note 27 to the financial statements.

Other interest rate information:

	Group			
	2009		2008	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**1,125,246**	**8,000**	721,000	45,000
Current portion of long–term bank loans – unsecured	**16,000**	**800,000**	–	–
Current portion of long–term bank loans – secured	**–**	**–**	217,197	–
Other loans – unsecured	**40,000**	**–**	388,000	–
Other loans – secured	**–**	**–**	6,382	–
Non-current				
Bank loans – unsecured	**2,533,660**	**8,804,188**	1,773,201	4,011,225
Bank loans – secured	**2,046,112**	**20,000**	948,470	6,450,000
Other loans – unsecured	**200,000**	**–**	2,483,400	–
Bonds with warrants	**5,165,410**	**–**	4,992,975	–

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(CONTINUED)*

	Company			
	2009		2008	
	Fixed rate RMB'000	**Floating rate RMB'000**	Fixed rate RMB'000	Floating rate RMB'000
Current				
Bank loans – unsecured	**–**	**–**	242,000	–
Current portion of long–term bank loans – unsecured	**16,000**	**800,000**	–	–
Current portion of long–term bank loans – secured	**–**	**–**	216,000	–
Other loans – unsecured	**–**	**–**	388,000	–
Non-current				
Bank loans – unsecured	**2,533,660**	**8,797,228**	1,773,201	4,011,225
Bank loans – secured	**2,046,112**	**–**	936,498	6,450,000
Other loans– unsecured	**200,000**	**–**	2,483,400	–
Bonds with warrants	**5,165,410**	**–**	4,992,975	–

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

34. BONDS WITH WARRANTS

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond were entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants were issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants were entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since the declaration of dividends on 13 July 2007 and 10 July 2008, the conversion price has been adjusted to RMB3.33 and RMB3.26, respectively, each.

The first exercise period of the warrants took place on 15 November 2007 to 28 November 2007. A total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A shares at a conversion price of RMB3.33. After the first exercise period was completed, the equity component of bonds with warrants of RMB117,511,000 had been transferred to the capital reserve account accordingly.

34. BONDS WITH WARRANTS *(CONTINUED)*

The second (final) exercise period of the warrants took place on 17 November 2008 to 28 November 2008. A total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A shares at a conversion price of RMB3.26. After the second exercise period was completed, the remaining equity component of bonds with warrants of RMB540,489,000 had been transferred to the capital reserve account accordingly.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants. The residual amount is assigned as the equity component and is included in shareholders' equity.

The carrying amount of the liability component of the bonds with warrants as at 31 December 2009 is arrived at as follows:

	RMB'000
Nominal value of bonds with warrants issued	5,500,000
Equity component	(733,019)
Direct transaction costs attributable to the liability component	(125,584)
Liability component at the issue date	4,641,397
The carrying amount at 1 January 2008	4,828,762
Interest expense	241,213
Less: Interest paid	(77,000)
The carrying amount at 31 December 2008 and 1 January 2009	**4,992,975**
Interest expense	**249,435**
Less: Interest paid	**(77,000)**
The carrying amount at 31 December 2009	**5,165,410**

35. PROVISIONS

Group and Company

	Pension benefits for early retired employees RMB'000	Housing subsidies RMB'000	Total RMB'000
At 1 January 2009	**12,485**	**19,856**	**32,341**
Amounts utilised during the year	**(12,485)**	**(19,856)**	**(32,341)**
At 31 December 2009	**–**	**–**	**–**

36. SHARE CAPITAL

Group and Company

	2009 RMB'000	2008 RMB'000
Issued and fully paid:		
State-owned non-circulated shares	**–**	3,830,560
A shares of RMB1.00 each*	**5,967,751**	2,137,191
H shares of RMB1.00 each	**1,732,930**	1,732,930
	7,700,681	7,700,681

* Included in the above A shares, there are 3,886,424,000 shares directly held by Holding.

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

In 2008, 942,129,470 warrants were exercised for 942,129,470 individual A shares of RMB3.26 per share for total cash proceeds, after expenses of RMB15,358,000, of RMB3,055,985,000.

37. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 82 of the financial statements.

(b) Company

	Capital reserve account RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Year ended 31 December 2009				
At 1 January 2009	**8,338,359**	**2,864,522**	**6,283,153**	**17,486,034**
Total comprehensive income for the year	**–**	**–**	**15,973**	**15,973**
Transfer from/(to) reserves	**–**	**9,074**	**(9,074)**	**–**
Proposed final 2009 dividend	**–**	**–**	**(308,027)**	**(308,027)**
At 31 December 2009	**8,338,359**	**2,873,596**	**5,982,025**	**17,193,980**
Year ended 31 December 2008 (restated)				
At 1 January 2008	5,684,014	2,777,853	5,634,532	14,096,399
Total comprehensive income for the year	–	–	735,290	735,290
Transfer from/(to) reserves	–	86,669	(86,669)	–
Issue of shares	2,654,345	–	–	2,654,345
At 31 December 2008	8,338,359	2,864,522	6,283,153	17,486,034

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

37. RESERVES *(CONTINUED)*

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

Subsequent to the end of the reporting period, the directors determined that the Company should transfer RMB9.1 million (2008: RMB86.7 million) to the SR. This represents 10% of the Company's profit after tax of RMB90.8 million (2008: RMB867 million) determined in accordance with PRC accounting standards and regulations.

During the year, the share of the subsidiaries' current year appropriations to the SR, the reserve fund and the enterprise expansion fund, in accordance with the percentage of equity held by the Group, were RMB18.7 million (2008: RMB4.5 million), RMB13.1 million (2008: RMB9.1 million) and RMB8.5 million (2008: RMB6.7 million), respectively.

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

As at 31 December 2009, the Company had retained profits of RMB5,982 million (31 December 2008: RMB6,283 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under Hong Kong Financial Reporting Standards, available for distribution by way of cash or in kind.

As at 31 December 2009, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of RMB8.34 billion (2008: RMB8.34 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

38. BUSINESS COMBINATIONS

On 4 May 2008, Holly Industrial acquired a 75% equity interest in Masteel Auto-Parking, a 25% owned associate of the Group, from Holding at a cash consideration of RMB15,678,000. Further details of Masteel Auto-Parking are set out in note 19 to the financial statements.

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

	Notes	2008 RMB'000
Property, plant and equipment, net	14	12,656
Construction in progress	15	260
Prepaid land premiums	17	3,548
Inventories		10,082
Trade and bills receivables		17,898
Prepayments, deposits and other receivables		1,586
Cash and cash equivalents		1,580
Trade payables		(2,074)
Interest-bearing bank and other borrowings		(20,000)
Other payables and accruals		(4,655)
Tax payable		23
		20,904
Less: Reclassification of interest in an associate		(5,226)
		15,678
Satisfied by cash		15,678

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

	RMB'000
Cash consideration	(15,678)
Cash and cash equivalents acquired	1,580
Net outflow of cash and cash equivalents in respect of the aforesaid acquisition	(14,098)

38. BUSINESS COMBINATIONS *(CONTINUED)*

Upon the aforesaid acquisition, Masteel Auto-Parking's contributions to the Group's consolidated revenue and consolidated profit attributable to owners of the parent for the year ended 31 December 2008 was not significant.

Had the combination taken place at the beginning of the year, the Group's consolidated revenue and consolidated profit attributable to owners of the parent for the year would have been RMB70,013 million and RMB710 million, respectively.

39. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**3,856,674**	3,814,000

As at 31 December 2009, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB616,246,000 (2008: RMB14,000,000).

(b) As detailed in note 10 to the financial statements, the Group has potential risk on CIT in prior years. The directors of the Company, at this stage, consider that it is uncertain whether the relevant tax authority will claim the CIT Differences from the Company in respect of any prior years and could not reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements for the CIT Differences and the related tax concessions, deferred tax, penalty and interest (if applicable).

40. OPERATING LEASE ARRANGEMENTS

The Group has leased its investment properties in note 16 to the financial statements under an operating lease arrangement ranging from 5 to 18 years. The periodic rent is fixed during the operating lease periods.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within one year	**1,750**	1,250
In the second to fifth years, inclusive	**7,000**	5,000
After five years	**9,908**	11,408
	18,658	17,658

41. CAPITAL COMMITMENTS

(a) The Group's and Company's commitments for capital expenditure for buildings and structures, plant and equipment at the end of the reporting period were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised, but not contracted for	**4,872,181**	19,367,543	**4,647,251**	19,194,986
Contracted, but not provided for	**1,860,432**	811,231	**1,786,964**	596,690
	6,732,613	20,178,774	**6,434,215**	19,791,676

41. CAPITAL COMMITMENTS *(CONTINUED)*

(b) The Group's and Company's commitments for capital contributions in respect of an associate and subsidiaries, respectively, at the end of the reporting period were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for	**–**	9,000	**–**	62,742

(c) The Group's share of the capital commitments of its jointly-controlled entity, which was not included in note (a) above, in respect of capital expenditure for buildings and structures, plant and equipment at the end of the reporting period was as follows:

	2009	2008
	RMB'000	RMB'000
Authorised, but not contracted for	**797**	766

42. RELATED PARTY TRANSACTIONS

(a) Transactions carried out between the Group and its related parties during the year

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

	Notes	**2009 RMB'000**	2008 RMB'000
Transactions with Holding and its subsidiaries:			
Purchases of iron ore	(i)	**2,337,035**	1,897,182
Fees paid for welfare, support services and other services	(ii), (iii)	**196,643**	205,934
Rental expenses	(iii)	**44,440**	36,250
Agency fee paid	(iii)	**3,708**	3,283
Purchases of items of property, plant and equipment and construction services	(iii)	**162,378**	131,652
Fees received for the supply of utilities, services and other consumable goods	(iii)	**(129,742)**	(39,276)
Sales of steel and other by-products	(iii)	**(4,819)**	(4,932)
Acquisition of subsidiaries	(iv)	**–**	15,678
Financial costs	(v)	**2,989**	2,718

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions carried out between the Group and its related parties during the year *(continued)*

	Notes	**2009 RMB'000**	2008 RMB'000
Transactions with associates of the Company:			
Purchases of coke	(iii)	**444,931**	1,408,992
Loading expenses	(iii)	**140,748**	158,848
Transactions with a jointly-controlled entity of the Company:			
Rental income	(iii)	**(1,250)**	(1,250)
Fee received for the supply of electricity	(iii)	**(239,757)**	(258,574)
Fee received for the provision of general public utilities	(iii)	**4,678**	4,528
Purchase of gas products	(iii)	**463,502**	521,561

Notes:

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 entered into between the Company and Holding.

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

(iii) These transactions were conducted on terms mutually agreed between the Group and the related parties.

(iv) Pursuant to an agreement entered into between Holly Industrial and Holding dated 4 May 2008, Holly Industrial purchased a 75% equity interest in Masteel Auto-Parking from Holding at a consideration of RMB15,678,000.

(v) Certain bank loans of RMB46,000,000 (2008: RMB60,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and an annual interest rate at 4.78%.

42. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Holding has guaranteed certain bank loans and bonds with warrants of the Group amounting to RMB9.3 billion (2008: RMB13.1 billion) as at the end of the reporting period at nil consideration, as further detailed in note 33 to the financial statements.

(c) In 2008, other loans totalling RMB6,382,000 were granted by Profit Access Investments Limited, a minority shareholder of a subsidiary of the Company, as further detailed in note 33 to the financial statements. Such borrowings had been wholly repaid in 2009.

(d) Details on balances with Holding and its subsidiaries, the Group's jointly-controlled entities and associates are set out in notes 27, 28, 31 and 32 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

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

	2009	2008
	RMB'000	RMB'000
Short term employee benefits	**5,619**	5,057
Post-employment benefits	**34**	37
Total compensation paid to key management personnel	**5,653**	5,094

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

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

The above transactions with Holding and its subsidiaries in respect of items (a) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009

Financial assets

	Group				
	Financial assets at fair value through profit or loss – held for trading investments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial investments RMB'000	Total RMB'000
Available-for-sale financial investments	–	–	–	108,772	108,772
Trade and bills receivables	–	–	5,244,120	–	5,244,120
Financial assets included in prepayments, deposits and other receivables	–	–	292,916	–	292,916
Equity investments at fair value through profit or loss	1,037	–	–	–	1,037
Pledged time deposits	–	–	2,919,782	–	2,919,782
Cash and cash equivalents	–	–	5,780,536	–	5,780,536
	1,037	–	14,237,354	108,772	14,347,163

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	11,715,391
Financial liabilities included in other payables and accruals	1,463,265
Bonds with warrants	5,165,410
Interest-bearing bank and other borrowings	15,593,206
	33,937,272

43. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2008

Group

Financial assets

	Financial assets at fair value through profit or loss – held for trading investments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial investments RMB'000	Total RMB'000
Held-to-maturity investment	–	2,939	–	–	2,939
Available-for-sale financial investments	–	–	–	102,917	102,917
Trade and bills receivables	–	–	1,893,983	–	1,893,983
Financial assets included in prepayments, deposits and other receivables	–	–	436,494	–	436,494
Equity investments at fair value through profit or loss	813	–	–	–	813
Pledged time deposits	–	–	513,720	–	513,720
Cash and cash equivalents	–	–	5,437,367	–	5,437,367
	813	2,939	8,281,564	102,917	8,388,233

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	8,574,266
Financial liabilities included in other payables and accruals	1,948,513
Bonds with warrants	4,992,975
Interest-bearing bank and other borrowings	17,043,875
	32,559,629

43. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2009 — **Company**

Financial assets

	Financial assets at fair value through profit or loss – held for trading investments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial investments RMB'000	Total RMB'000
Available-for-sale financial investments	–	–	–	108,772	108,772
Trade and bills receivables	–	–	5,254,519	–	5,254,519
Financial assets included in prepayments, deposits and other receivables	–	–	54,096	–	54,096
Equity investments at fair value through profit or loss	1,037	–	–	–	1,037
Pledged time deposits	–	–	2,049,546	–	2,049,546
Cash and cash equivalents	–	–	3,759,523	–	3,759,523
	1,037	–	11,117,684	108,772	11,227,493

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	8,801,394
Financial liabilities included in other payables and accruals	1,420,341
Bonds with warrants	5,165,410
Interest-bearing bank and other borrowings	14,393,000
	29,780,145

43. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2008 — Company

Financial assets

	Financial assets at fair value through profit or loss – held for trading investments RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial investments RMB'000	Total RMB'000
Held-to-maturity investment	–	2,939	–	–	2,939
Available-for-sale financial investments	–	–	–	102,917	102,917
Trade and bills receivables	–	–	2,020,994	–	2,020,994
Financial assets included in prepayments, deposits and other receivables	–	–	48,206	–	48,206
Equity investments at fair value through profit or loss	813	–	–	–	813
Pledged time deposits	–	–	6,000	–	6,000
Cash and cash equivalents	–	–	4,362,314	–	4,362,314
	813	2,939	6,437,514	102,917	6,544,183

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	6,937,043
Financial liabilities included in other payables and accruals	1,880,201
Bonds with warrants	4,992,975
Interest-bearing bank and other borrowings	16,500,324
	30,310,543

44. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group and the Company held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	**1,037**	**–**	**–**	**1,037**

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, bonds with warrants, pledged time deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables which arise directly from its operations.

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group does not use any derivative financial instruments to hedge its cash flow interest rate risk.

As at 31 December 2009, changes in market interest rates could have an insignificant impact on the Group's total equity apart from the retained profits. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
2009		
United States dollar	**50**	**(18,436)**
RMB	**50**	**(29,725)**
United States dollar	**(50)**	**18,436**
RMB	**(50)**	**29,725**
2008		
United States dollar	50	(1,606)
RMB	50	(50,925)
United States dollar	(50)	1,606
RMB	(50)	50,925

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Foreign currency risk

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

As at 31 December 2009, the aforesaid foreign currencies could have an insignificant impact on the Group's total equity apart from the retained profits. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Group	
	Increase/ (decrease) in %	Increase/ (decrease) in profit before tax RMB'000
2009		
United States dollar	**5**	**(30,845)**
Euro	**5**	**(113)**
Japanese Yen	**5**	**(878)**
United States dollar	**(5)**	**30,845**
Euro	**(5)**	**113**
Japanese Yen	**(5)**	**878**
2008		
United States dollar	5	(1,442)
Euro	5	(169)
Japanese Yen	5	(9,255)
United States dollar	(5)	1,442
Euro	(5)	169
Japanese Yen	(5)	9,255

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Credit risk

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

With respect to credit risk arising from the other major financial assets of the Group, which comprise bills receivable, available-for-sale financial investments, equity investments at fair value through profit or loss, pledged time deposits, cash and cash equivalents, and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in note 39 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group has certain concentrations of credit risk as 47% (2008: 58%) of the Group's trade receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and deposits and receivables are disclosed in notes 27 and 28 to the financial statements, respectively.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the next year in accordance with its strategic plan. In the opinion of the directors of the Company, most of the borrowings that mature within one year are able to be renewed and the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009					
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**2 to 3 years RMB'000**	**3 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bonds with warrants	**77,000**	**5,577,000**	**–**	**–**	**–**	**5,654,000**
Interest-bearing bank and other borrowings	**2,471,242**	**11,464,352**	**2,483,291**	**–**	**–**	**16,418,885**
Trade and bills payables	**11,715,391**	**–**	**–**	**–**	**–**	**11,715,391**
Other payables	**1,463,266**	**–**	**–**	**–**	**–**	**1,463,266**

	2008					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bonds with warrants	77,000	77,000	5,577,000	–	–	5,731,000
Interest-bearing bank and other borrowings	2,218,667	8,806,564	6,259,421	1,462,338	–	18,746,990
Trade and bills payables	8,574,266	–	–	–	–	8,574,266
Other payables	1,948,513	–	–	–	–	1,948,513

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows: (continued)

Company

	2009					
	Within 1 year RMB'000	**1 to 2 years RMB'000**	**2 to 3 years RMB'000**	**3 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bonds with warrants	**77,000**	**5,577,000**	**–**	**–**	**–**	**5,654,000**
Interest-bearing bank and other borrowings	**1,277,897**	**11,443,474**	**2,476,161**	**–**	**–**	**15,197,532**
Trade and bills payables	**8,801,394**	**–**	**–**	**–**	**–**	**8,801,394**
Other payables	**1,420,341**	**–**	**–**	**–**	**–**	**1,420,341**

	2008					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bonds with warrants	77,000	77,000	5,577,000	–	–	5,731,000
Interest-bearing bank and other borrowings	1,673,833	8,804,780	6,257,699	1,452,514	–	18,188,826
Trade and bills payables	6,937,043	–	–	–	–	6,937,043
Other payables	1,880,201	–	–	–	–	1,880,201

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, other payables, liability components of bonds with warrants, less cash and cash equivalents and pledged time deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**15,593,206**	17,043,875
Trade and bills payables	**11,715,391**	8,574,266
Other payables	**1,760,760**	2,933,495
Liability component of bonds with warrants	**5,165,410**	4,992,975
Less: Cash and cash equivalents	**(5,780,536)**	(5,437,367)
Pledged time deposits	**(2,919,782)**	(513,720)
Net debt	**25,534,449**	27,593,524
Equity attributable to owners of the parent	**26,464,653**	26,006,983
Total capital	**26,464,653**	26,006,983
Capital and net debt	**51,999,102**	53,600,507
Gearing ratio	**49%**	51%

46. EVENT AFTER THE REPORTING PERIOD

At 4 February 2010, the Company issued the first round of medium-term commercial papers with a 3-year term and an annual interest rate of 4.45% for an aggregate amount of RMB1 billion.

At 30 March 2010, the board of directors proposed a final dividend of RMB4 cents per share totaling RMB308,027,000 to all equity shareholders of the Company. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

47. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

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

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

No difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under PRC according standards and Hong Kong Financial Reporting Standards during the reporting period.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

Report of the Auditors

ERNST & YOUNG
安永

Ernst & Young Hua Ming (2010) Shen Zi No. 60438514_A05

To the shareholders of Maanshan Iron & Steel Company Limited:

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated and company balance sheet as at 31 December 2009, the consolidated and company's income statement, consolidated and company's statement of changes in equity, consolidated and company's cash flow statement for the year then ended, and the notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

2. AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, we consider the internal control relevant to the entity's preparation of 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 management, as well as evaluating the overall presentation of the financial statements.

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

3. OPINION

In our opinion, the financial statements of the Company and the Group have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2009, and the results of their operations and their cash flows for the year then ended.

Ernst & Young Hua Ming

Beijing, the People's Republic of China

Li Di
Chinese Certified Public Accountant

Zhao Ning
Chinese Certified Public Accountant

30 March 2010

Consolidated Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2009
Renminbi Yuan

ASSETS	Note V	**2009**	2008
CURRENT ASSETS:			
Cash and bank balances	1	**8,700,317,608**	5,951,087,213
Financial assets held for trading	2	**1,037,360**	813,250
Bills receivable	3	**4,421,189,686**	1,267,254,719
Trade receivables	4	**822,930,091**	626,727,102
Dividends receivable	5	**24,751,198**	–
Prepayments	6	**823,338,565**	1,107,261,236
Other receivables	7	**268,164,615**	436,494,366
Inventories	8	**8,988,794,051**	9,848,058,341
Non-current assets due within one year	9	**–**	2,938,870
Total current assets		**24,050,523,174**	19,240,635,097
NON-CURRENT ASSETS:			
Long term equity investments	10, 11	**999,403,592**	909,160,061
Investment properties	12	**4,727,175**	1,205,850
Fixed assets	13	**38,272,898,821**	40,769,495,822
Construction materials		**223,238,270**	476,672,223
Construction in progress	14	**1,797,954,642**	2,277,918,588
Intangible assets	15	**1,855,779,750**	1,850,539,277
Deferred tax assets	16	**779,581,081**	618,928,724
Total non-current assets		**43,933,583,331**	46,903,920,545
TOTAL ASSETS		**67,984,106,505**	66,144,555,642

Consolidated Balance Sheet (continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2009
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	**2009**	2008
CURRENT LIABILITIES:			
Short term loans	18	**1,173,245,805**	1,154,000,000
Bills payable	19	**5,400,287,600**	1,049,125,831
Accounts payable	20	**6,315,104,235**	7,525,140,482
Deposits received	21	**6,092,362,835**	5,615,976,320
Payroll and benefits payable	22	**275,489,773**	197,384,329
Taxes payable	23	**(85,807,517)**	666,749,301
Interests payable		**8,138,718**	44,099,563
Dividends payable	24	**701,538,763**	1,101,575,013
Other payables	25	**753,587,311**	802,838,050
Non-current liabilities due within one year	26	**816,000,000**	223,579,337
Total current liabilities		**21,449,947,523**	18,380,468,226
NON-CURRENT LIABILITIES:			
Long term loans	27	**13,603,960,000**	15,666,296,218
Bonds payable	28	**5,165,409,845**	4,992,975,444
Deferred income	29	**579,926,538**	563,549,396
Deferred tax liabilities	16	**–**	6,678,903
Other non-current liabilities	29	**–**	7,485,033
Total non-current liabilities		**19,349,296,383**	21,236,984,994
Total liabilities		**40,799,243,906**	39,617,453,220
SHAREHOLDERS' EQUITY:			
Share capital	30	**7,700,681,186**	7,700,681,186
Capital reserve	31	**8,338,358,399**	8,338,358,399
Surplus reserves	32	**3,057,920,649**	3,008,523,500
Retained profits	33	**7,350,273,452**	7,007,195,285
Exchange fluctuation reserve		**17,419,949**	(47,775,207)
Equity attributable to equity holders of the parent		**26,464,653,635**	26,006,983,163
Minority interests		**720,208,964**	520,119,259
Total shareholders' equity		**27,184,862,599**	26,527,102,422
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**67,984,106,505**	66,144,555,642

The financial statements are signed by the following person

Company Representative:	Chief Accountant:	Head of Accounting:
Gu Jianguo	**Su Jiangang**	**Zhang Qianchun**
30 March 2010	30 March 2010	30 March 2010

Consolidated Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note V	2009	2008
Revenue	34	**51,859,969,514**	71,259,739,377
Less: Cost of sales	34	**49,106,658,380**	65,154,401,331
Business taxes and surcharges	35	**219,403,050**	778,052,466
Selling expenses		**229,232,917**	367,289,708
Administrative expenses		**1,138,339,300**	1,092,817,467
Financial expenses	36	**939,046,170**	1,575,913,707
Assets impairment losses	37	**57,598,030**	1,796,584,712
Add: Gain/(loss) on fair value changes		**224,110**	(1,033,080)
Investment income	38	**204,300,261**	199,877,256
including: share of profits of associates and jointly controlled entities		**183,239,930**	199,367,579
Operating profit		**374,216,038**	693,524,162
Add: Non-operating income	39	**191,703,227**	122,326,177
Less: Non-operating expenses	40	**3,043,520**	9,976,147
including: loss on disposal of non-current assets		**–**	2,788,556
Profit before tax		**562,875,745**	805,874,192
Less: Income tax	41	**29,009,600**	74,644,736
Net profit		**533,866,145**	731,229,456
Including: Net profit attributable to the entity prior to the business combination under common control		**–**	9,846,023
Attributable to equity holders of the Parent		**392,475,316**	710,234,350
Minority interests		**141,390,829**	20,995,106

Consolidated Statement of Income (continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note V	2009	2008
EARNINGS PER SHARE:			
Basic	42	**5.10 cents**	10.38 cents
Diluted		**N/A**	N/A
Other comprehensive income	43	**65,195,156**	(57,404,913)
Total comprehensive income		**599,061,301**	673,824,543
Including:			
Total comprehensive income attributable to the holding shareholders		**457,670,472**	652,829,437
Total comprehensive income attributable to the minority shareholders		**141,390,829**	20,995,106

Consolidated Statement of Changes in Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Attributable to equity holders of the Parent							
	Share Capital (Note V.30)	Capital reserve (Note V.31)	Surplus reserves (Note V.32)	Retained profits (Note V.33)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2009	7,700,681,186	8,338,358,399	3,008,523,500	7,007,195,285	(47,775,207)	26,006,983,163	520,119,259	26,527,102,422
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	392,475,316	-	392,475,316	141,390,829	533,866,145
(ii) Other comprehensive income	-	-	-	-	65,195,156	65,195,156	-	65,195,156
Sub-total (i) and (ii)	-	-	-	392,475,316	65,195,156	457,670,472	141,390,829	599,061,301
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	-	-	-	-	-	-	68,672,447	68,672,447
(b) Others	-	-	-	-	-	-	-	-
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	49,397,149	(49,397,149)	-	-	-	-
(b) Dividend paid	-	-	-	-	-	-	(9,973,571)	(9,973,571)
(v) Transfer within shareholders' equity	-	-	-	-	-	-	-	-
3. At 31 December 2009	7,700,681,186	8,338,358,399	3,057,920,649	7,350,273,452	17,419,949	26,464,653,635	720,208,964	27,184,862,599

Consolidated Statement of Changes in Equity (continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Attributable to equity holders of the Parent							
	Share Capital (Note V.30)	Capital reserve (Note V.31)	Surplus reserves (Note V.32)	Retained profits (Note V.33)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 31 December 2007	6,758,551,716	6,056,692,904	2,901,562,765	7,282,533,393	9,629,706	23,008,970,484	446,514,689	23,455,485,173
Add: Adjustment attributable to business combination	–	8,293,083	–	–	–	8,293,083	–	8,293,083
2. At 1 January 2008	6,758,551,716	6,064,985,987	2,901,562,765	7,282,533,393	9,629,706	23,017,263,567	446,514,689	23,463,778,256
3. Increase/(decrease) during the year								
(i) Net profit	–	–	–	710,234,350	–	710,234,350	20,995,106	731,229,456
(ii) Other comprehensive income	–	–	–	–	(57,404,913)	(57,404,913)	–	(57,404,913)
Sub-total (i) and (ii)	–	–	–	710,234,350	(57,404,913)	652,829,437	20,995,106	673,824,543
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	942,129,470	2,113,855,892	–	–	–	3,055,985,362	101,194,034	3,157,179,396
(b) Business combination under common control	–	(8,293,083)	–	–	–	(8,293,083)	–	(8,293,083)
(c) Others	–	167,809,603	–	–	–	167,809,603	–	167,809,603
(iv) Profit appropriation								
(a) Transfer to surplus reserves	–	–	106,960,735	(106,960,735)	–	–	–	–
(b) Dividend paid	–	–	–	(878,611,723)	–	(878,611,723)	(48,584,570)	(927,196,293)
(v) Transfer within shareholders' equity	–	–	–	–	–	–	–	–
4. At 31 December 2008	7,700,681,186	8,338,358,399	3,008,523,500	7,007,195,285	(47,775,207)	26,006,983,163	520,119,259	26,527,102,422

Consolidated Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note V	2009	2008
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**60,319,597,258**	89,188,260,792
Refunds of taxes		**–**	43,508,000
Cash received relating to other operating activities	44	**95,300,970**	12,761,806
Sub-total of cash inflows		**60,414,898,228**	89,244,530,598
Cash paid for goods and services		**(46,582,033,928)**	(72,196,971,884)
Cash paid to and on behalf of employees		**(3,449,444,939)**	(3,368,536,415)
Cash paid for all taxes		**(3,215,612,152)**	(4,867,711,244)
Cash paid relating to other operating activities	44	**(499,106,690)**	(423,516,227)
Sub-total of cash outflows		**(53,746,197,709)**	(80,856,735,770)
Net cash flows from operating activities	45	**6,668,700,519**	8,387,794,828
2. Cash flows from investing activities:			
Cash received from retrieval of investments		**2,938,870**	3,387,455
Cash received from investment income		**199,045,430**	187,609,526
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**33,532,979**	18,693,909
Cash received due to decrease in pledged deposits, net		**–**	253,936,158
Cash received relating to other investing activities	44	**95,880,000**	39,180,000
Sub-total of cash inflows		**331,397,279**	502,807,048
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(1,636,438,980)**	(3,809,043,196)
Cash paid for acquisitions of investments		**(292,942,800)**	(16,579,330)
Cash paid due to increase in pledged deposits, net		**(2,406,061,806)**	–
Sub-total of cash outflows		**(4,335,443,586)**	(3,825,622,526)
Net cash flows from investing activities		**(4,004,046,307)**	(3,322,815,478)

Consolidated Cash Flow Statement (continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note V	2009	2008
3. Cash flows from financing activities:			
Cash received from borrowings		**25,484,946,355**	19,326,546,259
Cash received from capital contribution		**68,672,446**	3,157,179,396
including: capital contribution by minority shareholders received by subsidiaries		**68,672,446**	101,194,034
Sub-total of cash inflows		**25,553,618,801**	22,483,725,655
Cash repayments of borrowings		**(26,931,562,894)**	(24,754,928,770)
Cash paid for distribution of dividend or profits and for interest expenses		**(1,241,730,076)**	(2,841,931,992)
including: dividend paid to minority shareholders by subsidiaries		**(9,973,571)**	(48,584,570)
Sub-total of cash outflows		**(28,173,292,970)**	(27,596,860,762)
Net cash flows from financing activities		**(2,619,674,169)**	(5,113,135,107)
4. Effect of foreign exchange rate changes on cash		**20,600,546**	(39,932,963)
5. Net increase/(decrease) in cash and cash equivalents		**65,580,589**	(88,088,720)
Add: Balance of cash and cash equivalents at beginning of year		**5,437,367,246**	5,525,455,966
6. Balance of cash and cash equivalents at end of year	46	**5,502,947,835**	5,437,367,246

Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2009
Renminbi Yuan

ASSETS	Note XI	**2009**	2008
CURRENT ASSETS			
Cash and bank balances		**5,809,069,109**	4,368,314,406
Financial assets held for trading		**1,037,360**	813,250
Bills receivable		**4,183,146,951**	1,180,972,207
Trade receivables	1	**1,071,371,524**	840,021,187
Dividend receivable		**24,751,198**	–
Prepayments		**571,602,521**	1,573,542,503
Other receivables	2	**29,344,892**	48,206,022
Inventories	3	**7,729,440,621**	8,991,015,193
Non-current assets due within one year		**–**	2,938,870
Total current assets		**19,419,764,176**	17,005,823,638
NON-CURRENT ASSETS:			
Long term equity investments	4	**2,181,564,626**	2,018,118,616
Investment properties		**18,404,084**	18,809,133
Fixed assets		**36,293,704,502**	38,877,703,976
Construction materials		**221,471,149**	434,169,176
Construction in progress		**1,505,126,557**	2,138,731,681
Intangible assets		**1,238,079,244**	1,269,925,611
Deferred tax assets		**767,989,564**	603,267,351
Total non-current assets		**42,226,339,726**	45,360,725,544
TOTAL ASSETS		**61,646,103,902**	62,366,549,182

Balance Sheet (continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2009
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	**2009**	2008
CURRENT LIABILITIES:		
Short term loans	**–**	630,000,000
Bills payable	**3,057,932,063**	20,000,000
Accounts payable	**5,743,462,652**	6,917,042,896
Deposits received	**5,584,922,592**	5,212,997,409
Payroll and benefits payable	**208,145,931**	136,423,372
Taxes payable	**(66,882,101)**	650,199,891
Interests payable	**8,039,421**	43,853,466
Dividends payable	**701,538,763**	1,101,575,013
Other payables	**710,762,838**	734,772,103
Non-current liabilities due within one year	**816,000,000**	216,000,000
Total current liabilities	**16,763,922,159**	15,662,864,150
NON-CURRENT LIABILITIES:		
Long term loans	**13,577,000,000**	15,654,324,200
Bonds payable	**5,165,409,845**	4,992,975,444
Deferred income	**562,619,538**	562,504,397
Deferred tax liabilities	**–**	–
Other non-current liabilities	**–**	7,485,033
Total non-current liabilities	**19,305,029,383**	21,217,289,074
Total liabilities	**36,068,951,542**	36,880,153,224
SHAREHOLDERS' EQUITY:		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,338,358,399**	8,338,358,399
Surplus reserves	**2,873,596,445**	2,864,520,805
Retained profits	**6,664,516,330**	6,582,835,568
Total shareholders' equity	**25,577,152,360**	25,486,395,958
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**61,646,103,902**	62,366,549,182

Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note XI	**2009**	2008
Revenue	6	**52,577,803,993**	75,148,069,659
Less: Cost of sales	6	**50,682,172,839**	69,713,506,492
Business taxes and surcharges		**192,555,640**	748,551,737
Selling expenses		**211,682,235**	350,915,918
Administrative expenses		**902,399,740**	847,471,805
Financial expenses		**862,154,362**	1,296,859,062
Assets impairment losses	7	**57,810,860**	1,664,503,803
Add: Gain/(loss) on fair value changes		**224,110**	(1,033,080)
Investment income	8	**222,049,960**	313,324,057
Including: share of profits associates and jointly controlled entities		**183,133,600**	203,058,158
Operating profit		**(108,697,613)**	838,551,819
Add: Non-operating income		**141,823,422**	75,898,971
Less: Non-operating expenses		**2,628,327**	7,150,580
Including: loss on disposal of non-current assets		**–**	1,497,324
Profit before tax		**30,497,482**	907,300,210
Less: Income tax		**(60,258,920)**	40,609,852
Net profit		**90,756,402**	866,690,358
Other comprehensive income		**–**	–
Total comprehensive income		**90,756,402**	866,690,358

Statement of Changes in Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2009	**7,700,681,186**	**8,338,358,399**	**2,864,520,805**	**6,582,835,568**	**25,486,395,958**
2. Increase/(decrease) during the year					
(i) Net profit	**–**	**–**	**–**	**90,756,402**	**90,756,402**
(ii) Other comprehensive income	**–**	**–**	**–**	**–**	**–**
Sub-total (i) and (ii)	**–**	**–**	**–**	**90,756,402**	**90,756,402**
(iii) Capital contribution and withdrawal					
(a) Capital contribution by shareholders	**–**	**–**	**–**	**–**	**–**
(b) Others	**–**	**–**	**–**	**–**	**–**
(iv) Profit appropriation					
(a) Transfer to surplus reserves	**–**	**–**	**9,075,640**	**(9,075,640)**	**–**
(b) Dividend paid	**–**	**–**	**–**	**–**	**–**
(c) Others	**–**	**–**	**–**	**–**	**–**
(v) Transfers within shareholders' equity	**–**	**–**	**–**	**–**	**–**
3. At 31 December 2009	**7,700,681,186**	**8,338,358,399**	**2,873,596,445**	**6,664,516,330**	**25,577,152,360**

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2008	6,758,551,716	6,056,692,904	2,777,851,769	6,681,425,969	22,274,522,358
2. Increase/(decrease) during the year					
(i) Net profit	–	–	–	866,690,358	866,690,358
(ii) Other comprehensive income	–	–	–	–	–
Sub-total (i) and (ii)	–	–	–	866,690,358	866,690,358
(iii) Capital contribution and withdrawal					
(a) Capital contribution by shareholders	942,129,470	2,113,855,892	–	–	3,055,985,362
(b) Others	–	167,809,603	–	–	167,809,603
(iv) Profit appropriation					
(a) Transfer to surplus reserves	–	–	86,669,036	(86,669,036)	–
(b) Dividend declared	–	–	–	(878,611,723)	(878,611,723)
(c) Others	–	–	–	–	–
(v) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2008	7,700,681,186	8,338,358,399	2,864,520,805	6,582,835,568	25,486,395,958

Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	Note XI	2009	2008
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**58,445,263,233**	90,024,045,119
Cash received relating to other operating activities		**63,628,999**	9,897,601
Sub-total of cash inflows		**58,508,892,232**	90,033,942,720
Cash paid for goods and services		**(46,465,648,472)**	(74,182,216,748)
Cash paid to and on behalf of employees		**(3,068,781,566)**	(3,201,011,059)
Cash paid for all taxes		**(2,858,722,148)**	(4,340,091,733)
Cash paid relating to other operating activities		**(402,634,585)**	(233,958,135)
Sub-total of cash outflows		**(52,795,786,771)**	(81,957,277,675)
Net cash flows from operating activities	9	**5,713,105,461**	8,076,665,045
2. Cash flows from investing activities:			
Cash received from retrieval of investments		**2,938,870**	3,387,455
Cash received from investment income		**193,949,405**	267,742,649
Net cash received from disposal of fixed assets, intangible assets and other long term assets, net		**9,457,226**	16,709,479
Cash received relating to other investing activities		**78,000,000**	38,080,000
Sub-total of cash inflows		**284,345,501**	325,919,583
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(1,202,246,367)**	(3,042,663,242)
Cash paid for acquisitions of investments		**(88,663,609)**	(219,695,610)
Cash paid due to increase in pledged deposits, net		**(2,043,545,713)**	(6,000,000)
Sub-total of cash outflows		**(3,334,455,689)**	(3,268,358,852)
Net cash flows from investing activities		**(3,050,110,188)**	(2,942,439,269)

Cash Flow Statement (continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2009
Renminbi Yuan

	2009	2008
3. Cash flows from financing activities:		
Cash received from capital contribution	–	3,055,985,362
Cash received from borrowings	**24,061,800,551**	16,892,143,515
Sub-total of cash inflows	**24,061,800,551**	19,948,128,877
Cash repayments of borrowings	**(26,166,167,640)**	(21,791,703,883)
Cash paid for distribution of dividend or profits and for interest expenses	**(1,144,403,881)**	(2,584,949,377)
Sub-total of cash outflows	**(27,310,571,521)**	(24,376,653,260)
Net cash flows from financing activities	**(3,248,770,970)**	(4,428,524,383)
4. Effect of foreign exchange rate changes on cash	**(17,015,313)**	(8,756,801)
5. Net increase in cash and cash equivalents	**(602,791,010)**	696,944,592
Add: Balance of cash and cash equivalents at beginning of year	**4,362,314,406**	3,665,369,814
6. Balance of cash and cash equivalents at end of year	**3,759,523,396**	4,362,314,406

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business license is Qi Gu Wan Zong Zi No. 340000400002545. Headquarter of the Company is located at No. 8 Hong Qi Zhong Road, Maanshan City, Anhui Province, the PRC. The Company's A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The Company together with its subsidiaries (collectively known as the "Group") is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company was RMB6,455,300,000, and the number of shares was 6,455,300,000, which included state-owned share with selling restrictions of 3,830,560,000 shares, domestic legal person share of 87,810,000 shares, domestic natural person share of 10,000 shares, ordinary A share of 803,990,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1.

During the years 2007 and 2008, among the total number of warrants of 1,265,000,000 attached to the Company's bonds with warrants of 1,245,381,186 warrants were being exercised by certain holders in exchange for the Company's ordinary A share. After exercising, the Company's registered capital increase to RMB7,700,681,186.

As at 31 December 2009, the Company had issued 7,700,681,000 shares in total, including ordinary A share of 5,967,751,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.30 to the financial statements.

The Company's principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycle and processing of discarded vehicles (limited to the internal discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificate); rendering of technological services and consultancy services.

I. GENERAL INFORMATION OF THE GROUP *(CONTINUED)*

The parent company of the Group is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

The financial statements were approved by the board of directors on 30 March 2010. According to the Article of Association of the Company, the financial statements will be submitted to the shareholders' meeting for approval.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the "China Accounting Standards for Business Enterprises – General Principals" and 38 specific accounting standards issued by the Ministry of Finance (the "MOF") in February 2006, application guidance, interpretations and other related regulations issued later on (collectively known as the "CAS").

The financial statements are prepared based on an ongoing basis.

The financial statements have been prepared on an accrual basis, and they have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

2. STATEMENT OF ADOPTION OF THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the group as of 31 December 2009, and the results of their operations and their cash flows for the year then ended.

3. ACCOUNTING PERIOD

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

4. REPORTING CURRENCY

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

5 BUSINESS COMBINATION

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

Business combination involving entities under common control

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under business combination involving entities under common control, the combining entity obtains control of another involving entity being absorbed on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Any costs incurred that are directly attributable to the combination are recognised in the income statement.

Business combination involving entities not under common control

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree plus any costs directly attributable to the business combination.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

5 BUSINESS COMBINATION *(CONTINUED)*

Business combination involving entities not under common control *(continued)*

The acquirer shall, at the acquisition date initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable net assets. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the cost of the business combination, the acquirer shall reassess the identification and measurement of the acquiree's identifiable net assets and the measurement of the cost of the combination; and recognise immediately in the income statement any excess remaining after reassessment.

6. CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2009. Subsidiary is a company or entity that controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All significant intercompany transactions and balances within the Group are fully eliminated on consolidation.

Shareholders' equity in those consolidated subsidiaries that exceed the portion attributable to the Group is considered as minority interests, and presented separately in the consolidated financial statements.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

7. CASH AND CASH EQUIVALENTS

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies 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 recognised in other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuation arising from the translation mentioned above are recognised as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the cash flow statement.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognised when and only when:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognised in the income statement.

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

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognised initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value when recognised initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

The financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria are satisfied:

(1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different measurement basis of financial instruments.

(2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.

(3) Hybrid instruments which contains one or more embedded derivatives, unless the containing of embedded derivatives does not have substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from relevant hybrid instruments.

(4) Hybrid instruments which contains embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

For the equity investment where is there is quoted market price from an active market or the fair value cannot be reliably measured, such equity investment shall not be designated as financial assets at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset at fair value through profit and loss in initial recognition, it shall not be reclassified to other categories of financial asset. Also, assets from other categories of financial asset shall not reclassify to financial assets at fair value through profit and loss.

In accordance with the above conditions, the Group has designated these kinds of financial assets mainly includes the financial assets held for trading.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised, impaired, or amortised.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortised using the effective interest method, with interests recognised as interest income or expense. The fair value changes of available-for-sale financial assets are recognised as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognised initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognised as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial liabilities *(continued)*

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs became the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, but it does not belong to financial liabilities that are designated at fair value through profit or loss. It is subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation.

Bonds with warrants

The Group evaluates the terms of the issuance of bonds with warrants to determine whether it contains both a liability and an equity component. The issued bonds with warrants contain both a liability and an equity component. On initial recognition, it should be bifurcated the liability and equity component and accounted for them separately. In the bifurcation, the liability component shall be initially recognised and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. The portion of the transaction costs relating to the liability components is recognised as part of the liability and amortised in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognised as part of the equity and is not remeasured in subsequent years.

The issuance of bonds with warrants contain both a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognised as derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. Such techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortised cost would have had the impairment not been recognised at the reversal date.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

9. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income due to decline in the fair value shall be removed and recognised in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognised directly in other comprehensive income.

Financial assets carried at cost

If there is objective evidence that an impairment loss on the financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognised in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under abovementioned principles.

Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognise the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognise the financial assets.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognise the financial assets and recognise the related assets and liabilities incurred. If the control over the financial has not lost, the Group recognises the financial assets to the extent of its continuing involvement of the financial asset and recognise an associated liability.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

10. RECEIVABLES

The Group assesses individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the income statement.

For an individually assessed financial asset that have no objective evidence of impairment existed (whether the financial assets that are individually significant or not significant), it shall be included in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognised in the income statement.

11. INVENTORIES

Inventories include raw materials, work in progress, finished goods, construction contract and spare parts.

Inventories are initially recognised at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories, other than construction contracts and spare parts, are determined on weighted average basis. Cost of spare parts, lower valued consumables and packing materials are charged to the income statement when issued.

Contract costs shall comprise direct materials, direct labour, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised loss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statement.

Provision of impairment for construction contract is assessed at period end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognised in the income statement.

Inventories are accounted for using perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value. If the cost is in excess of amounts expected to be realised from their sale or use, provision for inventories is recognised in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

11. INVENTORIES *(CONTINUED)*

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on category basis for raw materials, and on an individual basis for finished goods.

12. LONG TERM EQUITY INVESTMENTS

Long term equity investments consist of investments in subsidiaries, jointly controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long term equity investments are initially recognised at initial investment cost on acquisition.

Long term investment shall be recognise at cost in initial recognition. For the long term investments that acquired through business combination involving entities under common control, the initial cost of investment shall be the carrying amount of shareholders equity of the acquiree. Through business combination involving entities not under common control, the initial cost of investment should be the cost of acquisition. In addition to the long term investment acquired through business combination, it should be treated as follow: for the transaction is paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses. For the issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities. For the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in investment contract or agreement is not at fair value.

The cost method is applied for long term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

The equity method is applied for long term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognised). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortisation in straight line method (if exists) should be recognised as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity. When such investment disposes, related shareholders' equity will be ceased proportionately to the income statement.

When long term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under equity method, the amount recognised in the equity previously shall be transferred to the income statement upon its disposal.

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in note II.23. For the other long term investments which do not have quoted market price from active market, and the fair value cannot be reliably measured, the impairment assessment and measurement of provision for impairment, further details are stated in note II.9.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

13. INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including land use rights) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalised when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to the income statement.

The Group accounts for investment properties under cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over its estimated useful life, the period over which that future economic benefits will flow into the Group.

For the impairment assessment and measurement of provision for impairment of the investment properties adopts the cost model, further details are stated in note II.23.

14. FIXED ASSETS

Fixed assets represent tangible assets with useful lives exceeding 1 year, which are held for the purposes of production of products, provision of services, leasing or operational use.

Fixed assets are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met, otherwise, is charged to the income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	**Estimated residual value**	**Annual depreciation rate**
Buildings and structures	10 – 20 year	3%	4.9 – 9.7%
Plant, machinery and equipment	10 year	3%	9.7%
Transportation vehicles and equipment	5 year	3%	19.4%

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

14. FIXED ASSETS *(CONTINUED)*

The components of fixed assets which have difference useful life and generate difference kind of benefits to the enterprise, it should have difference depreciation rate and method.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

For the impairment assessment and measurement of provision for impairment of the fixed assets, further details are stated in note II.23.

15. CONSTRUCTION IN PROGRESS

Construction in progress is recognised based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalised borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

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

For the impairment assessment and measurement of provision for impairment of the construction in progress, further details are stated in note II.23.

16. BORROWING COSTS

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs commences when:

(1) Expenditures for the assets are being incurred;

(2) Borrowing costs are incurred;

(3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

16. BORROWING COSTS *(CONTINUED)*

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense.

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following methods:

(1) For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income.

(2) For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

17. INTANGIBLE ASSETS

The Group's intangible assets are initially recorded at cost.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	Useful life
Land use rights	50 years
Mining rights	25 years

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

17. INTANGIBLE ASSETS *(CONTINUED)*

Intangible assets with finite useful lives are amortised over the useful lives on straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

For the intangible assets with indefinite useful live, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, it should not have amortisation and its useful live is reviewed at least at each financial year end. If there is indication that the useful live is finite, it should follow the accounting treatment of intangible assets with finite lives as mentioned above.

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. “Research” refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. “Development” refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

For the impairment assessment and measurement of provision for impairment of the intangible assets, further details are stated in note II.23.

18. PROVISIONS

The Group shall recognise provisions from obligations related to contingencies when following conditions are met simultaneously:

(1) the obligation is a present obligation assumed by the Group;

(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

18. PROVISIONS *(CONTINUED)*

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value and etc. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

For the provision that is being acquired from business combination, it should be initially measured at fair value. After the initial recognition, the amount of provision should be subsequently measured at the higher of the amount being recognised and the initial recognised amount after deducting the accumulated amortisation in accordance with revenue recognition principal.

19. REVENUE

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

19. REVENUE *(CONTINUED)*

Revenue from the rendering of services *(Continued)*

When the Group enters in to contract or agreement with other parties which contains both sales of goods and rending of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and effective interest rate.

Lease income

Lease income from operating lease is recognised over the lease terms on a straight-line basis. Contingent lease income is recognised when it incurred.

20. GOVERNMENT GRANTS

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

21. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognised directly in equity, which recognised in equity.

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

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognised as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

21. INCOME TAX *(CONTINUED)*

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

(1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

(1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

22. LEASE

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as finance lease. All the other leases are termed as operating leases.

Operating lease as lessee

Rental payable under the operating leases are charged to the income statement or capitalized on the straight-line basis over the lease term, contingent rental payment is charged to the income statement when it incurs.

Operating lease as lessor

Rental receivable under operating leases are credited to the income statement over the lease terms on a straight-line basis.

23. IMPAIRMENT OF ASSETS

The Group determines the impairment of assets according to following method, except for inventories, deferred tax assets, financial assets, and long term equity investment measured at cost method which do not have quoted market price in an active market and their fair value cannot be reliably measured.

The Group assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

23. IMPAIRMENT OF ASSETS *(CONTINUED)*

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Impairment losses cannot be reversed in the prospective accounting periods.

24. EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the unpaid amount of employee benefits as a liability. An entity shall recognise the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. endowment insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalised in related assets or charged to the income statement.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

24. EMPLOYEE BENEFITS *(CONTINUED)*

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contribution into the Annuity Plan and charged to the income statement.

Termination benefits are recognised as liabilities and charged to the income statement when, and only when, the Group demonstrably commits itself to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy by having a detailed formal plan or voluntary redundancy advices which are without realistic possibility of withdrawal.

The Group accounts for the early retirement scheme in the same way as termination benefits. All salaries and social security contributions the Group committed to pay for the period from early retirement date to normal retirement date shall be recognised as employee benefits and charged to the income statement if the conditions on termination benefits are met.

25. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgment, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have significant effect on the amounts recognised in the financial statements:

Operating lease – as lessor

The Group has entered into operating leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to lease contract.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

Judgments *(continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgment is made on individual basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Impairment of available-for-sale financial assets

The Group has classified certain assets into available for sale, and the change in fair value is recognised in the shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

25. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(continued)*

Development costs

Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Estimation of useful lives of fixed assets

The Group's management determines the estimated useful lives of its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions.

Impairment of receivables

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

Estimation of inventories under net realisable value

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

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

III. TAX

1. THE PRINCIPAL KINDS OF TAXES AND THE RELATED RATES ARE AS FOLLOWS:

Value-added tax	The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refunds rates of 5% – 13%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.
Business tax	Payable based on 3% – 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to corporate income tax rate at 25% on their assessable profit.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 1% of the net VAT and business tax to be paid.
Real estate tax	Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

2. TAX BENEFITS AND APPROVAL DOCUMENTS

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rate ranged from 20% to 25% and enjoy the "Two years exempted and subsequent three years with 50% reduction" tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax rate at 15%. Other subsidiaries located in elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the countries, ranging from 16.5% to 30%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

III. TAX *(CONTINUED)*

3. OTHER NOTES

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax ("CIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company applies the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT Differences in respect of any prior years.

In response to the notice issued by relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

1. SUBSIDIARIES

The details of subsidiaries are as follows:

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority share holders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired by establishment or investment															
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Joint Stock	Anhui, PRC	Lu Kecong	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	15050958-2	RMB 50,000,000	–	100	100	Y	–	–	(i)
Design & Research Institute of Maanshan Iron & Steel company Limited ("Design & Research Institute")	Limited liability	Anhui, PRC	Fang Zhengfang	Service industry	RMB 100,000,000	Planning and design of metallurgical construction and environmental protection projects, construction supervision and contract service	73299724-8	RMB 7,500,000	–	66.82	66.82	Y	57,644,837	57,644,837	(ii)
MG Control Technique Company Limited ("MG Control Technique")	Limited liability	Anhui, PRC	Yan Hua	Manufacturing	RMB 12,000,000	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	73890028-3	RMB 7,500,000	–	100	100	Y	431,918	431,918	(v)
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Sino-foreign joint venture	Anhui, PRC	Xu Ruilin	Manufacturing	USD 8,389,000	Production, sale and transportation of slag products and provision of related consultation services	74306587-6	USD 5,872,300	–	70	70	Y	33,487,682	33,487,682	(iv)
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino-HK joint Venture	Anhui, PRC	Zhu Jinnan	Manufacturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	74676907-8	RMB 8,225,885	–	100	100	Y	–	–	(i)
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufacturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	76479176-2	RMB 20,000,000	–	92	92	Y	3,915,905	3,915,905	(i)
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino-foreign joint Venture	Guangdong, PRC	Zhu Jinnan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	75195554-5	RMB 120,000,000	–	66.7	66.7	Y	64,739,073	64,739,073	(i)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES *(CONTINUED)*

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority share holders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired by establishment or investment *(Continued)*															
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Wholly-owned subsidiary	Hong Kong, PRC	N/A	Manufacturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,800,000	–	100	100	Y	–	–	(i)
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	75487864-5	RMB 30,000,000	–	71	71	Y	72,817,494	72,817,494	(i)
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	77110896-8	RMB 1,000,000	–	90	90	Y	472,835	472,835	(i)
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Zhu Jinnan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	77313607-3	RMB 120,000,000	–	75	75	Y	36,543,575	36,543,575	(i)
MG Trading and Development GmbH ("MG Trading")	Wholly-owned subsidiary	Germany	N/A	trading	EUR 153,388	Trading of equipment, iron and steel products and provision of technology services	N/A	EUR 153,388	–	100	100	Y	–	–	(i)
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Limited liability	Australia	N/A	Mine production and sales	AUD 21,737,900	Production and sales of iron ores through an unincorporated joint venture	N/A	AUD 21,737,900	–	100	100	Y	–	–	(i)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES *(CONTINUED)*

Name of investee	Business Type	Place of incorporation and registration	Legal represent-tative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Cons-olid-ation Y/N	Minority share holders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired by establishment or investment *(Continued)*															
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Limited liability	Anhui, PRC	Zhao Zhiqun	Manufa-cturing	RMB 500,000,000	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used and repair and maintenance of used	78856717-5	RMB 355,000,000	–	71	71	Y	235,238,895	235,238,895	(i)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufa-cturing	RMB 120,000,000	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	79356794-6	RMB 73,200,000	–	89	89	Y	14,217,987	14,217,987	(i)
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufa-cturing	RMB 150,000,000	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	67090961-9	RMB 106,500,000	–	71	71	Y	44,132,264	44,132,264	(i)
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller")	Limited liability	Anhui, PRC	Wang Xiaoguang	Manufa-cturing	USD 30,000,000	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	66790211-7	USD 15,300,000	–	51	51	Y	101,264,855	101,264,855	(iii)
Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Zheng Minzhu	Trading	RMB 500,000	Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties	66422618-4	RMB 500,000	–	100	100	Y	–	–	(i)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES *(CONTINUED)*

Name of investee	Business Type	Place of incorporation and registration	Legal represent-tative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at year end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Cons-olid-ation Y/N	Minority share holders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired not under common control															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Zhu Jinnan	Manufa-cturing	USD 20,000,000	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except of dangerous chemical products)	75732471-X	USD 20,000,000	-	71	71	Y	55,301,644	55,301,644	(i)
Subsidiaries acquired under common control															
Anhui Masteel stereoscopic Auto-packing Equipments Company Limited ("Masteel Auto-Parking")	Limited liability	Anhui, PRC	Li Hanxing	Manufa-cturing	USD 2,500,000	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	75854512-7	USD 2,500,000	-	100	100	Y	-	-	(i)

(i) These companies are the subsidiaries of the Group. The voting right owned is consistent with the percentage of equity held by the Group. These subsidiaries are included in consolidation for the year ended 31 December 2008 and 2009, and both their financial positions and operating results are reflected in the consolidated financial statements. During the reporting year, the Group's initial investment cost is not adjusted.

(ii) During the reporting period, the registered capital of Design & Research Institute was increased from RMB80,000,000 to RMB100,000,000 by converting retained profits of RMB20,000,000. The change of registered capital has been examined by Anhui XingYong CPA Firm（安徽興永會計師事務所）, which stated that the percentage of equity held by the Company remained the same.

(iii) During the reporting period, the 3rd and 4th installment of registered capital was paid up by the Company of USD4,590,000 (equivalent to RMB31,338,715) and USD4,586,328 (equivalent to RMB31,331,957), and together with the other venturer, Hefei Industrial Investment Holding Company, in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by Anhui YongDaXin CPA Firm（安徽永達信會計師事務所）till 31 December 2009.

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES *(CONTINUED)*

(iv) During the reporting period, Anhui Ma Steel K. Wah increased the registered capital which the Company increased the paid up capital by USD2,869,000 (equivalent to RMB19,588,137) in accordance with the Venturer's Agreement and the Articles of Association. The paid up capital contributed by the venturers has been examined by Anhui YongDaXin CPA Firm（安徽永達信會計師事務所）till 31 December 2009.

(v) During the reporting period, the registered capital of MG Control Technique was increased by converting retained profits of RMB4,000,000. The change of registered capital has been examined by Anhui XingYong CPA Firm（安徽興永會計師事務所）, which stated that the percentage of equity held by the Company remained the same.

2. CHANGE IN THE SCOPE OF CONSOLIDATION

The scope of financial statements consolidation is consistent with previous year.

3. EXCHANGE RATES USED TO TRANSLATE THE STATEMENTS OF FOREIGN OPERATIONS

	Average rates		**Closing rates**	
	2009	2008	**2009**	2008
EUR	**9.7281**	10.1630	**9.7971**	9.6590
HKD	**0.8813**	0.9092	**0.8805**	0.8819
AUD	**5.4215**	5.3438	**6.1294**	4.7135

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
Cash on hand						
– RMB	**-**	**-**	**160,559**	–	–	277,947
Balances with financial institutions						
– RMB	**-**	**-**	**5,384,124,037**	–	–	4,587,054,180
– HKD	**324,191**	**0.8805**	**285,450**	418,017	0.8819	368,626
– USD	**29,073,666**	**6.8371**	**198,778,593**	104,604,980	6.8346	715,212,168
– EUR	**1,950,018**	**9.7971**	**19,103,715**	3,381,665	9.6590	32,663,503
– JPY	**102,030**	**0.0738**	**7,528**	102,119	0.0757	7,725
– AUD	**30,174,512**	**6.1294**	**184,951,653**	23,053,340	4.7135	108,661,917
			5,787,250,976			5,443,968,119
Others						
– RMB	**-**	**-**	**864,446,073**	–	–	506,841,147
– USD	**300,000,000**	**6.8282**	**2,048,460,000**	–	–	–
			2,912,906,073			506,841,147
Total			**8,700,317,608**			5,951,087,213

As at 31 December 2009, the Group's cash and bank balances amounting to RMB2,919,781,773 have been pledged to banks as securities (31 December 2008: RMB513,719,967), including other monetary assets amounting to USD300,000,000 pledged as securities to obtain bank loans of RMB2,046,112,000 (31 December 2008: nil), other monetary assets amounting to RMB864,446,073 (31 December 2008: RMB506,841,147) pledged as securities for trade facilities and performance bonds, and time deposits amounting to USD1,000,000 (equivalent to RMB6,875,700) (31 December 2008: USD1,000,000, equivalent to RMB6,878,820) pledged to banks to issue credit letter.

As at 31 December 2009, the Group has cash and bank balances amounting to RMB246,420,054 have been deposited outside the PRC (31 December 2008: RMB167,984,437).

Cash deposited in current account earns interest at floating interest rate. Terms of time deposits take from 1 month, 6 months to 1 year, which is depended on cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

2. FINANCIAL ASSETS HELD FOR TRADING

	2009	2008
Equity instruments held for trading	**1,037,360**	813,250

The above equity instruments were all listed in Shanghai or Shenzhen Stock Exchange. According to the management's opinion, there is no material restriction on realisation of investments as at the balance sheet date.

3. BILLS RECEIVABLE

	2009	2008
Bank acceptance bills	**4,414,688,750**	1,257,132,110
Commercial acceptance bills	**6,500,936**	10,122,609
Total	**4,421,189,686**	1,267,254,719

As at 31 December 2009 and 31 December 2008, there was no trade receivables transferred from bills receivable because of pledging or the drawers' inability to pay, and the top five largest bills receivable that were not expired but had been endorsed out were as follows:

2009

Issue entity	Issue date	Maturity date	Amount
Company 1	2009-7-20	2010-1-20	**22,000,000**
Company 2	2009-10-27	2010-4-27	**21,500,000**
Company 3	2009-11-20	2010-2-20	**21,000,000**
Company 4	2009-11-5	2010-5-5	**20,000,000**
Company 5	2009-10-15	2010-4-15	**20,000,000**
Total			**104,500,000**

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

3. BILLS RECEIVABLE *(CONTINUED)*

2008

Issue entity	Issue date	Maturity date	Amount
Company 1	2008-10-29	2009-1-29	30,000,000
Company 2	2008-8-22	2009-2-22	22,000,000
Company 3	2008-8-22	2009-2-22	22,000,000
Company 4	2008-11-14	2009-2-13	20,000,000
Company 5	2008-10-27	2009-2-26	20,000,000
Total			114,000,000

At 31 December 2009, certain of the Group's short-term loans were acquired from bills receivable discounted amounted to RMB29,000,000 (31 December 2008: RMB264,000,000).

4. TRADE RECEIVABLES

The Group's trade receivables were interest- free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analysed below:

	2009	2008
Within one year	**786,972,355**	599,627,729
One to two years	**27,797,830**	26,435,972
Two to three years	**10,700,056**	2,534,476
Over three years	**18,000,512**	17,944,416
	843,470,753	646,542,593
Less: Provisions for bad debts	**20,540,662**	19,815,491
Total	**822,930,091**	626,727,102

As at 31 December 2009, the Company's trade receivables as a whole were pledged to acquire bank loans amounting to RMB680,000,000 (31 December 2008: nil), further details are stated in Note V.27 to the financial statements.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. TRADE RECEIVABLES *(CONTINUED)*

The balances of trade receivables are analysed as follows:

	2009				2008			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant	768,936,691	91	(15,388,457)	2	568,063,437	88	(14,858,489)	3
Other insignificant	74,534,062	9	(5,152,205)	7	78,479,156	12	(4,957,002)	6
Total	843,470,753	100	(20,540,662)		646,542,593	100	(19,815,491)	

The movement of provision for bad debts against trade receivables for the year 2009 is disclosed in Note 17.

An analysis of the amount of provision for bad debts being written off in the current year:

Reason	2009	2008
Bankrupt or liquidated debtors	–	–
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	–	–
Less: Reversal of bad debts provisions written-off in prior year	938,001	673,920
Total	(938,001)	(673,920)

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. TRADE RECEIVABLES *(CONTINUED)*

As at 31 December 2009, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	**Independent third party**	**235,794,221**	**Within one year**	**28**
Company 2	**Independent third party**	**117,618,163**	**Within one year**	**14**
Company 3	**Parent company**	**16,843,818**	**Within one year**	**2**
Company 4	**Independent third party**	**13,717,632**	**Within one year**	**2**
Company 5	**Independent third party**	**12,193,962**	**Within one year**	**1**
		396,167,796		**47**

As at 31 December 2008, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	164,022,816	Within one year	25
Company 2	Independent third party	118,648,489	Within one year	18
Company 3	Independent third party	40,346,713	Within one year	6
Company 4	Independent third party	27,293,211	Within one year	5
Company 5	Independent third party	26,751,147	Within one year	4
		377,062,376		58

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

4. TRADE RECEIVABLES *(CONTINUED)*

The following balances of trade receivables are denominated in foreign currencies:

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
USD	**16,891,889**	**6.8282**	**115,341,199**	44,496,349	6.8346	304,114,750
EUR	**1,174,545**	**9.7971**	**11,507,135**	733,235	9.6590	7,082,315
Total			**126,848,334**			311,197,065

As at 31 December 2009 and 31 December 2008, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 31 December 2009 and 31 December 2008, trade receivables due from either shareholders who hold 5% or above of the Company's equity interests or other related parties are stated in Note VI.6 to the financial statements.

5. DIVIDENDS RECEIVABLE

2009

	Opening balance	**Addition**	**Reduction**	**Closing balance**	**Reason for not yet collected**	**Whether impaired**
Within one year						
Jiyuan JinMa Coke	**–**	**18,000,000**	**–**	**18,000,000**	Not paid	No
BOC-Ma Steel	**–**	**6,751,198**	**–**	**6,751,198**	Not paid	No
Total	**–**	**24,751,198**	**–**	**24,751,198**		

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

	2009		2008	
	Balance	**Ratio (%)**	Balance	Ratio (%)
Within one year	**719,482,438**	**88**	1,007,783,093	91
One to two years	**32,754,016**	**4**	75,070,765	7
Two to three years	**52,094,796**	**6**	16,392,370	1
Over three years	**19,007,315**	**2**	8,015,008	1
Total	**823,338,565**	**100**	1,107,261,236	100

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects were not yet completed which resulted in the unsettlement of the corresponding prepayments. The above prepayments for construction projects will be written off against relevant estimated liabilities (recorded in trade payables) when the final inspection and settlement were completed.

As at 31 December 2009, the top five largest prepayments were as follows:

	Relationship with the Group	**Balance**	**Payment date**	**Reason for not yet settled**
Company 1	**Independent third party**	**105,313,965**	**2009**	**Note 1**
Company 2	**Independent third party**	**73,733,014**	**2009**	**Note 1**
Company 3	**Independent third party**	**61,211,533**	**2009**	**Note 1**
Company 4	**Independent third party**	**61,106,344**	**2009**	**Note 1**
Company 5	**Independent third party**	**49,000,000**	**2009**	**Note 1**
		350,364,856		

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

6. PREPAYMENTS *(CONTINUED)*

As at 31 December 2008, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for not yet settled
Company 1	Independent third party	287,997,393	2008	Note 1
Company 2	Independent third party	94,890,000	2008	Note 1
Company 3	Independent third party	68,066,356	2008	Note 1
Company 4	Independent third party	52,130,000	2007-2008	Note 1
Company 5	Independent third party	49,874,326	2008	Note 1
		552,958,075		

Note1: As at 31 December 2009, the unsettlement of the Group's top five largest prepayments were mainly attributable to the delay in supply of raw materials.

The following balances are denominated in foreign currencies:

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
JPY	**8,800,000**	**0.0738**	**649,282**	16,376,000	0.0757	1,238,844
EUR	**986,850**	**9.7971**	**9,668,268**	452,370	9.6590	4,369,442
Total			**10,317,550**			5,608,286

As at 31 December 2009 and 31 December 2008, the balances of prepayment did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in Note VI.6 to the financial statements.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2009	2008
Within one year	**266,052,618**	422,659,984
One to two years	**1,680,431**	13,964,450
Two to three years	**1,182,956**	407,034
Over three years	**6,319,107**	6,533,395
	275,235,112	443,564,863
Less: Provisions for bad debts	**7,070,497**	7,070,497
Total	**268,164,615**	436,494,366

The movement of provision for bad debts against other receivables for the year 2009 is disclosed in Note 17.

Other receivables balance is analysed as follows:

	2009				2008			
		Book value	**Provision for bad debts**			Book value	Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant	**256,451,581**	**93**	**(2,400,000)**	**1**	396,727,329	89	(2,400,000)	1
Other insignificant	**18,783,531**	**7**	**(4,670,497)**	**25**	46,837,534	11	(4,670,497)	10
Total	**275,235,112**	**100**	**(7,070,497)**		443,564,863	100	(7,070,497)	

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

7. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2009, the top five largest customers were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivable (%)
Company 1	Independent third party	**219,847,841**	Within one year	**80**
Company 2	Independent third party	**8,404,252**	Within one year	**3**
Company 3	Independent third party	**6,071,521**	Within one year	**2**
Company 4	Independent third party	**5,636,119**	Within one year	**2**
Company 5	Independent third party	**2,581,529**	Within one year	**1**
		242,541,262		**88**

As at 31 December 2008, the top five largest customers were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivable (%)
Company 1	Independent third party	379,043,491	Within one year	85.6
Company 2	Independent third party	2,400,000	Over three years	0.6
Company 3	Independent third party	1,313,000	Within one year	0.3
Company 4	Independent third party	1,288,268	Over three years	0.3
Company 5	Independent third party	960,000	Over three years	0.2
		385,004,759		87

As at 31 December 2009 and 31 December 2008, the Group's other receivables does not have any derecognition of other receivables due to transfer of financial assets.

As at 31 December 2009 and 31 December 2008, the balance of other receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

8. INVENTORIES

	2009			2008		
	Balance	**Provision for impairment**	**Carrying Amount**	Balance	Provision for impairment	Carrying Amount
Raw materials	**4,535,369,959**	**(33,417,210)**	**4,501,952,749**	6,704,118,978	(1,389,919,170)	5,314,199,808
Spare parts	**2,002,627,223**	**(48,626,768)**	**1,954,000,455**	2,549,839,462	(24,503,803)	2,525,335,659
Finished goods	**1,130,115,655**	**–**	**1,130,115,655**	1,244,809,706	(237,995,235)	1,006,814,471
Work in progress	**1,249,926,633**	**–**	**1,249,926,633**	999,629,025	(143,476,078)	856,152,947
Construction contract	**152,798,559**	**–**	**152,798,559**	145,555,456	–	145,555,456
Total	**9,070,838,029**	**(82,043,978)**	**8,988,794,051**	11,643,952,627	(1,795,894,286)	9,848,058,341

The movement of impairment provision against inventories for the year 2009 is disclosed in Note 17.

At each balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2008 and 2009, there was no reversal of impairment provision against inventories.

At 31 December 2009, the carrying amount of the Group's inventories, which were pledged as securities for the Group's trading facilities for the issuance of bank bills, amounted to RMB223,882,564 (31 December 2008: RMB329,306,462).

9. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2009	2008
Held-to-maturity investments	**–**	2,938,870

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

2009

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital
Jointly-controlled entities					
Ma' anshan BOC-Ma Steel Gases Company Limited (BOC-Ma Steel)	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000
Masteel-CMI International Training Center Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Qian Haifan	Servicing	RMB1,000,000
Associates					
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tianshang	Manufacturing	RMB222,220,000
Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000
Maanshan Harbor Group Co., Ltd ("Maanshan Harbor")	Limited liability	Anhui, PRC	Hui zhigang	Transportation	RMB250,000,000
Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB50,000,000

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit during the year
Jointly-controlled entities					
BOC-Ma Steel	696,781,884	79,136,116	617,645,768	463,502,280	135,790,292
MASTEEL-CMI	4,283,022	2,572,037	1,710,985	3,300,000	699,240
Associates					
Jiyuan JinMa Coke	1,565,809,475	1,031,421,308	534,388,167	2,474,501,752	140,902,284
Tengzhou Shenglong Coke	1,074,538,973	517,024,691	557,514,282	1,455,591,252	100,761,965
Shanghai Iron and Steel Electronic	1,941,794,680	1,882,024,067	59,770,613	161,053,086	91,961,652
Maanshan Harbor	883,264,831	504,075,846	379,188,984	214,563,832	30,318,341
All-monitor Transmission System	41,102,228	231,648	40,870,580	194,250	236,289

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

10. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

2008

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital
Jointly-controlled entity					
Ma' anshan BOC-Ma Steel Gases Company Limited (BOC-Ma Steel)	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000
Associates					
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tianshang	Manufacturing	RMB222,220,000
Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000
Maanshan Harbor Group Co., Ltd ("Maanshan Harbor")	Limited liability	Anhui, PRC	Hui zhigang	Transportation	RMB250,000,000
Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB50,000,000

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit during the year
Jointly-controlled entity					
BOC-Ma Steel	775,211,985	166,654,113	608,557,872	445,778,479	137,127,296
Associates					
Jiyuan JinMa Coke	1,294,255,346	847,569,134	446,686,212	2,774,611,235	169,759,823
Tengzhou Shenglong Coke	919,038,448	455,119,349	463,919,099	1,636,713,754	121,343,947
Shanghai Iron and Steel Electronic	1,334,394,837	1,256,068,376	78,326,461	52,990,759	35,280,894
Maanshan Harbor	891,883,115	507,278,200	384,604,915	221,631,405	33,146,857
All-monitor Transmission System	32,430,353	796,063	31,634,290	81,026	(8,201,287)

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

11. LONG TERM INVESTMENTS

2009

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of vote right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	304,278,936	67,895,146	(63,351,198)	308,822,884	50	50	-	-	(63,351,198)
MASTEEL-CMI	500,000	-	849,620	-	849,620	50	50	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	169,782,128	50,587,964	(18,000,000)	202,370,092	36	36	-	-	(18,000,000)
Tengzhou Shenglong Coke	66,776,000	148,454,112	32,243,829	-	180,697,941	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	15,665,292	18,413,677	(25,200,000)	8,878,969	20	20	-	-	(25,200,000)
Maanshan Harbor	112,500,000	158,776,802	13,643,363	(1,800,000)	170,620,165	45	45	-	-	(1,800,000)
All-monitor Transmission System	13,500,000	9,285,431	9,106,330	-	18,391,761	45	45	-	-	-
Cost method:										
河南龍宇能源股份有限公司	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	-
中國第十七冶金建設有限公司	2,700,000	2,700,000	5,854,800	-	8,554,800	1.56	1.56	-	-	-
上海羅涇礦石碼頭有限公司	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
Total	614,193,360	909,160,061	198,594,729	(108,351,198)	999,403,592			-	-	(108,351,198)

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

11. LONG TERM INVESTMENTS *(CONTINUED)*

2008

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of vote right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	268,305,755	68,563,648	(32,590,467)	304,278,936	50	50	-	-	(32,590,467)
Associates										
Jiyuan JinMa Coke	80,000,000	132,550,015	64,707,809	(27,475,696)	169,782,128	36	36	-	-	(27,475,696)
Tengzhou Shenglong Coke	66,776,000	109,624,049	38,830,063	-	148,454,112	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	18,609,113	7,056,179	(10,000,000)	15,665,292	20	20	-	-	(10,000,000)
Maanshan Harbor	112,500,000	136,466,488	23,900,459	(1,590,145)	158,776,802	45	45	-	-	(1,590,145)
All-monitor Transmission System	13,500,000	12,976,010	(3,690,579)	-	9,285,431	45	45	-	-	-
Cost method:										
河南龍宇能源股份有限公司	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	-
中國第十七冶金建設有限公司	2,700,000	2,700,000	-	-	2,700,000	1.56	1.56	-	-	-
上海羅涇礦石碼頭有限公司	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
Total	613,693,360	781,448,790	199,367,579	(71,656,308)	909,160,061			-	-	(71,656,308)

According to the directors' opinion, there was no material restriction on realisation of long term investments as at the balance sheet date.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. INVESTMENT PROPERTIES

Cost method for subsequent measurement:

2009

	Buildings and Land use rights
Cost:	
At 1 January 2009	**1,722,642**
Transfer from property, plant and equipment (note 13)	**3,916,303**
At 31 December 2009	**5,638,945**
Accumulated depreciation:	
At 1 January 2009	**516,792**
Provided during the year	**85,786**
Transfer from property, plant and equipment (note 13)	**309,192**
At 31 December 2009	**911,770**
Impairment:	
At 1 January 2009 and 31 December 2009	**–**
Net carrying amount:	
At 31 December 2009	**4,727,175**
At 1 January 2009	**1,205,850**

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

12. INVESTMENT PROPERTIES *(CONTINUED)*

2008

	Land use rights
Cost:	
At 1 January 2008 and 31 December 2008	1,722,642
Accumulated depreciation:	
At 1 January 2008	482,339
Provided during the year	34,453
At 31 December 2008	516,792
Impairment:	
At 1 January 2008 and 31 December 2008	–
Net carrying amount:	
At 31 December 2008	1,205,850
At 1 January 2008	1,240,303

The movement of impairment provision of investment properties for the year is disclosed in Note 17.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13. FIXED ASSETS

2009

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost:				
At 1 January 2009	20,263,272,551	39,137,340,152	428,963,337	59,829,576,040
Additions	2,530,141	12,796,419	491,929	15,818,489
Transferred from constructions in progress (Note 14)	524,661,436	1,789,416,777	14,284,278	2,328,362,491
Reclassifications	(47,777,265)	47,796,305	(19,040)	–
Disposal	(15,449,349)	(90,588,685)	(7,406,975)	(113,445,009)
Transfer to investment properties (Note 12)	(3,916,303)	–	–	(3,916,303)
At 31 December 2009	20,723,321,211	40,896,760,968	436,313,529	62,056,395,708
Accumulated depreciation:				
At 1 January 2009	5,231,060,132	13,429,330,873	309,013,569	18,969,404,574
Provided during the year	1,165,425,087	3,609,651,360	45,596,177	4,820,672,624
Reclassifications	2,799,298	(2,780,829)	(18,469)	–
Disposal	(7,412,868)	(83,502,287)	(6,031,608)	(96,946,763)
Transfer to investment properties (Note 12)	(309,192)	–	–	(309,192)
At 31 December 2009	6,391,562,457	16,952,699,117	348,559,669	23,692,821,243
Impairment:				
At 1 January 2009 and 31 December 2009	5,252,400	85,423,244	–	90,675,644
Net carrying amount:				
At 31 December 2009	14,326,506,354	23,858,638,607	87,753,860	38,272,898,821
At 1 January 2009	15,026,960,019	25,622,586,035	119,949,768	40,769,495,822

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13. FIXED ASSETS *(CONTINUED)*

2008

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Total
Cost:				
At 1 January 2008	18,694,226,788	36,843,272,020	425,513,996	55,963,012,804
Additions	17,533,903	71,343,462	3,053,798	91,931,163
Transfer from constructions in progress (Note 14)	1,519,980,216	2,389,286,811	27,332,664	3,936,599,691
Reclassifications	41,326,517	(37,887,795)	(3,438,722)	–
Disposal	(9,794,873)	(128,674,346)	(23,498,399)	(161,967,618)
At 31 December 2008	20,263,272,551	39,137,340,152	428,963,337	59,829,576,040
Accumulated depreciation:				
At 1 January 2008	4,112,003,551	10,150,581,840	281,524,655	14,544,110,046
Provided during the year	1,090,580,307	3,424,930,218	50,269,156	4,565,779,681
Reclassifications	33,997,459	(33,024,730)	(972,729)	–
Disposal	(5,521,185)	(113,156,455)	(21,807,513)	(140,485,153)
At 31 December 2008	5,231,060,132	13,429,330,873	309,013,569	18,969,404,574
Impairment:				
At 1 January 2008 and 31 December 2008	5,252,400	85,423,244	–	90,675,644
Net carrying amount:				
At 31 December 2008	15,026,960,019	25,622,586,035	119,949,768	40,769,495,822
At 1 January 2008	14,576,970,837	26,607,266,936	143,989,341	41,328,227,114

As at 31 December 2009, the Group has no intention to dispose of any fixed assets or held any fixed assets that were being temporarily idle.

As at 31 December 2009, certain of the equipments with a net carrying amount of RMB0 (31 December 2008: RMB21.3 million) were pledged as security to acquire the loan from Profit Access Investments Limited.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

13. FIXED ASSETS *(CONTINUED)*

As at 31 December 2009, certificates of ownership in respect of 209 of the Group's buildings in PRC, with an aggregate cost of RMB2,410.82 million (31 December 2008: approximately RMB1,671.99 million), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and it will not have significant adverse impact on the Group's operations.

The movement of impairment provision for fixed assets for the year is disclosed in Note 17.

14. CONSTRUCTION IN PROGRESS

	2009			2008		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Products quality project	**194,613,507**	**–**	**194,613,507**	174,130,135	–	174,130,135
Energy-saving and environment protection project	**67,883,027**	**–**	**67,883,027**	501,302,328	–	501,302,328
Equipment advancement and other modification projects	**1,242,630,024**	**–**	**1,242,630,024**	1,463,299,218	–	1,463,299,218
Other projects	**292,828,084**	**–**	**292,828,084**	139,186,907	–	139,186,907
Total	**1,797,954,642**	**–**	**1,797,954,642**	2,277,918,588	–	2,277,918,588

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2009

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (Note 13) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Products quality project	3,978,597	174,130,135	65,803,853	(45,320,481)	194,613,507	Internally generated funds	91
2. Energy-saving and environment protection project	1,629,916	501,302,328	542,821,194	(976,240,495)	67,883,027	Internally generated funds	81
3. Equipment advancement and other modification projects	26,184,263	1,463,299,218	806,319,348	(1,026,988,542)	1,242,630,024	Internally generated funds	96
4. Other projects	N/A	139,186,907	433,454,150	(279,812,973)	292,828,084	Internally generated funds	N/A
		2,277,918,588	1,848,398,545	(2,328,362,491)	1,797,954,642		
Less: Impairment		-	-	-	-		
Total		2,277,918,588	1,848,398,545	(2,328,362,491)	1,797,954,642		

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

14. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2008

	Name of projects	Budget cost RMB'000	Opening balance (restated) RMB	Additions during the year RMB	Transferred to fixed assets (Note 12) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1.	Products Quality Project	10,253,542	193,731,279	70,572,780	(90,173,924)	174,130,135	Internally generated funds	2-100
2.	Energy-saving and Environment Protection Project	1,372,461	387,841,071	451,392,104	(337,930,847)	501,302,328	Internally generated funds	3-100
3.	Equipment Advancement and other modification projects	27,053,182	2,778,742,955	1,811,053,022	(3,126,496,759)	1,463,299,218	Internally generated funds	7-100
	Including: borrowing costs capitalised		*2,061,270*	–	*(2,061,270)*	–		
4.	Other Projects	N/A	150,450,349	370,734,719	(381,998,161)	139,186,907	Internally generated funds	N/A
			3,510,765,654	2,703,752,625	(3,936,599,691)	2,277,918,588		
Less: Impairment			–	–	–	–		
Total			3,510,765,654	2,703,752,625	(3,936,599,691)	2,277,918,588		

The Group has no capitalised borrowing costs using in construction in progress in the year 2008 and 2009.

The movement of impairment provision for construction in progress for the year is disclosed in Note 17.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15. INTANGIBLE ASSETS

2009

	Land use rights	Mining right	Total
Cost:			
At 1 January 2009	2,104,023,435	96,603,075	2,200,626,510
Additions	23,063,112	2,592,787	25,655,899
Disposal	(135,334)	–	(135,334)
Exchange realignment	–	29,357,412	29,357,412
At 31 December 2009	2,126,951,213	128,553,274	2,255,504,487
Accumulated depreciation:			
At 1 January 2009	338,675,148	11,412,085	350,087,233
Provided during the year	41,585,948	4,089,440	45,675,388
Exchange realignment	–	3,962,116	3,962,116
At 31 December 2009	380,261,096	19,463,641	399,724,737
Impairment:			
At 1 January 2009 and 31 December 2009	–	–	–
Net carrying amount:			
At 31 December 2009	1,746,690,117	109,089,633	1,855,779,750
At 1 January 2009	1,765,348,287	85,190,990	1,850,539,277

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

15. INTANGIBLE ASSETS *(CONTINUED)*

2008

	Land use rights	Mining right	Total
Cost:			
At 1 January 2008	1,818,338,850	131,514,909	1,949,853,759
Additions	285,684,585	–	285,684,585
Exchange realignment	–	(34,911,834)	(34,911,834)
At 31 December 2008	2,104,023,435	96,603,075	2,200,626,510
Accumulated depreciation:			
At 1 January 2008	298,610,353	10,692,610	309,302,963
Provided during the year	40,064,795	4,179,103	44,243,898
Exchange realignment	–	(3,459,628)	(3,459,628)
At 31 December 2008	338,675,148	11,412,085	350,087,233
Impairment:			
At 1 January 2008 and 31 December 2008	–	–	–
Net carrying amount:			
At 31 December 2008	1,765,348,287	85,190,990	1,850,539,277
At 1 January 2008	1,519,728,497	120,822,299	1,640,550,796

The movement of impairment provision for intangible assets for the year is disclosed in Note 17.

At 31 December 2009, certain of the Group's land use rights with a net carrying amount of RMB26,541,899 (31 December 2008: Nil) were pledged as security to acquire bank loans amounting to RMB20,00,000. The detail is disclosed in notes V.27.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred tax liabilities were not presented at the net amount after offsetting:

Recognised deferred tax assets:

	2009	2008
Opening balance	**618,928,724**	258,762,170
Recognised in the income statement during the year	**160,652,357**	360,166,554
Closing balance	**779,581,081**	618,928,724

Breakdown	**2009**	2008
Impairment provisions of assets	**38,043,681**	433,658,638
Sales incentive	**86,339,659**	90,506,134
Repair and maintenance expenses	**9,688,385**	23,383,465
Pre-operation expenses	**4,452,647**	21,802,909
Salary payable	**27,799,027**	21,226,376
Unrealised profit	**11,323,276**	–
Deductible tax losses	**592,628,311**	–
Others	**9,306,095**	28,351,202
Total	**779,581,081**	618,928,724

As at 31 December 2009, the Group had unrecognised deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB36.23 million (2008: RMB37.25 million) which will be expired in 2014 and tax credit arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credit amounting to RMB158.14 million which will be expired in 2011 (notes V.41) and RMB6.24 million, respectively, which have not been recognised.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

16. DEFERRED TAX ASSETS/LIABILITIES *(CONTINUED)*

Unrecognised deferred tax assets arising from deductible tax losses will be expired in the following years:

	2009	2008
Expired in 2014	**9,650,928**	–
Expired in 2013	**134,947,513**	148,648,149
Expired in 2012 and the year before	**333,707**	333,707

The Group has not recognised the deferred tax assets related to the above deductible temporary differences and unused tax losses, because it is not highly probable that future taxable profit will be available to be utilized.

Recognised deferred tax liabilities:

	2009	2008
Opening balance	**6,678,903**	168,275,911
Recognised directly to equity (Note)	**–**	(167,809,603)
Recognised in the income statement during the year	**(6,678,903)**	6,212,595
Closing balance	**–**	6,678,903

Breakdown	**2009**	2008
Others	**–**	6,678,903

Note: Pursuant to the "Circular of the Ministry of Finance and the State Administration of Taxation on the Issues of Enterprise Income Tax Policies Relevant to the Implementation of the Enterprise Accounting Standards", effective interest expense on the Bonds with Warrants is tax deductible upon accrual if the effective interest rate does not exceed the rate of bank borrowing in the same period. Accordingly, after giving due consideration to the estimated effective interest expenses over the remaining years of the financial instrument, the carrying amount of the deferred tax related to the Bonds with Warrants was recorded as part of the Company's "Reserve – Equity Component of Bonds with Warrants" during the year ended 31 December 2008.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. ASSETS IMPAIRMENT PROVISIONS

	2009					
	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	26,885,988	322,170	(535,000)	–	938,001	27,611,159
Including: Trade receivables	19,815,491	322,170	(535,000)	–	938,001	20,540,662
Other receivables	7,070,497	–	–	–	–	7,070,497
Provisions for inventories	1,795,894,286	57,810,860	–	(1,771,661,168)	–	82,043,978
Including: Raw Materials	1,389,919,170	33,417,210	–	(1,389,919,170)	–	33,417,210
Work in Process	143,476,078	–	–	(143,476,078)	–	–
Finished goods	237,995,235	–	–	(237,995,235)	–	–
Spare parts	24,503,803	24,393,650	–	(270,685)	–	48,626,768
Impairment of held-to-maturity investments	–	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	–	90,675,644
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	–	85,423,244
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	1,913,455,918	58,133,030	(535,000)	(1,771,661,168)	938,001	200,330,781

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

17. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

	2008					
	Opening Balance (restated)	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	25,521,642	781,575	(91,149)	–	673,920	26,885,988
Including: Trade receivables	18,359,996	781,575	–	–	673,920	19,815,491
Other receivables	7,161,646	–	(91,149)	–	–	7,070,497
Provisions for inventories	132,103,392	1,795,894,286	–	(88,332,339)	(43,771,053)	1,795,894,286
Including: Raw Materials	–	1,389,919,170	–	–	–	1,389,919,170
Work in Process	–	143,476,078	–	–	–	143,476,078
Finished goods	9,795,364	237,995,235	–	(9,795,364)	–	237,995,235
Spare parts	122,308,028	24,503,803	–	(78,536,975)	(43,771,053)	24,503,803
Impairment of held-to-maturity investments	–	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	–	90,675,644
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	–	85,423,244
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	248,300,678	1,796,675,861	(91,149)	(88,332,339)	(43,097,133)	1,913,455,918

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

18. SHORT TERM LOANS

	2009			2008		
Types of loans	**Original currency**	**Year end exchange rate**	**RMB equivalents**	Original currency	Year end exchange rate	RMB equivalents
Commissioned loans						
– RMB (note)	**–**	**–**	**40,000,000**	–	–	60,000,000
Unsecured loans						
– RMB	**–**	**–**	**517,000,000**	–	–	1,094,000,000
Trust receipt loans						
– USD	**90,250,111**	**6.8282**	**616,245,805**	–	–	–
Total			**1,173,245,805**			1,154,000,000

Note:As at 31 December 2009, certain bank loans of RMB40,000,000 (2008: RMB60,000,000) in aggregate were lent by Holding through entrust loan arrangement with the Industrial and Commercial Bank of China, with terms of 1 year and annual interest rates at 4.78% (2008: The interest rates of the above short term loans ranged from 5.589% – 6.723% per annum).

As at 31 December 2009, the Group has no expired outstanding short term loans.

19. BILLS PAYABLE

	2009	2008
Bank acceptance bills	**3,988,275,537**	1,049,125,831
Commercial acceptance bills	**1,412,012,063**	–
Total	**5,400,287,600**	1,049,125,831

As at 31 December 2009, the bills payable amounting to RMB5,400,287,600 (2008: RMB1,049,125,831) are due within one year.

As at balance sheet date, certain amount of the Group's bills payable were secured by certain amount of the other balances with financial institutions and pledged by certain amount of inventories. Please refer to V. 1 and V. 8.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

19. BILLS PAYABLE *(CONTINUED)*

As at 31 December 2009 and 31 December 2008, the balance of bills payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or related parties.

20. ACCOUNTS PAYABLE

The following balances were denominated in foreign currencies:

	2009			2008		
	Original currency	**Year end rate**	**RMB equivalents**	Original currency	Year end rate	RMB equivalents
USD	**17,774,537**	**6.8282**	**121,368,096**	222,419	6.8346	1,520,145
EUR	**4,291,046**	**9.7971**	**42,039,811**	4,382,221	9.6590	42,327,870
AUD	**26,906**	**6.1294**	**164,919**	8,697	4.7135	40,995
JPY	**26,460,000**	**0.07378**	**1,952,272**	185,212,000	0.07565	14,011,288
Total			**165,525,098**			57,900,298

The accounts payable are interest free and are normally settled within three months.

As at 31 December 2009 and 31 December 2008, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in Note VI.6 to the financial statements.

At 31December 2009,the accounts payable with material amounts aged more than 1 year (over RMB 2 million) are as follows:

Name of the company	**Amount due**	**Unpaid reason**
Company 1	35,481,442	Note
Company 2	9,152,356	Note
Company 3	7,033,344	Note
Company 4	6,648,000	Note
Company 5	4,755,172	Note
Company 6	4,897,380	Note
Company 7	4,629,393	Note
Company 8	4,092,638	Note
Others	12,292,185	Note

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

20. ACCOUNTS PAYABLE *(CONTINUED)*

The above accounts payable with material amounts aged over 1 year had been repaid by RMB7,852,724 after balance sheet date.

Note: The Group's accounts payable aged over 1 year are mainly attributable to the balances of purchasing equipment and construction projects which the settlement periods were beyond 1 year.

21. DEPOSITS RECEIVED

The following balances were denominated in foreign currencies:

	2009			2008		
	Original currency	**Year end rate**	**RMB equivalents**	Original currency	Year end rate	RMB equivalents
USD	**14,849,166**	**6.8282**	**103,160,986**	5,906,038	6.8346	40,365,408

The ageing of deposits received is within one year.

As at 31 December 2009 and 31 December 2008, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of deposits received are stated in Note VI.6 to the financial statements.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22. PAYROLL AND BENEFITS PAYABLE

2009	**Opening balance**	**Increase during the year**	**Payment during the year**	**Closing balance**
Salaries, bonus and subsidies	**96,414,186**	**2,235,793,204**	**(2,218,491,639)**	**113,715,751**
Welfare (including: employee bonus and welfare fund)	**26,470,740**	**124,923,440**	**(117,187,115)**	**34,207,065**
Social insurance	**34,218,075**	**837,726,535**	**(779,098,800)**	**92,845,810**
Include: Pension insurance	***7,378,942***	***541,162,991***	***(492,765,272)***	***55,776,661***
Medical insurance	***16,187,967***	***182,931,451***	***(172,230,270)***	***26,889,148***
Unemployment insurance	***4,642,365***	***51,004,202***	***(50,961,234)***	***4,685,333***
Work-related injury insurance	***2,370,087***	***53,058,623***	***(50,982,761)***	***4,445,949***
Maternity insurance	***3,638,714***	***9,569,268***	***(12,159,263)***	***1,048,719***
Housing fund	**20,024,555**	**188,535,578**	**(191,741,749)**	**16,818,384**
Labour union fee and employee education fee	**10,784,388**	**63,109,102**	**(67,701,321)**	**6,192,169**
Supplementary pension scheme	**9,472,385**	**77,462,524**	**(75,224,315)**	**11,710,594**
Total	**197,384,329**	**3,527,550,383**	**(3,449,444,939)**	**275,489,773**

2008	Opening balance (restated)	Increase during the year	Payment during the year	Closing balance
Salaries, bonus and subsidies	182,620,249	2,093,285,374	(2,179,491,437)	96,414,186
Welfare (including: employee bonus and welfare fund)	21,416,510	163,114,198	(158,059,968)	26,470,740
Social insurance	100,121,105	661,747,770	(727,650,800)	34,218,075
Include: Pension insurance	*1,119,853*	*391,482,863*	*(385,223,774)*	*7,378,942*
Medical insurance	*31,946,548*	*170,515,657*	*(186,274,238)*	*16,187,967*
Unemployment insurance	*57,233,252*	*49,705,040*	*(102,295,927)*	*4,642,365*
Work-related injury insurance	*8,238,732*	*40,504,461*	*(46,373,106)*	*2,370,087*
Maternity insurance	*1,582,720*	*9,539,749*	*(7,483,755)*	*3,638,714*
Housing fund	20,544,237	169,367,462	(169,887,144)	20,024,555
Labour union fee and employee education fee	8,649,045	65,851,985	(63,716,642)	10,784,388
Supplementary pension scheme	8,520,248	70,682,561	(69,730,424)	9,472,385
Total	341,871,394	3,224,049,350	(3,368,536,415)	197,384,329

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

22. PAYROLL AND BENEFITS PAYABLE *(CONTINUED)*

As at 31 December 2009, the balance of payroll and benefits payable included performance-based wages amounting to nil (31 December 2008: RMB84,905,503).

As at 31 December 2009 and 31 December 2008, the Group had no defaulted payroll and benefits payable.

As at 31 December 2009, the balance of labour union fee and employee education fee was RMB6,192,169 (31 December 2008: RMB10,784,388). In 2009 and 2008, the Group had no payment for non-currency welfare or compensation for terminating the labor relationship.

23. TAXES PAYABLE

	2009	2008
Value added tax	**(40,608,908)**	747,769,536
Corporate income tax	**(107,811,680)**	(145,701,795)
City construction and maintenance tax	**23,156,705**	45,956,655
Other taxes	**39,456,366**	18,724,905
Total	**(85,807,517)**	666,749,301

The basis of calculation and the applicable tax rates are disclosed in Note III to the financial statements.

24. DIVIDENDS PAYABLE

	2009	2008	**Unpaid reason for over 1 year**
Holding	**695,945,600**	1,095,945,600	Unpaid dividend
Other shareholders	**5,593,163**	5,629,413	Unpaid dividend
Total	**701,538,763**	1,101,575,013	

As at 31 December 2009 and 31 December 2008, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of dividends payable are stated in Note VI.6 to the financial statements.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

25. OTHER PAYABLES

	2009	2008
Sales incentive	**345,358,086**	362,024,537
Payable to construction, maintenance and inspection fee	**125,771,617**	202,655,328
Service fees payable	**37,028,480**	36,004,373
Technology project fees received	**59,003,456**	48,946,244
Removing compensation	**47,347,944**	–
Others	**139,077,728**	153,207,568
Total	**753,587,311**	802,838,050

As at 31 December 2009 and 31 December 2008, the balance of other payables does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

As at 31 December 2009, certain of the Group's other payables amounting to RMB23,498,775 were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amount which aged over 1 year, there was no payment made after the balance sheet date.

26. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2009	2008
Non-current liabilities due within one year	**816,000,000**	223,579,337

	2009	2008
Non-current liabilities due within one year:		
Mortgaged loans (i)	**–**	6,382,135
Guaranteed loans (ii)	**666,000,000**	217,197,202
Unsecured loans	**150,000,000**	–
	816,000,000	223,579,337

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

26. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(CONTINUED)*

(i) As at 31 December 2008, non-current liabilities due within one year amounting to RMB6,382,135 had been pledged by fixed assets. Please refer to V. 13.

(ii) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by Holding.

As at 31 December 2009, the Group has no expired outstanding long term loans.

As at 31 December 2009, the top five non-current liabilities due within one year:

	Starting date	Termination date	Currency	Rate (%)	2009 Balance RMB equivalent	2008 Balance RMB equivalent
Export-Import Bank of China	2008/3/27	2010/3/27	RMB	Note	**200,000,000**	200,000,000
Export-Import Bank of China	2008/3/27	2010/3/27	RMB	Note	**200,000,000**	200,000,000
China Construction Bank	2005/12/23	2010/12/23	RMB	Note	**200,000,000**	200,000,000
Industrial Bank	2006/7/10	2010/12/15	RMB	Note	**100,000,000**	100,000,000
Export-Import Bank of China	2008/3/27	2010/3/27	RMB	Note	**50,000,000**	50,000,000
					750,000,000	750,000,000

Note: The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank.

27. LONG TERM LOANS

	2009	2008
Mortgaged loans (i)	**20,000,000**	–
Pledged loans (ii)	**680,000,000**	–
Guaranteed loans (iii)	**3,119,666,000**	7,398,470,018
Unsecured loans (iv)	**9,784,294,000**	8,267,826,200
	13,603,960,000	15,666,296,218

(i) As at 31 December 2009, certain of the Group's long term loans of RMB20,000,000 was secured by the pledge of certain of the Group's land use right. For details please refer to note V. 15.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

27. LONG TERM LOANS *(CONTINUED)*

(ii) As at 31 December 2009, certain of the Group's long term loans of RMB680,000,000 was secured by the pledge of all of the Company's trade receivables and certain of the Group's other monetary assets of USD100,000,000. For details please refer to note V.1 and V.4.

(iii) As at balance sheet date, guaranteed loans were all guaranteed by the Holding.

(iv) As at 31 December 2009, certain of the Group's unsecured loans of RMB1,366,112,000 was secured by the pledge of certain of the Group's other monetary assets of USD200,000,000. For details please refer to note V. 1.

As at 31 December 2009, the top five long term loans:

	Starting date	Termination date	Currency	Rate (%)	2009 Balance RMB equivalent	2008 Balance RMB equivalent
Agricultural Bank of China	2006/1/17	2011/1/16	RMB	Note	**500,000,000**	500,000,000
Agricultural Bank of China	2006/6/13	2011/1/16	RMB	Note	**200,000,000**	200,000,000
Industrial and Commercial Bank of China	2007/1/16	2011/9/13	RMB	Note	**200,000,000**	200,000,000
Industrial and Commercial Bank of China	2007/1/16	2011/11/15	RMB	Note	**200,000,000**	200,000,000
Industrial and Commercial Bank of China	2007/1/16	2011/12/13	RMB	Note	**200,000,000**	200,000,000
					1,300,000,000	1,300,000,000

Note: The above borrowing rates of long term loans due within one year were 10% bellow the central bank benchmark rate.

As at 31 December 2009, the Group has no expired outstanding long term loans.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

28. BONDS PAYABLE

	2009	2008
Opening balance	4,992,975,444	4,828,761,588
Interest expense	249,434,401	241,213,856
Interest paid	(77,000,000)	(77,000,000)
Closing balance	5,165,409,845	4,992,975,444

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since dividends declared on 13 July 2007 and 10 July 2008, the conversion price has been deducted to RMB3.33 and RMB3.26 each.

During the first exercise period of the warrants from 15 November 2007 to 28 November 2007, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33. During the second exercise period of the warrants from 17 November 2008 to 28 November 2008, a total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.26. Since then, the exercise of these warrants was entirely completed.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable of RMB77 million in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

29. OTHER NON-CURRENT LIABILITIES

	2009	2008
Deferred income (i)	**579,926,538**	563,549,396
Retirement benefits payable to early retired employees	**–**	7,485,033
	579,926,538	571,034,429

(i) The deferred income represents the government subsidies received for specific projects, its movement is as follows:

Deferred income	**2009**	2008
Opening balance	**563,549,396**	590,425,767
Increase during the year	**95,880,000**	39,180,000
Amortised during the year (Note 39)	**(79,502,858)**	(66,056,371)
Closing balance	**579,926,538**	563,549,396

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

30. SHARE CAPITAL

2009	At 1 January 2009		Increase/(decrease) during the year			At 31 December 2009	
	Number of shares	Percentage (%)	Issue of shares	Others (ii)	Sub-total	Number of shares (iii)	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	3,830,560,000	49.74	-	(3,830,560,000)	(3,830,560,000)	-	-
2. State-owned legal person shares	55,857,927	0.73	-	(55,857,927)	(55,857,927)	-	-
3. Other domestically owned shares	11,658	-	-	(11,658)	(11,658)	-	-
Including:							
Shares owned by domestic natural persons	11,658	-	-	(11,658)	(11,658)	-	-
Sub-total	3,886,429,585	50.47	-	(3,886,429,585)	(3,886,429,585)	-	-
B. Shares without selling restriction							
1. A shares	2,081,321,601	27.03	-	3,886,429,585	3,886,429,585	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	3,814,251,601	49.53	-	3,886,429,585	3,886,429,585	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

30. SHARE CAPITAL *(CONTINUED)*

2008	At 1 January 2008		Increase/(decrease) during the year			At 31 December 2008	
	Number of shares	Percentage (%)	Issue of shares (i)	Others (ii)	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	3,830,560,000	56.68	–	–	–	3,830,560,000	49.74
2. State-owned legal person shares	–	–	–	55,857,927	55,857,927	55,857,927	0.73
3. Other domestically owned shares	11,658	–	–	–	–	11,658	–
Including:							
Shares owned by domestic natural persons	11,658	–	–	–	–	11,658	–
Sub-total	3,830,571,658	56.68	–	55,857,927	55,857,927	3,886,429,585	50.47
B. Shares without selling restriction							
1. A shares	1,195,050,058	17.68	942,129,470	(55,857,927)	886,271,543	2,081,321,601	27.03
2. H shares	1,732,930,000	25.64	–	–	–	1,732,930,000	22.50
Sub-total	2,927,980,058	43.32	942,129,470	(55,857,927)	886,271,543	3,814,251,601	49.53
C. Total	6,758,551,716	100.00	942,129,470	–	942,129,470	7,700,681,186	100.00

(i): The increase in share capital was due to the second exercise period of the warrants took place in 2008. A total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share 942,129,470 shares. Ernst & Young Hua Ming Certified Public Accountants have verified the capital contributions and issued the capital verification report (2009) no. 60438514_A01.

(ii): The 3,830,560,000 shares with selling restriction held by Holding through the share reform in 2006 became tradable as A shares in 2009.

(iii): As at 31 December 2009, the A shares without selling restriction includes 55,863,927 A shares held by Holding because of the plan of increasing shareholding of the Company and 3,886 A shares held by two existing directors each.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

31. CAPITAL RESERVE

2009	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**8,338,358,399**	**–**	**–**	**8,338,358,399**
Other capital reserve	**–**	**–**	**–**	**–**
Total	**8,338,358,399**	**–**	**–**	**8,338,358,399**

2008	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	5,684,013,428	2,654,344,971	–	8,338,358,399
Other capital reserve				
Business combination under common control	8,293,083	–	(8,293,083)	–
Equity component of bonds with warrants	372,679,476	167,809,603	(540,489,079)	–
Total	6,064,985,987	2,822,154,574	(548,782,162)	8,338,358,399

Note: During 2008, 942,129,470 bonds with warrants were exercised. The net cash proceeds of RMB2,113,855,892 after deducting the face value of the corresponding A shares was recorded in capital reserve as share premium. Upon the exercise of warrants, the equity component of bonds with warrants of RMB540,489,079 has been transferred to capital reserves as share premium accordingly.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32. SURPLUS RESERVES

2009	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory reserve (i)	**2,928,527,244**	**27,754,733**	**–**	**2,956,281,977**
Reserve fund (ii)	**45,729,199**	**13,107,181**	**–**	**58,836,380**
Enterprise expansion fund (ii)	**34,267,057**	**8,535,235**	**–**	**42,802,292**
Total	**3,008,523,500**	**49,397,149**	**–**	**3,057,920,649**

2008	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	2,837,343,938	91,183,306	–	2,928,527,244
Reserve fund (ii)	36,641,828	9,087,371	–	45,729,199
Enterprise expansion fund (ii)	27,576,999	6,690,058	–	34,267,057
Total	2,901,562,765	106,960,735	–	3,008,523,500

(i) In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with CAS and related regulations applicable to these companies, to the statutory reserve (the “SR”) until such reserves reach 50% of the registered capitals of these companies. Part of the SR may be capitalised as these companies’ share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capitals of these companies.

(ii) Certain of the Company’s subsidiaries are Chinese-foreign equity joint ventures. In accordance with the Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB9,075,640 (2008: RMB86,669,036) to the SR.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

32. SURPLUS RESERVES *(CONTINUED)*

During the year, the share of subsidiaries' current year appropriations to each of the SR, the reserve fund and the enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB18,679,092 (2008: RMB4,514,270), RMB13,107,181 (2008: RMB9,087,371) and RMB8,535,236 (2008: 6,690,058), respectively.

33. RETAINED PROFITS

	2009	2008
Retained profits at beginning of year	**7,007,195,285**	7,282,533,393
Add: Consolidated net profit for the year	**392,475,316**	710,234,350
Less: Transfer to surplus reserves	**27,754,733**	91,183,306
Transfer to reserve fund	**13,107,181**	9,087,371
Transfer to enterprise expansion fund	**8,535,235**	6,690,058
Ordinary share dividend payable (i)	**–**	878,611,723
Retained profits at end of year	**7,350,273,452**	7,007,195,285

Pursuant to the articles of association, the retained profits of the Company for the purpose of profit distribution are deemed to be the lower of the amount determined in accordance with CAS, and the amount determined in accordance with HKFRS.

(i) Final dividend in respect of 2007 was approved by the Company's shareholders at the annual general meeting held on 17 June 2008. Based on the number of shares of 6,758,551,716 in issue as at 31 December 2007, a final dividend of RMB0.13 (including tax) per share and in aggregate, a total of RMB878,611,723 payable to shareholders was recognised as a liability.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

34. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2009	2008
Principle operating income	**50,411,554,480**	70,009,580,470
Other operating income	**1,448,415,034**	1,250,158,907
Total	**51,859,969,514**	71,259,739,377

Cost of sales is stated as follows:

	2009	2008
Principal cost of sales	**47,616,767,681**	63,981,756,071
Other cost of sales	**1,489,890,699**	1,172,645,260
Total	**49,106,658,380**	65,154,401,331

Principle operating income is stated as follows:

	2009	2008
Sale of steel products	**47,816,746,896**	65,973,162,367
Sale of steel billets and pig iron	**393,350,530**	505,389,727
Sale of coke by-products	**659,626,673**	795,179,392
Others	**1,541,830,381**	2,735,848,984
Total	**50,411,554,480**	70,009,580,470

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

34. REVENUE AND COST OF SALES *(CONTINUED)*

During 2009, the revenue from the top five largest customers are as follows:

	Amount	**Rate in total revenue (%)**
Company 1	**2,377,980,786**	**5**
Company 2	**2,061,397,672**	**4**
Company 3	**1,200,886,928**	**2**
Company 4	**1,090,168,412**	**2**
Company 5	**572,748,253**	**1**
Total	**7,303,182,051**	**14**

During 2008, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue (%)
Company 1	1,926,473,482	3
Company 2	1,897,323,196	3
Company 3	1,775,626,089	3
Company 4	1,171,424,644	2
Company 5	1,049,124,053	1
Total	7,819,971,464	12

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

35. BUSINESS TAXES AND SURCHARGES

	2009	2008
Export duty	–	347,605,198
City construction and maintenance tax	**133,261,028**	268,695,775
Education surcharges	**57,101,683**	109,648,170
Local education surcharges	**19,648,519**	36,558,647
Other taxes	**9,391,820**	15,544,676
Total	**219,403,050**	778,052,466

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in Note III to the financial statements.

36. FINANCIAL EXPENSES

	2009	2008
Interest expenses	**1,004,154,657**	1,840,303,678
Less: Interest income	**94,569,022**	115,652,826
Exchange gain or loss, net	**15,146,104**	(172,812,827)
Others	**14,314,431**	24,075,682
Total	**939,046,170**	1,575,913,707

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

37 ASSETS IMPAIRMENT LOSS

	2009	2008
Provision/(reversal of provision) for bad debts	**(212,830)**	690,426
Including: Trade receivables	**(212,830)**	781,575
Other receivables	**–**	(91,149)
Provision for inventories	**57,810,860**	1,795,894,286
Provision of held-to-maturity investments	**–**	–
Provision of long term equity investments	**–**	–
Provision of investment properties	**–**	–
Provision of fixed assets	**–**	–
Provision of construction in progress	**–**	–
Provision of intangible assets	**–**	–
Total	**57,598,030**	1,796,584,712

38. INVESTMENT INCOME

	2009	2008
Long term equity investments income under equity method	**183,239,930**	199,367,579
Long term equity investments income under cost method	**20,862,979**	289,541
Gain on disposal of financial assets held for trading	**–**	220,136
Other investment income	**197,352**	–
Total	**204,300,261**	199,877,256

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

38. INVESTMENT INCOME *(CONTINUED)*

In the long term equity investments income under equity method, accounts for more than 5% of the total profit of the invested entities are as follows:

	2009	2008	**Variation reason**
BOC-Ma Steel	**67,895,146**	68,563,648	Note 1
Jiyuan Jinma Coke Making	**50,587,964**	64,707,809	Note 1
Tengzhou Shenglong Coke Making	**32,243,829**	38,830,063	Note 1

Note 1: In this year, the increase of Group's long term equity investments income under equity method is mainly due to the increase in net profit of the invested entities.

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Group's investment income.

39. NON-OPERATING INCOME

	2009	2008
Amortisation of deferred income (note 29)	**79,502,858**	66,056,371
Subsidies income (note)	**95,218,143**	55,705,200
Gain on the disposal of non-current assets	**16,899,399**	–
Others	**82,827**	564,606
Total	**191,703,227**	122,326,177

Note: Details of subsidies income are stated as follows:

	2009	2008
Refunds of taxes (i)	**–**	43,508,000
Subsidies granted by government (ii)	**90,243,000**	9,897,600
Others	**4,975,143**	2,299,600
Total	**95,218,143**	55,705,200

(i) Representing value-added tax refunds to Ma Steel (Hefei) granted by government of Hefei in 2008, which was charged to income statement as subsidies income upon the receipt. The refund must be utilised for the business development.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

39. NON-OPERATING INCOME *(CONTINUED)*

(ii) Specific subsidies granted by government refers to the local government encourages the group in business development, importing products and abroad technical cooperation.

40. NON-OPERATING EXPENSES

	2009	2008
Loss on the disposal of non-current assets	**–**	2,788,556
Others	**3,043,520**	7,187,591
Total	**3,043,520**	9,976,147

41. INCOME TAX

	2009	2008
Current income tax expense	**112,730,534**	428,598,695
Adjustments in respect of current tax of previous periods	**83,610,326**	–
Deferred tax income	**(167,331,260)**	(353,953,959)
Total	**29,009,600**	74,644,736

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

41. INCOME TAX *(CONTINUED)*

Relationship between income tax and profit before tax:

	2009	2008
Profit before tax	**562,875,745**	805,874,192
Tax at the applicable tax rate of 25% (i)	**140,718,936**	201,468,548
Effect of different tax rates of subsidiaries	**5,028,461**	(1,655,020)
Expenses not deductible for tax	**26,063,718**	45,040,667
Adjustments in respect of current tax of previous periods	**83,610,326**	(10,284,819)
Tax concessions in respect of purchases of certain manufacturing plant, machinery and equipment in PRC (ii)	**–**	(84,888,195)
Other tax concessions	**(78,333,161)**	(62,283,794)
Income not subject to tax	**(17,460,636)**	(126,928)
Tax losses not recognised	**2,078,856**	37,677,494
Tax losses utilised	**(86,886,917)**	–
Profits and losses attributable to jointly-controlled entities and associates	**(45,809,983)**	(50,303,217)
Tax charge at the Group's effective rate	**29,009,600**	74,644,736

(i) The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

(ii) The amount represents the increase in CIT in 2008 that is calculated based on the preferential CIT rate of 15% adopted by the Company for the 2006 tax assessment. The tax concession is calculated at 40% of the purchases of such manufacturing plant, machinery and equipment in Mainland China in the year of purchases. The amount is deductible in not more than five years and limited to the amount of increase in income tax for the year of assessment as compared with the tax amount in previous year of purchases.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing income statement attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

For the purpose of calculating diluted earnings per share, an entity shall adjust the net income attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	2009	2008
Earnings		
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**392,475,316**	710,234,350

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

42. EARNINGS PER SHARE *(CONTINUED)*

	2009 Number of shares	2008 Number of shares
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation (note)	**7,700,681,186**	6,843,730,545
Effect of dilution – weighted average number of ordinary shares: Warrants attached to bonds	**N/A**	N/A
Weighted average number of ordinary shares in issue after adjustment	**N/A**	N/A

Note: In 2008, a total of 942,149,470 warrants were exercised by certain holders in exchange for 942,149,470 of the Company's A share and as a result, there were 7,700,681,186 ordinary shares in issue. Consequently, the adjusted shares were used for calculating earnings per share for 2008.

During 2009 and 2008, there was no diluted item to adjust the Group's basic earnings per share.

43. OTHER COMPREHENSIVE INCOME

	2009	2008
Exchange fluctuation reserve	**65,195,156**	(57,404,913)

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

44. NOTES TO CASH FLOW STATEMENT

	2009	2008
Cash received relating to other operating activities		
Specific subsidies granted by government	**90,243,000**	9,897,600
Others	**5,057,970**	2,864,206
Total	**95,300,970**	12,761,806
Cash paid relating to other operating activities		
Supporting services	**114,270,000**	109,560,000
Security expenses	**68,763,455**	59,660,200
Packing fee	**12,054,566**	37,207,710
Flood prevention fund	**28,218,967**	32,464,784
Repair and maintenance expenses	**22,349,289**	30,206,130
Environmental improvement fee	**25,562,703**	28,672,134
Research and development fee	**32,173,500**	26,771,886
Others	**195,714,210**	98,973,383
Total	**499,106,690**	423,516,227
Cash received relating to other investing activities		
Government subsidies granted for specific projects	**95,880,000**	39,180,000

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

45. SUPPLEMENTS TO CASH FLOW

(1) Cash flows from operating activities:

	2009	2008
Net profit	**533,866,145**	731,229,456
Add: Provision/(reversal of provision) for bad debts	**(212,830)**	690,426
Provision for inventories	**57,810,860**	1,795,894,286
Depreciation of fixed assets	**4,820,672,624**	4,565,779,681
Amortisation of investment properties	**85,786**	34,453
Amortisation of intangible assets	**45,675,388**	44,243,898
Amortisation of deferred income	**(79,502,858)**	(66,056,371)
(Gain)/loss on disposal of non-current assets	**(16,899,399)**	2,788,556
Financial expenses	**924,731,739**	1,551,838,025
Investment income	**(204,116,337)**	(199,877,256)
(Gain)/loss on fair value changes	**(224,110)**	1,033,080
Increase in deferred tax assets	**(160,652,357)**	(360,166,554)
Increase/(decrease) in deferred tax liabilities	**(6,678,903)**	6,212,595
Decrease/(increase) in inventories	**801,453,430**	(2,014,008,215)
Decrease/(increase) in receivables from operating activities	**(2,421,286,189)**	3,594,223,043
Increase/(decrease) in payables from operating activities	**2,373,977,530**	(1,266,064,275)
Net cash flows from operating activities	**6,668,700,519**	8,387,794,828

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

46. CASH AND CASH EQUIVALENTS

Net movement of cash and cash equivalents:

	2009	2008
Cash closing balance	**5,502,947,835**	5,437,367,246
Less: Cash opening balance	**5,437,367,246**	5,498,140,966
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	27,315,000
Net increase of cash and cash equivalents	**65,580,589**	(88,088,720)

	2009	2008
Cash		
Including: Cash on hand	**160,559**	277,947
Balances with financial institutions without restriction	**5,502,787,276**	5,437,089,299
Others balances without restriction	**–**	–
Cash equivalents	**5,502,947,835**	5,437,367,246

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. RECOGNITION CRITERIA OF RELATED PARTY

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Parties are considered to be related if one party is:

1) the parent of the Company;
2) the subsidiaries of the Company;
3) the fellow subsidiaries of the Company;
4) able to jointly control the Company;
5) able to exercise significant influence over the Company;
6) jointly-controlled entities of the Group;
7) associates of the Group;
8) major individual investors of the Company and a close member of his/her family;
9) a member of key management personnel of the Company or the parent and a close member of his/her family;
10) the entities controlled, jointly controlled or significantly influenced by major individual investors of the Company, key management personnel of the Company or the parent and a close member of his/her family.

The entities without relationships other than being under common control of the nation with the Group are not considered as related parties.

The related party transactions disclosed in the financial statements are those carried out between the Group and the related parties beyond the consolidation scope, not including the transactions carried out within the Group.

2. PARENT COMPANY AND SUBSIDIARY COMPANY

Name of Parent Company	Business type	Registered place	Legal Representative	Business nature	Registered Capital RMB	Share of equity interests (%)	Share of voting rights (%)	Organization Code
Holding	limited liability	Anhui, PRC	Gu Jianguo	Manufacturing	6,298,290,000	50.47	50.47	15050914-4

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

The details of the subsidiaries of the Group are stated in Note IV to the financial statements.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

3. ASSOCIATES AND JOINTLY-CONTROLLED ENTITY OF THE GROUP

Further details on balances with associates and jointly-controlled entities of the Group are set out in note V.10 to the financial statement.

4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP

Name	Relationship with the Company	Organization code
Masteel (Group) Holding Co., Ltd Tao Chong Ming Company	Controlled by Holding	84975155-9
Masteel (Group) Holding Co., Ltd Qing Yang Bai Yun Mining	Controlled by Holding	75853879-5
Masteel (Group) Holding Co., Ltd Zai Jiu Ye Service Branch	Controlled by Holding	71994156-5
Masteel (Group) Holding Co., Ltd Cable TV Center	Controlled by Holding	71994150-6
Masteel (Group) Holding Co., Ltd Communication Technology Service Center	Controlled by Holding	74085141-7
Masteel (Group) Holding Co., Ltd Masteel Newspaper Office	Controlled by Holding	74086418-9
Masteel (Group) Holding Co., Ltd An Ye Machine	Controlled by Holding	85050714-x
Masteel Group Construction Co., Ltd	Controlled by Holding	73300228-1
Masteel Group Road and Bridge Construction Co., Ltd	Controlled by Holding	73300227-3
Masteel Group Li Sheng Co., Ltd	Controlled by Holding	71170372-2
Masteel Group Industry Development Co., Ltd	Controlled by Holding	70492034-x
Masteel Group Nan Shan Mining Co., Ltd	Controlled by Holding	85050948-7
Masteel Group Gu Shan Mining Co., Ltd	Controlled by Holding	70506322-0
Masteel Group Design and Research Institute Co., Ltd	Controlled by Holding	72850552-x
Masteel Group Kang Tei Land Development Co., Ltd	Controlled by Holding	85051283-8
Masteel Group Kang Tei Property Co., Ltd	Controlled by Holding	77736631-9
Masteel Group Kang Tei Building and Installing Industry Co., Ltd	Controlled by Holding	75099330-1
Masteel Shen Ma Metal Co., Ltd	Controlled by Holding	15050916-0
Anhui BRC & Masteel Weldmesh Co., Ltd	Controlled by Holding	75487597-0
Maanshan Jiang Hua Commodity Concrete Co., Ltd	Controlled by Holding	75096078-0
Masteel Group Steel Scrap Integrated Utilization Co., Ltd	Controlled by Holding	73302025-2

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP *(CONTINUED)*

Name	Relationship with the Company	Organization code
Maanshan Shi Fa Metal Industry and Trading CO., Ltd	Controlled by Holding	71395750-7
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd	Controlled by Holding	72850980-3
Maanshan Bo Li Construction Supervising Co., Ltd	Controlled by Holding	71171630-4
Masteel Group Power and Machinery Installation Co., Ltd	Controlled by Holding	15051085-8
Masteel Group Mapping Co., Ltd	Controlled by Holding	67757014-4
Maanshan Masteel Yan Tu Consturction Survey Mining Co., Ltd	Controlled by Holding	15051828-6
Masteel Group Chu Jiang Holiday Tour Co., Ltd	Controlled by Holding	73497529-6
Huang Shan Tai Bai Shan	Controlled by Holding	70495386-2
Anhui Masteel Advanced Technician Institute	Controlled by Holding	48540947-9
Anhui Metal Technology Institute	Controlled by Holding	F1044177-3
Anhui Masteel Luo He Mining Co., Ltd	Controlled by Holding	78307180-8
Shenzhen Yue Hai Masteel Industry Co., Ltd	Controlled by Holding	19244379-6
Chaohushi Masteel Wudingshan Mining Co., Ltd	Note 1	
Masteel Yonggu Filature Product Co., Ltd	Note 1	
Maanshan Huaxin Metal Product Co., Ltd	Note 2	

Note 1: In 2009, Chaohushi Masteel Wudingshan Mining Co., Ltd and Masteel Yonggu Filature Product Co., Ltd were cancelled. So, those two companies were no longer related parties.

Note 2: In 2009, the Group tranfered all its shares in Maanshan Huaxin Metal Product Co., Ltd to independent third parties. So, this company was no longer related parties.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

(1) Purchases of iron ore from related party

		2009		2008	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(i)	**2,337,035,162**	**25**	1,871,088,457	22
Chaohushi Masteel Wudingshan Mining Co., Ltd	(i)	**–**	**–**	26,093,074	–
Total		**2,337,035,162**	**25**	1,897,181,531	22

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 18 October 2006 entered into between the Company and Holding.

(2) Fees paid for welfare, support services and other services

		2009		2008	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(ii)	**91,954,149**	**47**	102,464,601	50
Masteel Group Li Sheng Co., Ltd	(ii)	**27,076,983**	**14**	18,202,980	9
Masteel Group Industry Development Co., Ltd	(ii)	**17,682,870**	**9**	13,353,534	6
Masteel Group Construction Co., Ltd	(ii)	**29,615,902**	**15**	32,561,754	16
Masteel Group Steel Scrap Intergrated Utilization Co., Ltd	(ii)	**18,122,720**	**9**	17,242,275	8
Other	(ii)	**12,190,223**	**6**	22,109,137	11
Total		**196,642,847**	**100**	205,934,281	100

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(2) Fees paid for welfare, support services and other services *(continued)*

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were conducted in accordance with a services agreement dated August 2008 entered into between the Company and Holding.

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

(3) Agency fee paid to related party

	Note	**2009** Amount RMB	**2009** Similar transaction %	2008 Amount RMB	2008 Similar transaction %
Masteel Group Gu Shan Mining Co., Ltd	(iii)	**2,464,200**	**67**	3,043,350	93
Masteel Shen Ma Metal Co., Ltd	(iii)	**185,250**	**5**	240,000	7
Masteel Group Industry Development Co., Ltd	(iii)	**1,058,480**	**28**	–	–
Total		**3,707,930**	**100**	3,283,350	100

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

(4) Rental expenses

	Note	**2009** Amount RMB	**2009** Similar transaction %	2008 Amount RMB	2008 Similar transaction %
Holding	(iii)	**44,440,000**	**100**	36,250,000	100

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(5) Purchases of fixed assets and construction services

		2009		2008	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**37,090,998**	**2**	2,534,922	–
Masteel Group Power and Machinery Installation Co., Ltd	(iii)	**542,744**	**–**	4,156,900	–
Masteel Group Industry Development Co., Ltd	(iii)	**6,529,986**	**–**	3,465,319	–
Masteel Group Li Sheng Co., Ltd	(iii)	**2,579,755**	**–**	9,431,164	–
Masteel Group Kang Tei Building and Installing Industry Co., Ltd	(iii)	**2,184,615**	**–**	4,103,970	–
Masteel Group Road and Bridge Construction Co., Ltd	(iii)	**19,463,669**	**1**	22,779,945	1
Masteel Group Construction Co., Ltd	(iii)	**70,868,208**	**3**	74,849,516	3
Maanshan Jiang Hua Commodity Concrete Co., Ltd	(iii)	**22,369,608**	**1**	9,821,988	1
Others	(iii)	**748,687**	**–**	508,001	–
Total		**162,378,270**	**7**	131,651,725	5

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(6) Fees received for the supply of utilities, services and other consumable goods

		2009		2008	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**63,947,426**	**8**	20,559,559	3
Masteel Group Construction Co., Ltd	(iii)	**57,030,867**	**7**	10,285,271	1
Maanshan Jiang Hua Commodity Concrete Co., Ltd	(iii)	**444,782**	**–**	514,798	–
Others	(iii)	**8,319,284**	**1**	7,916,067	1
Total	(iii)	**129,742,359**	**16**	39,275,695	5

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

(7) Sale of steel products and related by products

		2009		2008	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**1,008,051**	**–**	–	–
Maanshan Jiang Hua Commodity Concrete Co., Ltd	(iii)	**3,810,977**	**–**	3,992,940	–
Others	(iii)	**–**	**–**	939,136	–
Total		**4,819,028**	**–**	4,932,076	–

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(8) Interest expense

		2009		2008	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
Holding	(iv)	**2,988,949**	**0.3**	3,238,589	0.2

(iv) Certain bank loans of RMB46,000,000 in aggregate (2008: RMB60,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and annual interest rates was 4.78%.

(9) Purchases of coke from associates

		2009		2008	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
Jiyuan Shi Jin Ma Coke	(v)	**221,440,185**	**10**	1,376,325,914	34
Tengzhou Sheng Long Coke	(v)	**223,490,459**	**11**	32,665,654	1
Total		**444,930,644**	**21**	1,408,991,568	35

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbor and were conducted in accordance with the terms mutually agreed between the parties.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(10) Loading expenses paid to associates

	Note	**2009** Amount RMB	**2009** Similar transaction %	2008 Amount RMB	2008 Similar transaction %
Maanshan Harbor Co., Ltd	(v)	**140,748,478**	**14**	158,847,603	12

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbor and were conducted in accordance with the terms mutually agreed between the parties.

(11) Rental income from a jointly-controlled entity

	Note	**2009** Amount RMB	**2009** Similar transaction %	2008 Amount RMB	2008 Similar transaction %
BOC-Ma Steel	(vi)	**1,250,000**	**100**	1,250,000	100

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

(12) Fee received for the supply of electricity from a jointly-controlled entity

	Note	**2009** Amount RMB	**2009** Similar transaction %	2008 Amount RMB	2008 Similar transaction %
BOC-Ma Steel	(vi)	**239,756,694**	**56**	258,573,916	59

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(13) Fee received for utilities and facilities from a jointly-controlled entity

		2009		2008	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
BOC-Ma Steel	(vi)	**4,678,139**	**100**	4,528,129	100

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

(14) Purchase of gas products from a jointly-controlled entity

		2009		2008	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
BOC-Ma Steel	(vi)	**463,502,280**	**100**	521,560,820	100

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

The transactions (i), (ii), (iii), (v) and (vi) above are the significant transactions carried out between the Group and its related parties during the period.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

(15) Guarantee for related party

2009	**Note**	**Guarantee name**	**Guarantee amount**	**Started date**	**End date**	**Is guarantee mature**
Holding	(vii)	Company	888M	2009.2	2010.2	Yes as at the signing date of the report

2008	Note	Guarantee name	Guarantee amount	Started date	End date	Is guarantee mature
Holding	(vii)	Company	2,238M	2008.3-2008.12	2010.3-2011.12	No

(vii) Holding has guaranteed certain bank loans of the Group amounting approximately to RMB0.888 billion (2008: approximately RMB2.238 billion) as at the balance sheet date at nil consideration. Holding has guaranteed bonds with warrants amounting approximately to RMB9.286 billion (2008: approximately RMB13.1 billion) as at the balance sheet date at nil consideration.

(16) Salary paid to key managements of related party

The total amount of the Group paid to the company's key management salary (including in the form of monetary, practicality and other form) was RMB5,652,593 during the current year (2008: RMB5,094,097).

(17) On 4 May 2008, Holly Industrial, a subsidiary of the Company, acquired a 75% of equity interests in Masteel Auto-Parking from Holding.

(18) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VI.6 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2009	2008
Prepayments:		
Holding and its subsidiaries		
Masteel Group Road and Bridge Construction Co., Ltd	**1,196,610**	–
Others entities controlled by Holding	**286,100**	–
Total	**1,482,710**	–
Associates and a Jointly-controlled entity of the Group		
Tengzhou Shenglong Coke	**7,670,646**	–
Accounts payable:		
Holding and its subsidiaries		
Masteel Group Construction Co., Ltd	**57,443,759**	31,460,834
Masteel Group Road and Bridge Construction Co., Ltd	**14,819,317**	3,952,551
Holding	**19,052,891**	2,533,954
Others entities controlled by Holding	**18,708,229**	27,734,695
Total	**110,024,196**	65,682,034
Associates and a Jointly-controlled entity of the Group		
BOC-Ma Steel	**13,002,377**	58,946,695
Jiyuan JinMa Coke	**435,037**	31,789,555
Maanshan Harbor	**20,915,943**	14,342,794
Tengzhou Shenglong Coke	**–**	1,117,732
Total	**34,353,357**	106,196,776

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2009	2008
Trade receivables:		
Holding and its subsidiaries		
Holding	**12,864,891**	–
Maanshan Jiang Hua Commodity Concrete Co., Ltd	**2,172,501**	3,965,303
Masteel Group Construction Co., Ltd	**12,244,346**	–
Others entities controlled by Holding	**87,229**	101,113
Total	**27,368,967**	4,066,416
Associates and a Jointly-controlled entity of the Group		
Maanshan Harbor	**1,149,140**	–
Deposits received:		
Holding and its subsidiaries		
Masteel Group Gu Shan Mining Co., Ltd	**–**	85,991,652
Anhui BRC & Masteel Weldmesh Co., Ltd	**18,049,860**	40,985,721
Holding	**–**	364,303
Masteel Group Co., Ltd. Dangtu operating subsidiary	**79,230,540**	–
Others entities controlled by Holding	**3,791,840**	2,741,811
Total	**101,072,240**	130,083,487
Associates and a Jointly-controlled entity of the Group		
Jiyuan JinMa Coke	**366,568**	–
Dividends receivable:		
Associates and a Jointly-controlled entity of the Group		
BOC-Ma Steel	**6,751,198**	–
Jiyuan JinMa Coke	**18,000,000**	–
Total	**24,751,198**	–
Dividends payable:		
Holding	**695,945,600**	1,095,945,600

These balances are unsecured, interest-free and have no fixed terms of repayment.

VII. CONTINGENT LIABILITIES

1. GUARANTEE

As at 31 December 2009, the Company had provided guarantees amounting to approximately RMB3,857 million (31 December 2008: approximately RMB3,814 million) to banks for trading facilities granted to certain subsidiaries.

2. DIFFERENCE OF CORPORATE INCOME TAX

As detailed in Note Ⅲ. 3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

VIII. COMMITMENTS

1. THE COMMITMENTS OF THE GROUP AS AT THE BALANCE SHEET DATE WERE AS FOLLOWS:

	2009 **RMB'000**	2008 RMB'000
Capital commitments		
Authorised, but not contracted for	**4,872,181**	19,367,543
Contracted, but not provided for	**1,860,432**	811,231
Total	**6,732,613**	20,178,774
Investment commitments		
Contracted, but not fully contributed	**–**	9,000

2. SHARE OF THE COMMITMENTS OF THE JOINTLY-CONTROLLED ENTITY BY THE GROUP (NOT INCLUDED IN NOTE 1 ABOVE) WERE AS FOLLOWS:

	2009 **RMB'000**	2008 RMB'000
Capital commitments		
Authorised, but not contracted for	**797**	766

IX. POST BALANCE SHEET EVENTS

1. At 4 February 2010, the Company issued the first round of medium-term commercial papers with a 3-year term and an annual interest rate of 4.45% for an aggregate amount of RMB1 billion.

2. At 30 March 2010, the board of directors proposed a final dividend of RMB4 cents per share totaling RMB308,027,247 to all equity shareholders of the Company. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

X. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group has leased certain of its investment properties under operating lease arrangement ranging from 5 to18 years. The periodic rent is fixed during the operating lease periods.

	2009	2008
Remaining lease period		
Within 1 year, inclusive	**1,750,000**	1,250,000
1 to 2 years, inclusive	**1,750,000**	1,250,000
2 to 3 years, inclusive	**1,750,000**	1,250,000
Over 3 years	**13,407,534**	13,907,534
Total	**18,657,534**	17,657,534

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. ASSETS AT FAIR VALUE

2009

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	**813,250**	**224,110**	**–**	**–**	**1,037,360**

2008

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	1,462,770	(1,033,080)	–	–	813,250

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. FINANCIAL ASSETS AND LIABILITIES AT FOREIGN CURRENCY

2009

	Opening balance	**Fair value gains or loss through profit or loss**	**Accumulated fair value through equity**	**Provision for the year**	**Closing balance**
Financial assets					
Cash and balances with financial institutions	**856,913,939**	**–**	**–**	**–**	**2,451,586,939**
Loans and trade receivables	**311,197,065**	**–**	**–**	**–**	**126,848,334**
Financial liabilities					
Borrowings	**1,227,855,340**	**–**	**–**	**–**	**5,735,688,000**
Trade payables	**57,900,298**	**–**	**–**	**–**	**165,525,098**

2008

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Cash and balances with financial institutions	321,246,190	–	–	–	856,913,939
Loans and trade receivables	562,160,399	–	–	–	311,197,065
Financial liabilities					
Borrowings	2,042,593,155	–	–	–	1,227,855,340
Trade payables	321,308,222	–	–	–	57,900,298

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a single business unit focusing on the manufacture and sales of iron and steel products and related by-products, and, therefore, has no separable operating segment.

The Group's information

Products and service information

External principle operation income

	2009	2008
Sale of steel products	**47,816,746,896**	65,973,162,367
Sale of steel billets and pig iron	**393,350,530**	505,389,727
Sale of coke by-products	**659,626,673**	795,179,392
Others	**1,541,830,381**	2,735,848,984
Total	**50,411,554,480**	70,009,580,470

Geographical information

External principle operation income

	2009	2008
The PRC	**49,661,673,870**	65,516,697,703
Overseas	**749,880,610**	4,492,882,767
Total	**50,411,554,480**	70,009,580,470

Non-current assets

	2009	2008
The PRC	**43,039,681,892**	46,195,884,880
Overseas	**114,320,358**	89,106,941
Total	**43,154,002,250**	46,284,991,821

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The Group's information *(continued)*

Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

5. FINANCIAL INSTRUMENTS AND RISKS

The Group's principal financial instruments comprise interest-bearing bank, bonds with warrants, other borrowing and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade receivables and accounts payable etc., which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2009

Financial Assets

	Financial assets at at fair value through profit or loss	Held-to maturity investments	loans and receivables	Available-for-sale financial assets	Total
Cash and balances With financial institutions	–	–	8,700,317,608	–	8,700,317,608
Financial assets held for trading	1,037,360	–	–	–	1,037,360
Bill receivables	–	–	4,421,189,686	–	4,421,189,686
Trade receivables	–	–	822,930,091	–	822,930,091
Other receivables	–	–	268,164,615	–	268,164,615
Dividends receivable	–	–	24,751,198	–	24,751,198
Total	1,037,360	–	14,237,353,198	–	14,238,390,558

Financial Liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	–	1,173,245,805	1,173,245,805
Bills payable	–	5,400,287,600	5,400,287,600
Accounts payable	–	6,315,104,235	6,315,104,235
Interests payable	–	8,138,718	8,138,718
Dividends payable	–	701,538,763	701,538,763
Other payables	–	753,587,311	753,587,311
Non-current liabilities due within one year	–	816,000,000	816,000,000
Long term loans	–	13,603,960,000	13,603,960,000
Bonds payable	–	5,165,409,845	5,165,409,845
Total	–	33,937,272,277	33,937,272,277

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments *(continued)*

2008

Financial Assets

	Financial assets at fair value through profit or loss	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
Cash and balances with financial institutions	–	–	5,951,087,213	–	5,951,087,213
Financial assets held for trading	813,250	–	–	–	813,250
Bill receivables	–	–	1,267,254,719	–	1,267,254,719
Trade receivables	–	–	626,727,102	–	626,727,102
Other receivables	–	–	436,494,366	–	436,494,366
Non-current assets due within one year	–	2,938,870	–	–	2,938,870
Total	813,250	2,938,870	8,281,563,400	–	8,285,315,520

Financial Liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Short-term loans	–	1,154,000,000	1,154,000,000
Bills payable	–	1,049,125,831	1,049,125,831
Accounts payable	–	7,525,140,482	7,525,140,482
Interests payable	–	44,099,563	44,099,563
Dividends payable	–	1,101,575,013	1,101,575,013
Other payables	–	802,838,050	802,838,050
Non-current liabilities due within one year	–	223,579,337	223,579,337
Long term loans	–	15,666,296,218	15,666,296,218
Bonds payable	–	4,992,975,444	4,992,975,444
Total	–	32,559,629,938	32,559,629,938

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(2) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk mainly arises from default or delinquency in principal payment trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in note VII to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 28% (2008: 25%) and 47% (2008: 58%) of the Group's trade receivables were due from the Group's largest customer and five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note V.4 and 7 to the financial statement.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(2) Credit risk *(continued)*

As at 31 December, the aged analysis of the Group's financial assets that are not considered to be impaired is as follows:

2009

			Overdue but not impaired	
	Total	Neither overdue nor impaired	Less than six months	Over six months
Trade receivables	**822,930,091**	**778,700,080**	**18,623,639**	**25,606,372**
Bills receivable	**4,421,189,686**	**4,421,189,686**	**–**	**–**
Dividends receivable	**24,751,198**	**24,751,198**	**–**	**–**
Other receivables	**268,164,615**	**262,700,971**	**3,677,710**	**1,785,934**

2008

			Overdue but not impaired	
	Total	Neither overdue nor impaired	Less than six months	Over six months
Trade receivables	626,727,102	577,145,366	25,313,382	24,268,354
Bills receivable	1,267,254,719	1,267,254,719	–	–
Other receivables	436,494,366	435,252,966	1,199,784	41,616
Non-current assets due within one year	2,938,870	2,938,870	–	–

As at 31 December 2009, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maternity of financial instruments and estimated operating cash flow of the Company into consideration.

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

2009

Financial Assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and balances with financial institutions	8,700,317,608	-	-	-	-	8,700,317,608
Financial assets held for trading	1,037,360	-	-	-	-	1,037,360
Bills receivable	4,421,189,686	-	-	-	-	4,421,189,686
Trade receivables	843,470,753	-	-	-	-	843,470,753
Dividend receivables	24,751,198	-	-	-	-	24,751,198
Other receivables	275,235,112	-	-	-	-	275,235,112

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	1,191,926,384	-	-	-	-	1,191,926,384
Bills payables	5,400,287,600	-	-	-	-	5,400,287,600
Trade payables	6,315,104,235	-	-	-	-	6,315,104,235
Interests payable	8,138,718	-	-	-	-	8,138,718
Dividends payable	701,538,763	-	-	-	-	701,538,763
Other payables	753,587,311	-	-	-	-	753,587,311
Non-current liabilities due within one year	833,271,900	-	-	-	-	833,271,900
Long term loans	446,043,445	11,464,352,251	2,483,290,528	-	-	14,393,686,224
Bonds payable	77,000,000	5,577,000,000	-	-	-	5,654,000,000

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(3) Liquidity risk *(CONTINUED)*

2008

Financial Assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and balances with financial institutions	5,951,087,213	–	–	–	–	5,951,087,213
Financial assets held for trading	813,250	–	–	–	–	813,250
Bills receivable	1,267,254,719	–	–	–	–	1,267,254,719
Trade receivables	646,542,593	–	–	–	–	646,542,593
Other receivables	443,564,863	–	–	–	–	443,564,863
Non-current assets due within one year	2,938,870	–	–	–	–	2,938,870

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	1,181,403,461	–	–	–	–	1,181,403,461
Bills payables	1,049,125,831	–	–	–	–	1,049,125,831
Trade payables	7,525,140,482	–	–	–	–	7,525,140,482
Interests payable	44,099,563	–	–	–	–	44,099,563
Dividends payable	1,101,575,013	–	–	–	–	1,101,575,013
Other payables	802,838,050	–	–	–	–	802,838,050
Non-current liabilities due within one year	229,305,651	–	–	–	–	229,305,651
Long term loans	807,957,895	8,806,563,844	6,259,421,354	1,462,338,271	–	17,336,281,364
Bonds payable	77,000,000	77,000,000	5,577,000,000	–	–	5,731,000,000

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(4) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The main market risk the Company exposed to is interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligations with a floating interest rate.

Change in market interest rates could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
2009		
RMB	**0.5**	**(29,725,000)**
USD	**0.5**	**(18,436,000)**
RMB	**(0.5)**	**29,725,000**
USD	**(0.5)**	**18,436,000**
2008		
RMB	0.5	(50,925,000)
USD	0.5	(1,606,000)
RMB	(0.5)	50,925,000
USD	(0.5)	1,606,000

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(4) Market Risk *(continued)*

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency) and its net investment arising from overseas subsidiaries.

The Group was facing transactional foreign currency risk. Such risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has 1% (2008: 6%) of the sales amount were generated from sale of the operating units which transacted in currencies other than their functional currencies.

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

The carrying amount and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in note V.1, 4, 18, 20 and 27 to the financial statements respectively.

The aforesaid foreign currencies could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(4) Market Risk *(continued)*

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
2009		
Depreciation of RMB to USD	**5**	**(30,845,413)**
Depreciation of RMB to Euro	**5**	**(113,342)**
Depreciation of RMB to Japanese Yen	**5**	**(877,899)**
Appreciation of RMB to USD	**(5)**	**30,845,413**
Appreciation of RMB to Euro	**(5)**	**113,342**
Appreciation of RMB to Japanese Yen	**(5)**	**877,899**
2008		
Depreciation of RMB to USD	5	(1,442,354)
Depreciation of RMB to Euro	5	(169,200)
Depreciation of RMB to Japanese Yen	5	(9,255,494)
Appreciation of RMB to USD	(5)	1,442,354
Appreciation of RMB to Euro	(5)	169,200
Appreciation of RMB to Japanese Yen	(5)	9,255,494

6. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to comply with presentation requirements of CAS during the current year.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days.

An aged analysis of trade receivables is as follows:

	2009	2008
Within one year	**1,003,647,048**	826,056,700
One to two years	**62,300,156**	12,966,706
Two to three years	**7,532,611**	493,596
Over three years	**15,912,041**	17,586,516
	1,089,391,856	857,103,518
Less: Provisions for bad debts	**18,020,332**	17,082,331
Total	**1,071,371,524**	840,021,187

As at 31 December 2009, the Company's trade receivables as a whole were pledged to acquire bank loans amounting to RMB680,000,000 (2008: nil), further details are stated in Note V. 27 to the financial statements.

Trade receivables balance is analysed as follows:

	2009				2008			
	Book Value		**Provision for bad debts**		Book Value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant	**667,700,187**	**61**	**(14,184,569)**	**2**	497,801,875	58	(14,858,489)	3
Other insignificant	**421,691,669**	**39**	**(3,835,763)**	**1**	359,301,643	42	(2,223,842)	1
Total	**1,089,391,856**	**100**	**(18,020,332)**		857,103,518	100	(17,082,331)	

The movement of provision for bad debts against trade receivables for the year is disclosed in Note 5.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

The following balances are denominated in foreign currencies:

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalents**	Original currency	Exchange rate	RMB equivalents
USD	**14,803,550**	**6.8282**	**101,081,600**	5,903,044	6.8346	40,344,943

An analysis of the amount of provision for bad debts being written off in the current year:

Reason	**2009**	2008
Bankrupt or liquidated debtors	**–**	–
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**–**	–
Less: Reversal of bad debts provisions written-off in prior year	**938,001**	673,920
Total	**(938,001)**	(673,920)

As at 31 December 2009, the top five largest customers were as follows:

	Relation with the Group	**Balance**	**Aging**	**Ratio (%)**
Company 1	**Subsidiary**	**247,050,549**	**Within one year**	**23**
Company 2	**Independent third party**	**235,794,221**	**Within one year**	**22**
Company 3	**Independent third party**	**117,618,163**	**Within one year**	**10**
Company 4	**Subsidiary**	**76,945,027**	**Within one year**	**7**
Company 5	**Subsidiary**	**32,035,868**	**One to two years**	**3**
		709,443,828		**65**

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

As at 31 December 2008, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	231,726,257	Within one year	27
Company 2	Independent third party	164,022,816	Within one year	19
Company 3	Independent third party	118,648,489	Within one year	14
Company 4	Subsidiary	43,467,247	Within one year	5
Company 5	Independent third party	40,346,713	Within one year	5
		598,211,522		70

2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2009	2008
Within one year	**15,907,119**	35,450,910
One to two years	**1,568,803**	13,077,473
Two to three years	**12,772,383**	159,998
Over three years	**6,027,500**	6,448,554
	36,275,805	55,136,935
Less: Provisions for bad debts	**6,930,913**	6,930,913
Total	**29,344,892**	48,206,022

The movement of provision for bad debts against other receivables for the year is disclosed in Note 5.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables balance is analysed as follows:

	2009				2008			
	Balance	Book value rate (%)	Provision for bad debts Amount	Provision for bad debts rate (%)	Balance	Book value rate (%)	Provision for bad debts Amount	Provision for bad debts rate (%)
Individually significant	25,713,768	71	(2,400,000)	9	14,694,877	27	(2,400,000)	16
Other insignificant	10,562,037	29	(4,530,913)	43	40,442,058	73	(4,530,913)	11
Total	36,275,805	100	(6,930,913)		55,136,935	100	(6,930,913)	

During 2009, there was no provision for bad debts against other receivables being written off.

As at 31 December 2009, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	12,294,876	Two to three years	34
Company 2	Independent third party	6,071,521	Within one year	17
Company 3	Independent third party	2,581,529	Within one year	7
Company 4	Independent third party	2,400,000	Over three years	7
Company 5	Independent third party	2,363,792	Within one year	6
		25,711,718		71

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2008, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	12,294,877	One to two years	22
Company 2	Independent third party	2,400,000	Over three years	4
Company 3	Independent third party	1,288,268	Over three years	2
Company 4	Independent third party	960,000	Over three years	2
Company 5	Independent third party	931,325	Within one year	2
		17,874,470		32

3. INVENTORIES

	2009			2008		
	Balance	**Provision for impairment**	**Carrying Amount**	Balance	Provision for impairment	Carrying Amount
Raw materials	**4,113,383,909**	**(33,417,210)**	**4,079,966,699**	6,392,007,022	(1,386,327,171)	5,005,679,851
Spare parts	**1,938,036,537**	**(48,626,768)**	**1,889,409,769**	2,460,975,962	(24,503,803)	2,436,472,159
Finished goods	**366,398,702**	**–**	**366,398,702**	719,800,677	(110,196,751)	609,603,926
Work in progress	**1,240,866,893**	**–**	**1,240,866,893**	937,179,879	(143,476,078)	793,703,801
Construction contract	**152,798,558**	**–**	**152,798,558**	145,555,456	–	145,555,456
Total	**7,811,484,599**	**(82,043,978)**	**7,729,440,621**	10,655,518,996	(1,664,503,803)	8,991,015,193

The movement of impairment provision against inventories for the year is disclosed in note 5.

At each balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2008 and 2009, there was no reversal of impairment provision against inventories.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS

	2009	2008
Long term investments under equity method		
Jointly controlled entities (i)	**309,672,504**	304,278,936
Associates (ii)	**562,567,167**	492,678,334
Long term investments under cost method		
Subsidiaries (iii)	**1,200,552,795**	1,118,243,986
Other equity investments (iv)	**108,772,160**	102,917,360
	2,181,564,626	2,018,118,616
Less: Impairment	**–**	–
Total	**2,181,564,626**	2,018,118,616

According to the directors' opinion, there was no material restriction on realisation of investments as at the balance sheet date.

The movement of impairment provision for long term investment for the year is disclosed in note 5.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Jointly controlled entities

2009

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
BOC-Ma Steel	**234,000,000**	**304,278,936**	**67,895,146**	**(63,351,198)**	**(63,351,198)**	**308,822,884**
MASTEEL-CMI	**500,000**	**–**	**849,620**	**–**	**–**	**849,620**
Less: Impairment		**–**	**–**	**–**		**–**
		304,278,936	**68,744,766**	**(63,351,198)**		**309,672,504**

2008

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
BOC-Ma Steel	234,000,000	268,305,755	68,563,648	(32,590,467)	(32,590,467)	304,278,936
Less: Impairment		–	–	–		–
		268,305,755	68,563,648	(32,590,467)		304,278,936

Major financial information of the jointly controlled entities:

2009

Name of investee	Total assets Balance	Total liabilities Balance	Net assets Balance	Revenue Amount	Net profit Amount
BOC-Ma Steel	**696,781,884**	**79,136,116**	**617,645,768**	**463,502,280**	**135,790,292**
MASTEEL-CMI	**4,283,022**	**2,572,037**	**1,710,985**	**3,300,000**	**699,240**

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Associates

	2009					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
Jiyuan Jinma Coke Making	80,000,000	169,782,128	50,587,964	(18,000,000)	*(18,000,000)*	202,370,092
Tengzhou Shenglong Coke Making	66,776,000	148,454,112	32,243,829	–	–	180,697,941
Shanghai DaZhong Steel Exchange Center	4,000,000	15,665,292	18,413,678	(25,200,000)	*(25,200,000)*	8,878,970
Maanshan City Harbour	112,500,000	158,776,802	13,643,363	(1,800,000)	*(1,800,000)*	170,620,165
		492,678,334	114,888,834	(45,000,000)		562,567,168
Less: Impairment		–	–	–		–
		492,678,334	114,888,834	(45,000,000)		562,567,168

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Associates *(continued)*

	2008					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Including: Cash dividend received during the year	Closing balance
Jiyuan Jinma Coke Making	80,000,000	132,550,015	64,707,809	(27,475,696)	*(27,475,696)*	169,782,128
Tengzhou Shenglong Coke Making	66,776,000	109,624,049	38,830,063	–	–	148,454,112
Shanghai DaZhong Steel Exchange Center	4,000,000	18,609,113	7,056,179	(10,000,000)	*(10,000,000)*	15,665,292
Maanshan City Harbour	112,500,000	136,466,488	23,900,459	(1,590,145)	*(1,590,145)*	158,776,802
		397,249,665	134,494,510	(39,065,841)		492,678,334
Less: Impairment		–	–	–		–
		397,249,665	134,494,510	(39,065,841)		492,678,334

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Associates *(continued)*

Major financial information of associates:

2009

Name of investee	Total assets balance	Total liabilities balance	Net assets balance	Revenue amount	Net profit amount
Jiyuan Jinma Coke Making	1,565,809,475	1,031,421,308	534,388,167	2,474,501,752	140,902,284
Tengzhou Shenglong Coke Making	1,074,538,973	517,024,691	557,514,282	1,455,591,252	100,761,965
Shanghai DaZhong Steel Exchange Center	1,941,794,680	1,882,024,067	59,770,613	161,053,086	91,961,652
Maanshan City harbour	891,883,115	507,278,200	384,604,915	221,631,405	33,146,857

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(iii) Subsidiaries

	2009				
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Ma Steel I&E	50,000,000	50,000,000	–	–	50,000,000
Design & Research Institute	7,500,000	7,500,000	–	–	7,500,000
MG Control Technique	7,500,000	7,500,000	–	–	7,500,000
Anhui Masteel K. Wah	24,854,930	24,854,930	19,588,137	–	44,443,067
Ma Steel (Wuhu)	8,225,885	8,225,885	–	–	8,225,885
Ma Steel (Guangzhou)	80,000,000	80,000,000	–	–	80,000,000
Ma Steel (HK)	4,101,688	4,101,688	–	–	4,101,688
MG Trading	1,573,766	1,573,766	–	–	1,573,766
Holly Industrial	21,478,316	21,478,316	–	–	21,478,316
Huayang Equipment	900,000	900,000	–	–	900,000
Ma Steel (Jinhua)	90,000,000	90,000,000	–	–	90,000,000
Ma Steel (Australia)	126,312,415	126,312,415	–	–	126,312,415
Ma Steel (Hefei)	355,000,000	355,000,000	–	–	355,000,000
Ma Steel (Hefei) Processing	73,200,000	73,200,000	–	–	73,200,000
Ma Steel (Yangzhou) Processing	61,651,010	116,462,300	–	–	116,462,300
Ma Steel Roller	22,720,806	44,134,686	62,720,672	–	106,855,358
Used Vehicle Trading	500,000	500,000	–	–	500,000
Wuhu Technique	26,625,000	106,500,000	–	–	106,500,000
		1,118,243,986	82,308,809	–	1,200,552,795
Less: Impairment		–	–	–	–
Total		1,118,243,986	82,308,809	–	1,200,552,795

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(iii) Subsidiaries *(continued)*

	2008				
Name of investee	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
Ma Steel I&E	50,000,000	50,000,000	–	–	50,000,000
Design & Research Institute	7,500,000	7,500,000	–	–	7,500,000
MG Control Technique	7,500,000	7,500,000	–	–	7,500,000
Anhui Masteel K. Wah	24,854,930	24,854,930	–	–	24,854,930
Ma Steel (Wuhu)	8,225,885	8,225,885	–	–	8,225,885
Ma Steel (Guangzhou)	80,000,000	80,000,000	–	–	80,000,000
Ma Steel (HK)	4,101,688	4,101,688	–	–	4,101,688
MG Trading	1,573,766	1,573,766	–	–	1,573,766
Holly Industrial	21,478,316	21,478,316	–	–	21,478,316
Huayang Equipment	900,000	900,000	–	–	900,000
Ma Steel (Jinhua)	90,000,000	90,000,000	–	–	90,000,000
Ma Steel (Australia)	126,312,415	126,312,415	–	–	126,312,415
Ma Steel (Hefei)	237,495,000	237,495,000	117,505,000	–	355,000,000
Ma Steel (Hefei) Processing	73,200,000	73,200,000	–	–	73,200,000
Ma Steel (Yangzhou) Processing	116,462,300	116,462,300	–	–	116,462,300
Ma Steel Roller	22,720,806	22,720,806	21,413,880	–	44,134,686
Used Vehicle Trading	500,000	500,000	–	–	500,000
Wuhu Technique	26,625,000	26,625,000	79,875,000	–	106,500,000
		899,450,106	218,793,880	–	1,118,243,986
Less: Impairment		–	–	–	–
Total		899,450,106	218,793,880	–	1,118,243,986

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(iv) Other equity investments

	2009				
Name of investee	**Initial investment cost**	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
河南龍宇能源股份有限公司	**10,000,000**	**10,000,000**	**–**	**–**	**10,000,000**
中國第十七冶金建設有限公司	**2,700,000**	**2,700,000**	**5,854,800**	**–**	**8,554,800**
上海羅涇礦石碼頭有限公司	**88,767,360**	**88,767,360**	**–**	**–**	**88,767,360**
Others	**1,450,000**	**1,450,000**	**–**	**–**	**1,450,000**
		102,917,360	**5,854,800**	**–**	**108,772,160**
Less: Impairment		**–**	**–**	**–**	**–**
Total		**102,917,360**	**5,854,800**	**–**	**108,772,160**

	2008				
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance
河南龍宇能源股份有限公司	10,000,000	10,000,000	–	–	10,000,000
中國第十七冶金建設有限公司	2,700,000	2,700,000	–	–	2,700,000
上海羅涇礦石碼頭有限公司	88,767,360	88,767,360	–	–	88,767,360
Others	1,450,000	1,450,000	–	–	1,450,000
		102,917,360	–	–	102,917,360
Less: Impairment		–	–	–	–
Total		102,917,360	–	–	102,917,360

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. ASSETS IMPAIRMENT PROVISIONS

	2009					
	Opening Balance	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back	Decrease during the year: Write-off	Closing balance
Provisions for bad debts	24,013,244	-	-	-	938,001	24,951,245
Including: Trade receivables	17,082,331	-	-	-	938,001	18,020,332
Other receivables	6,930,913	-	-	-	-	6,930,913
Provisions for inventories	1,664,503,803	57,810,860	-	(1,640,270,685)	-	82,043,978
Including: Raw Materials	1,386,327,171	33,417,210	-	(1,386,327,171)	-	33,417,210
Work in Process	143,476,078	-	-	(143,476,078)	-	-
Finished goods	110,196,751	-	-	(110,196,751)	-	-
Spare parts	24,503,803	24,393,650	-	(270,685)	-	48,626,768
Impairment of held-to-maturity investments	-	-	-	-	-	-
Impairment of long term equity investments	-	-	-	-	-	-
Impairment of investment properties	-	-	-	-	-	-
Impairment of fixed assets	90,675,644	-	-	-	-	90,675,644
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	85,423,244	-	-	-	-	85,423,244
Impairment of construction in progress	-	-	-	-	-	-
Impairment of intangible assets	-	-	-	-	-	-
Total	1,779,192,691	57,810,860	-	(1,640,270,685)	938,001	197,670,867

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

	2008					
	Opening Balance (restated)	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	23,339,324	–	–	–	673,920	24,013,244
Including: Trade receivables	16,408,411	–	–	–	673,920	17,082,331
Other receivables	6,930,913	–	–	–	–	6,930,913
Provisions for inventories	132,103,392	1,664,503,803	–	(88,332,339)	(43,771,053)	1,664,503,803
Including: Raw Materials	–	1,386,327,171	–	–	–	1,386,327,171
Work in Process	–	143,476,078	–	–	–	143,476,078
Finished goods	9,795,364	110,196,751	–	(9,795,364)	–	110,196,751
Spare parts	122,308,028	24,503,803	–	(78,536,975)	(43,771,053)	24,503,803
Impairment of held-to-maturity investments	–	–	–	–	–	–
Impairment of long term equity investments	–	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	–	90,675,644
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	–	85,423,244
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	246,118,360	1,664,503,803	–	(88,332,339)	(43,097,133)	1,779,192,691

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

6. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2009	2008
Principal operating income	**49,011,851,059**	68,976,694,106
Other operating income	**3,565,952,934**	6,171,375,553
Total	**52,577,803,993**	75,148,069,659

Cost of sales is stated as follows:

	2009	2008
Principal cost of sales	**47,055,725,575**	63,600,123,120
Other cost of sales	**3,626,447,264**	6,113,383,372
Total	**50,682,172,839**	69,713,506,492

Principle operating income is stated as follows:

	2009	2008
Sale of steel products	**46,598,790,033**	65,495,433,424
Sale of steel billets and pig iron	**393,350,530**	505,389,727
Sale of coke by-products	**659,626,673**	795,179,392
Others	**1,360,083,823**	2,180,691,563
Total	**49,011,851,059**	68,976,694,106

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

6. REVENUE AND COST OF SALES *(CONTINUED)*

During 2009, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue (%)
Company 1	**2,377,980,786**	**4.5**
Company 2	**2,373,481,571**	**4.5**
Company 3	**2,061,397,672**	**4**
Company 4	**1,913,087,102**	**4**
Company 5	**1,751,322,952**	**3**
Total	**10,477,270,083**	**20**

During 2008, the revenue from the top five largest customers are as follows:

	Amount	Rate in total revenue (%)
Company 1	4,838,970,188	6
Company 2	2,890,267,030	4
Company 3	2,289,238,885	3
Company 4	1,926,473,482	2.5
Company 5	1,897,323,196	2.5
Total	13,842,272,781	18

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

7. ASSETS IMPAIRMENT LOSS

	2009	2008
Reversal of provision for bad debts	**–**	–
Including: Trade receivables	**–**	–
Other receivables	**–**	–
Provision for inventories	**57,810,860**	1,664,503,803
Provision of held-to-maturity investments	**–**	–
Provision of long term equity investments	**–**	–
Provision of investment properties	**–**	–
Provision of fixed assets	**–**	–
Provision of construction in progress	**–**	–
Provision of intangible assets	**–**	–
Total	**57,810,860**	1,664,503,803

8. INVESTMENT INCOME

	2009	2008
Long term equity investments income under equity method	**183,133,600**	203,058,158
Long term equity investments income under cost method	**38,719,008**	110,045,763
Gain on disposal of financial assets held for trading	**–**	220,136
Other investment income	**197,352**	–
Total	**222,049,960**	313,324,057

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

9. CASH FLOWS FROM OPERATING ACTIVITIES

	2009	2008
Net profit	**90,756,402**	866,690,358
Add: Provision/(reversal of provision) for bad debts	**–**	–
Provision for inventories	**57,810,860**	1,664,503,803
Depreciation of fixed assets	**4,623,401,330**	4,400,148,926
Amortisation of investment properties	**405,049**	405,049
Amortisation of intangible assets	**31,846,367**	30,975,200
Amortisation of deferred income	**(77,884,859)**	(66,001,370)
(Gain)/Loss on disposal of non-current assets	**(309,564)**	1,497,324
Financial expenses	**859,243,268**	1,286,271,306
Investment income	**(221,866,037)**	(313,324,057)
(Gain)/loss on fair value changes	**(224,110)**	1,033,080
Increase in deferred tax assets	**(164,722,213)**	(344,942,450)
Decrease in deferred tax liabilities	**–**	(179,968)
(Increase)/decrease in inventories	**1,203,763,712**	(2,341,043,661)
Decrease/(increase) in receivables from operating activities	**(1,840,798,786)**	3,171,690,497
Increase/(decrease) in payables from operating activities	**1,151,684,042**	(281,058,992)
Net cash flows from operating activities	**5,713,105,461**	8,076,665,045

1. NON-RECURRING GAINS OR LOSSES ITEMS

	2009	2008
Non-recurring gains or losses items		
Loss on disposal of non-current assets	–	(2,788,556)
Subsidies income	95,218,143	55,705,200
Amortisation of deferred income	79,502,858	66,056,371
Other non-operating income and expense items	13,938,706	(6,622,985)
Gain/(Loss) on fair value changes	224,110	(1,033,080)
Gain on disposal of financial assets held for trading	–	220,136
Other investment income	197,352	–
Net profit attributable to subsidiaries accounted for under business combination under common control to combination date	–	9,846,023
	189,081,169	121,383,109
Less: Income tax effect of non-recurring gains or losses	29,494,356	27,938,897
Non-recurring gains or losses attributable to minority shareholders	9,205,680	9,237,086
Net effect of non-recurring gains or losses	150,381,133	84,207,126
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit attributable to ordinary equity holders of the parent	392,475,316	710,234,350
Less: Net effect of non-recurring gains or losses	150,381,133	84,207,126
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	242,094,183	626,027,224

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) issued by CSRC.

2. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER CAS AND HKFRS

No difference exists on shareholders' equity and net profit recorded in the consolidated financial statements prepared under the CAS and HKFRS.

3. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2009

	Return on net assets	**Earnings per share (RMB)**	
	(%)	**Basic**	**Diluted**
Net profit attributable to equity holders of the parent	**1.50**	**0.051**	**N/A**
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**0.92**	**0.031**	**N/A**

2008

	Return on net assets	Earnings per share (RMB)	
	(%)	Basic	Diluted
Net profit attributable to equity holders of the parent	3.06	0.104	N/A
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	2.70	0.091	N/A

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure for listed securities companies No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by CSRC.

4. VARIANCE ANALYSIS

Analysis on items with fluctuation more than 30% (inclusive) in consolidated financial statements is as follows:

(1) Cash and bank balances amounted to RMB8,700,317,608, an increase of 46% over the previous year, which was mainly attributable to the increase in bills payables during the year.

(2) Bills receivable amounted to RMB4,421,189,686, an increase of 249% over the previous year, which was mainly attributable to the increase of bank acceptance bills obtained from steel product sales.

(3) Trade receivables amounted to RMB822,930,091, an increase of 31% over the previous year, which was mainly attributable to the fact that sales revenue generated in the fourth season is higher than that of 2008.

(4) Other receivables amounted to RMB268,164,615, a decrease of 39% over the previous year, which was mainly attributable to the decrease in prepayments for import customs and taxes.

(5) Non-current assets due within one year amounted to nil, a decrease of 100% over the previous year, which was mainly attributable to the redemption of the 10-year government debenture in December 2009.

(6) Investment property amounted to RMB4,727,175, an increase of 292% over the previous year, which was mainly attributable to the increase of certain office buildings rented to external parties by certain of the subsidiaries.

(7) Construction materials amounted to RMB223,238,270, a decrease of 53% over the previous year, which was mainly attributable to decrease of construction in progress constructed during the year.

(8) Bills payables amounted to RMB5,400,287,600, an increase of 415% over the previous year, which was mainly attributable to the increase the use of bank acceptance bills as a payment for the purchasing materials.

(9) Payroll and benefits payable amounted to RMB275,489,773, an increase of 40% over the previous year, which was mainly attributable to the increase of unpaid annual bonus as at 31 December 2009.

(10) Taxes payable amounted to RMB(85,807,517), a decrease of 113% over the previous year, which was mainly attributable to the payment of value added taxes payable in current year. Such value added tax payable was generated in 2008 but delayed to 2009.

4. VARIANCE ANALYSIS *(CONTINUED)*

(11) Dividend payable amounted to RMB701,538,763, a decrease of 36% over the previous year, which was mainly attributable to the payment of dividend to the holding.

(12) Interest payables amounted to RMB8,138,718, a decrease of 82% over the previous year, which was mainly attributable to the decline of borrowing rate during 2009.

(13) Non-current liabilities due within one year amounted to RMB816,000,000, an increase of 265% over the previous year, which was mainly attributable to the increase of long-term loans which would expire within one year.

(14) Deferred tax liability amounted to nil, a decrease of 100% over the previous year, which was mainly attributable to the reversal of the temporary differences generated the deferred tax liabilities.

(15) Other non-current liabilities amounted to nil, a decrease of 100% over the previous year, which was mainly attributable to the Group had paid all the liability in relation to the early retirement benefits.

(16) Exchange fluctuation reserve amounted to RMB17,419,884, an increase of 136% over the previous year, which was mainly attributable to the increase in Australian dollar against Renminbi for a subsidiary operated in Australia.

(17) Minority interests amounted to RMB720,208,964, an increase of 38% over the previous year, which was mainly attributable to the increase in net profit of certain non-wholly-owned subsidiaries in current year.

(18) Business taxes and surcharges amounted to RMB219,403,050, a decrease of 72% over the previous year, which was mainly attributable to the decrease in sales compared to year 2008.

(19) Selling expenses amounted to RMB229,232,917, a decrease of 38% over the previous year, which was mainly attributable to the decrease in transportation costs and packaging expenses.

(20) Finance expenses amounted to RMB939,046,170, a decrease of 40% over the previous year, which was mainly attributable to the decrease in bank loan interest rates.

(21) Asset impairment losses amounted to RMB57,598,030, a decrease of 97% over the previous year, which was mainly attributable to decrease in provision for inventories in current year.

(22) Gain on fair value change amounted to RMB224,110, an increase of 122% over the previous year, which was mainly attributable to the increase in fair value of the financial assets held for trading.

4. VARIANCE ANALYSIS *(CONTINUED)*

(23) Non-operating income amounted to RMB191,703,227, an increase of 57% over the previous year, which was mainly attributable to the increase in the subsidies income received from the government in current year.

(24) Non-operating expenses amounted to RMB3,043,520, a decrease of 69%, which was mainly attributable to the decrease in donation paid in current year.

(25) Income tax amounted to RMB29,009,600, a decrease of 61% over the previous year, which was mainly attributable to the decrease in profit in current year.

(26) Share of profit or loss of minority interests amounted to RMB141,390,829, an increase of 573% over the previous year, which was mainly attributable to the increase in profit of certain non-wholly-owned subsidiaries in current year.

Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.

2. Original copy of the audited accounts prepared under the China Accounting Standards for Business Enterprises, sealed by Ernst & Young Hua Ming and signed by Mr. Li Di and Ms. Zhao Ning, certified public accountants in the PRC; original copy of the audited accounts prepared under Hong Kong Financial Reporting Standards signed by Ernst & Young.

3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.

4. Annual report announced on the website of the Hong Kong Stock Exchange.

5. The Articles of Association of the Company.