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

(Stock Code: 0347)

ANNUAL REPORT 2010

* For identification purposes only

Contents

Corporate Profile

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

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

The Board of the Company is pleased to announce the annual results of the Company for the year ended 31 December 2010.

CORPORATE PROFILE

The Company is a joint stock limited company incorporated on 8 May 1997 with Anshan Iron and Steel Group Complex* as its sole promoter. Pursuant to the reorganisation, Angang Holding transferred the Cold Roll Plant, Wire Rod Plant and Heavy Plate Plant to the Company. The three plants had a net asset value of RMB2,028,817,600 as determined by the State-owned Assets Administration Bureau, and 1,319,000,000 domestic state-owned legal person shares with a par value of RMB1 each were issued to Anshan Iron and Steel Group Complex*.

On 22 July 1997, the Company issued 890,000,000 H shares at HK$1.63 per share which were listed and traded on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 24 July 1997. The Company subsequently issued 300,000,000 domestic A shares at RMB3.90 per share on 16 November 1997, of which 285,505,400 shares were offered to the public and 14,494,600 employees' shares were issued to the employees of the Company. Trading of the 285,505,400 shares offered and issued to the domestic shareholders, and the 14,494,600 employees' shares issued to the employees of the Company commenced on the Shenzhen Stock Exchange on 25 December 1997 and 26 June 1998, respectively.

On 15 March 2000, the Company issued A share convertible debentures amounting to RMB1.5 billion in the People's Republic of China (the "PRC"). On 14 March 2005, the Company paid the principal and interest accrued for the A share convertible debentures upon their maturity, and trading in and conversion of A share convertible debentures ended on the same day. As of the date of maturity, a total of 453,985,697 A shares were converted from the convertible debentures of the Company.

CORPORATE PROFILE *(continued)*

On 26 January 2006, the Company issued 2,970,000,000 A shares at RMB4.29 per share to Anshan Iron and Steel Group Complex* as partial payment of the consideration for the acquisition of 100% equity interests of Angang New Steel and Iron Company Limited ("ANSI"). The registration for custody of such shares at Shenzhen Branch of China Securities Depository and Clearing Corporation Limited completed on 23 February 2006 and they will not be traded or transferred within 36 months starting from 23 February 2006. The total number of shares of the Company increased to 5,932,985,697 following the issue of new shares.

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

In December 2005, the Company implemented the non-tradable shares reform, pursuant to which Anshan Iron and Steel Group Complex*, the holder of the non-tradable shares of the Company, offered 2.5 A shares and 1.5 "鞍鋼JTC1" share warrants for every 10 shares held by the registered holders of tradable A shares on the record date for the non-tradable shares reform, and Anshan Iron and Steel Group Complex* offered a total of 188,496,424 A shares and 113,097,855 "鞍鋼JTC1" share warrants to other holders of A shares. The "鞍鋼JTC1" share warrants expired in December 2006. A total of 110,601,666 share warrants were exercised, as a result of which Angang Holding transferred 110,601,666 shares to the other holders of A shares at RMB3.386 per share. The "鞍鋼JTC1" share warrants which were not exercised on the date of expiry were cancelled thereafter. Following the exercise of such warrants, the total number of shares of the Company remained unchanged, comprising 3,989,901,910 A shares held by Anshan Iron and Steel Group Complex*, 1,053,083,787 A shares held by the other A shareholders and 890,000,000 H shares held by the H shareholders.

Corporate Profile *(continued)*

CORPORATE PROFILE *(continued)*

During 2007, the Company issued rights shares on the basis of 2.2 rights shares for every 10 existing shares to all the shareholders of the Company. From 10 October to 16 October 2007, the Company issued 1,106,022,150 rights shares to A shareholders of the Company at the price of RMB15.4 per share, including issuance of 228,240,496 shares to holders of shares not subject to trading moratorium and issuance of 877,781,654 shares to holders of shares subject to trading moratorium. Such newly issued domestic rights shares were approved to be listed on the Shenzhen Stock Exchange on 25 October 2007. From 22 October to 5 November 2007, the Company issued 195,800,000 H rights shares to H shareholders of the Company at a price of HK$15.91 per share (equivalent to RMB15.4 per share according to the then exchange rate). Such newly issued H rights shares were approved to be listed on the Hong Kong Stock Exchange on 14 November 2007. Upon completion of rights issue, the total number of shares of the Company amounted to 7,234,807,847 shares, of which 4,867,680,330 shares were held by Anshan Iron and Steel Group Complex*, 1,281,327,517 shares were held by other A shareholders and 1,085,800,000 shares were held by H shareholders.

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

Corporate Profile *(continued)*

CORPORATE PROFILE *(continued)*

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

Financial and Business Highlights of the Group

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

Unit: RMB million

		2009		2008	
	2010	Before adjustment	After adjustment	Before adjustment	After adjustment
Turnover	**92,212**	70,057	70,057	78,985	78,985
Profit before tax	**2,378**	877	872	3,847	3,842
Income tax expense	**413**	166	165	854	853
Profit for the year attributable to owners of the Company	**2,054**	752	748	2,993	2,989
Total assets	**107,119**	103,126	103,254	94,826	94,958
Total liabilities	**51,790**	49,469	49,469	41,855	41,855
Equity attributable to owners of the Company	**54,052**	52,291	52,419	52,971	53,103
Net assets per share *(RMB)*	**7.47**	7.23	7.24	7.32	7.34
Earnings per share (basic) *(RMB)*	**0.284**	0.104	0.103	0.414	0.413
Return on net assets *(%)*	**3.80**	1.44	1.43	5.65	5.63

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

For the year ended 31 December 2010

Unit: RMB million

Items	**Amount**
Operating profit:	2,253
Total profit:	2,358
Net profit:	1,950
Net profit attributable to shareholders of the Company:	2,039
Net profit less extraordinary items attributable to shareholders of the Company:	1,960
Net cash flow generated from operating activities:	9,026
Investment income:	411
Net non-operating income and expenses:	105
Net increase/decrease in cash and cash equivalents:	1,409

Financial and Business Highlights of the Group *(continued)*

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

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

No.	Extraordinary items	Effect on profit *(RMB million)*
1	Gains or losses from disposal of non-current assets	4
2	Government subsidies (except for government subsidies which are closely related to the corporate business and entitled in standard amount or quantities in conformity with the uniform standards of the State) attributable to gains or losses for the period	117
3	Other non-operating income and expenses apart from those stated above	-16
4	Sub-total	105
5	Effect of income tax	-26
6	Total	79

Note: for extraordinary items, "+" refer to gains or incomes, "-" refer to losses or expenditures.

DIFFERENCES BETWEEN THE FINANCIAL INFORMATION PREPARED UNDER THE PRC ACCOUNTING STANDARDS AND IFRSs:

Unit: RMB million

	The Group				Attributable to shareholders of the Company			
	Net profit Year ended 31 December		Net assets At 31 December		Net profit Year ended 31 December		Net assets At 31 December	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Under IFRSs	**1,965**	707	**55,329**	53,785	**2,054**	748	**54,052**	52,419
Under PRC Accounting Standards	**1,950**	686	**55,345**	53,798	**2,039**	727	**54,068**	52,432

Items and total amount as adjusted under the IFRSs:

Production safety expenses	**20**	29			**20**	29		
Deferred income tax assets	**-5**	-8	**-18**	-13	**-5**	-8	**-18**	-13
Interests in jointly controlled entities			**2**				**2**	
Total adjustments	**15**	21	**-16**	-13	**15**	21	**-16**	-13

Financial and Business Highlights of the Group *(continued)*

MAJOR ACCOUNTING DATA AND FINANCIAL INDICES OF THE GROUP FOR THE LAST THREE YEARS (PREPARED UNDER THE PRC ACCOUNTING STANDARDS)

Unit: RMB million

Item	**2010**	2009	Increase / decrease (%) compared with the previous year	2008 Before adjustment	2008 After adjustment
Operating revenue	**92,431**	70,126	31.81	79,616	79,616
Total profit	**2,358**	843	179.72	3,842	3,832
Net profit attributable to shareholders of the listed company	**2,039**	727	180.47	2,989	2,981
Net profit less extraordinary items attributable to shareholders of the listed company	**1,960**	688	184.88	3,016	3,008
Net cash flows from operating activities	**9,026**	4,549	98.42	11,938	11,938
Basic earnings per share *(RMB)*	**0.282**	0.100	182.00	0.413	0.412
Diluted earnings per share *(RMB)*	**0.282**	0.100	182.00	0.413	0.412
Basic earnings per share less extraordinary items *(RMB)*	**0.271**	0.095	185.26	0.417	0.416
Return on net assets (fully diluted) *(%)*	**3.77**	1.39	Increased by 2.38 percentage points	5.63	5.61
Return on net assets (weighted average) *(%)*	**3.83**	1.38	Increased by 2.45 percentage points	5.57	5.55
Return on net assets (fully diluted) less extraordinary items *(%)*	**3.63**	1.31	Increased by 2.32 percentage points	5.68	5.66
Return on net assets (weighted average) less extraordinary items *(%)*	**3.68**	1.30	Increased by 2.38 percentage points	5.62	5.60
Net cash flows per share from operating activities *(RMB)*	**1.248**	0.629	98.41	1.65	1.65

Financial and Business Highlights of the Group *(continued)*

MAJOR ACCOUNTING DATA AND FINANCIAL INDICES OF THE GROUP FOR THE LAST THREE YEARS (PREPARED UNDER THE PRC ACCOUNTING STANDARDS) *(continued)*

Item	**At the end of 2010**	At the end of 2009	Increase/decrease as compared with the previous year (%)	At the end of 2008 Before adjustment	After adjustment
Total assets	**105,114**	100,987	4.09	92,179	92,184
Equity attributable to owners of the listed company	**54,068**	52,432	3.12	53,103	53,108
Net assets per share attributable to owners of the listed company *(RMB)*	**7.47**	7.25	3.03	7.34	7.34
Share capital	**7,235**	7,235	—	7,235	7,235

RETURN ON NET ASSETS AND EARNINGS PER SHARE AS CALCULATED IN ACCORDANCE WITH THE "REGULATIONS FOR PREPARATION AND REPORTING OF INFORMATION DISCLOSURE BY LISTED COMPANIES (NO. 9)" ISSUED BY CSRC:

Profit for the reporting period	**Return on net assets *(%)* Fully diluted**	**Weighted average**	**Earnings per share *(RMB/share)* Basic**	**Diluted**
Net profit attributable to holders of ordinary shares of the Company	3.77	3.83	0.282	0.282
Net profit less extraordinary items attributable to holders of ordinary shares of the Company	3.63	3.68	0.271	0.271

Financial and Business Highlights of the Group *(continued)*

CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD (PREPARED UNDER THE PRC ACCOUNTING STANDARDS)

Unit: RMB million

	Equity attributable to the shareholders of the listed company							
Items	Share capital	Capital reserve	Surplus reserves	Special reserves	Undistributed profit	Sub-total	Minority interest	Total shareholders' equity
At the beginning of the period	7,235	31,510	3,357	50	10,280	52,432	1,366	53,798
Increase for the period		13	213	32	2,039	2,297		2,297
Decrease for the period		2		12	647	661	89	750
At the end of the period	7,235	31,521	3,570	70	11,672	54,068	1,277	55,345

Reasons for changes

1. The increase in capital reserve was due to the increase of RMB13 million in the fair value of available-for-sale financial assets and the decrease in capital reserve was due to the decrease of RMB2 million in other equity of joint venture

2. The increase in surplus reserves was due to the allocation of 10% (RMB213 million) of profit after tax to surplus reserves.

3. The increase in special reserve was due to the provision of RMB32 million of production safety expenses and the decrease of RMB12 million in production safety expenses incurred.

4. The increase in undistributed profit was due to net profit attributable to the shareholders of the listed company of RMB2,039 million generated in 2010; the decrease in undistributed profits was due to (i) the payment of RMB434 million as annual dividends for 2009 and (ii) the allocation of RMB213 million to surplus reserves.

5. The decrease in minority interests was attributable to the loss of Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited ("Angang Tian Tie"), a subsidiary of the Company.

Chairman's Statement

On behalf of the Board of Angang Steel Company Limited, I am pleased to present the annual report of the Company for the year ended 31 December 2010 and hereby extend my regards to all the shareholders.

OPERATING RESULTS FOR 2010

Based on the IFRSs, the Group recorded an annual profit attributable to owners of the Company of RMB2,054 million for the year ended 31 December 2010, representing an increase of 174.60% from the previous year, and its basic earnings per share was RMB0.284.

Based on the PRC Accounting Standards, the Group recorded a net profit attributable to the owners of the Company of RMB2,039 million for the year ended 31 December 2010, representing an increase of 180.47% from the previous year, and its basic earnings per share was RMB0.282.

Chairman's Statement *(continued)*

OPERATING RESULTS FOR 2010 *(continued)*

PROFIT DISTRIBUTION

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership), the net profit attributable to the shareholders of the Company for year 2010 amounted to RMB2,039 million and as at the year end of 2010, the profit available for distribution to the shareholders of the Company was RMB11,672 million under the PRC Accounting Standards. In accordance with the laws and regulations of the PRC and the articles of association of the Company, the Board of the Company recommended a cash dividend of RMB0.15 per share (inclusive of tax) for 2010 based on the Company's total issued share capital of 7,234,807,847 shares as of the date of this annual report. The proposal for distribution is subject to the consideration by the shareholders at the annual general meeting for the year 2010. Subject to the approval by the shareholders at the annual general meeting for the year 2010, the Company will, according to such proposal, distribute the final dividend to the H shareholders of the Company whose names appear on the register of H shareholders of the Company at the close of business on Friday, 29 April 2011.

According to the Enterprise Income Tax Law of the People's Republic of China and the Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China which came into effect on 1 January 2008, any Chinese domestic enterprise which pays dividend to a non-resident enterprise shareholder shall withhold and pay enterprise income tax at a rate of 10% for such shareholder. As a result, the Company will withhold enterprise income tax on the final dividend for 2010 to be paid to non-resident enterprise shareholders (including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations) at a rate of 10% at the time of distributing such dividend to the shareholders. The dividend after the deduction of such withholding tax will be RMB0.135 per H share of the Company (for reference only).

Distribution for the last three years

Year	Net profit attributable to shareholders of the Company *(RMB million)*	Distribution proposal	Amount of cash dividend *(RMB million)*	Proportion of the amount of cash dividend in realized net profit
2009	727	RMB0.06 per share	434	59.70%
2008	2,981	RMB0.21 per share	1,519	50.96%
2007	7,525	RMB0.55 per share	3,979	52.88%
Total	11,233	—	5,932	52.81%

Note: The realized net profit of the Group have been adjusted in accordance with the prevailing requirements under the PRC Accounting Standards.

BUSINESS REVIEW

1. New accomplishments in production and operation

During the reporting period, the Group produced 22,125,000 tonnes of iron, 21,657,300 tonnes of steel and 20,872,800 tonnes of steel products, representing an increase of 7.87%, 7.91% and 9.86%, respectively, as compared with the previous year. Sales of steel products amounted to 20,693,000 tonnes, representing an increase of 11.14% as compared with the previous year. The Group also realized a 99.14% production to sale ratio for steel products.

2. New achievements in energy saving and emission reduction

The Group implemented 18 environmental protection projects, including the gas desulphurization for Bayuquan series I sintering machine (鮁魚圈I系列燒結機), west zone series I sintering machine (西區I系列燒結機), no.3 furnace sintering machine (三燒燒結機), no.2 furnace sintering machine (二燒燒結機) as well as the efflux wastewater treatment (外排廢水治理) of the heavy plate production line, with a planned investment of RMB319 million. The gas turbine combined circle power plant (CCPP) project of Bayuquan (鮁魚圈CCPP項目) and the coke dry quenching power generation (CDQ) project (幹熄焦發電CDQ項目) had successfully passed the on-site inspection.

A series of energy saving projects, including the renovation of the boilers of power plants (發電分廠鍋爐改造), the residual heat power generation project of No. 3 steel smelting plant (煉鐵三燒餘熱發電), the saturated steam power generation project of No. 2 steel smelting plant (northern line) (二煉鋼北綫飽和蒸汽發電), the sintering residual heat steam power generation project at the west zone (西區燒結餘熱蒸汽發電) and the wastewater treatment project of Xidagou (西大溝污水深度處理) gradually have commenced operation and played a role in energy conservation.

There was no environmental accident at or above grade III for the year. The collection, transportation and disposal mechanisms of hazardous waste were further improved with disposal of waste grease being standardized. The Group achieved the best record on the atmospheric pollutant emission rate, and the utilisation rate of recyclable solid wastes.

Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

3. Breakthroughs in scientific research innovation and new product development

The Company have achieved a substantial breakthrough in its three major series of steel products for nuclear power generation facilities (核電用鋼). The Group attained a passing-at-first inspection rate over 98% for its steel products used on the containment vessels of nuclear reactors (核反應堆安全殼用鋼), achieving a leading position in the PRC. The series of steel products used for nuclear island (核島系列用鋼), namely 15MnNi, 20MND5 and SA-533, have been delivered and the Group is the first steel manufacturer in the PRC to produce the 18MND5 products for testing and evaluation. Moreover, the development of steel products for nuclear power conventional islands and ancillary facilities - SA-516, with a width specification of 4,800mm, was the first of its kind in the PRC market. The 100m 60kg/m-steel rails used for passenger dedicated railways with a speed of 350km have been used on Shanghai-Hangzhou High-speed Railway, while high-speed heavy rails for vehicles with a speed of 380 km/h have been successfully developed and used on Beijing-Shanghai High-speed Railway. Having successfully developed and produced the steel rails with a weight of 60kg/m in compliance with the Australian standards, the Company succeeded in its first bulk export of such products to Australia. The Company has passed the assessment of localization (國產化評定) by CNOOC and completed a small-scale trial production of the steel products used on the first localized seafloor pipeline in the PRC, namely, the X70(31.8mm) and X65(30.2mm) series of steel products used on the seafloor pipeline steel (海底管綫鋼) in South China Sea (南海). The quality of the F690 series of ultra-high strength steel used on hulls and marine engineering facilities (船體海洋工程) developed by the Company complies with the national standards. The Company is the first in the country to pass the certification by shipping societies of such products and thus having a leading position in the relevant PRC market. The Q500qE series of steel products have passed the technical examination for 500MPa-grade high strength rail steel (高強度鐵路用鋼) by Ministry of Railway and the Company is the first steel manufacturing enterprise in the PRC which has passed such examination. The Group developed and produced new products of a total of 4.85 million tonnes and generated revenue of a total of RMB23.94 billion from such new products, representing an increase of 5.2% and 25.7%, respectively, as compared with to the previous year. The Group has also achieved the best-ever results in terms of both the quantity and quality of the patents and technical know-how that it developed during the year.

BUSINESS REVIEW *(continued)*

4. Improvement in marketing

The Group enhanced its management of marketing channels and targeted markets. The Group actively seized the opportunities offered by the development of Bohai economic rim which is encouraged by the PRC government and increased its market share in northern regions. Focusing on the strategic development of its principal products, namely, steel products used on vehicles and home appliances, the Company stepped up its development of direct-supply enterprise customers and products of importance for the Group's strategic expansion. The Company ranked (i) the first in the PRC market in terms of its sales volume of steel used on home appliances, ships and containers; and (ii) the second in terms of its sales volume of steel used on vehicles. The orders from direct-supply enterprise customers accounted for 53.01% of our total orders, representing an increase of 7.2 percentage points as compared with the previous year.

The Company actively participated in bid for key national projects and has succeeded in bid for various key national projects in 2010, such as Petrochina Jinzhou - Zhengzhou oil pipeline construction project (中石油錦州 — 鄭州輸油管線工程), oil storage base projects of Sinopec at Rizhao (日照), Caofeidian (曹妃甸) and Cezi Island (冊子島), Sinochem International Huizhuo project (中化國際惠州項目), CNOOC Dalian project and the energy storage station project in Hohhot.

The Company proactively expanded its overseas markets and enhanced its international operation, as the result, it has exported a total of 1,706,600 tonnes of steel products.

5. New progress in technological improvement projects and external investment and cooperation

The Group has invested a total of RMB5.254 billion on fixed assets. The production line for high-grade and non-oriented silicon steel products (高牌號無取向矽鋼) in the western district of Anshan has fully ramped up to its designed production capacity and achieved its production targets. The Company has also had a capacity for sizeable production of the oriented silicon steel products which were developed solely by the Company's own research and development team. Heat-loading testing has commenced on the wire rod production lines which have been under overall renovation.

The Company established a wholly-owned subsidiary Angang Cold Rolled Steel Plate (Putian) Co., Ltd. ("Angang Putian"), pursuant to its development strategy to expand its geographic presence and extend its operation chain. The design of the main structures of the production facilities of Angang Putian has been completed and orders for major machine and equipment have placed. Currently, Angang Putian is undertaking civil engineering and infrastructure construction.

Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

6. Continuous improvement in corporate management

The Company introduced a result-driven management systems to streamline, optimize and integrate all management procedures. In 2010, the Company passed the review by China Association for Quality and was granted the "The 10th Quality Award of China" (第十屆全國質量獎).

By taking full advantage of its budgetary control, keeping abreast of the market changes and actively reviewing its profit outlook, the Company further optimized its product mix and enhanced its resources allocation.

DEVELOPMENT PLANS FOR 2011

1. Iron and Steel Market Analysis and Opportunities and Challenges for the Company's Development

Looking into 2011, the Company will face both opportunities and challenges in its development, both internally and externally.

From the positive perspective, the global economy is expected to continue to resume growth and the domestic economy will sustain a moderate momentum. Strong and sustainable demand will provide room for the growth in the iron and steel industry. The promotion and implementation of policies and measures relating to joint restructuring, elimination of obsolete production capacity, energy saving and emission reduction as well as industry management standardization, will pave way for the steady growth of the steel industry and market. From the internal perspective, the Company has made a substantive improvement of technology and equipment upon the large-scale corporate modernization during period of the "Eleventh Five-Year Plan". The rapid improvement of the production and operation efficiency in the new district of Bayuquan (鮁魚圈新區) will facilitate the integration of the operations at both Anshan and Yingkou, thus highlighting the effect of an extensive business layout and complementary strengths.

From the negative perspective, the global economy is in a slow process of recovery with fierce market competitions. As growth in steel product consumption slows down due to economy changes in China while the prices for raw materials and fuel remain high, the iron and steel industry will encounter greater challenges.

DEVELOPMENT PLANS FOR 2011 *(continued)*

2. Operation plans of the Company for 2011

With achieving outstanding and efficient performance in mind, in 2011, the Company aims at strengthening its business and will spare no effort in quality improvement, market expansion and cost reduction, so as to become the most internationally competitive steel manufacturer and to contribute to the prompt fulfillment of its new strategic targets.

(1) To strengthen overall management and control and achieve new breakthrough in production and operation.

(2) To strengthen scientific research in order to achieve breakthrough from enhancement of corporate innovation and core competitiveness.

(3) To enhance comprehensive marketing management so as to achieve record in marketing results and higher service standards.

(4) To strengthen energy saving and emission reduction to scale new heights in low-carbon technologies and green development.

(5) To speed up the progress of capital projects in order to achieve breakthrough in the level of equipment modernization.

(6) To embed its result-driven management mode so as to further enhance the overall quality of the enterprise.

(7) To expedite the development of the new district of Bayuquan and achieve new breakthrough in the construction of role model plants.

Chairman's Statement *(continued)*

DEVELOPMENT PLANS FOR 2011 *(continued)*

3. Capital requirements, utilisation plan and funding sources of the Group for 2011

In 2011, the Group intends to earmark RMB7,737 million for major construction projects such as the safety, scientific research, the phase 4 renovation of energy-saving and environmental protection and chemical industry (節能環保及化工四期改造), tar capacity expansion and construction of the new 3# slab casting machine.

In 2011, the Group's capital requirements will be mainly financed by proceeds raised from the short-term debentures, cash generated from operating activities and bank loans.

Chairman
Zhang Xiaogang

Anshan City, the PRC
29 March 2011

Movement in Share Capital and Shareholders' Profile

MOVEMENT IN SHARE CAPITAL

As at 31 December 2010, the shareholding structure of the Company was as follows:

Unit: Share

	Before the change during the period		Increase/decrease during the period(+/-)			After the change during the period	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	4,340,902,643	60.00	—	—	—	4,340,902,643	60.00
1. State-owned shares	4,340,884,709	60.00	—	—	—	4,340,884,709	60.00
2. State-owned legal person shares	—	—	—	—	—	—	—
3. Other domestic shares	17,934	0.00	—	—	—	17,934	0.00
Including: shares held by domestic legal persons	—	—	—	—	—	—	—
shares held by domestic natural persons	17,934	0.00	—	—	—	17,934	0.00
4. Foreign shares	—	—	—	—	—	—	—
Including: shares held by overseas legal persons	—	—	—	—	—	—	—
shares held by overseas natural persons	—	—	—	—	—	—	—
II. Shares not subject to trading moratorium	2,893,905,204	40.00	—	—	—	2,893,905,204	40.00
1. Renminbi ordinary shares	1,808,105,204	24.99	—	—	—	1,808,105,204	24.99
2. Domestically listed foreign shares	—	—	—	—	—	—	—
3. Overseas listed foreign shares	1,085,800,000	15.01	—	—	—	1,085,800,000	15.01
4. Others	—	—	—	—	—	—	—
III. Total shares	7,234,807,847	100.00	—	—	—	7,234,807,847	100.00

During the reporting period, there was no change in shares subject to trading moratorium.

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS

1. **As at the end of the reporting period, the Company had a total of 209,849 shareholders, of which 565 were holders of H shares.**

2. **As at 31 December 2010, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows:**

Details of shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholdings *(%)*	Total number of shares held *(share)*	Number of shares held subject to trading moratorium *(share)*	Number of shares pledged/ frozen
Anshan Iron and Steel Group Complex*	Holder of state-owned shares	67.29	4,868,547,330	4,340,884,709	—
HKSCC (Nominees) Limited	Holder of foreign shares	14.72	1,064,896,048	—	Unknown
China Construction Bank — China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	Others	0.65	46,685,337	—	Unknown
Bank of China — Efunds Shenzhen Stock Exchange 100 Index Open-Ended Securities Investment Fund (中國銀行 — 易方達深證100交易型開放式指數證券投資基金)	Others	0.25	18,025,641	—	Unknown
UBS AG	Others	0.23	16,860,648	—	Unknown
Shanghai Pudong Development Bank — Securities Investment Fund of Changxin Jinli Trend Stock Fund (上海浦東發展銀行 — 長信金利趨勢股票型證券投資基金)	Others	0.20	14,699,936	—	Unknown

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2010, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

Details of shareholdings of the top 10 shareholders *(continued)*

Name of shareholder	Nature of shareholder	Percentage of shareholdings *(%)*	Total number of shares held *(share)*	Number of shares held subject to trading moratorium *(share)*	Number of shares pledged/ frozen
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	Others	0.20	14,532,914	—	Unknown
ICBC-Baoying Pan-Coastal Areas Growth Equity Securities Investment Fund	Others	0.18	13,372,885	—	Unknown
International Finance — HSBC — JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	Others	0.16	11,594,617	—	Unknown
DEUTSCHE BANK AKTIENGESELLSCHAFT	Others	0.16	11,567,270	—	Unknown

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2010, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

Shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholder	Number of shares held not subject to trading moratorium *(share)*	Class of shares
HKSCC (Nominees) Limited	1,064,896,048	Overseas listed foreign shares
China Construction Bank— China International China Advantage Securities Investment Fund (中國建設銀行 — 上投摩根中國優勢證券投資基金)	46,685,337	Renminbi ordinary shares
Bank of China — Efunds Shenzhen Stock Exchange 100 Index Open-Ended Securities Investment Fund (中國銀行 — 易方達深證100交易型開放式指數證券投資基金)	18,025,641	Renminbi ordinary shares
UBS AG	16,860,648	Renminbi ordinary shares
Shanghai Pudong Development Bank — Securities Investment Fund of Changxin Jinli Trend Stock Fund (上海浦東發展銀行 — 長信金利趨勢股票型證券投資基金)	14,699,936	Renminbi ordinary shares
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	14,532,914	Renminbi ordinary shares
ICBC-Baoying Pan-Coastal Areas Growth Equity Securities Investment Fund	13,372,885	Renminbi ordinary shares
International Finance — HSBC — JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	11,594,617	Renminbi ordinary shares
DEUTSCHE BANK AKTIENGESELLSCHAFT	11,567,270	Renminbi ordinary shares
AB Property & Casualty Insurance — traditional insurance products	10,962,000	Renminbi ordinary shares

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2010, the top 10 shareholders, the top 10 shareholders not subject to trading moratorium and their respective shareholdings were as follows: *(continued)*

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

Explanations on the connected relationship or concerted action among the shareholders mentioned above	Anshan Iron and Steel Group Complex*, the largest shareholder of the Company, has no relationship with any of the other top 10 shareholders of the Company or any of the top 10 shareholders not subject to trading moratorium. Nor is Anshan Iron and Steel Group Complex* a party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Change in Shareholdings of the Shareholders of Listed Companies. The Company is not aware of any connected relationship among other shareholders of the Company or any parties acting in concert as provided in Procedures for the Administration of Information Disclosure for Change in Shareholdings of the Shareholders of Listed Companies.

3. Details of the controlling shareholder of the Company

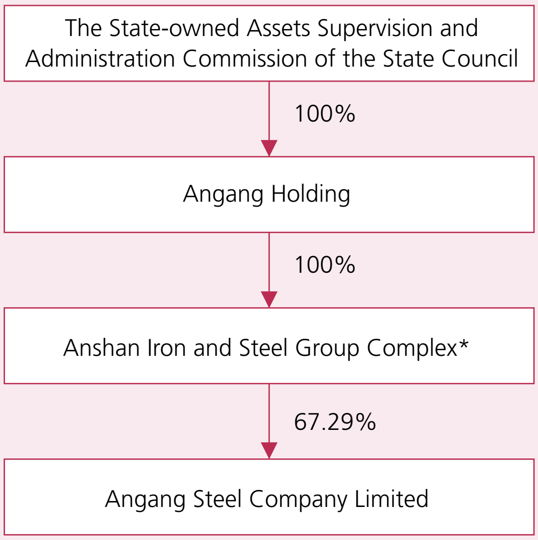
The controlling shareholder of the Company is Anshan Iron and Steel Group Complex*

Legal representative:	Zhang Xiaogang
Date of incorporation:	1948
Scope of operation:	Production of steel products, metal products (non-franchise), cast iron tubes, metal structures, metal wire and products, sintering and coking products, cement, power generation, metallurgical machinery equipment and parts, electrical machinery, electricity transmission and supply and control equipment and meters, mining of iron and manganese ores, refractory earth and stone extraction.
Principal products:	Steel pressing products and metal products
Registered capital:	RMB10,794 million
Shareholding structure:	Wholly-owned by the PRC

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS *(continued)*

4. Ownership and controlling relationship between the Company and its de facto controller



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

Save for disclosed below, as at 31 December 2010, no other person (other than the Company's Directors, Supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571, the Laws of Hong Kong):

Interest in ordinary shares of the Company

Name of shareholder	Number and class of shares held	Percentage in total share capital	Percentage in total issued H shares	Percentage in total issued domestic shares	Capacity
Anshan Iron and Steel Group Complex*	4,868,547,330 State-owned shares	67.29%	—	79.18%	Beneficial owner
HKSCC (Nominees) Limited	1,064,896,048 H shares	14.72%	98.07%	—	Nominee

Movement in Share Capital and Shareholders' Profile *(continued)*

DETAILS OF SHAREHOLDERS *(continued)*

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

Unit: Share

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

Note: 4,340,884,709 shares held by Anshan Iron and Steel Group Complex* that were subject to trading moratorium were released from trading moratorium on 7 January 2011.

Summary of General Meeting

The Company convened the 2009 annual general meeting on 18 June 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 19 June 2010.

Biographies of Directors, Supervisors and Senior Management

MEMBERS OF THE BOARD

Executive Directors

Mr. Zhang Xiaogang, aged 57, a professor-level senior engineer holding a PhD degree in engineering, is the Chairman of the Company and General Manager of Anshan Iron and Steel Group Complex*. Mr. Zhang has obtained a bachelor's degree from Wuhan University, a master's degree from Northeastern University and a PhD degree from the Central Iron & Steel Research Institute. He has been working for Angang Holding over 30 years and has held various senior management positions in Angang Holding, including the Head of the Technology Department, the Deputy Chief Engineer, Anshan Iron and Steel Group Complex* and the General Manager of ANSI and the Standing Deputy General Manager of Anshan Iron and Steel Group Complex*. He is an alternate member of Seventeenth Central Committee of the Communist Party of China and representatives of the Eleventh National People's Congress. Mr. Zhang is an expert in metallurgical industry with extensive knowledge in the development and innovation of metallurgical technology. He was a member of the expert panel in the "State 863 and 973 Projects", Chairman of China Iron and Steel Association, and was awarded the First Prize for Scientific and Technological Progress by the state. Mr. Zhang is currently the Vice Chairman of World Steel Association (世界鋼鐵協會), a member of the expert panel of the Standardization Administration of China, the Director of the Steel Rolling Academic Committee and the Chairman of International Organization for Standardization ISO/PC17/SC17 and the Director of Low Alloy Steel Academic Committee of The Chinese Society for Metals.

Mr. Yang Hua, aged 49, is the Vice Chairman and the Secretary to the Party Committee of the Company and an associate professor. Mr. Yang graduated from the Faculty of Philosophy of Peking University with a master's degree in 1990. He joined Anshan Iron and Steel Group Complex* in the same year and has been a Deputy Head of the Education Division of Angang Party School, a Deputy Secretary to the Party Committee of Iron Smelting Plant and Half Continuous Rolling Plant of Anshan Iron and Steel Group Complex*, the Secretary to the Party Committee of Iron Smelting Plant of Angang Holding, the Head of Anshan Iron and Steel Group Complex*, Office, the Assistant to General Manager of Anshan Iron and Steel Group Complex*, the Secretary to the Party Committee of the Company, a Deputy Secretary to the Party Committee of Anshan Iron and Steel Group Complex* and the Secretary to the Party Committee of ANSI.

Mr. Chen Ming, aged 50, is the Vice Chairman and General Manager of the Company and a professor-level senior engineer. Mr. Chen graduated from Anshan Institute of Iron and Steel Technology with a master's degree in iron and steel metallurgy. He has been working for Angang Holding for over 20 years and has held various senior management positions within his term of office, including the General Engineer of No. 3 Steel Plant of Angang, the Vice Director and Director of No. 2 Steel Plant of Angang, a Deputy General Manager and the Head of Production Department of ANSI, the Head of the Planning and Development Department of Angang, the Head of Strategic Development Department of Angang and the Deputy General Manager and Acting General Manager of the Company.

Biographies of Directors, Supervisors and Senior Management *(continued)*

MEMBERS OF THE BOARD *(continued)*

Executive Directors *(continued)*

Mr. Yu Wanyuan, aged 50 is a Director of the Company, the Deputy General Manager of Anshan Iron and Steel Group Complex* and a professor-level senior accountant. Mr. Yu joined Anshan Iron and Steel Group Complex* in 1998. Mr. Yu graduated from Northeastern University with a bachelor's degree in mechanical engineering. He studied at School of Economics of Xiamen University in 1984. He obtained his second bachelor's degree in management engineering from Northeastern University in 1990. Mr. Yu has held the positions as Deputy Director of Financial Department of Northeastern University, the Accounting Director of Shenyang Xinji Real Estate Development Company, Deputy Chief Accountant of Northeastern University, the Assistant to General Manager, Deputy Chief Accountant, Chief Accountant and the Head of the Department of Finance and Accounting of Anshan Iron and Steel Group Complex*.

Mr. Fu Jihui, aged 59 is a Director, Secretary to the Board of the Company and a senior accountant. Mr. Fu graduated from Dongbei University of Finance and Economics with a master's degree in accounting. He joined Anshan Iron and Steel Group Complex* in 1969 and has held various positions including the Deputy Manager of the Finance Department.

Independent Non-executive Directors

Mr. Li Shijun, aged 67, is an Independent Non-executive Director of the Company. Mr. Li currently serves as a principal analyst of China Iron and Steel Association, Deputy Secretary-General of the Chinese Society for Metals. Mr. Li is a professor-level Senior Engineer. He graduated from Beijing Iron and Steel College with a bachelor's degree. Mr. Li had been, among others, Deputy Director of the Technology Division of Ministry of Metallurgical Industry, Deputy Director of the Planning and Development Division of the State Bureau of Metallurgical Industry and Executive Deputy Secretary General of China Iron and Steel Association.

Mr. Ma Guoqiang, aged 57, is an Independent Non-executive Director of the Company. Mr. Ma is currently Vice President of Dongbei University of Finance and Economics, a professor and tutor of doctorate candidates. He has obtained a master's degree from Dongbei University of Finance and Economics and a Ph.D degree from Chinese Academy of Social Sciences. He is concurrently an evaluation expert of the National Planning Office of Philosophy and Social Sciences, and Vice Chairman of the Chinese Taxation Institute. Mr. Ma has served in Dongbei University of Finance and Economy as a lecturer, the Deputy Head and Head of Taxation Department, the Dean of the Finance and Taxation School and the Assistant to the President of Dongbei University Finance and Economics.

Biographies of Directors, Supervisors and Senior Management *(continued)*

MEMBERS OF THE BOARD *(continued)*

Independent Non-executive Directors *(continued)*

Mr. Kwong Chi Kit, Victor, aged 44, is an Independent Non-executive Director of the Company. He is currently the financial controller of Anwell Technologies Limited, a company listed on the main board of the Singapore Exchange Limited. He has over 16 years of experience in the auditing, accounting and financial management in the commerce, manufacturing and public administration areas. Mr. Kwong is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwong has obtained a bachelor's degree in Commerce from Curtin University of Technology in Australia. Mr. Kwong is also an independent director of Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, and Get Nice Holdings Limited, a company also listed on the Hong Kong Stock Exchange.

MEMBERS OF THE SUPERVISORY COMMITTEE

Mr. Wen Baoman, aged 60, is the Chairman of the Supervisory Committee of the Company and the Deputy Secretary to the Communist Party Committee of Anshan Iron and Steel Group Complex*. Mr. Wen is also the President of the Angang Communist Party School, a member of the Standing Commission of Anshan Municipal Committee of the Communist Party of China and a senior politician. Mr. Wen graduated with a bachelor's degree from Liaoning Provincial Party School. Mr. Wen has been with Angang Holding for over 30 years and held various senior positions of Angang Holding, including the Secretary to the Committee of the Communist Youth League of Anshan Iron and Steel Group Complex*, the Head of the Office of the Communist Party Committee of Angang Holding, the Vice Chairman of the Labour Union of Anshan Iron and Steel Group Complex*, the Head of Propaganda Department of the Communist Party Committee of Angang Holding, a member of the Standing Committee of the Communist Party of Angang Holding, the Secretary to the Communist Party Committee of Angang Construction Company* and the Chairman of the Labour Union of Anshan Iron and Steel Group Complex*.

Mr. Shan Mingyi, aged 57, is a Supervisor of the Company and the Chairman of the Labour Union of the Company and a senior politician. Mr. Shan graduated from the correspondence education of Central Party's School majoring in economics and management. He joined Anshan Iron and Steel Group Complex* in 1969, and had been the Deputy Head and Head of the Organization Department, Director of Human Resources Department, Deputy Secretary to the Party Committee of Angang Machinery Manufacturing Co., Ltd., Vice Chairman of the Labour Union of Anshan Iron and Steel Group Complex*, and Chairman of the Labour Union of ANSI.

Biographies of Directors, Supervisors and Senior Management *(continued)*

MEMBERS OF THE BOARD *(continued)*

Supervisors from staff representatives:

Mr. Xing Guibin, aged 51, is a Supervisor, currently the secretary to a branch of the Party of the Company in the continuous casting operation area. Mr. Xing graduated from Liaoning Gongyun College with an associate degree. Mr. Xing joined Anshan Iron and Steel Group Complex* in 1981 and served as a worker, Head and Chief of the Boiler Division, Deputy Director and Director of the workshop, etc. He was recognized as a model worker in the national metallurgical industry in 1994 and a national model worker in 1995. He was granted one of the national outstanding youths award by the Communist Youth Party of the central government in 1996.

OTHER SENIOR MANAGEMENT MEMBERS

Ms. Zhang Lifen, aged 46, is the Deputy General Manager of the Company and a senior engineer. Ms. Zhang graduated from University of Science and Technology Beijing with a Master's degree in metallurgical material engineering. Ms. Zhang joined Anshan Iron and Steel Group Complex* in 1986 and has been the Assistant to Plant Manager, Deputy Plant Manager, Acting Plant Manager and Plant Manager of Wire Rod Plant of Anshan Iron and Steel Group Complex*, the Deputy General Manager and the Assistant to the General Manager of the Company.

Mr. Fu Wei, aged 51, is a Deputy General Manager of the Company and a senior engineer. Mr. Fu graduated from University of Science and Technology Beijing with a master's degree in Industrial Engineering. He joined Anshan Iron and Steel Group Complex* in 1982 and held various positions including the Assistant to the Plant Manager and Chairman of the Workers' Union of Cold Roll Plant Anshan Iron and Steel Group Complex*, the Deputy Head and Head of Facility Division, and Assistant to the General Manager of the Company.

Mr. Ma Lianyong, aged 49, is the Chief Accountant of the Company and a professor level senior accountant. Mr. Ma received a master's degree in industrial foreign trade and industrial accounting from Beihang University and a master's degree in management engineering from Northeastern University. Mr. Ma joined Anshan Iron and Steel Group Complex* in 1984, and served as the Chief Accountant of Angang Construction's Complex Construction and Installation Corporation and Anshan Yinzuo Group Company Limited, the Deputy Head of Fund Division of Finance Department of Angang Holding and the Deputy Head of Finance Department of ANSI.

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2010.

PRINCIPAL BUSINESS

The Company is a major steel manufacturer in the PRC. Its principal business includes production and sale of products including hot rolled products, cold rolled products, medium and thick plates and other steel products. The domestic market share of the Company's hot rolled sheets, cold rolled sheets, galvanized sheets, silicon steel, medium and heavy plates, wire rods, heavy rails and seamless steel pipes are 5.22%, 6.68%, 3.86%, 13.72%, 8.04%, 0.76%, 13.51% and 1.33%, respectively.

Principal business of the Group by industries and products (prepared in accordance with the PRC Accounting Standards)

Unit: RMB million

	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease of operating revenue compared with the previous year *(%)*	Increase/ decrease in operating cost compared with previous year *(%)*	Increase/ decrease in gross profit margin compared with the previous year *(percentage points)*
Principal business by industries						
Steel pressing and processing	92,212	82,486	10.55	31.62	29.62	1.38
Principal business by products						
Hot rolled products	27,231	24,779	9.00	7.56	6.23	1.14
Cold rolled products	38,726	31,886	17.66	60.30	49.66	5.85
Medium and thick plates	15,008	14,857	1.01	44.24	56.09	-7.51
Other steel products	7,769	7,042	9.36	3.34	8.21	-4.07

Report of the Directors *(continued)*

PRINCIPAL BUSINESS *(continued)*

Note:

1) The increase in operating revenue of hot rolled products was mainly due to the increase in product prices; the increase in operating cost was mainly attributable to the increase in prices of raw materials and fuels; the increase in gross profit margin was mainly due to the rise in product prices.

2) The increase in operating revenue of cold rolled products was primarily owing to i) the increase in product prices; ii) the growth in sales volume of products; the increase in operating cost was mainly due to 1) the expansion in products sales volume; 2) the rise in prices of raw materials and fuels, including imported ore, alloy, scrap steel and coal; the increase in gross profit margin was mainly attributable to increase in product prices and adjustment to product mix.

3) The increase in operating revenue from medium and thick plates was primarily due to the realization of production capacity of the thick plate production line of Bayuquan Branch, which resulted in the growth in production and sales volume; the increase in operating cost was due to i) the growth in sales volume of products; and ii) the increase in prices of raw materials and fuels, including imported ore, alloy, scrap steel and coal; the decrease in gross profit margin was primarily due to the fall in prices of welding and the thick plate products for export.

4) The increase in operating revenue of other steel products was primarily owing to the rise in product prices; the increase in operating cost was primarily owing to the increase in prices of raw materials; the decrease in gross profit margin was primarily owing to the more significant increase in cost than that in product price of heavy section products.

PRINCIPAL BUSINESS *(continued)*

Segmental information of operating revenue of the Group by geographical locations of sales (prepared in accordance with the PRC Accounting Standards)

Unit: RMB million

	Operating Revenue	Increase/decrease in operating revenue compared with the previous year *(%)*
Northeast China	33,647	40.17%
North China	12,122	9.33%
East China	21,176	19.11%
South China	14,714	29.37%
Central south China	1,556	25.99%
Northwest China	996	44.35%
Southwest China	390	-12.75%
Export sales	7,830	123.14%
Total	92,431	31.81%

PROFIT DISTRIBUTION FOR THE REPORTING PERIOD

On 18 June 2010, the Company convened its 2009 annual general meeting in Anshan, at which the 2009 profit distribution plan was considered and approved. It was resolved to distribute a cash dividend of RMB0.6 per 10 shares based on the total share capital of 7,234,807,847 shares for year 2009. On 30 June 2010, the Company distributed cash dividends to holders of H shares. The applicable exchange rate was the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the general meeting, being HK$100 to RMB87.645. The cash dividends actually paid to holders of H shares was HK$74 million. On 30 June 2010, the Company distributed cash dividends to holders of circulating A shares and state-owned shares, totaling RMB369 million. The cash dividends for 2009 distributed by the Company were RMB434 million in total.

Report of the Directors *(continued)*

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

As at 31 December 2010, effective interests in the Company's issued share capital held by Directors, Supervisors and senior management were as follows:

Name	Position	Gender	Age	Terms of appointment	Number of shares held as at 1 January 2010 *(Share)*	Number of shares held as at 31 December 2010 *(Share)*	Reason of Change
Zhang Xiaogang	Chairman	Male	57	2009.06-present	0	0	—
Yang Hua	Vice Chairman	Male	49	2009.06-present	0	0	—
Chen Ming	Vice Chairman General Manager	Male	50	2009.06-present 2010.12-present	610	610	
Yu Wanyuan	Director	Male	50	2009.06-present	16,317	16,317	—
Fu Jihui	Director, Secretary to the Board	Male	59	2009.06-present	8,540	8,540	—
Li Shijun	Independent Non-executive Director	Male	67	2009.06-present	0	0	—
Ma Guoqiang	Independent Non-executive Director	Male	57	2009.06-present	0	0	—
Kwong Chi Kit, Victor	Independent Non-executive Director	Male	44	2009.09-present	0	0	—
Wen Baoman	Chairman of the Supervisory Committee	Male	60	2009.06-present	0	0	—
Shan Mingyi	Supervisor	Male	57	2009.06-present	5,124	5,124	—
Xing Guibin	Supervisor	Male	51	2009.06-present	0	0	—
Zhang Lifen	Deputy General Manager	Female	46	2009.11-present	0	0	—
Fu Wei	Deputy General Manager	Male	51	2000.08-present	15,372	15,372	—
Ma Lianyong	Chief Accountant	Male	49	2002.03-present	0	0	—

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

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

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange.

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

1. Mr. Zhang Xiaogang, Chairman of the Company, has served as the General Manager of Anshan Iron and Steel Group Complex* since January 2007.

2. Mr. Yu Wanyuan, Director of the Company, has served as the Deputy General Manager of Anshan Iron and Steel Group Complex* since December 2001.

3. Mr. Wen Baoman, Chairman of the Supervisory Committee of the Company, has served as the Deputy Secretary of Party Committee of Anshan Iron and Steel Group Complex* since May 2005.

Report of the Directors *(continued)*

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	**Position**	**Total remuneration received from the Company during the reporting period (Inclusive of tax)** *(RMB0'000)*	**Whether receiving remuneration from the shareholders of the Company or other associated entities**
Zhang Xiaogang	Chairman	0	Yes
Yang Hua	Vice Chairman	42.3	No
Chen Ming	Vice Chairman, General Manager	40.3	No
Yu Wanyuan	Director	0	Yes
Fu Jihui	Director, Secretary to the Board	36.6	No
Li Shijun	Independent Non-executive Director	9.0	No
Ma Guoqiang	Independent Non-executive Director	9.0	No
Kwong Chi Kit, Victor	Independent Non-executive Director	9.0	No
Wen Baoman	Chairman of the Supervisory Committee	0	Yes
Shan Mingyi	Supervisor	37.3	No
Xing Guibin	Supervisor	15.6	No
Zhang Lifen	Deputy General Manager	35.6	No
Fu Wei	Deputy General Manager	37.4	No
Ma Lianyong	Chief Accountant	37.2	No
Total	—	309.3	—

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

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

1. The 12th meeting of the fifth session of the Board was convened on 21 June 2010, at which the resignation of Mr. Liu Wei as the independent non-executive director of the Company was passed.

2. The 17th meeting of the fifth session of the Board was convened on 29 December 2010, at which the resignation of Mr. Chen Ming as the acting general manager of the Company, and the appointment of him as the deputy general manager of the Company were passed.

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLED COMPANIES AND JOINT VENTURES (PREPARED UNDER THE PRC ACCOUNTING STANDARDS)

No.	Name of controlled company or joint venture	Shareholding	Major products or services	Registered capital	Total assets as at 31 December 2010 *(RMB million)*	Net profit for the year ended 31 December 2010 *(RMB million)*
1	Angang Steel Logistics (Wuhan) Company Limited	100%	Production, processing, wholesale and retail business of steel and relevant products	RMB60 million	61	—
2	Angang Putian	100%	Ferrous metal rolling process, production of steel rolling co-products and metallurgical parts, sales and processing of steel products and related services	RMB800 million	1,811	-6
3	Angang Tian Tie	50%	Steel rolling and processing; production, processing and sales of cold rollled sheets, galvanized sheets and colour coated sheets; metallurgy equipment technology advisory service, technological service (excluding intermediaries); import and export business	RMB3,700 million	8,754	-177
4	ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS")	50%	Production of rolled hot dip galvanised steel products and alloyed steel plate and strip products, sale of self-produced products and provision of after-sales services	USD132 million	2,797	511
5	ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Company Limited	50%	Processing of steel products, and manufacturing, distribution and sale of structural steel.	RMB380 million	1,880	22
6	Changchun FAM Steel Processing and Distribution Co., Ltd.	50%	Processing and production of steel products and related services	RMB90 million	372	35
7	ANSC-TKS Changchun Steel Logistics Co., Ltd.	50%	Production, processing, sales services of steel products, steel services products and other related commercial activities	USD12 million	387	23

In particular, the impact of ANSC-TKS on the net profit of the Company for 2010 reached more than 10%. The operating income of ANSC-TKS in 2010 amounted to RMB4,394 million and the operating profit amounted to RMB562 million.

Report of the Directors *(continued)*

MAJOR SUPPLIERS AND CUSTOMERS

The total amount of purchase from the Company's five largest suppliers was RMB41,557 million, representing 55.12% of the Company's total purchase for the year, 24.73% of which was attributable to the Company's largest supplier. The sales to the Company's five largest customers aggregated to RMB21,710 million, representing 23.54% of the Company's total turnover for the year and the largest customer accounted for 8.41%.

Except for those disclosed in this annual report, none of the Directors, Supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold 5% or more of the shares of the Company) had any interest in any of the aforementioned suppliers or customers of the Company during 2010.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Mr. Kwong Chi Kit, Victor, an Independent Director of the Company who has been a Director since 18 September 2009, entered into a service contract with the Company starting from 18 September 2009. Other Directors and Supervisors have entered into service contracts with a term of three years starting from 12 June 2009. All Directors and Supervisors' contracts of the Company shall expire upon the election of Directors of the sixth session of the Board at the 2011 Annual General Meeting. No Director or Supervisor has entered into any service contract with the Company which may be terminated by the Company within one year and compensation shall be paid other than statutory compensation.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

In 2010, none of the Directors or Supervisors of the Company had any material interests in any contracts in which the Company, or the holding companies or any of its subsidiaries were involved.

PROPERTY, PLANT AND EQUIPMENT

Changes in the property, plant and equipment during the year are set out in note 12 to financial statements prepared in accordance with IFRSs on pages 243 to 245 of this annual report.

OPERATING RESULTS

The results of the Company for the year ended 31 December 2010 and its financial position as at that date are set out in the financial statements prepared in accordance with IFRSs included in this annual report.

SHARE CAPITAL

Changes in share capital during the year are set out in note 26 to the financial statements prepared in accordance with IFRSs on pages 255 to 257 of this annual report.

RESERVES

Changes in the reserves during the year are set out in note 28 to financial statements prepared in accordance with IFRSs on pages 258 to 259 of this annual report.

EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 34 to financial statements prepared in accordance with IFRSs on page 267 of this annual report.

CONTINUING CONNECTED TRANSACTIONS

Details of continuing connected transactions for the year are set out on pages 71 to 78 of this annual report.

FIVE-YEARS SUMMARY

A summary of the results and statement of financial position of the Company for the past five years are set out on pages 277 to 278 of this report.

CHAPTER 13 DISCLOSURE

The Directors confirmed that there was no matter occurring in 2010 which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor did the Company sign loan agreements imposing specific performance obligations on the controlling shareholders.

Report of the Directors *(continued)*

SUFFICIENT PUBLIC SHAREHOLDINGS

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

AUDITORS

RSM Nelson Wheeler (Certified Public Accountants in Hong Kong) and RSM China Certified Public Accountants (Special General Partnership) (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2010.

A resolution for the appointment of RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler as the Company's domestic and international auditors, respectively, for 2011 will be proposed at the 2010 Annual General Meeting to be held on 30 May 2011.

WORKING REPORT OF THE BOARD

The Board meetings during the reporting period

1. The fifth session of the Board of the Company convened the 8th meeting on 20 January 2010, at which the resolution in relation to the capital increase in favour of WISDRI Engineering and Research Incorporation Limited was considered and approved.

2. The fifth session of the Board of the Company convened the 9th meeting on 29 January 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 30 January 2010.

3. The fifth session of the Board of the Company convened the 10th meeting on 19 April 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 20 April 2010.

4. The fifth session of the Board of the Company convened the 11th meeting on 29 April 2010, at which the first quarterly report of the Company for 2010 and its summary were considered and approved.

5. The fifth session of the Board of the Company convened the 12th meeting on 21 June 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 22 June 2010.

WORKING REPORT OF THE BOARD *(continued)*

The Board meetings during the reporting period *(continued)*

6. The fifth session of the Board of the Company convened the 13th meeting on 11 August 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 12 August 2010.

7. The fifth session of the Board of the Company convened the 14th meeting on 17 August 2010, at which 2010 Interim Report was considered and approved.

8. The fifth session of the Board of the Company convened the 15th meeting on 29 October 2010, at which the third quarterly report of the Company for 2010 and its summary were considered and approved.

9. The fifth session of the Board of the Company convened the 16th meeting on 20 December 2010, at which the proposals in relation to the Company's investment in Dalian Shipping Heavy Industry Group Shipbuilding Co., Ltd. (大連船舶重工集團船務工程有限公司) and the Company's investment in Dalian Shipbuilding Group Steel Industry Co., Ltd. (大連造船廠集團鋼業公司) were considered and approved.

10. The fifth session of the Board of the Company convened the 17th meeting on 30 December 2010, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 31 December 2010.

Execution of the resolutions passed at general meetings by the Board

On 18 June 2010, the Company convened its 2009 annual general meeting in Anshan, at which the 2009 profit distribution plan was considered and approved. It was resolved to distribute a cash dividend of RMB0.6 per 10 shares based on the total share capital of 7,234,807,847 shares. On 30 June 2010, the Company distributed cash dividends to holders of H shares. The applicable exchange rate was the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the general shareholder meeting for that year, being HK$100 to RMB87.645. The cash dividends actually paid to holders of H shares was HK$74 million. On 30 June 2010, the Company distributed cash dividends to holders of circulating A shares and state-owned shares; in a total amount of RMB369 million. The cash dividend for 2009 distributed by the Company was RMB434 million in total.

Performance of duties of the audit committee under the Board

For performance of duties by the audit committee, please refer to the content concerning the audit committee in Corporate Governance Report as set out in page 65 of this report.

Report of the Directors *(continued)*

WORKING REPORT OF THE BOARD *(continued)*

Performance of duties of remuneration and evaluation committee under the board

Please refer to the content concerning Remuneration and Evaluation Committee in Corporate Governance Report as set out in page 63 of this report.

Implementation of the management system on insider information holders ("內幕信息知情人管理制度")

During the reporting period, the Company implemented the management system on insider information holders with strict compliance, and no insider information holder was found using insider information before the disclosure of material and sensitive information that will affect the shares prices of the Company to deal in the Company's shares.

Responsibility of internal control and working plans

It is the responsibility of the Board of the Company to establish a complete and comprehensive internal control system with effective implementation.

For the sake of effective implementation of the two standardizations under the internal control system for 2011, the Company will ensure the consistent implementation of complementary guidelines (配套指引) through inspecting the existing management standard of internal control and complying with its requirements, and will refine the following working plans on internal control management system:

1. **Working plans for establishment of internal control**

   Stage 1 (to be completed before 31 July 2011)

   (1) Organize various departments of the Company for understanding and learning of Application Guidelines for Internal Control of Enterprise (《企業內部控制應用指引》) and the implementation of department functions. According to the requirements of application guidelines, the Company will amend those incompliance of the existing internal control management system. Meanwhile, the Company will reconfirm the standardized implementation scope under internal control which covers various business flows of the Company and the subsidiaries, streamline the inherent risks thereof, and confirm and determine the risk inventory;

   (2) Engage an external auditing firm or consultancy firm.

WORKING REPORT OF THE BOARD *(continued)*

Responsibility in internal control and working plans *(continued)*

1. Working plans of internal control building *(continued)*

Stage 2 (to be completed before 31 October 2011):

The Company will prefect the internal control system in accordance with the Company's actual situation together with the specifications and requirements of its internal control:

(1) to engage external institutions to conduct evaluation in respect of the establishment of the Company's internal control system and to formulate reform proposal for internal control system in light of the faults discovered;

(2) to put into practice the reform proposal, including the adjustment of organizational structure and procedures (if applicable), amendments to policies and systems and deployment of staff;

(3) to inspect the results of reform;

(4) to disclose the actual work implementation of internal control.

II. Working plan of self-evaluation on internal control

The Company plans to complete the work of self-evaluation by the end of 2011:

(1) to prepare the working plan of self-evaluation, determine the subsidiaries and business flows to be included in the self-evaluation and confirm the specific schedule and staff assignment for the evaluation work;

(2) to resolve the standards for evaluation on the faults of internal control and to conduct comparative analysis in accordance with the qualitative criteria and quantitative criteria;

(3) to conduct systematic evaluation on the operation of the Company's internal control system;

(4) to find out and evaluate the faults discovered in the operation of Company's internal control system as well as to prepare a summary of fault evaluation. Meanwhile, the Company will propose reform suggestion, prepare the list of reforms and classify faults into general defects, significant defects and material defects according to the severity;

(5) to prepare the self-evaluation report of internal control and timely disclose as required.

Report of the Directors *(continued)*

WORKING REPORT OF THE BOARD *(continued)*

Responsibility in internal control and working plans *(continued)*

III. Audit working plan on internal control

The Company plans to complete the audit work of internal control before the disclosure of the 2011 annual report and disclose the audit report of internal control under requirements:

(1) to determine the auditing firm for internal control by the end of June 2011;

(2) to complete the audit work of internal control before the disclosure of 2011 annual report;

(3) to disclose the self-evaluation report and the audit report of internal control when the 2011 annual report is disclosed.

By order of the Board
Zhang Xiaogang
Chairman

29 March 2011

Report of the Supervisory Committee

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

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

1. The fifth Supervisory Committee of the Company convened the 4th meeting on 19 April 2010, at which the following resolutions were considered and approved:

   (1) To approve the Company's 2009 Annual Report and its summary;

   (2) To approve the Work Report of the Supervisory Committee of the Company for 2009;

   (3) To approve the Proposed Remuneration for Supervisors of the Company for 2009;

   (4) To approve the Self-evaluation Report on Internal Control of the Company for 2009.

2. The fifth Supervisory Committee of the Company convened the 5th meeting on 29 April 2010, at which the 2010 First Quarterly Report of the Company and its summary were considered and approved.

3. The fifth Supervisory Committee of the Company convened the 6th meeting on 17 August 2010, at which the 2010 Interim Report of the Company and its summary were considered and approved.

4. The fifth Supervisory Committee of the Company convened the 7th meeting on 29 October 2010, at which the 2010 Third Quarterly Report of the Company and its summary were considered and approved.

(II) In 2010, the Supervisory Committee of the Company also monitored the Company's operations to ensure compliance with the relevant laws and regulations, such as the Company Law, and the articles of association of the Company. It examined the connected transactions entered into between the Company and Anshan Iron and Steel Group Complex* and reviewed the relevant information in order to ensure the fairness of such transactions.

Report of the Supervisory Committee *(continued)*

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

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

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

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

4. The Company's actual investment projects financed by the latest raised proceeds were in line with the projects undertaken.

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

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

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

29 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

Challenged with the fierce competitions in the iron and steel industry during 2010, all of the staff of the Company endeavored to put the principle of "ensuring the stable operation, maintaining the production capacity, improving all-round indicators as well as reducing the costs and increasing the efficiency" into practices through joint and concerted efforts, thus keeping a solid momentum in production and operation with progress in all aspects.

Operating results

Based on the IFRSs, the Group recorded the annual profit attributable to owners of the Company of RMB2,054 million for the year ended 31 December 2010, representing an increase of 174.60% as compared with the previous year, and its basic earnings per share was RMB0.284.

Based on the PRC Accounting Standards, the Group recorded a net profit attributable to shareholders of the Company of RMB2,039 million for the year ended 31 December 2010, representing an increase of 180.47% as compared with the previous year, and its basic earnings per share was RMB0.282.

Analysis on the Group's Financial and Operational Status

Prepared under the PRC Accounting Standards *Unit: RMB million*

Item	**2010**	2009	Change (%)
Total assets	**105,114**	100,987	4.09
Non-current liabilities	**13,369**	11,702	14.25
Shareholders' equity	**55,345**	53,798	2.88
Operating revenue	**92,431**	70,126	31.81
Profit from operations	**2,253**	789	185.55
Net profit	**1,950**	686	184.26
Net increase in cash and cash equivalents	**1,409**	-732	292.49

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

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

Prepared under the IFRSs

Unit: RMB million

Item	2010	2009	Change (%)	Reason for change
Total assets	**107,119**	103,254	3.74	A
Non-current liabilities	**13,308**	11,641	14.32	B
Equity attributable to owners of the Company	**54,052**	52,419	3.12	C
Turnover	**92,212**	70,057	31.62	D
Gross profit	**6,518**	4,153	56.95	D
Profit for the year attributable to owners of the Company	**2,054**	748	174.60	D
Net increase in deposits with banks, cash and cash equivalents	**1,409**	–732	292.49	E

Notes:

A. The increase of RMB3,865 million in total assets as compared with the end of the previous year was mainly attributable to (1) the increase of the net profit of the Company; and (2) the issuance of short-term debentures by the Company.

B. The increase of RMB1,667 million in non-current liabilities as compared with the end of the previous year was mainly attributable to (1) the increase of the Company's long-term borrowings; and (2) the increase in assets-related government subsidies for the year received by the Company.

C. The increase of RMB1,633 million in equity attributable to owners of the Company as compared with the end of the previous year was mainly attributable to (1) the increase of RMB1,387 million in retained profits (in which, the net profit attributable to owners of the Company has increased by RMB2,054 million in the year; the payment of the dividends for 2009 has reduced by RMB434 million; the withdrawal of surplus reserve for transfer of reserve has reduced by RMB213 million and the transfer of reserve for the provision of safety production expenses has reduced by RMB20 million); (2) the increase of RMB246 million in reserves (in which, the provision of surplus reserve accounted at 10% of the profit after tax has increased by RMB213 million; the special reserve for the provision of safety production expenses has increased by RMB20 million and the changes in fair value of available-for-sale financial assets has increased by RMB13 million).

BUSINESS REVIEW *(continued)*

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

Notes: (continued)

D. The increase of turnover, gross profit and the profit for the year attributable to owners of the Company was mainly attributable to (1) the increase in the product price; (2) the Company's efforts in enhancing the adjustment over the product structure and improving the production and sales volume of highly-effective products given the improvement in the steel product market; and (3) the reinforced measures in reducing costs and improving efficiency to substantially cut down the costs of procedures in response to the adverse impact from the hike of price of raw materials and fuel.

E. The net increase of RMB2,141 million in deposits with banks, cash and cash equivalents as compared with the previous year was mainly attributable to (1) an increase of RMB4,479 million in net cash inflow from operating activities as compared with the previous year arising from the increase in net profit and operating payables; (2) a decrease of RMB445 million in net cash outflow from investing activities as compared with the previous year due to a reduction in the acquisition of fixed assets and expenditures of construction in progress; and (3) the increase of RMB2,783 million in net cash outflow from financing activities as compared with the previous year due to the larger amount of cash payments for borrowings as compared with the cash received from borrowings for the year.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

Changes in financial figures including the Group's assets and expenses

Prepared under the PRC Accounting Standards *Unit: RMB million*

Item of Balance Sheet	31 December 2010 Amount	31 December 2010 As a percentage in total assets %	31 December 2009 Amount	31 December 2009 As a percentage in total assets %	Increase/decrease of percentage in total assets as at the end of the year as compared with the end of the previous year *(percentage points)*
Cash at banks and on hand	**3,651**	**3.47**	2,242	2.22	1.25
Prepayments	**8,380**	**7.97**	6,212	6.15	1.82
Construction in progress	**5,277**	**5.02**	10,588	10.48	-5.46
Construction materials	**1,047**	**1.00**	2,334	2.31	-1.31
Bills payables	**4,879**	**4.64**	3,509	3.47	1.17
Accounts payables	**4,683**	**4.46**	3,318	3.29	1.17
Other current liabilities	**3,023**	**2.88**	42	0.04	2.84
Other non-current liabilities	**591**	**0.56**	139	0.14	0.42

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

1) The increase of RMB1,409 million in cash at banks and on hand as compared with the end of the previous year was mainly attributable to (1) the net cash inflow of RMB9,026 million from the Company's operating activities; (2) the net cash outflow of RMB4,750 million from investing activities such as the acquisition of fixed assets, intangible assets and other long-term assets; and (3) the net cash outflow of RMB2,867 million from financing activities such as repayment of debts.

2) The increase of RMB2,168 million in prepayments as compared with the end of the previous year was mainly attributable to the increase in prepayments for imported raw materials and fuel and the payment for domestic procurements driven by the expansion of production capacity and the rising costs of raw materials and fuel.

BUSINESS REVIEW *(continued)*

Changes in financial figures including the Group's assets and expenses *(continued)*

Notes: (continued)

3) The decrease of RMB5,311 million in expenditures of construction in progress as compared with the end of the previous year was mainly attributable to the transfer from construction in progress to fixed assets after completion of Bayuquan, Tian Tie and silicon steel projects.

4) The decrease of RMB1,287 million in construction materials as compared with the end of the previous year was mainly attributable to the consumption by construction projects.

5) The increase of RMB1,370 million in bills payables as compared with the end of the previous year was mainly contributable to the increase in the procurement expenses driven by the expansion of production and sales volumes and the increase in prices of raw materials and fuel.

6) The increase of RMB1,365 million in accounts payables as compared with the end of the previous year was mainly attributable to the increase of the procurement expenses driven by the expansion of production and sales volume and the increase in prices of raw materials and fuel.

7) The increase of RMB2,981 million in other current liabilities as compared with the end of the previous year was mainly attributable to the issuance of short-term debentures of RMB3,000 million during the year by the Company.

8) The increase of RMB452 million in other non-current liabilities as compared with the end of the previous year was mainly attributable to the increase of assets-related government subsidies received by the Company for the year.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

Changes in financial figures including the Group's assets and expenses *(continued)*

Prepared under the PRC Accounting Standards *Unit: RMB million*

Item of Income Statement	2010	2009	Increase (+)/ decrease (-) from the previous year %
Selling expenses	**1,622**	1,081	50.05
Administrative expenses	**3,441**	2,962	16.17
Financial expenses	**1,249**	902	38.47
Income tax expense	**408**	157	159.87

Notes:

1) The increase of RMB541 million in selling expenses as compared with the previous year was mainly attributable to (1) the increase of sales volume of products; (2) the increase in package expenses due to the increase in sales volume and packaging materials costs; (3) the increase in export transportation expenses, export operation fees and consigned sale handling charge due to the increased export volume; (4) the increase in railway, seaway and highway transportation expenses due to the increased CIF settlement amounts and transportation fees; and (5) the increase of RMB37 million in selling expenses arising from the consolidation of financial statements of Angang Tian Tie for the year.

2) The increase of RMB479 million in administrative expenses as compared with the previous year was primarily attributable to (1) the increase in, among others, the repairing costs, tax expenses, assistance fees and maintenance fees arising from the expansion of the Company's production and sales volumes; and (2) the increase of RMB41 million in administrative expenses arising from the consolidation of financial statements of Angang Tian Tie for the year.

3) The increase of RMB347 million in financial expenses as compared with the previous year was primarily attributable to (1) the decrease in capitalized interests as a result of the decreased construction expenses; and (2) the increase of RMB89 million in financial expenses due to the consolidation of financial statements of Angang Tian Tie for the year.

4) The increase of RMB251 million in income tax expense as compared with the previous year was primarily attributable to the total increased profit of the Company.

BUSINESS REVIEW *(continued)*

Components of cash flows generated from the Group's operating activities, investing activities and financing activities

Prepared under the PRC Accounting Standards *Unit: RMB million*

Item	2010	2009	Main reason for change
Net cash flows from operating activities	**9,026**	4,549	The increase in net cash inflow from operating activities as compared with the previous year was mainly attributable to the increase in net profit for the year and operating payables.
Net cash flows from investing activities	**-4,750**	-5,213	The decrease in net cash outflow from investing activities as compared with the previous year was mainly due to the decreased acquisitions of fixed assets and expenses of construction work in progress.
Net cash flows from financing activities	**-2,867**	-68	The increase in net cash outflow from financing activities was mainly due to the increase in cash repayment of borrowings during the year.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

Items related to fair value measurement

Prepared under the PRC Accounting Standards *Unit: RMB million*

Item		Balance at the beginning of the period	Gains or losses arising from changes in fair value for the period	Gains or losses arising from changes in fair value reported in equity	Impairment made for the period	Balance at the end of the period
Financial assets						
Including:	1. Financial assets at fair value through profit or loss					
	2. Available-for-sale financial assets	161	0	13	0	179
Subtotal of financial assets		161	0	13	0	179
Financial liabilities						
Total		161	0	13	0	179

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

The Company has no financial asset in foreign currency.

Management Discussion and Analysis *(continued)*

BUSINESS REVIEW *(continued)*

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

As of 31 December 2010, the Company had 29,875 employees, of which 20,359 were production staff, 283 were sales staff, 2,988 were technicians, 274 were accounting staff and 2,234 were administration personnel. Of the Company's employees, 6,290 held bachelor or higher degrees, representing 21.05% of the total number of the employees; 7,104 held diplomas, representing 23.78% of the total number of the employees and 12,394 held the certificate of secondary education, representing 41.49% of the total number of the employees.

In 2010, 19,247 employees attended and completed centralized training course and 20,952 employees attended on-the-job training. 471 member counts of senior management attended training for, among others, political theory knowledge, strategy management, and 7,175 counts of management technology staff attended training for management knowledge, computer, English, expertise and studying in institutes and colleges. 6,119 production staff counts attended training for technical grades, computer and equipment inspection. 5,482 employee counts attended training for specialized operation security qualifications. 20,952 employee counts attended training for operating skills, 2,147 employees attended training for team and group security management knowledge, 67 employees attended training for on-the-job studying for master's or doctor's degree and 4,015 employee counts attended other trainings. As a result of these trainings, the overall quality of employees had been improved, which equipped the Company with competent human resources for the achievement of production and operation targets.

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

Management Discussion and Analysis *(continued)*

INVESTMENT OF THE COMPANY

External investment

The Company's external investment for 2010 aggregated to RMB825 million, representing an increase of 26.53% over RMB652 million last year.

In particular, the Company invested RMB800 million and RMB25 million, in Angang Putian and WISDRI Engineering & Research Incorporation Limited respectively.

Investment projects not funded by proceeds and the progress thereof:

Unit: RMB million

Project name	Project budget amount	Project progress	Project proceeds
High performance cold rolling silicon steel production line	3,400	87%	-41
Seamless φ177 petroleum pipeline	817	90%	-7
Wire production line renovation	629	87%	0
Project of benzene hydrogenation	385	99%	12
Total	5,231	—	-36

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP (UNDER THE IFRSs)

As of 31 December 2010, the Group had long-term loans of RMB12,717 million (exclusive of loans due within one year) with interest rates ranging from 4.86% to 5.94% per annum. Under the terms of 3 to 25 years, the loans will expire in 2012 to 2030. The loans are mainly used for replenishing working capital and project capital. The Group's long-term loans due within one year amounted to RMB5,961 million. With good credibility and relatively high profitability of products, the Group will have sufficient cash to repay the existing liabilities falling due in the future.

Management Discussion and Analysis *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP (UNDER THE IFRSs) *(continued)*

As of 31 December 2010, the Group's cash and cash equivalents increased by RMB1,409 million to RMB3,651 million from RMB2,242 million in the previous year, which was mainly attributable to (1) net cash inflow from operating activities of RMB7,450 million; (2) net cash outflow from investing activities of RMB4,795 million; (3) net cash outflow from financing activities of RMB1,246 million.

As at the end of 2010, the Group's total assets less current liabilities amounted to RMB68,637 million, compared with RMB65,426 million at the end of 2009.

The shareholders' equity of the Group amounted to RMB55,329 million at the end of 2010, compared with RMB53,785 million at the end of 2009.

PLEDGED ASSETS

The Group has a short-term borrowings of RMB200 million at the end of the year, which was the pledged borrowings of Tianjin Tiantie borrowed from Tianjin Binhai Rural Commercial Bank (天津濱海農村商業銀行). Certain constructions in progress of Tian Tie Project were pledged for the borrowings, which has a carrying value of RMB717 million, with a collateral term starting from 31 October 2010 to 30 October 2011.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2010, the Group had capital commitments of RMB4,303 million, which was primarily attributable to construction and renovation contracts entered into but not performed or performed partially and external investment contracts entered into but not performed or performed partially.

As at 31 December 2010, the Group did not have any contingent liabilities.

FOREIGN EXCHANGE RISK

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

GEARING RATIO

Under the IFRSs, the ratio of the Group's shareholders' equity to liabilities in 2010 was 1.07 times (2009: 1.09 times).

Corporate Governance

STRUCTURE OF CORPORATE GOVERNANCE OF THE COMPANY

In strict compliance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Company has regulated its operations and established a sound corporate governance system.

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

DISCHARGE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Attendance of the independent non-executive Directors at the Board meetings of the Company in 2010 are set out as follows:

Name of independent non-executive Director	Required attendance at the Board meetings *(number of times)*	Attendance in person *(number of times)*	Attendance by proxy *(number of times)*	Absence *(number of times)*	Remark
Li Shijun	10	9	1	0	—
Ma Guoqiang	10	10	0	0	—
Kwong Chi Kit, Victor	10	9	1	0	—
Liu Wei	5	4	1	0	Tenure expired as at June 2010

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

APPRAISAL AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT

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

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

Since the Hong Kong Stock Exchange promulgated the Code on Corporate Governance Practices (abbreviated as the "Code"), the Company has improved its corporate governance in line with principles of the Code. During the reporting period, the Company has been in compliance with all provisions of the Code and most of the recommended best practices.

Securities Transactions of Directors

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

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

CORPORATE GOVERNANCE REPORT *(continued)*

Independent Non-executive Directors

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

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

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees

① Composition of the Board

The current session of the Board of the Company comprises 8 members including 1 Chairman, 4 executive directors and 3 independent non-executive directors. The number of independent non-executive directors of the Company represents over one-third of members of the Board.

The Board of the Company establishes 4 special committees, which are all comprised of directors. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Evaluation Committee are independent non-executive directors who are also the conveners. There is at least one independent non-executive director in the Audit Committee who possesses professional qualifications in accounting. Each of the special committees reports to the Board and submits proposals to the Board for consideration and approval. Members of the Board of the Company and their attendance in 2010 are as follows:

Name	Position in the Board	Attendance to meetings
Zhang Xiaogang	Chairman	100%
Yang Hua	Executive Director	100%
Chen Ming	Executive Director	100%
Yu Wanyuan	Executive Director	100%
Fu Jihui	Executive Director	100%
Li Shijun	Independent non-executive Director	100%
Ma Guoqiang	Independent non-executive Director	100%
Kwong Chi Kit, Victor	Independent non-executive Director	100%
Liu Wei	Former Independent non-executive Director	100%

The directors (including independent non-executive directors) are subject to a term of 3 years and may offer themselves for re-election.

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

② Duties and Operation of the Board

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

i. to convene and report at the general meetings;

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

② Duties and Operation of the Board *(continued)*

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

In 2010, the Board of the Company held a total of 10 Board meetings.

③ Remuneration and Evaluation Committee

The members of the Remuneration and Evaluation Committee of the Company and their attendance in 2010 are as follows:

Name	Position in the Committee	Attendance to meetings
Liu Wei	the former convener	100%
Kwong Chi Kit, Victor	convener	—
Li Shijun	member	100%
Yang Hua	member	100%
Yu Wanyuan	member	100%

Main duties of the Remuneration and Evaluation Committee are:

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

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

In 2010, the Remuneration and Evaluation Committee of the Company held 1 meeting. During the meeting, the performance of the directors and senior management personnel of the Company during 2009 was assessed and their remunerations during 2009 were reviewed, and submitted to the Board for consideration.

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

③ Remuneration and Evaluation Committee *(continued)*

In March 2011, the Remuneration and Evaluation Committee of the Company held a meeting, at which the performance of directors and senior management personnel of the Company during 2010 was assessed and the corresponding remunerations during 2010 were examined. The Remuneration and Evaluation Committee was of opinion that remunerations of directors and senior management personnel in 2010 were linked to overall operating results, performance and operating indicators assumed by individuals, which played an active role in stimulating the initiatives of directors and senior management personnel and was in line with the level of domestic counterparts.

④ Nomination Committee

The members of the Nomination Committee of the Company and their attendance in 2010 are as follows:

Name	Position in the Committee	Attendance to meetings
Li Shijun	convener	100%
Zhang Xiaogang	member	100%
Ma Guoqiang	member	100%
Fu Jihui	member	100%

Main duties of the Nomination Committee are:

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

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

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

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

④ Nomination Committee *(continued)*

In 2010, the Nomination Committee of the Company held 1 meeting to nominate the General Manager of the Company in accordance with the qualification requirements and the relevant laws and regulations and the articles of association of the Company and to submit the same for the consideration of the Board.

⑤ Audit Committee

The members of the Audit Committee of the Company and their attendance in 2010 are as follows:

Name	Position in the Committee	Attendance to meetings
Ma Guoqiang	convener	100%
Liu Wei	former member	100%
Kwong Chi Kit, Victor	member	100%
Yu Wanyuan	member	100%
Chen Ming	member	100%

Main duties of the Audit Committee are:

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

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

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

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

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

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

⑤ Audit Committee *(continued)*

The Audit Committee of the Company reviewed the internal control system and report of the Company with reference to the latest requirements set out in Rule C.2.2 of the CG Code of the Listing Rules of the Stock Exchange, taking into account of the resources of the accounting and financial reporting of the Company, the sufficiency of qualifications and experience of its staff and the training courses for employees and the relevant budget. It will also submit the reviewed internal control report to the Board of the Company for consideration.

In 2010, the Audit Committee of the Company held a total of 4 meetings. During the meetings, the Audit Committee reviewed the quarterly, interim and annual financial statements and financial information set out in the quarterly, interim and annual reports of the Company, reviewed the internal control system of the Company, and made recommendations in relation to the engagement of external auditors.

The Audit Committee and the management of the Company have jointly inspected the Company's accounting policy and have discussed on the issues in relation to the auditing, internal control and financial statements of the Company, including a review of the audited financial statements for the year ended 31 December 2010.

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

Opinions after reviewing the 2010 Annual Report

The Company's financial statements for 2010 was prepared based on the requirements of the Accounting Standard for Business Enterprises; expenditures were reasonable; revenues, expenses and profits were recognized truly and accurately; relevant provisions were made as specified by the laws, regulations and relevant systems, which reflected the Company's financial positions and operating results and cash flow on a true, accurate and complete basis; it was approved to be submitted to the Board of the Company for consideration.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Special Committees *(continued)*

⑤ Audit Committee *(continued)*

Review opinions on the Audit Work Summary by Accountants for 2010

RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler Certified Public Accountants performed their duties during the auditing the Company's financial statements for 2010 in accordance with relevant laws and regulations of the PRC and Hong Kong and in compliance with professional ethics of accountants, and expressed their opinion on the Company's financial statements, enabling the Company to satisfy the requirements from the domestic and overseas regulatory institutions.

Review opinions on the Appointment of RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler Certified Public Accountants as domestic and overseas Auditors of the Company for 2011

The Board is proposed to appoint RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler as domestic and overseas auditors of the Company for 2011 with a term from the close of Annual General Meeting for 2010 to the time of convening of Annual General Meeting for 2011.

Chairman and General Manager

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

Duties of the Chairman:

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

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

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

iv. to exercise other powers conferred by the Board.

CORPORATE GOVERNANCE REPORT *(continued)*

Chairman and General Manager *(continued)*

Duties of the General Manager:

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

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

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

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

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

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

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

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

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

Auditors' Remuneration

RSM Nelson Wheeler Certified Public Accountants and RSM China Certified Public Accountants (currently renamed as "RSM China Certified Public Accountants (Special General Partnership)") were appointed at the 2009 annual general meeting of the Company as the overseas and domestic auditors of the Company, respectively, for the year 2010. The remuneration of the Company's auditors for 2010 amounted to RMB6.10 million. The Company reimbursed the auditors out of pocket expenses arising from auditing. RSM China Certified Public Accountants (special general partnership) and RSM Nelson Wheeler Certified Public Accountants had provided auditing services to the Company for three consecutive years.

CORPORATE GOVERNANCE REPORT *(continued)*

Internal control

To integrate the internal control regime in accordance with the Company Law, Securities Law, relevant regulations of the China's Securities Regulatory Commission, Rules Governing the Listing of The Stock Exchange of Hong Kong Limited, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Rules for Corporate Governance of Listed Companies and Guidance for Internal Control of Listed Companies of the Shenzhen Stock Exchange, and with reference to the actual condition of the Company's business, organization setup and business goals. The design of the internal control regime has fully taken into consideration of regulations and laws as well as relevant requirements including the Listing Rules. There are no material shortcomings and abnormality in the completeness, systematism, efficiency and compliance in the current internal control system, thus providing reasonable assurance to honest and legal operation, true and reliable financial reports, improvement in operation efficiency and results and avoidance of predicable significant risks of the Company. Accordingly, it will help the Company formulate proper business goals and achieve them as scheduled.

The Company has been equipped with internal auditing mechanism, which requires an overall evaluation of the internal control system on a regular basis every year. The daily auditing is exercised by functional departments and front units of the Company by adopting on an uniform basis of the mode of "internal review of management", focusing on activities including examination of financial control, operational control, legal compliance control and risk control. Major part of internal review mechanism is to supervise and ensure the effective operation of internal control system.

The Company established and improved the internal control system of financial report in accordance with the Accounting Law of the People's Republic of China (《中華人民共和國會計法》), the Accounting Standard for Business Enterprises and its implementation guidelines as well as General Rules for Financial Operations of Enterprises (《企業財務通則》) , and formulated a set of management rules to specify the requirements on the formulation, preparation, review, binding, analysis and storage of the Company's financial report which ensured its compliance with laws and regulations, its truthfulness and completeness and effective use. During the reporting period, no material defect was found in the internal control of financial report.

The Board has conducted auditing for the operation of internal control system of the Company in 2010, reporting that the internal control system is sound, comprehensive and effective, and the resources for accounting and financial reporting, the qualifications and experiences of employees and the training courses for employees and the relevant budgets are sufficient.

Corporate Governance *(continued)*

CORPORATE GOVERNANCE REPORT *(continued)*

Special measures on corporate governance

Pursuant to the relevant notice concerning good practices on corporate governance of listed companies and an array of principles uphold by the CSRC, the Company continued to develop its corporate governance measures. In order to enhance the sales network, improve the sales system and reduce the connected transactions between the Company and Anshan Iron & Steel Group Complex*, its controlling shareholders, the Company and Angang Group International Trade Corporation（鞍鋼集團國際經濟貿易公司）("Angang Trade") entered into the "Joint Venture Agreement regarding the establishment of Angang Trading Co., Ltd.* by Angang Steel Company Limited* and Angang Group International Trade Corporation'' (《鞍鋼股份有限公司與鞍鋼集團國際經濟貿易公司關於設立鞍鋼貿易有限責任公司的合資協議》) on 28 August 2009, pursuant to which the parties jointly invested in a company with limited liability engaged in the domestic trading of steel products. The company has a registered capital of RMB573 million. The registered capital was held as to 51% by the Company and as to 49% by Angang Trade.

The transaction was approved by the Company on the third extraordinary general meeting in 2009 of the Company on 28 December 2009. The said company is in the process of establishment.

Connected Transactions and Peer Competitions

As production in the iron and steel industry is on a continuous basis, to ensure stable production and operation in the Company's daily course of business, the Company relies on Anshan Iron & Steel Group Complex* and its subsidiaries for most of its raw materials and a portion of its products are required to be sold to Anshan Iron & Steel Group Complex* and its subsidiaries. Since listing, the Company had made the most of the capital market platform, diversified its financing channels into the issue of convertible bonds, new private issue and share placement and continued to acquire quality assets of Anshan Iron & Steel Group Complex* to expand and grow its business rapidly. In 2006, the overall principal business of Angang Steel (鞍鋼鋼鐵) was listed.

In November 2010, the 2 million-tonne iron and steel project in Chaoyang, which was jointly funded and established by Anshan Iron & Steel Group Complex* and Lingyuan Iron & Steel Group Co., Ltd. (凌源鋼鐵集團有限責任公司) was completed and put into operation. For details of the iron and steel project in Chaoyang, please see the announcement on the resolutions of the 8th meeting of the fourth Board of the Company published in China Securities Journal, the Securities Times and http://www.cninfo.com.cn on 27 March 2007.

MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration in 2010.

EQUITY IN OTHER LISTED COMPANIES HELD BY THE COMPANY

Unit: RMB million

Stock Code	Abbreviation	Initial investment amount	Percentage in the company's equity	Book value at the end of the reporting period	Loss and gain during the reporting period	Change in owner's interest during the reporting period	Available	Source of shares
600961	Zhuzhou Group (株冶集團)	81	1.9%	179	—	13	Available-for-sale financial assets	Subscription of Shares
Total	—	81	—	179	—	13	—	—

ACQUISITION AND DISPOSAL OF ASSETS

The Company had no material acquisition and disposal of assets in 2010.

MATERIAL CONNECTED TRANSACTIONS

Continuing connected transactions

In 2010, the Group purchased a portion of its raw materials, energy and services necessary for production from Anshan Iron & Steel Group Complex* and its subsidiaries, and sold some of its products to Anshan Iron & Steel Group Complex* and its subsidiaries. The transactions and prices were implemented in accordance with the supply of raw materials and services agreements entered into between the parties.

Significant Events *(continued)*

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Price	Amount (RMB million)	As a percentage of the contractual value of similar transactions (%)
Iron Concentrate	Not higher than the average import price of domestic iron concentrate reported to the PRC customs in the preceding half-year and the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the preceding half year. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/ tonne. Anshan Iron & Steel Group Complex* has undertaken to give a discount equal to 5% of the average import price of domestic iron concentrate reported to the PRC customs in the preceding half-year on the maximum price determined.	RMB742/tonne	5,807	27.99

Significant Events *(continued)*

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Price	Amount (RMB million)	As a percentage of the contractual value of similar transactions (%)
Pellet	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year reporting period. For every 1 percentage point of increase or decrease in the grade of pellets, the price will be increased or decreased by RMB10/tonne.	RMB966/tonne	5,758	99.48
Sinter ore	The price of iron concentrate plus processing cost in the preceding half-year reporting period and 10% gross profit margin. (The processing cost of which is not higher than that of similar products produced by the Company)	RMB939/tonne	2,581	100.00
Scrap steel	Market prices	—	291	20.95
Billets		—	31	100.00
Sub-total		—	14,468	47.38
Electricity	State price	RMB0.52//kW	1,863	32.40
Water		RMB3.25/tonne	84	49.84
Steam	Market prices	RMB37/GJ	24	88.87
Sub-total		—	1,971	33.16
Lime stone	Not higher than the selling prices offered by relevant members of Anshan Iron & Steel Group Complex* to independent third parties	RMB54/tonne	156	100.00
Lime powder		RMB370/tonne	828	91.76
Refractory materials		—	48	3.09
Other ancillary materials		—	172	2.46
Spare parts and tools		—	449	10.38
Sub-total		—	1,653	11.87
Total	—	—	18,092	35.89

Significant Events *(continued)*

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Amount *(RMB million)*	As a percentage of the contractual value of similar transactions *(%)*
Railway transportation	State price	663	54.62
Road transportation	Market prices	392	80.28
Agency services: Import of raw materials, equipment, components and ancillary materials Product export Domestic sales of products	1.5% as commission (not more than the commissions levied by the main state import and export companies of China) or free of charge	485	100.00
Repair and maintenance of equipment	Market prices	1,244	73.12
Design and engineering services		1,257	47.23
Construction project agency and management services	Free of charge	—	—
Education facilities, vocational education, on-the-job training, translation services	Market prices	7	44.48
Company vehicle services		1	100.00
Charge for arrangement of business and meeting expenses		3	49.08
Greening services	Expenses of labour, materials and management were paid based on market prices	50	99.48
Security service		56	82.42
Newspaper and other publications	State price	2	22.98

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Amount *(RMB million)*	As a percentage of the contractual value of similar transactions *(%)*
Telecommunication business and services information system	State price or depreciation cost plus maintenance costs	83	80.73
Environmental protection and security inspection services	State price	8	81.83
Supply of heat	State price	2	6.17
Production coordination and maintenance	Expenses of labour, materials and management were paid based on market prices	1,246	81.22
Life assistance and maintenance		166	73.40
Processing with supplied materials	Processing cost plus gross profit margin of no more than 5%	—	—
Total	—	5,665	65.81
Interest on fund for settlement	State price	11	40.16
Loans and discounted interest	State price	410	27.80

Note: In which, for the twelve months ended 31 December 2010, steel products provided by Angang Trade as a domestic and overseas agent amounted to 6,760,000 tonnes and 1,710,000 tonnes respectively.

Significant Events *(continued)*

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Price	Amount (RMB million)	As a percentage of the contractual value of similar transactions (%)
Cold rolled sheets	The selling price offered by the Company to the independent third parties; For provision new products developed for the other party, the price is based on the market price if the market price exists; if the market price does not exist, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by relevant member of companies.	RMB5,014/tonne	3,654	11.69
Heavy Plates		RMB3,524/tonne	629	5.41
Wire rods		RMB3,257/tonne	185	6.09
Heavy section		RMB4,827/tonne	5	0.14
Hot rolled sheets		RMB3,556/tonne	3,987	14.64
Medium plates		RMB3,751/tonne	176	5.20
Galvanized sheets		RMB4,325/tonne	420	5.65
Colour coated sheets		RMB5,619/tonne	9	1.12
Seamless pipes		RMB4,045/tonne	42	3.30
Molten iron		RMB2,255/tonne	7	100.00
Billets		RMB3,526/tonne	7	5.50
Coke		RMB888/tonne	74	100.00
Chemical by-products		—	30	1.73
Sub-total		—	9,225	10.09
Scrap copper	Market prices	—	110	89.55
Abandoned materials		—	11	61.00
Minus sieve powder	The difference from the basic price of sinter ore minus the cost of sintering process of Angang Holding Group		—	—
Retired assets or idle assets	Market price or appraised price	—	1	22.85
Sub-total			122	83.70
Total		—	9,347	10.20

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

Item	Pricing principle	Price	Amount *(RMB million)*	As a percentage of the contractual value of similar transactions *(%)*
New water	State price	RMB2.94 /tonne	44	95.97
Clean recycled water	Production cost plus a gross profit margin of 5%	RMB0.74 /tonne	21	99.98
Soft water		RMB2.84 /tonne	0.5	100.00
Gas		RMB56.03/GJ	359	81.92
Blast furnace gas		RMB4.00/GJ	47	99.99
Steam		RMB39.50/GJ	32	92.27
Nitrogen		RMB160.47/KM^3	1.5	10.98
Oxygen		RMB398.20/KM^3	4	13.51
Argon		RMB623.33/KM^3	1.4	6.55
Compressed air		RMB89.50 /KM^3	1.1	99.76
Unused hot water		RMB13.36/GJ	43	90.03
Product testing service	Market prices	—	4	81.20
Transportation service		—	0.5	100.00
Total	—	—	559	39.02

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

Explanation as to the necessity and continuity of connected transactions: as production in the iron and steel industry is on a continuous basis, to ensure stable production and operation in the Company's daily course of business, the Company relies on Anshan Iron & Steel Group Complex* and its subsidiaries for most of its raw materials and a portion of its products are required to be sold to Anshan Iron & Steel Group Complex* and its subsidiaries. Therefore, the above continuing connected transactions are necessary to the smooth operation and production of the Group.

Significant Events *(continued)*

MATERIAL CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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

The above connected transactions, as confirmed by the Independent Board Committee who are independent of the controlling shareholder, were entered into ① in the ordinary course of business of the Company; ② on normal commercial terms or on the terms not less favourable to the terms offered by independent third parties; or on the terms which were fair and reasonable as far as the shareholders of the Company were concerned if no comparable reference was available; ③ in accordance with the terms of Supply of Materials and Services Agreement which were fair and reasonable and in the interest of the Company and its shareholders as a whole; and ④ in 2010, the total amount of continuing connected transactions of the Company did not exceed the relevant caps as set out in Supply of Materials and Services Agreement.

The auditors to the Company have reviewed the above connected transactions and issued a letter to the Board confirming that ① the above continuing connected transactions have received the approval of the Board; ② so far as they are aware, there is no instance of non-compliance with provisions of Supply of Materials and Services Agreement; and ③ the actual amounts of such connected transactions did not exceed the relevant caps under the waiver.

Amounts due to or from related parties of the Company or guarantee provided by related parties to the Company

There were no claims or obligations between the Company and related parties for non-operating purpose as at 31 December 2010.

As at 31 December 2010, RMB1.0 billion of the Company's bank loan was guaranteed by Anshan Iron & Steel Group Complex*, while RMB1.1 billion of Angang Putian's bank loan was also guaranteed by Anshan Iron & Steel Group Complex*.

MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

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

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

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

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

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

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

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

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

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

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

Significant Events *(continued)*

UNDERTAKINGS OF CONTROLLING SHAREHOLDER

(1) Anshan Iron & Steel Group Complex*, the controlling shareholder of the Company, made the minimum undertakings required under the relevant laws, rules and regulations, during the period of the Non-tradable Shares Reform. In addition to the minimum undertakings required, Anshan Iron & Steel Group Complex* has also made the following special undertakings in relation to the State-owned Share Reform Plan:

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

2) For the tradable A shares of the Company issued to Anshan Iron & Steel Group Complex* for the acquisition of the entire equity interests in ANSI, such shares will also be subject to a trading moratorium of 36 months from the date on which the shares are deposited to Anshan Iron & Steel Group Complex*'s account.

3) Anshan Iron & Steel Group Complex* will maintain a minimum of 60% shareholding in the Company following the completion of the acquisition of the entire equity interests in ANSI till the end of 2010.

4) Anshan Iron & Steel Group Complex* will reimburse other shareholders for any loss arising from its failure to fulfil the whole or part of its undertakings.

5) Anshan Iron & Steel Group Complex* will arrange for the deposit of the relevant shares of the Company as consideration under the State-owned Share Reform Plan with China Securities Depository and Clearing Corporation Limited, Shenzhen Branch to ensure fulfilment of its obligations under such arrangement.

6) Anshan Iron & Steel Group Complex* will pay for all the costs arising from the implementation of the State-owned Share Reform Plan.

Anshan Iron & Steel Group Complex* further undertakes that:

"Angang Holding will perform its undertakings on a good faith basis and accept the legal liabilities thereunder. Unless the transferee agrees and is eligible to make the undertakings, Angang Holding will not transfer any of such shares held."

During the reporting period, there was no breach of such undertakings by the undertaker.

UNDERTAKINGS OF CONTROLLING SHAREHOLDER *(continued)*

(2) On 27 October 2009, the Company and Anshan Iron & Steel Group Complex* entered into the Supply of Materials and Services Agreement (2010-2011), pursuant to which, Basic Price of iron concentrate is "not higher than the average free-on-board import price reported to the PRC Customs for the first half of the year before adjustment ("Average Import Price") plus railway transportation expenses from Bayuquan Port to the Company and the price after adjustment according to grade. Among other things, adjustment according to grade is on the basis of weighted average grade of iron concentrate imported in the first half of the year. Price adjustment for every 1% of increase or decrease in iron concentrate grade is RMB10/ tonne." Anshan Iron & Steel Group Complex* has made the undertaking on 4 December 2009 to give a discount of 5% of Average Import Price on the maximum price which was determined according to the Basic Price. The validity of such undertaking shall be consistent with the Supply of Materials and Services Agreement (2010-2011).

During the reporting period, there was no breach of such undertakings by the undertaker.

Annual General Meeting

The annual general meeting of the Company will be held on 30 May 2011, details of which and the proposed resolutions are set out in the accompanying notice of the annual general meeting of the Company.

Audit Report

Zhongrui Yuehua shenzi[2011]No. 04120

All Shareholders of Angang Steel Company Limited:

We have audited the accompanying financial statements of Angang Steel Company Limited (the Company) and subsidiaries (the Group), which comprise consolidated balance sheet and the balance sheet of the parent company as at 31 December 2010, the consolidated income statement and the income statement of the parent company, the consolidated statement of changes in shareholders' equity and the statement of changes in shareholders' equity of the parent company, the consolidated cash flow statement and the cash flow statement of the parent company for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Audit Report *(continued)*

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and the financial position of the parent company as at 31 December 2010, the consolidated results of operations and cash flows, the results of operations and cash flows of the parent company for the year then ended.

Zhongrui Yuehua Certified Public Accountants

China Beijing
29-3-2011

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

Li Zhushan

Cao Bin

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Consolidated Balance Sheet

Assets	Note	31 Dec. 2010	31 Dec. 2009
Current assets:			
Cash at banks and on hand	7(1)	**3,651**	2,242
Trading financial assets			
Bills receivable	7(2)	**3,703**	3,396
Accounts receivable	7(3)	**2,061**	1,770
Prepayments	7(5)	**8,380**	6,212
Interest receivable			
Dividend receivable			
Other receivables	7(4)	**15**	19
Inventories	7(6)	**13,134**	10,658
Non-current assets due within 1 year			
Other current assets			
Total current assets		**30,944**	24,297
Non-current assets:			
Available-for-sale financial assets	7(7)	**179**	161
Long-term equity investments	7(8)	**1,986**	1,629
Investment real estate			
Fixed assets	7(9)	**57,267**	53,805
Construction in progress	7(10)	**5,277**	10,588
Construction material	7(11)	**1,047**	2,334
Intangible assets	7(12)	**6,967**	7,061
Deferred income tax assets	7(13)	**1,447**	1,112
Other non-current assets			
Total non-current assets		**74,170**	76,690
Total assets		**105,114**	100,987

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

Consolidated Balance Sheet *(continued)*

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Liabilities and shareholders' equity	*Note*	31 Dec. 2010	31 Dec. 2009
Current liabilities:			
Short-term loans	7(16)	**10,395**	13,710
Bills payable	7(17)	**4,879**	3,509
Accounts payable	7(18)	**4,683**	3,318
Advances from customers	7(19)	**6,157**	5,942
Employee benefits payable	7(20)	**322**	326
Tax and surcharges payable	7(21)	**(1,836)**	(2,296)
Interest payables	7(22)	**79**	
Other payables	7(23)	**2,737**	3,283
Non-current liabilities due within 1 year	7(24)	**5,961**	7,653
Other current liabilities	7(25)	**3,023**	42
Total current liabilities		**36,400**	35,487
Non-current liabilities:			
Long-term loans	7(26)	**12,717**	11,502
Deferred income tax liabilities	7(13)	**61**	61
Other non-current liabilities	7(27)	**591**	139
Total non-current liabilities		**13,369**	11,702
Total liabilities		**49,769**	47,189
Shareholders' equity:			
Share capital	7(28)	**7,235**	7,235
Capital reserve	7(29)	**31,521**	31,510
Special reserve	7(30)	**70**	50
Surplus reserves	7(31)	**3,570**	3,357
Undistributed profit	7(32)	**11,672**	10,280
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to parent company		**54,068**	52,432
Minority interest		**1,277**	1,366
Total shareholders' equity		**55,345**	53,798
Total liabilities and shareholders' equity		**105,114**	100,987

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

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Consolidated Income Statement

Items	Note	2010	2009
1. Operating income		**92,431**	70,126
Including: Operating income from main business	7(33)	**92,431**	70,126
2. Operating costs		**90,589**	69,523
Including: Operating costs for main business	7(33)	**82,694**	63,712
Business tax and surcharges	7(34)	**285**	183
Selling expenses	7(35)	**1,622**	1,081
Administrative expenses	7(36)	**3,441**	2,962
Financial expenses	7(37)	**1,249**	902
Impairment losses on assets	7(39)	**1,298**	683
Add: gains/losses from fair value variation			
Investment income	7(38)	**411**	186
Including: Income from investment in jointly controlled enterprises and associates		**393**	176
3. Operating profit		**2,253**	789
Add: Non-operating income	7(40)	**142**	93
Less: Non-operating expenses	7(41)	**37**	39
Including: Loss on non-current assets disposal		**35**	39
4. Profit before income tax		**2,358**	843
Less: Income tax expenses	7(42)	**408**	157
5. Net profit for the year		**1,950**	686
Net profit attributable to shareholder of parent company		**2,039**	727
Gains/losses attributable to minority shareholder		**(89)**	(41)
6. Earning per share			
(1) Basic earnings per share	7(43)	**0.282**	0.100
(2) Diluted earnings per share	7(43)	**0.282**	0.100
7. Other comprehensive income	7(44)	**11**	87
8. Total comprehensive income		**1,961**	773
Share of total comprehensive income attributable to shareholder of parent company		**2,050**	814
Share of total comprehensive income attributable to minority interest		**(89)**	(41)

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

Consolidated Cash Flow Statement

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Items	Note	2010	2009
1. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		**95,169**	72,934
Refund of tax and fare received			800
Other cash received relating to operating activities	7(45)	**672**	292
Sub-total of cash inflows		**95,841**	74,026
Cash paid for goods and services		**80,121**	63,879
Cash paid to and on behalf of employees		**2,698**	2,554
Cash paid for all types of taxes		**2,720**	2,255
Other cash paid relating to operating activities	7(45)	**1,276**	789
Sub-total of cash outflows		**86,815**	69,477
Net cash flow from operating activities	7(46)	**9,026**	4,549
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		**93**	47
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**5**	23
Net cash received from the disposal of subsidiaries and other operating units			
Other cash received relating to investment activities	7(45)	**87**	1,730
Sub-total of cash inflows		**185**	1,800
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**4,910**	6,870
Cash paid for acquisition of investments		**25**	143
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid relating to investment activities			
Sub-total of cash outflows		**4,935**	7,013
Net cash flow from investing activities		**(4,750)**	(5,213)

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Consolidated Cash Flow Statement *(continued)*

Items	Note	2010	2009
3. Cash flows from financing activities			
Cash received from absorbing investment			
Including: received of subsidiary from minority shareholder			
Cash received from borrowings		**25,265**	20,140
Other cash received relating to financing activities			
Sub-total of cash inflows		**25,265**	20,140
Cash paid for settling debt		**26,077**	17,084
Cash paid for distribution of dividends or profit or reimbursing interest		**1,985**	3,086
Including: dividends or profit paid to minority interest			
Other cash payments relating to financing activities	7(45)	**70**	38
Sub-total of cash outflows		**28,132**	20,208
Net cash inflow from financing activities		**(2,867)**	(68)
4. Effect of foreign exchange rate changes on cash and cash equivalents			
5. Net increase in cash and cash equivalents	7(46)	**1,409**	(732)
Add: Cash and cash equivalents at year-begin	7(46)	**2,242**	2,944
6. Cash and cash equivalents at the end of the year	7(46)	**3,651**	2,242

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

Consolidated Statement of changes in shareholders' equity

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Items	2010									
	Shareholders' equity attributable to parent company									
	Share capital	Capital reserve	Lessen: treasury stock	Special reserve	Surplus public reserve	General risk reserve	Undistributed profit	Other	Minority equity	Total of shareholders' equity
1. Balance as at 31 Dec. 2009	7,235	31,510		50	3,357		10,280		1,366	53,798
Add: Change of accounting policy										
Correction of Last accounting errors										
Other										
2. Balance as at 1 Jan. 2010	7,235	31,510		50	3,357		10,280		1,366	53,798
3. Increase/decrease in 2010 ("-" means loss)		11		20	213		1,392		(89)	1,547
(1) Net profit							2,039		(89)	1,950
(2) Other comprehensive income		11								11
Subtotal of (1) and (2)		11					2,039		(89)	1,961
(3) Input and reduced capital of owners										
i. Capital input by owners										
ii. Amount of shares-based payment recorded in owner's equity										
iii. Other										
(4) Profit distribution					213		(647)			(434)
i. Appropriating surplus reserve					213		(213)			
ii. Appropriating general risk reserve										
iii. Distribution to Shareholders							(434)			(434)
iv. Other										
(5) Transfer internally of shareholder's equity										
i. Transferring capital reserve into share capital										
ii. Transferring surplus reserve into share capital										
iii. Making up losses with surplus reserve										
iv. Other										
(6) Appropriating and using special reserve				20						20
i. Appropriation number of this year				32						32
ii. Using number of this year				(12)						(12)
(7) Other										
4. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,672		1,277	55,345

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Consolidated Statement of changes in shareholders' equity *(continued)*

	2009									
	Shareholders' equity attributable to parent company									
Items	Share capital	Capital reserve	Lessen: treasury stock	Special reserve	Surplus public reserve	General risk reserve	Undistributed profit	Other	Minority equity	Total of shareholders' equity
1. Balance as at 31 Dec. 2009	7,235	31,423			3,301		11,144			53,103
Add: Change of accounting policy				21	(21)		5			5
Correction of Last accounting errors										
Other										
2. Balance as at 1 Jan. 2010	7,235	31,423		21	3,280		11,149			53,108
3. Increase/decrease in 2010 ("-" means loss)		87		29	77		(869)		1,366	690
(1) Net profit							727		(41)	686
(2) Other comprehensive income		87								87
Subtotal of (1) and (2)		87					727		(41)	773
(3) Input and reduced capital of owners									1,407	1,407
i. Capital input by owners									1,407	1,407
ii. Amount of shares-based payment recorded in owner's equity										
iii. Other										
(4) Profit distribution					77		(1,596)			(1,519)
i. Appropriating surplus reserve					77		(77)			
ii. Appropriating general risk reserve										
iii. Distribution to Shareholders							(1,519)			(1,519)
iv. Other										
(5) Transfer internally of shareholder's equity										
i. Transferring capital reserve into share capital										
ii. Transferring surplus reserve into share capital										
iii. Making up losses with surplus reserve										
iv. Other										
(6) Appropriating and using special reserve				29						29
i. Appropriation number of this year				35						35
ii. Using number of this year				(6)						(6)
(7) Other										
4. Balance as at 31 Dec. 2010	7,235	31,510		50	3,357		10,280		1,366	53,798

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

Balance Sheet

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Assets	Note	31 Dec. 2010	31 Dec. 2009
Current assets:			
Cash at banks and on hand		**2,542**	1,138
Trading financial assets			
Bills receivable		**3,167**	3,157
Accounts receivable	15(1)	**2,061**	1,770
Prepayments		**7,285**	5,294
Interest receivable			
Dividend receivable			
Other receivables	15(2)	**15**	12
Inventories		**12,378**	10,045
Non-current assets due within 1 year			
Other current assets			
Total current assets		**27,448**	21,416
Non-current assets:			
Available-for-sale financial assets		**179**	161
Long-term equity investments	15(3)	**4,248**	3,094
Fixed assets		**53,744**	51,720
Construction in progress		**3,559**	8,713
Construction material		**205**	2,317
Intangible assets		**6,469**	6,609
Deferred income tax assets		**1,189**	904
Other non-current assets			
Total non-current assets		**69,593**	73,518
Total assets		**97,041**	94,934

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

Prepared by: Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Balance Sheet *(continued)*

Liabilities and shareholders' equity	*Note*	**31 Dec. 2010**	31 Dec. 2009
Current liabilities:			
Short-term loans		**8,300**	12,200
Bills payable		**3,794**	2,776
Accounts payable		**4,467**	2,818
Advances from customers		**5,846**	5,822
Employee benefits payable		**322**	325
Tax and surcharges payable		**(1,508)**	(2,149)
Interest payables		**79**	
Other payables		**2,310**	3,263
Non-current liabilities due within 1 year		**5,541**	7,338
Other current liabilities		**3,023**	42
Total current liabilities		**32,174**	32,435
Non-current liabilities:			
Long-term loans		**10,057**	9,822
Deferred tax liabilities		**59**	61
Other non-current liabilities		**554**	139
Total non-current liabilities		**10,670**	10,022
Total liabilities		**42,844**	42,457
Shareholders' equity:			
Share capital		**7,235**	7,235
Capital reserve		**31,521**	31,510
Special reserve		**70**	50
Surplus reserves		**3,570**	3,357
Undistributed profit		**11,801**	10,325
Total shareholders' equity		**54,197**	52,477
Total liabilities and shareholders' equity		**97,041**	94,934

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

Income Statement

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Items	Note	2010	2009
1. Operating income	15(4)	**90,033**	69,469
Less: Operating costs for main business	15(4)	**80,287**	62,988
Business tax and surcharges		**285**	183
Selling expenses		**1,569**	1,066
Administrative expenses		**3,378**	2,946
Financial expenses		**1,150**	884
Impairment losses on assets		**1,298**	683
Add: gains/losses from fair value variation			
Investment income	15(5)	**408**	186
Including: Income from investment in jointly controlled enterprises and associates		**390**	176
2. Operating profit		**2,474**	905
Add: Non-operating income		**141**	90
Less: Non-operating expenses		**36**	39
Including: Loss on non-current assets disposal		**35**	39
3. Profit before income tax		**2,579**	956
Less: Income tax expenses		**456**	184
4. Net profit for the year		**2,123**	772
5. Other comprehensive income		**11**	87
6. Total comprehensive income		**2,134**	859

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

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Cash Flow Statement

Items	Note	2010	2009
1. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		**92,578**	72,277
Refund of tax and fare received			800
Other cash received relating to operating activities		**635**	292
Sub-total of cash inflows		**93,213**	73,369
Cash paid for goods and services		**77,901**	63,263
Cash paid to and on behalf of employees		**2,640**	2,543
Cash paid for all types of taxes		**2,712**	2,245
Other cash paid relating to operating activities		**1,257**	786
Sub-total of cash outflows		**84,510**	68,837
Net cash flow from operating activities	15(6)	**8,703**	4,532
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		**93**	47
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**5**	23
Net cash received from the disposal of subsidiaries and other operating units			
Other cash received relating to investment activities		**70**	537
Sub-total of cash inflows		**168**	607
Cash paid for acquisition of fixed assets intangible assets and other long-term assets		**2,347**	6,473
Cash paid for acquisition of investments		**825**	575
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid relating to investment activities			
Sub-total of cash outflows		**3,172**	7,048
Net cash flow from investing activities		**(3,004)**	(6,441)

Cash Flow Statement *(continued)*

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2010
Monetary unit: RMB million

Items	Note	2010	2009
3. Cash flows from financing activities			
Cash received from absorbing investment			
Cash received from borrowings		**21,670**	20,040
Other cash received relating to financing activities			
Sub-total of cash inflows		**21,670**	20,040
Cash paid for settling debt		**24,152**	16,834
Cash paid for distribution of dividends or profit or reimbursing interest		**1,743**	3,035
Other cash payments relating to financing activities		**70**	38
Sub-total of cash outflows		**25,965**	19,907
Net cash inflow from financing activities		**(4,295)**	133
4. Effect of foreign exchange rate changes on cash and cash equivalents			
5. Net increase in cash and cash equivalents	15(6)	**1,404**	(1,776)
Add: Cash and cash equivalents at year-begin	15(6)	**1,138**	2,914
6. Cash and cash equivalents at the end of the year	15(6)	**2,542**	1,138

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

Prepared by : Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

Statement of changes in shareholders' equity

Items	2010							
	Share capital	Capital reserve	Lessen: treasury stock	Special reserve	Surplus public reserve	General risk reserve	Undistributed profit	Total of shareholders' equity
1. Balance as at 31 Dec. 2009	7,235	31,510		50	3,357		10,325	52,477
Add: Change of accounting policy								
Correction of Last accounting errors								
Other								
2. Balance as at 1 Jan. 2010	7,235	31,510		50	3,357		10,325	52,477
3. Increase/decrease in 2010 ("-" means loss)		11		20	213		1,476	1,720
(1) Net profit							2,123	2,123
(2) Other comprehensive income		11						11
Subtotal of (1) and (2)		11					2,123	2,134
(3) Input and reduced capital of owners								
i. Capital input by owners								
ii. Amount of shares-based payment recorded in owner's equity								
iii. Other								
(4) Profit distribution					213		(647)	(434)
i. Appropriating surplus reserve					213		(213)	
ii. Appropriating general risk reserve								
iii. Distribution to Shareholders							(434)	(434)
iv. Other								
(5) Transfer internally of shareholder's equity								
i. Transferring capital reserve into share capital								
ii. Transferring surplus reserve into share capital								
iii. Making up losses with surplus reserve								
iv. Other								
(6) Appropriating and using special reserve				20				20
i. Appropriation number of this year				32				32
ii. Using number of this year				(12)				(12)
(7) Other								
4. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,801	54,197

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

Statement of changes in shareholders' equity *(continued)*

Prepared by : Angang Steel Company Limited
As at 31 December 2010
Monetary unit: RMB million

	2009							
Items	**Share capital**	**Capital reserve**	**Lessen: treasury stock**	**Special reserve**	**Surplus public reserve**	**General risk reserve**	**Undistributed profit**	**Total of shareholders' equity**
1. Balance as at 31 Dec. 2009	7,235	31,423			3,301		11,144	53,103
Add: Change of accounting policy				21	(21)		5	5
Correction of Last accounting errors								
Other								
2. Balance as at 1 Jan. 2010	7,235	31,423		21	3,280		11,149	53,108
3. Increase/decrease in 2010 ("-" means loss)		87		29	77		(824)	(631)
(1) Net profit							772	772
(2) Other comprehensive income		87						87
Subtotal of (1) and (2)		87					772	859
(3) Input and reduced capital of owners								
i. Capital input by owners								
ii. Amount of shares-based payment recorded in owner's equity								
iii. Other								
(4) Profit distribution					77		(1,596)	(1,519)
i. Appropriating surplus reserve					77		(77)	
ii. Appropriating general risk reserve								
iii. Distribution to Shareholders							(1,519)	(1,519)
iv. Other								
(5) Transfer internally of shareholder's equity								
i. Transferring capital reserve into share capital								
ii. Transferring surplus reserve into share capital								
iii. Making up losses with surplus reserve								
iv. Other								
(6) Appropriating and using special reserve				29				29
i. Appropriation number of this year				35				35
ii. Using number of this year				(6)				(6)
(7) Other								
4. Balance as at 31 Dec. 2010	7,235	31,510		50	3,357		10,325	52,477

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements

1. COMPANY PROFILE

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

The Company was established as a joint-stock limited company under the Company Law of the People's Republic of China (the "PRC"), with Anshan Iron & Steel Group Complex ("Angang Holding") as the sole promoter, pursuant to the approval document TI GAI SHENG [1997] No.62 "Reply to the Approval of the Establishment of Angang New Steel Company Limited" issued by the State Commission for Economic Restructuring of the PRC. The Company took over the businesses of the Wire Rod Plant, the Thick Plate Plant, and the Cold Rolling Plant (collectively referred to as the "Plants") of Angang Holding. According to the Division Agreement which took effect from 1 January 1997, Angang Holding transferred the production, sales, research and development, administration activities of the Plants together with the relevant assets and liabilities as at 31 December 1996 as its contribution to the Company. The above net assets were converted into 1,319,000,000 shares of the Company of RMB1.00 each.

The Company issued 890,000,000 foreign invested ordinary shares ("H shares") with a par value of RMB1.00 each on 22 July 1997 which were subsequently listed on The Stock Exchange of Hong Kong Limited on 24 July 1997. The Company also issued 300,000,000 ordinary A shares with a par value of RMB1.00 each on 16 November 1997 which were subsequently listed on the Shenzhen Stock Exchange on 25 December 1997.

The Company issued 1.5 billion share convertible bonds in the PRC on 15 March 2000. The bonds reach its maturity on 14 March 2005. Total of 453,985,697 A shares of the company were transferred from the bonds.

On 26 January 2006, the Company made an additional issue of 2,970,000,000 ordinary A shares with a par value of RMB1.00 each at an issue price of RMB4.29 each to Angang Holding for a total consideration of RMB12.74 billion. Proceeds of the issue were used to partly finance the acquisition of the entire equity interest in ANSI .Upon the completion of the entire equity acquisition of ANSI, all the business, assets and liabilities of ANSI were transferred to the Company, and ANSI has applied for deregistration.

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

The Company proposed to issue A shares and H rights shares to all shareholders with 5,932,985,697 outstanding shares on the basis of 2.2 Rights Shares for every 10 existing Shares in October 2007. The subscription price for A shares and H shares is RMB15.40 per share and HKD15.91 respectively. The entitlements to the Rights Shares under the Share Rights Issue represent a total of 1,301,822,150 shares, including 1,106,022,150 A shares and 195,800,000 H shares. The new shares are listed for trade on Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited on 25 October 2007 and 14 November 2007 respectively. The Company had obtained the revised business license on 31 March 2008.

At the balance sheet date, the Company's legal representative: Zhang Xiaogang; Registered capital: RMB7,234,807,847; Business certificate code: 210000400006026; Registered office: Production Area of Angang Steel, Address of the Company Tie Xi District, Anshan City, Liaoning Province, the PRC.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

1. COMPANY PROFILE *(continued)*

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

The financial statements has been approved by the Board of Directors in April 19, 2010

2. BASIS OF PREPARATION

The financial statements of the Group are based on the assumption of going concern principal according to the actual transactions and events, in light of the accounting standard for business enterprise promulgated by the Ministry of Finance of PRC in Feb. 2006 and 38 specific accounting standards, the following promulgated application guidelines, interpretations and other related rules ("Enterprise Accounting Standards"), and the China Securities Regulatory Commission, "public offering of securities of the Company Information Disclosure Rule No. 15 - Financial Report of the General Provisions" (2010 Amendment) the disclosure requirements.

According to the relevant provisions of Accounting Standards, the Group has an accrual accounting basis. Except for certain financial instruments, the financial statements are on the basis of historical cost measurement. If assets are impaired, relevant provisions are made in accordance with relevant rules.

3. STATEMENT ON COMPLIANCE WITH THE ENTERPRISE ACCOUNTING STANDARDS

The Group declared that the Financial Report prepared by the Group was in line with requirements of the Enterprise Accounting Standards, These financial statements present truly, accurately and completely the financial position of the Group as at 31 December 2010, the results of operation, the cash flow of the Group for the year then ended. In addition, these financial statements also comply with, in all material respects, the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission ("CSRC") in 2010.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting year

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

(2) Functional currency

The functional currency is the currency of the primary economic environment in which the Group operated. The Group choose RMB as its functional currency.

The Group choose RMB as functional currency when the financial statements are presented.

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

(3) Business combinations

Business combination refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. Business combinations are classified into the business combinations under the same control and the business combinations not under the same control.

(a) The business combinations under the same control

A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under the same control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The "combining date" refers to the date on which the combining party actually obtains control on the combined party.

The assets and liabilities that the combining party obtained in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the difference between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

The direct cost occurred for the business combination of the combining party shall be recorded into the profits and losses at the current period.

(b) The business combinations not under the same control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer, and other combining enterprise(s) is (are) the acquiree. The "acquisition date" refers to the date on which the acquirer actually obtains the control on the acquiree.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(3) Business combinations *(continued)*

(b) The business combinations not under the same control *(continued)*

For the business combinations not under the same control, the combination costs shall be the fair value, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree. The direct cost for the business combination of the combining party shall, including the expenses for audit, legal services, assessment, and other administrative expenses be recorded into the profits and losses at the current period. The transaction expenses of the issued equity securities or liability securities for the consideration for the combination shall be recorded into the amount of initial measurement of the equity securities or liability securities.

The adjustment of the combined cost is likely to occur and can be reliably assured, contingent consideration shall be measured and its subsequent measurements effect goodwill. The relevant contingent consideration shall be recorded into the combination costs according to its fair values on the acquisition date. The goodwill should be adjusted if the new or further evidences of the exist situation on the acquisition date arises and results in the adjusting of contingent considerations within 12 months from the acquisition date.

The combined cost of acquirer and the merger of the identifiable net assets should be measured in light of their fair values on the acquisition date. If the combination costs are more than the fair value of the identifiable net assets obtained, the acquirer shall recognized the difference as goodwill; if the combination costs are less than the fair value of the identifiable net assets obtained, the acquirer shall firstly reexamine the measurement of the fair values of the identifiable assets obtained, liabilities incurred and contingent liabilities incurred, as well as the combination costs. After that, if the combination costs are still less than the fair value of the identifiable net assets obtained, the acquirer shall recognized the difference as profit or loss of the current period.

(4) Preparation methods for consolidated financial statements

(a) Recognition principle of the scope of consolidation

The scope of consolidation of consolidated financial statements shall be ascertained on the basis of control power. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from all of the activities. The scope of consolidation includes the Company and its subsidiaries. Subsidiaries refer to enterprises or entities controlled by the Company.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(4) Preparation methods for consolidated financial statements *(continued)*

(b) Preparation of consolidated financial statements

From the date on which the company acquire the control power of the net assets and the decision-making of the actual production and management, the Company begins to incorporate them into the scope of consolidation; from the date on which the company loss the effective control, the company stops to incorporate them into the consolidation scope. For the disposed subsidiary, operating results and cash flows before the disposal date have been properly included in the consolidated income statement and consolidated cash flow statement; for the disposed subsidiary during the reporting period, the opening balances of the consolidated balance sheet shall not be adjusted. For the subsidiary increased from under the same control, its operating results and cash flows after the acquisition date have been properly included in the consolidated income statement and consolidated cash flow statements, and does not adjust the opening balances of should not be adjusted. For the subsidiary increased from business combinations under the same control, its operating results and cash flows from the beginning to the end of the reporting period in which combinations take place have been properly included in the consolidated income statement and consolidated cash flow statements, and adjust the comparative figures of the consolidated financial statements simultaneously.

If the accounting policy or accounting period of each subsidiary is different from that of the Company, the subsidiaries shall prepare financial statement again in compliance with the accounting policy and accounting period of the Company. For the subsidiary obtains from the business combinations not under the same control, its financial statements shall be adjusted based on the fair value of identifiable net assets of the acquisition date.

All significant balances of the amounts receivables or payables, transactions and unrealized profits of the intragroup shall be eliminated when preparing the consolidated financial statements.

The portion of the subsidiary's equity and net profits that are not attributable to the Company shall be presented as "Minority Equity" and "Minority Interest" on the consolidated financial statements under the owners' equity and the net profits respectively. Subsidiary's net profit or loss for the period attributable to minority interest shall be presented in the consolidated income statement below the "net profits" as "Minority Interests". When the amounts of the loss for the current period attributable to minority's shareholders of subsidiary exceed the Minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amounts should offset the minority interest.

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

(5) Recognition standard for cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits that are available for payment at any time and short-term (within 3 months from the purchase date) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(6) Business of foreign currencies and the translation of foreign financial statement

(a) Business of foreign currencies

At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency is translated to RMB at the spot exchange rate of the transaction date. (Generally, a spot exchange rate is middle price quoted by the People's Bank of China on the day of transaction), nonetheless, business of foreign currency exchange or transaction involving foreign currency exchange shall be translated into RMB by actual exchange rate.

(b) Translation of financial statements listed in foreign currency

Monetary items denominated in foreign currency are translated into RMB at the spot exchange at the balance sheet date, the arising difference shall be recorded into the profits and losses at the current period, except:

(1) Arising from foreign currency borrowings for the purchase and construction or production of qualified assets shall be subject to the Accounting Standards for Business Enterprises No. 17 - Borrowing Costs;

(2) The profits and losses arising from the change in the fair value of an available-for-sale financial asset shall be included directly in the owner's equity with the exception of impairment losses and the difference arising from foreign exchange conversion of other carrying amounts variation from cash available sale financial assets in any foreign currency with the exception of post-amortization cost shall be recorded into the other comprehensive income.

The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date of fair value ascertained, and the translation difference, treated as the variation of fair value (include the variation of exchange rate), shall be recorded into the profits and losses at the current period or other comprehensive income and included into the capital reserve.

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

(7) Financial instruments

(a) The method for determining the fair value of financial assets and liabilities

The fair value refers to the amount, at which both parties of a transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. For which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refer to the prices, which are easily available from the stock exchanges, brokers, industry associations, pricing service institutions and etc. at a fixed term, and which represent the prices at which actually occurred market transactions are made under fair conditions.

Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques to determine its fair value. The result obtained by adopting value appraisal techniques shall be able to reflect the transaction prices that may be adopted in fair dealings on the value appraisal day. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.

(b) Classification of financial assets, recognition and measurement

Conventionally trading financial assets, shall be accounting recognized and termination recognized according to the trading date. Financial assets shall be classified into the following four categories when they are initially recognized: the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, the investments which will be held to their maturity, loans and the account receivables, and financial assets available for sale. Initial recognition of financial assets is measured at their fair values. For the financial assets measured at their fair values and of which the variation is recorded in to the profits and losses of the current period, the transaction expenses thereof shall be directly recorded into the profits and losses of the current period; for other categories of financial assets, the transaction expenses thereof shall be included into the initially recognized amount.

(i) The financial assets shall be measured at fair values and the variation of which shall be recorded into the current profits and losses,

Include transactional financial assets and the designated financial assets which are measured at their fair values and of which the variation is included in the current profits and losses;

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

(7) Financial instruments *(continued)*

(b) Classification of financial assets, recognition and measurement *(continued)*

(i) The financial assets shall be measured at fair values and the variation of which shall be recorded into the current profits and losses, *(continued)*

The financial assets meeting any of the following requirements shall be classified as transactional financial assets:

(1) The purpose to acquire the said financial assets is mainly for selling of them in the near future;

(2) Forming a part of the identifiable combination of financial instruments Which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future;

(3) Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

The financial assets meeting any of the following requirements can be designated, when they are initially recognized, as financial assets or financial liabilities as measured at its fair value and of which the variation is included in the current profits and losses:

(1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arisen from the different basis of measurement of the financial assets or financial liabilities;

(2) The official written documents on risk management or investment strategies of the enterprise concerned have recorded that the combination of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel.

The financial assets measured at fair values and the variation of which be recorded into the current profits and losses should be subsequently measured at their fair values, and gains or losses from variations of such financial assets, and related dividends and interest income should be included in the current profits and losses.

Notes To The Financial Statements *(continued)*

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

(7) Financial instruments *(continued)*

(b) Classification of financial assets, recognition and measurement *(continued)*

(ii) The investments which will be held to their maturity

Refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity.

Investments held to maturity shall be measured on the basis of the post-amortization costs by adopting the actual interest rate method, the gains or losses arising from de-recognition, and impairment or amortization shall be included in the current profit or loss.

The actual interest rate method refers to the method by which the post-amortization costs and the interest incomes or interest expenses of different installments are calculated in light of the actual interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities).

The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

When the actual interest rate is determined, the future cash flow shall be predicted on the basis of taking all the contractual provisions concerning the financial asset or financial liability (including the right to repay the loan ahead of schedule, call options, similar options and etc.) into account, and the future credit losses shall not be taken into account. The various fee charged, trading expenses, premiums or reduced values, etc., which are paid or collected by the parties to a financial asset or financial liability contract and which form a part of the actual interest rate, shall be taken into account in the determination of the actual interest rate.

(iii) Loans and the account receivables

Loans and accounts receivable refer to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo amount is fixed or determinable. The Group's loans and receivables classified as financial assets include notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables.

Loans and accounts receivable shall be measured on the basis of the post-amortization costs by adopting the actual interest rate method, the gains or losses arising from de-recognition, impairment or amortization shall be included in the current profit or loss.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(7) Financial instruments *(continued)*

(b) Classification of financial assets, recognition and measurement *(continued)*

(iv) Financial assets available for sale

Refers to the non-derivative financial assets which are designated as sellable when they are initially recognized as well as the financial assets other than those as described below: loans and accounts receivables; Investments held until their maturity; and financial assets red at their fair values and of which the variation is recorded into the profits and losses of the current period.

Financial assets available for sale shall be measured on adapting to the fair value. The profits and losses arising from the change in the fair value of a sellable financial asset shall be included directly in the owner's equity with the exception of impairment losses and the gap arising from foreign exchange conversion of cash financial assets in any foreign currency, and when the said financial asset is stopped from recognition and is transferred out, it shall be recorded into the profits and losses of the current period.

The interests and the cash dividends that the investee announces the distribution shall be recorded into the profits and losses of the current period

(c) Impairment of financial assets

An enterprise shall carry out an inspection, on the balance sheet day, on the carrying amount of the other financial assets other than those measured at their fair values and of which the variation is recorded into the profits and losses of the current period. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made.

An impairment test shall be made on the financial assets with significant single amounts. With regard to the financial assets with insignificant single amounts, an independent impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test.

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

(7) Financial instruments *(continued)*

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

(i) Held to maturity investments, loans and receivables impairment

Where a financial asset measured on the basis of post-amortization costs is impaired, the carrying amount of the said financial asset shall be written down to the current value of the predicted future cash flow (excluding the loss of future credits not yet occurred), and the amount as written down shall be recognized as loss of the impairment of the asset and shall be recorded into the profits and losses of the current period.

Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment.

(ii) Impairment of available-for sale financial asset

Where a sellable financial asset is impaired, even if the recognition of the financial asset has not been terminated, the accumulative losses arising from the decrease of the fair value of the capital reserve which was directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

After impairment loss is made, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(7) Financial instruments *(continued)*

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

(ii) Impairment of available-for sale financial asset *(continued)*

As for the sellable debt instruments the originally recognized impairment-related losses shall be reversed and recorded into the profits and losses of the current period. Be recorded into the profits and losses of the current period. As for the sellable equity instruments the originally recognized impairment-related losses shall be reversed and recorded into the other comprehensive income the impairment-related losses incurred to an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, or incurred to a derivative financial asset which is connected with the said equity instrument and which shall be settled by delivering the said equity instrument, may not be reversed.

(d) Recognition and measurement of transfer of financial assets

If financial assets meet any one of conditions as follows, financial assets shall be derecognized:

(1) Derecognized the contract right of receiving the cash flow of the financial asset;

(2) Transferred the financial asset to another party and has transferred nearly all the risks and rewards related to the ownership of which to the transferee;

(3) Transferred the financial asset to another party, although does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset but it gives up its control over the financial asset.

Where an enterprise does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset and does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly. Continuous involvement in the transferred financial asset refers to the risk level that the enterprise faces resulting from the change of the value of the financial asset.

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

(7) Financial instruments *(continued)*

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

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

i. The book value of the transferred financial asset;

ii. The sum of consideration received from the transfer, and the accumulative amount of the variation in fair value previously recorded into the other comprehensive income.

If the partially transfer of financial asset satisfies the conditions of termination of recognition, the entire book value of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognized part and the remains, and the difference between the amounts of the following 2 items shall be recorded into the profits and losses of the current period:

i. The book value of derecognized part;

ii. The sum of consideration of the portion derecognized and the portion of the corresponding accumulative amount of the variation in the fair value previously recorded into the other comprehensive income.

(e) Classification and Measurement of financial liabilities

Financial liabilities shall be classified into the financial liabilities measured at their fair value and the variation of which shall be recorded into the current profits and losses and other financial liabilities when they are initially recognized:

The financial liabilities initially recognized by an enterprise shall be measured at their fair values. For financial liabilities measured at their fair values and of which the variation is recorded into the profits and losses of the current period, the transaction expenses thereof shall be directly recorded into the profits and losses of the current period; for other categories of financial liabilities, the transaction expenses thereof shall be included into the initially recognized amount.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(7) Financial instruments *(continued)*

(e) Classification and Measurement of financial liabilities *(continued)*

(i) The financial liabilities measured at their fair value and the variation of which shall be recorded into the current profits and losses.

The classified conditions of transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses is the same as transactional financial asset and the designated financial asset which are measured at their fair values and of which the variation is included in the current profits and losses.

An enterprise shall make subsequent measurement on its the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses according to their fair values. The profits and losses arising from the change in the fair value, the interest or cash dividend which was gained in the period are recognized into the profits and losses of the current period.

(ii) Other financial liabilities

The derivative financial liabilities, of which the fair value cannot be reliably measured and quoted price does not exist in active marked, and connected to the equity instrument and be obliged to settle by delivering equity instrument, shall be measured at costs. An enterprise shall make subsequent measurement on its other financial liabilities on the basis of the post-amortization costs by adopting the actual interest rate method. The profits and losses that arise when such financial liabilities are terminated from recognition, or are impaired or amortized, shall be recorded into the profits and losses of the current period.

(f) The termination of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where an enterprise (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall terminate the recognition of the existing financial liability, and shall at the same time recognize the new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the enterprise concerned shall include into the profits and losses of the current period the gap between the carrying amount which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed).

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(8) Account receivables

Account receivables include trade debtors and other trade debtors.

(a) Recognition of provision

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

(i) A serious financial difficulty occurs to the issuer or debtor; (ii) The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc. (iii) The debtor will probably go bankrupt or carry out other financial reorganizations; (iv) Other objective evidences showing that the accounts receivables suffering impairment.

(b) Measurement of provision

Where there is any objective evidence that the company can hardly recover any of the account receivables according to the original terms, the account receivables shall be subject to impairment test and the difference between the current valve of the expected future cash flow of the assets and book value shall be made as impairment provision. The reduced amount shall be recognized as the loss of asset impairment and recorded into current profits or losses.

(c) The Company regard account receivables above 30 million as account receivable with single significant amount; The Company regard other receivables above 10 million as other receivables with single significant amount.

(d) Reversal of provision

If evidences show that the value of receivable is recovered and that recovery is connected to the event subsequent to the recognition of impairment loses, previously recognized impairment losses shall be revered and recorded into current profits and losses, however, the book value after reversed impairment losses shall not excess the amortized cost on the assumption that no impairment losses have been made previously.

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

(9) Inventories

(a) Classification of inventory

The inventory of the Group comprises raw material, work in progress, finished goods, consumables, spare parts, materials in transit, and outsourcing materials etc.

(b) Pricing of inventory received and dispatched

The inventories shall be initially measured in light of their cost when purchasing, the cost of inventory consists of purchase costs, processing costs and other costs.

(c) Recognition of the net realizable value of inventory and measurement of provision for decline in value of inventories

The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. An enterprise shall confirm the net realizable value of inventories on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events occurring after the date of the balance sheet. On the balance sheet date, the inventories shall be measured at the lower of the cost and the net realizable value. On the balance sheet date, if the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be recorded into the current profits and losses. The provision of inventories except the spare parts for decline in value is calculated by individual inventory item. The provision for decline in value of spare parts is calculated according to the actual situation and the management's estimations.

If the factors causing any write-down of the inventories disappeared, the amount of write-down shall be resumed and be reversed from the provision to the extent of provision previously made. The reversed amount shall be recorded into the current profits and losses.

(d) The Group maintains a perpetual inventory system.

(e) Amortization of consumables

Consumables such as low-value consumables, packaging materials and other consumables are amortized by lump-sum, units-production method or equal installments method depending on their nature. The amounts of the amortization are recorded in the cost of the related assets or the current profits and losses.

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

(10) Long-term equity investments

(a) Initial Measurement

The initial cost of the long-term equity investment formed in the merger of an enterprise, for the merger of enterprises under the same control, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. For the long-term equity investment obtained by business combination not under the same control, on the date of combination, the initial cost of long-term equity investment shall be the summation of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquire. The direct cost for the business combination of the combining party shall, including the expenses for audit, assessment, legal services and other administrative expenses be recorded into the profits and losses at the current period. The transaction expenses of the issued equity securities or liability securities for the consideration for the combination, shall be recorded into the amount of initial measurement of the equity securities or liability securities

Besides long-term equity investment obtained by business combination, the initial cost of long-term equity investment obtained by other means shall be ascertained in accordance with actual cash payment, the fair value of the equity securities issued, the conventional value stipulated in the investment contract or agreement ,etc. The initial cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

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

(b) Subsequent measurement of long-term equity investment and recognition of investment income

A long-term equity investment of an investing enterprise, which does not do joint control or does not have significant influences on the invested entity, and has no quoted price in the active market and its fair value cannot be reliably measured, are stated by employing cost method. A long-term equity investment of the investing enterprise that does joint control or significant influences over the invested entity shall be stated by employing equity method. A long-term equity investment of an investing enterprise, which is not to control the invested enterprise, also does not do joint control or does not have significant influences on the invested entity, and has quoted price in the active market and its fair value can be reliably measured, are stated as available-for-sale financial assets.

In addition, a long-term equity investment of an investing enterprise, which is able to control the invested enterprise, is stated by employing cost method.

i. The long-term equity investment stated by employing cost method

The long-term equity investment stated by employing cost method shall be measured at initial investment cost. In addition to the actual payment when it obtains the investment and the cash dividends and profits announced, which is included in consideration, the dividends or profits declared to distribute by the invested entity shall be recognized as the current investment income.

ii. A long-term equity investment of the investing enterprise stated by employing equity method

When a long-term equity investment of the investing enterprise is stated by employing equity method, If the initial cost of a long-term equity investment is more than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise' attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be recorded into the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

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

(b) Subsequent measurement of long-term equity investment and recognition of investment income *(continued)*

ii. A long-term equity investment of the investing enterprise stated by employing equity method *(continued)*

When a long-term equity investment of the investing enterprise is stated by employing equity method, the investment profits or losses is recognized in accordance with the proportion of the net profits or losses of the invested entity attributable to the Company. The investing enterprise shall ascertain attributable to share of invested entity profit on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment and adjust the net profits of the invested entity in accordance with the accounting policies and accounting periods adopted by the invested entity. All unrealized profits of the intragroup with the join controlled companies and associates which attributable to the Company shall be eliminated when preparing the consolidated financial statements, then ascertained the investment income. But if the adjustment for unrealized inter-group losses made to the invested is losses of transfer of assets impairment, the losses shall not be offset according to the principles of the Accounting Standards for Enterprises No.6 — Impairment of Assets. For the other comprehensive income of an investing enterprise, the book value of the long-term equity investment shall be adjusted to the other comprehensive accordingly and the amount of it shall be recorded into capital reserves

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

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

(b) Subsequent measurement of long-term equity investment and recognition of investment income *(continued)*

ii. A long-term equity investment of the investing enterprise stated by employing equity method *(continued)*

An investing enterprise shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero, unless the investing enterprise has the obligation to undertake extra losses. In addition if the company has the extra obligation of its investing enterprise to undertake extra losses, the extra obligation shall be recognized as projected liability according to expected obligation. If the invested entity realizes any net profits in the subsequent periods, the investing enterprise shall resume recognizing its attributable to share of profits after its attributable share of profits offsets against its attributable share of the un-recognized losses.

iii. The acquisition of minority interest

For the preparation of the consolidated financial statements, as for the difference between the new long-term equity investment because of buying minority interest and, the net assets, which is continuously obtained since the acquisition date, be measured in accordance with new proportions, the capital reserve shall be adjusted by the difference. If the capital reserve is not sufficient to be offset, the retained earnings shall be adjusted.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

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

(b) Subsequent measurement of long-term equity investment and recognition of investment income *(continued)*

iv. Disposition of a long-term equity investment

In the consolidated financial statements, where the parent company dispose part of the parents' long-term equity investment in each subsidiary without losing control, the difference between the disposal price and the net asset corresponding to the disposed long-term equity investment shall be measured to equity. Where the parent company lost the control of subsidiary companies because dispose part of the parents' long-term equity investment, see Note. 4 (b).

The disposal of long-term equity investment by other means, for disposed long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses. The portion of other comprehensive income previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion. The remaining equity shall be measured as long-term equity investment or other related financial assets according to its book value and shall be subsequently measured according to related accounting policy. The remaining equity measured by employing the equity method changed from the cost method shall be retrospective adjusted as prescribed in these standards.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

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

(c) Measurement standard of the joint control and significant influences

The term "control" refers to the power to determine the financial and operating polices of an enterprise and obtain benefits from its operating activities of the enterprise. The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions. The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. When ascertaining whether or not it is able to control or have significant influences on an invested entity, an enterprise shall take the invested enterprises' current convertible corporate bonds and current executable warrants held by the investing enterprise and other parties, as well as other potential factors concerning the voting rights into consideration.

(d) Method of impairment test and recognition of provision

On the balance sheet date, the Company shall check the long-term equity investment whether there is a sign of impairment exists. If there is sign of impairment, the estimated recoverable value shall be ascertained. When the recoverable value of the assets is lower than its book value, the Company shall diminish the book value to the recoverable value. The diminution amount shall be recorded into the profits and losses of the current period, and recognized the corresponding provision for impairment.

Once any provision for impairment is recognized, it shall not be written back within the assets' useful life.

(11) Fixed assets

(a) Recognition

Fixed assets represent the tangible assets held by the Group for use in the production of goods, service rendering, and renting and operation management purposes with useful lives over 1 year.

(b) Classification and depreciation method

The initial measurement of a fixed asset shall be made at its cost and the expected discard expenses shall be taken into consideration.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(11) Fixed assets *(continued)*

(b) Classification and depreciation method *(continued)*

From the next month of bringing the fixed asset to the expected conditions for use, the fixed assets are depreciated using the straight-line method over their estimated useful lives. The useful lives, residual value rates of each class of fixed assets are as follows:

Classes of fixed assets	**Useful lives**	**Residual value rate** *(%)*
Plants and buildings	10-20 years	3-5
Machinery and equipment	3-15 years	3-5
Other fixed assets	2-12 years	3-5

The "expected net salvage value" refers to the expected amount that an enterprise may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its expected useful life.

(c) Method of impairment test and measurement of provision

Method of impairment test and measurement of provision of fixed assets, see Note 15.

(d) The recognition criteria and valuation methods of fixed assets gained through financial lease

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. The ownership of it may or may not eventually be transferred. In calculating the depreciation of a leased asset, the Group should adopt a depreciation policy for leased assets consistent with that for depreciable assets which are owned by the lessee. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life.

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

(11) Fixed assets *(continued)*

(e) Other explanations

The subsequent expenses related to a fixed asset, if the economic benefits pertinent to the fixed asset are likely to flow into the enterprise and the cost of the fixed asset can be measured reliably, they shall be included in the cost of fixed asset and the book valve of the replaced parts shall be derecognized; otherwise, they shall be included in the current profits and losses:

When an enterprise sells transfers or discards any fixed asset, or when any fixed asset of an enterprise is damaged or destroyed, the enterprise shall deduct the book value and relevant taxes from the disposal income, and include the excess in the current profits and losses.

The useful life estimated residual values and depreciation method of the fixed assets shall be checked at the end of each fiscal year, and be adjusted timely as changes in accounting estimates if necessary.

(12) Construction in progress

The cost of construction in progress shall be measured according to the actual expenditure for the construction in progress. The cost includes the expenditure for the construction in progress during the construction period, capitalized borrowing costs before the construction is ready for its intended use and other related costs. Construction in progress is transferred to fixed assets when it is ready for its intended use.

Method of impairment test and measurement of provision of construction in progress, see Note 15.

(13) Borrowing costs

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, when the asset disbursements have already incurred, the borrowing costs has already incurred; and The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started, it shall be capitalized and recorded into the costs of relevant assets. When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

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

(13) Borrowing costs *(continued)*

The actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment shall be capitalized. The Group shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specific borrowing by the capitalization rate of the general borrowing used.

During the period of capitalization, the exchange balance on foreign currency borrowings shall be capitalized. The exchange balance on foreign currency borrowings shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended, till the acquisition and construction or production of the asset restarts.

(14) Intangible assets

(a) Intangible assets

The term "intangible asset" refers to the identifiable non-monetary assets possessed or controlled by enterprises which have no physical shape.

The intangible assets shall be initially measured according to its cost. The subsequent expenses related to an intangible asset, if the economic benefits related to intangible assets are likely to flow into the enterprise and the cost of intangible assets can be measured reliably, they shall be included in the cost of intangible asset. The other expenditures for an intangible item of an enterprise shall all be recorded into the profit or loss for the current period.

The right to use the land is usually stated as intangible assets. The expenditure of the right to use the land and the cost of the constructions associated with the plant which is self-developed, shall be stated as intangible assets or fixed assets separately. If the buildings and plants are purchased, the relevant cost shall be allocated among the right to use the land and plants; if it is hard to allocate, all the relevant cost shall be stated just as fixed assets.

An enterprise shall amortize intangible assets with limited service life from the time when it is available for use. The reasonable amortization amount of intangible assets shall be its cost minus the expected residual value. For intangible assets with an impairment provision, the accumulative amount of impairment provision shall be deducted from the cost as well. Intangible assets with uncertain service life may not be amortized.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(14) Intangible assets *(continued)*

(a) Intangible assets *(continued)*

The Group shall, at least at the end of each year, check the service life and the amortization method of intangible assets with definite service life and adjust its service life as changes in accounting estimates if necessary. In addition an enterprise shall check the service life of intangible assets with uncertain service life during each accounting period. Where there are evidences to prove the period of bringing economic benefits for the enterprise by the intangible assets can be expected, it shall be estimated of its service life, and be treated as intangible assets with certain service life.

(b) Expenditures on research and development

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research expenditures shall be recorded into current profits and loses while development expenditures may be confirmed as intangible assets when they satisfy the following conditions simultaneously, otherwise the development expenditures shall be recorded into current profits and loses:

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

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

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

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

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

If the expenditures can hardly be classified into expenditures on the research phase and expenditures on the development phase, they shall be recorded into current profits and loses completely.

(c) Method of impairment test and measurement of provision

Method of impairment test and measurement of provision of intangible assets, see Note 15.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(15) Impairment of non-current and non-financial assets.

For the non-current and non-financial assets such as fixed assets, construction in progress, intangible assets with limited service life, investment real estates measured through the cost pattern, long-term equity investments in the subsidiary companies, joint ventures and associated enterprises, an enterprise shall, on the day of balance sheet, make a judgment on whether there is any sign of possible assets impairment. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated and the enterprise shall make an impairment test of assets. No matter whether there is any sign of possible assets impairment, the business reputation formed by the merger of enterprises and intangible assets with uncertain service lives shall be subject to impairment test every year.

Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the reduced amount shall be recognized as the loss of asset impairment and a provision for the asset impairment shall be made accordingly. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets. The net amount of the fair value of an asset shall be ascertained according to the price of sales agreement in fair transaction. Where there is no sales agreement but there is an active market of assets, the net amount of the fair value of an asset shall be determined according to the price bidden by the buyer of the asset. Where there is no sales agreement and no active market of assets, the net amount of estimated fair value of an asset shall be estimated in light of the best information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, truck age as well as the direct expenses for bringing the assets into a marketable state. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. Where there is any evidence indicating a possible impairment of assets, the enterprise shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs. The term "combination of group assets" refers to the minimum combination of group assets formed by several asset groups.

Once any loss of asset impairment is recognized, it shall not be switched back in the future accounting periods.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(16) Estimated Liability

The obligation, pertinent to Contingencies, shall be recognized as estimated liability when the following conditions are satisfied simultaneously:

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

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

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

The estimated liability shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation on the balance sheet date. To determine the best estimate, the Group shall fully take the risks, uncertainty, time value of money, and other factors pertinent to the contingencies into consideration.

When all or some of the expenses necessary for the liquidation of an estimated debts of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of the estimated debts.

(17) Revenue

(a) Revenue from selling goods

The revenue from selling goods shall be recognized when the following conditions are met simultaneously:

(i) The significant risks and rewards of ownership of the goods have been transferred to the buyer by the Group;

(ii) The Group retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods;

(iii The relevant amount of revenue can be measured reliably;

(iv) It is probable that relevant economic benefit will flow into the Group;

(v) The costs of selling goods, incurred or will incur, can be measured reliably.

The Group recognized the revenue from selling goods based on fair value of amount that received or receivable on the contract or agreement.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(17) Revenue *(continued)*

(b) Revenue from rendering of services

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

The outcome of a transaction concerning the providing of labor services can be measured in a reliable way, means that the following conditions shall be met simultaneously:

(i) The amount of revenue can be measured in a reliable way;

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

(iii) The schedule of completion under the transaction can be confirmed in a reliable way;

(iv) The costs incurred or to be incurred in the transaction can be measured in a reliable way.

Where the outcome of service rendering cannot be estimated reliably, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; and the service shall be stated as current expense. If the costs incurred are not expected to be recoverable, no service revenue is recognized.

Where a contract or agreement signed between enterprises concerns selling goods and providing of labor services, if the part of sale of goods and the part of providing labor services can be distinguished from each other and can be measured respectively, the part of sale of goods shall be conducted as selling goods and the part of providing labor services shall be conducted as providing labor services. If the part of selling goods and the part of providing labor services cannot be distinguished from each other, or if the part of sale of goods and the part of providing labor services can be distinguished from each other but could not be measured respectively, both parts shall be conducted as selling goods.

(c) Royalty revenue

The amount of royalty revenue should be measured and confirmed through accrual basis accounting in accordance with the relevant contract or agreement.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(17) Revenue *(continued)*

(d) Interest revenue

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

(18) Government grants

Government grants is the monetary or non-monetary assets received from government, not including the capital investment by government as an investor. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

If government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount. The government grants measured at its nominal amount shall be directly included in the current profits and losses.

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

If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows:

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

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

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(19) Deferred income tax assets or deferred income tax liabilities

(a) Current income taxes

On the balance sheet day, the current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured in light of the expected payable (refundable) amount of income taxes according to the tax law. The taxable income of enterprises, the basis of the measurement of the income tax, shall be measured according to the adjusted accounting profit before tax for the year by tax low.

(b) Deferred income tax assets or deferred income tax liabilities

Where there is temporary difference resulted from the difference between the carrying amounts of the assets, liabilities or items that is not recognized as asset or liability but can ascertain its tax base according to the tax law and their tax base, the deferred income tax assets or the deferred income tax liabilities shall be ascertained using balance sheet liability method.

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

i. The initial recognition of business reputation;

ii. The initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following:

(i) The transaction is not business combination;

(ii) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

In addition, the taxable temporary differences related to the investments of subsidiary companies, associated enterprises and joint controlled enterprises shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded:

(i) The investing enterprise can control the time of the reverse of temporary differences;

(ii) The temporary differences are unlikely to be reversed in the excepted future.

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

(19) Deferred income tax assets or deferred income tax liabilities *(continued)*

(b) Deferred income tax assets or deferred income tax liabilities *(continued)*

ii. The initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: *(continued)*

An enterprise shall recognize the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. However, the deferred income tax assets, which are arising from the initial recognition of assets or liabilities during a transaction which is simultaneously featured by the following, shall not be recognized:

(i) This transaction is not business combination;

(ii) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

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

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

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

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

On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

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

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(19) Deferred income tax assets or deferred income tax liabilities *(continued)*

(c) Income tax expenses

The income tax expenses include current income tax and deferred income tax.

The current income tax and deferred income tax, related to the transaction of other comprehensive income or recorded into share holds' equity, is recognized as other comprehensive income or recorded into share holds' equity, and the deferred income tax of consolidation is adjusted as the book value of goodwill. The other income tax and deferred income tax is recorded into current profits or losses.

(20) Leases

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. The ownership of it may or may not eventually be transferred. The term "operating lease" shall refer to a lease other than a financing lease.

(a) The Group recorded operating leases as lessee

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

(b) The Group recorded operating leases as lessor

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

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(20) Leases *(continued)*

(c) The Group recorded finance leases as lessee

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. In addition, the negotiation and signing of the lease occurs during the lease contract may be attributable to the leased items are also included in the initial direct costs of leased assets. Minimum lease payments net of finance charges not recognized should be listed in long-term liabilities, respectively, and the balance due within one year term liabilities.

The lessee shall adopt the effective interest rate method to calculate and recognize the financing charges in the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(d) The Group recorded financial leasing as lessor

On the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in the account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income. Finance lease receivables net of unearned finance income, respectively, should be listed in the balance of long-term receivables due within one year and long-term receivables.

The lessor shall calculate the unrealized financing income at the current period by adopting the effective interest rate method. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(21) Employee compensation

During the accounting period of the employees providing services to the Group, the enterprise shall recognize the compensation payable as liabilities.

As required, the Group participated in the workers' Social Security System set up by government, including pensions, medical insurance, housing fund and other social security system, the corresponding expenditure is included in the cost of related assets or the profit or loss when arising.

Before the lifting of the employment contracts of labor relations with employees, or encourage employees to accept voluntary redundancy offer of compensation proposal, if the Group has a formal termination of employment relationship or a voluntary reduction will be implemented immediately, while the company cannot unilaterally withdraw from the termination or reduction of the proposed scheme, confirmed the cancellation of labor relations with employees expected liabilities arising from compensation and profit or loss.

The early retirement plan adopts the same principles as termination benefits. The Group will provide services to workers to stop the normal retirement date within the period to be paid back to pay salaries and social insurance, subject to the conditions expected to be recognized in profit or loss (termination benefits).

(22) Changes of the Significant accounting policies and estimates

In the year of 2010, the Group made no changes of the Significant accounting policies and estimates.

(23) Corrections of Prior Period Errors

In the year of 2010, the Group made no Corrections of Prior Period Errors.

(24) Significant accounting judgments and estimates

In application of the accounting policies, for the uncertainty of business operation, the Company needs to determine, estimate, or make assumption on the book value of report subjects which are not able to be precisely measured.

These determinations, estimations, or assumptions are made upon the Company's experiences and with references to other relative factors. They will affect the report value of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities on the balance sheet date. However, their uncertainty may results in significant adjustment of the book value of assets or liabilities affected in the future.

The Company performs periodic revision on the above determinations, estimations, and assumptions on the basis of constant operation. When a change in accounting estimation is just influencing the current term, its influenced amount is recognized in the current term. When a change is influencing not only the current term but also the future terms, its influenced amount is recognized in the current term and also the future terms.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(24) Significant accounting judgments and estimates *(continued)*

On the balance sheet date, the Group financial statements required critical judgments, estimates and assumptions are as follows:

(a) Provision for bad debts

The Group use allowance method to state bad debt losses according to the accounting policies of accounts receivable. Impairment of receivables is based on the assessment of the recoverability of accounts receivable. Identification of impairment of receivables requires management judgments and estimates. The differences between actual results and the original estimate will affect the book value of accounts receivable as well as the recognition or reversal of provision for bad debts in the period in which the estimate is changed.

(b) Provision for inventories

According to the inventory accounting policy, the Group adopts the lower of cost and net realizable value method to state inventories, and recognizes provision for inventories on the condition that the cost of them is higher on the net realizable value or they are slow moving or obsolete. Inventories to net realizable value are based on the evaluation of inventories sold and its net realizable value. Identification of inventories requires management to make judgments and estimates on the basis of obtaining conclusive evidence, and considering the purpose of holding inventory and the events after balance sheet date Actual results and the differences between the original estimates will be changed during the estimated book value of inventories and inventory impairment provision or reversed. The differences between actual results and the original estimate will affect the book value of inventories as well as the recognition or reversal of provision for inventories in the period in which the estimate is changed.

(c) Impairment of financial assets available for sale

The Group determines whether the impairment of financial assets available for sale to a large extent depending on management's judgments and assumptions, and to determine whether the impairment loss is recognized in the income statement. In the process of making the judgments and assumptions, the Group is required to assess to what extent the fair value is lower than the investment cost and the duration of it, as well as the financial position and short-term business outlook, including industry conditions, technological change, the credit rating, default rates, and counterparty risk, of the object to be invested.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(24) Significant accounting judgments and estimates *(continued)*

(d) Impairment of non-financial non-current assets

The Group determined whether there is evidence of possible impairment for non-current assets except financial assets on the balance sheet date. Intangible assets of indefinite useful life, in addition to annual impairment tests, when it exists signs of impairment, it is tested for impairment. In addition to financial assets other than non-current assets, when there are indications that the carrying amount may not be recoverable, impairment testing.

When the asset or asset group's carrying value exceeds its recoverable amount, being the higher between the net of fair value minus the disposal costs and the present value of expected future cash flows, impairment has occurred.

The net of fair value minus the disposal costs, is recognized by taking away the directly attributable incremental costs of the disposal of assets from the trade price in fair trade of similar assets or observable market price.

It is required to make significant judgments on the yield, price, related operating costs of the assets (or assets group) and the discount rate used to calculate the present value when estimating the present value of the cash flows. The Group estimates the recoverable amount by using of all relevant information obtainable, including the forecast of yield, price, and related operating costs on the basis of reasonable and supportable assumptions.

(e) Depreciation and amortization

The Group's fixed assets and intangible assets, after taking the residual value into account, are depreciated and amortized with the straight-line method in their useful lives. The Group regularly review the service life to determine depreciation and amortization costs in each reporting period. The Group determine the useful life of assets on the basis of experience of similar assets as well as expected technical updates. If the estimates are changed significantly, the depreciation and amortization costs will be adjusted in the future.

(f) Deferred tax assets

If it is likely to obtain sufficient taxable income taxes to offset the benefit deductible, the Group confirmed all the unused tax losses into the deferred income tax assets. In order to determine the amount of deferred tax assets, the Group's management is required to use large judgments as well as tax planning strategies to estimate the time and amount of the occurrence of the taxable profits in the future.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(24) Significant accounting judgments and estimates *(continued)*

(g) Income tax

There are some transactions whose ultimate tax treatment exist some uncertainties in the ordinary business activities of the Group. Whether part of the project can be deducted from the benefit taxable is needed to be approved by tax authorities. If there is difference between final results identified and initially estimated, the difference will be effect current income tax and deferred tax.

(h) Early retirement benefits and supplemental retirement benefits

The amount of early retirement benefits of the Group and supplementary retirement benefit expenses and liabilities is determined, the amount determined based on various assumptions. These assumptions include the discount rate, the average medical cost growth, the retired officers and retired officers' subsidy rate and other factors. Differences in actual results and assumptions will be recognized immediately in the event of the year and included in cost. Although management believes that reasonable assumptions have been used, but the actual experience of values and changes in assumptions will affect the balance of the company's early retirement benefits and additional retirement benefits costs and liabilities.

(i) Estimated liabilities

The Group use contract article, the existing knowledge and historical experience, to recognize the provision for product quality assurance, expected contract losses, and penalty resulted in delayed delivery. On the condition that such contingent matters has formed a present obligation which is expected to give rise to an outflow of the Group's economic benefits, the Group recognize the best estimate of expenditure needed in settle of relenant current obligation as accrued liabilities. Recognition and measurement of liabilities is expected to rely heavily on management's judgments. In the judging process, the Group need evaluation such contingencies related risks, uncertainties and the time value of money and other factors.

5. TAXATION

Principal tax and tax rate

Type of tax	Taxation basis
VAT	17% of taxable income less input VAT
Business tax	3%–5% of taxable income
City construction and maintenance tax, Education surcharge and local education surcharge	7%, 3% ,1% of circulating tax paid
Corporate income tax	25% of taxable income
Custom duty	5%–15% of FOB

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENT

(1) Subsidiary

(a) Subsidiaries acquired by set up method

Full name	Type of subsidiary	Registration place	Nature of the business	Registered capital	Business scope	Company type	Legal representative	Organization code	Actual investment at the end of the year	Other essential investment
Angang Steel Distribution (Wuhan) Co., Ltd. ("Angang Wuhan")	Wholly-owned subsidiary	Wuhan	Steel Processing and Distribution	60	Steel and related products production, processing, wholesale and retail	Co., Ltd.	Li Baojie	67583176-9	60	
Angang Cold Rolled Steel (Putian) Co., Ltd. ("Angang Putian")	Wholly-owned subsidiary	Putian	Steel processing Distribution	800	Processing of ferrous metal rolling, rolled steel products, metallurgy parts manufacturing, sales of steel products, processing of steel products and related services	Co., Ltd.	Cao Pizhi	55097071-4	800	

Full name	The proportion of shareholding *(%)*	The Proportion of voting-right *(%)*	Included in consolidated statements	Minority interest	Deductible minority interest	Balance of parent Group's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
Angang Steel Distribution (Wuhan) Co., Ltd.	100	100	Yes			
Angang Cold Rolled Steel (Putian) Co., Ltd.	100	100	Yes			

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

(1) Subsidiary *(continued)*

(b) Subsidiaries acquired by business combination not under common control

Full name	Type of subsidiary	Registration place	Nature of the business	Registered capital	Business scope	Company type	Legal representative	Organization code	Actual investment at the end of the year	Other essential investment
Tianjin Angang Tiantie Cold Rolled Sheets Group Limited ("Tianjin Tiantie")	Equity joint venture	Tianjin	Steel processing Distribution	3,700	Steel processing and sale	Co., Ltd.	Chen Ming	75224243-2	1,407	

Full name	The proportion of shareholding (%)	The Proportion of voting-right (%)	Included in consolidated statements	Minority interest	Deductible minority interest	Balance of parent Group's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
Tianjin Angang Tiantie Cold Rolled Sheets Group Limited	50	50	Yes	1,277		

Tianjin Tiantie was established jointly by the Group and Tianjin metallurgical Metallurgical Holding ("Tiantie Group").The proportion of shareholding of two parts is 50% respectively. According to the Articles of Tianjin Tiantie. Tiantie's financial and operational policy is in conformance with that of the Group. Chairman of the board is recommended by the Group. The board consists of nine directors of which five are recommended by the Group and four are recommended by the Tiantie Group (Resolution of the board passed by agreed over half of the directors of board). Financial controller is recommended by the Group.

For above-listed reasons, the Group has control power over the Tianjin Tiantie, so Tianjin Tiantie is included among consolidation scope.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENT *(continued)*

(2) The change of the consolidation scope

Angang Putian is a newly established subsidiary and included among consolidation scope.

(3) Subsidiaries that included in consolidation scope first time this year

Name	Net assets at the end of the year	Net profits of the year
Angang Putian	**794**	(6)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the notes below(including notes to parent financial statements), unless otherwise special indicated, the end of the year is 31 Dec. 2010, the beginning of the year is 1 Jan. 2010, "this year" is twelve months ended on 31 Dec. 2010, "last year" is twelve months ended on 31 Dec. 2009.

(1) CASH AT BANKS AND ON HAND

Items	Ending balance	Beginning balance
Cash on hand	**1**	1
Cash at banks	**2,975**	1,542
Other monetary capital	**675**	699
Total	**3,651**	2,242

Note: Cash at banks and on hand this year increased by 63% comparing with last year, was mainly because of the increase of net cash inflow from operating activities.

(2) BILLS RECEIVABLE

(a) Classification of bills receivable

Items	Ending balance	Beginning balance
Bank acceptance bills	**3,703**	3,396
Total	**3,703**	3,396

(b) As at the end of the year, no bills receivable is used for mortgage.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(2) BILLS RECEIVABLE *(continued)*

(c) For this year, there was no bills receivable transferred to accounts receivable due to that the issuer is unable to honour its commitment.

(d) Outstanding undue endorsed bills (the top five by significant amount)

Issuer	Issuing date	Issuing date	Balance	Whether de-recognition	Notes
Zhejiang Xingristeel Holding Group Co., Ltd.	Jul to Dec 2010	Jan to Jun 2011	434	Yes	
Manfu Shoucheng (Benxi) Industrial Co., Ltd.	Jul to Dec 2010	Jan to May 2011	295	Yes	
Kailuan (Group) Co., Ltd.	Aug to Dec 2010	Jan to Jun 2011	210	Yes	
Kailuan Energy & Chemical Limited Company	July to Dec 2010	Jan to Jun 2011	142	Yes	
CITIC Jinzhou Ferroalloy Co., Ltd.	Aug to Nov 2010	Feb to May 2011	131	Yes	
Total			1,212		

(3) ACCOUNTS RECEIVABLE

(a) Classified by account nature

Items	Ending balance			
	Book balance		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with significant single amount on which bad debt provision made individually	**1,836**	**89**		
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	**225**	**11**		
Total	**2,061**	**100**		

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(3) ACCOUNTS RECEIVABLE *(continued)*

(a) Classified by account nature *(continued)*

	Beginning balance			
	Book balance		Bad debt provision	
Items	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with significant single amount on which bad debt provision made individually	1,676	95		
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	94	5		
Total	1,770	100		

(b) The aging analysis of accounts receivable

	Ending balance		Beginning balance	
Aging	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Within 1 year	**2,054**	**100**	1,764	100
1 to 2 years	**3**		2	
2 to 3 years	**1**		1	
Over 3 years	**3**		3	
Total	**2,061**	**100**	1,770	100

(c) Bad debt provision accrued at the end of the year

The management considered that significant accounts receivable could be recovered and the debtors are able to honour their commitment, so bad debt provision rate is relatively low.

(d) The total amounts of accounts receivable due from shareholders with more than 5% (including 5%) voting shares of the Group at the end of the year is disclosed as follows:

	Ending balance		Beginning balance	
Debtor	**Balance**	**Bad debt provision**	Balance	Bad debt provision
Angang Holding			2	
Total			2	

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(3) ACCOUNTS RECEIVABLE *(continued)*

(e) As at 31 Dec. 2010, the total amount of accounts receivable due from the Group's top five debtors is disclosed as follows:

Debtors	Relationship	Amounts	Duration	Percentage (%)
Angang Group International Trade Corporation("Angang Trade")	Fellow subsidiary	792	Within 2 month	38
FAW Purchasing Center	Third party	503	Within 3 month	24
Shenzhen Southern CIMC Eastern Logistics Equipment Manufacturing Co., Ltd.	Third party	135	Within 2 month	8
Angang ThyssenKrupp steel delivery Co., LTD. ("Angang Changchun")	Jointly controlled enterprise	69	Within 2 month	3
Xinhui CIMC Container Co., Ltd.	Third party	59	Within 2 month	3
Total		1,558		76

(e) The related parties transactions disclosed in Note: 9(6).

(4) OTHER RECEIVABLES

(a) Classified by account nature

Type	Ending balance			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	**15**	**100**		
Total	**15**	**100**		

Type	Beginning balance			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	19	100		
Total	19	100		

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(4) OTHER RECEIVABLES *(continued)*

(b) The aging analysis of other receivables

Aging	Ending balance Amount	Ending balance Percentage (%)	Beginning balance Amount	Beginning balance Percentage (%)
Within 1 year	**13**	**87**	19	100
1 to 2 years	**2**	**13**		
2 to 3 years				
Over 3 years				
Total	**15**	**100**	19	100

(c) Bad debt provision accrued at the end of the year

The management considered that significant accounts receivable could be recovered and the debtors are able to honor their commitment, so bad debt provision rate is relatively low.

(d) The company do not has the total amount of accounts other receivable due from shareholders with more than 5% (including 5%) voting shares of the Group at the end of the year.

(5) PREPAYMENTS

(a) The aging analysis of prepayments

Aging	Ending balance Amount	Ending balance Percentage (%)	Beginning balance Amount	Beginning balance Percentage (%)
Within 1 year	**7,988**	**95**	5,241	85
1 to 2 years	**144**	**2**	521	8
2 to 3 years	**235**	**3**	450	7
Over 3 years	**13**			
Total	**8,380**	**100**	6,212	100

Note: The prepayments aged more than one year were prepaid to Angang Trade for importing equipment and spare parts.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(5) PREPAYMENTS *(continued)*

(b) As at 31 Dec. 2010, top five debtors were as follows:

Debtors	Relationship	Amounts	Aging	Reason for unsettlement
Angang Trade	Fellow subsidiary	6,245	Within 3 years	undue
Tianjin Tiantie Metallurgy Trade Group Co., Ltd.	Third party	368	Within 1 years	undue
China First Heavy Industries (Group) Co., Ltd.	Third party	304	Within 3 years	undue
MCC Coking And Refractory Engineering Consulting Co.	Third party	267	Within 1 years	undue
Fengli Group Co., Ltd.	Third party	102	Within 1 years	undue
Total		7,286		

(c) The Group has no prepayments due from shareholders with more than 5% (including 5%) of the voting shares of the Group at the end of the year.

(6) INVENTORIES

(a) Analysis of inventories by types

	Ending balance		
Items	Book value	Provision for diminution of inventory value	Carrying value
Raw materials	4,206	378	3,828
Work in progress	3,645	114	3,531
Finished goods	2,004	73	1,931
Consumables	1,382		1,382
Spare parts	2,457		2,457
Materials in transit			
Outsourcing material	5		5
Total	13,699	565	13,134

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(6) INVENTORIES *(continued)*

(a) Analysis of inventories by types *(continued)*

	Beginning balance		
Items	Book value	Provision for diminution of inventory value	Carrying value
Raw materials	2,681	23	2,658
Work in progress	2,671	10	2,661
Finished goods	1,580	9	1,571
Consumables	1,285		1,285
Spare parts	2,468		2,468
Materials in transit	4		4
Outsourcing material	11		11
Total	10,700	42	10,658

(b) Analysis of movement on provision for diminution in value of inventories

			Decrease of the year		
Items	Beginning balance	Provision withdrawn for the year	Written back	Written off	**Ending balance**
Raw materials	23	710		355	**378**
Work in progress	10	371		267	**114**
Finished goods	9	213		149	**73**
Total	42	1,294		771	**565**

(c) Analysis of provisions for diminution in value of inventories

(i) The market price of steel products dropped this year which resulted in the net realizable value of finished goods and the relevant raw materials is lower than the cost; therefore, provision for diminution in value of inventories is made at the end of the year.

(ii) The reason that provision for diminution in value of inventories decreased was due to corresponding products had been sold, so the relevant provision had been transferred to cost of sales.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Items	Ending balance	Beginning balance
Available-for-sale equity instrument	**179**	161
Total	**179**	161

Note: The ending balance was increased by 11% due to the Group subscribed 10 million A share common stock of Zhuzhou Smelter Group Ltd through non-public offering, market value of the stock was 161 million at the end of last year (RMB 16.16 per share), market value of the stock was 179 million at the end of the year. (RMB 17.92 per share)

(8) LONG-TERM EQUITY INVESTMENT

(a) Analysis of long-term equity investments by types

Type	Beginning balance	Increase of the year	Decrease of the year	Ending balance
Investment in jointly controlled enterprises	934	315	6	**1,243**
Investment in associates	465	97	74	**488**
Other equity investments	230	25		**255**
Less: Provision for impairment of long-term equity investment				
Total	1,629	437	80	**1,986**

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(8) LONG-TERM EQUITY INVESTMENT *(continued)*

(b) Details for long-term equity investments

Name of investee	Accounting method	Initial investment cost	Beginning balance	Variation of the year	**Ending balance**
ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	Equity method	533	652	272	**924**
ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Group Limited ("ANSC-Dachuan")	Equity method	190	198	11	**209**
Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	Equity method	45	53	14	**67**
ANSC-TKS Changchun Steel Logistics Co., Ltd. ("TKAS-SSC")	Equity method	48	31	12	**43**
TKAS Angang Shenyang Steel Product Processing and Distribution Group Limited ("Angang Shenyang")	Equity method	14	13		**13**
(Changchun) Tailored Blanks Ltd ("TKAS")	Equity method	37	43	12	**55**
Angang entity group packing belt Co., Ltd. ("Entity Packing")	Equity method	11	9	(2)	**7**
Angang Finance Corporation	Equity method	315	398	10	**408**
Tianjin Tantie Binhai Metallurgical Industry Co., Ltd. ("Binhai Industry")	Equity method	2	2	3	**5**
WISDRI Engineering and Research Incorporation Limited("WISDRI")	Cost method	35	10	25	**35**
Heilongjiang Longmay Mining Group Co., Ltd. ("Longmay Group")	Cost method	220	220		**220**
Total			1,629	357	**1,986**

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(8) LONG-TERM EQUITY INVESTMENT *(continued)*

(b) Details for long-term equity investments *(continued)*

Name Of investee	The proportion of Shareholding	The proportion of voting-rights	Note for difference between proportions of voting-rights and shareholding	Provision for impairment	Provision for impairment accrued this year	Cash dividends
	(%)	*(%)*				
ANSC-TKS	50	50				
ANSC-Dachuan	50	50				
Changchun FAM	50	50				3
TKAS-SSC	50	50				
Angang Shenyang	30	30				1
TKAS	45	45				5
Entity Packing	30	30				
Angang Finance	20	20				66
Binhai Industry	30	30				
WISDRI	7	7				15
Longmay Group	1	1				1
Total						91

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(8) LONG-TERM EQUITY INVESTMENT *(continued)*

(c) INVESTMENT IN JOINTLY CONTROLLED ENTERPRISES AND ASSOCIATES

(i) Particulars of jointly controlled enterprises of the Group.

Name of investee	Type	Registration Place	Legal representative	Nature of business	Registered capital	The proportion of share-holding (%)	The proportion of voting-rights (%)
ANSC-TKS	Sino-Foreign Cooperative Venture	Dalian	Edwin Eichler	Steel processing	USD132 million	50	50
ANSC-Dachuan	Limited Liability Group	Dalian	Lin Daqing	Steel processing and sale	RMB380 million	50	50
Changchun FAM	Sino-Foreign Cooperative Venture	Changchun	Li Baojie	Steel production processing and service	RMB90.374 million	50	50
TKAS-SSC	Sino-Foreign Cooperative Venture	Changchun	Wang Yanping.	Steel processing and sale	USD12 million	50	50

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total revenue during this year	Net profit during this year
ANSC-TKS	2,797	913	1,884	4,394	511
ANSC-Dachuan	1,880	1,462	418	2,552	22
Changchun FAM	372	238	134	815	35
TKAS-SSC	387	292	95	1,046	23

Notes To The Financial Statements *(continued)*

For the year 2010 (Expressed in RMB million unless otherwise indicated)

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

(8) LONG-TERM EQUITY INVESTMENT *(continued)*

(c) INVESTMENT IN JOINTLY CONTROLLED ENTERPRISES AND ASSOCIATES *(continued)*

(ii) Particulars of associates of the Group

Name of investee	Type	Registration Place	Legal representative	Nature of business	Registered capital	The proportion of share-holding (%)	The proportion of voting-rights (%)
Angang Shenyang	Limited Liability Group	Shenyang	Zhao Guangjie	Tailored blanks processing	RMB48 million	30	30
TKAS	Sino-Foreign Joint Venture	Changchun	Nag Manfred	Steel processing and logistic	USD10 million	45	45
Entity Packing	Limited Liability Group	Anshan	Mao Guangyu	Packaging steel belt and steel processing	RMB35.73 million	30	30
Angang Finance Corporation	Limited Liability Group	Anshan	Yu Wanyuan	Deposit finance	RMB1000 million	20	20
Binhai Industry	Limited Liability Group	Tianjin	Jia Deqi	Service	RMB5 million	30	30

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total revenue in the this year	Net profit in the this year
Angang Shenyang	252	202	50	619	2
TKAS	191	68	123	558	40
Entity Packing	38	17	21	24	(5)
Angang Finance	20,483	18,443	2,040	598	381
Binhai Industry	54	37	17	144	10

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(9) FIXED ASSETS

(a) Analysis of fixed assets

Items	Beginning balance	Increase of the year	Decrease of the year	**Ending Balance**
1. Cost	77,357	10,501	111	**87,747**
Of which: Buildings and Plants	21,403	3,256	9	**24,650**
Machineries and equipment	52,343	6,545	90	**58,798**
Others	3,611	700	12	**4,299**
2. Accumulated depreciation	23,424	7,010	74	**30,360**
Of which: Buildings and Plants	4,207	1,262	13	**5,456**
Machineries and Equipment	17,601	5,310	46	**22,865**
Others	1,616	438	15	**2,039**
3. Net book value	53,933	3,491	37	**57,387**
Of which: Buildings and Plants	17,196	1,994	(4)	**19,194**
Machineries and equipment	34,742	1,235	44	**35,933**
Others	1,995	262	(3)	**2,260**
4. Provision for impairment	128	4	12	**120**
Of which: Buildings and Plants	16		2	**14**
Machineries and equipment	109	4	10	**103**
Others	3			**3**
5. Book value	53,805			**57,267**
Of which: Buildings and Plants	17,180			**19,180**
Machineries and equipment	34,633			**35,830**
Others	1,992			**2,257**

Note: i. The depreciation of this year was 7,010 million.

ii. During this year, the cost of construction in progress transferred into fixed assets was 10,450 million.

iii. According to the expert opinion of the asset management departments, provision for impairment is made for the fixed assets, which could not bring economic benefits to the enterprise, due to technological obsolescence, damage or other reasons, and the provision amount to the difference between the carrying amount and recoverable amount. The recoverable amount was calculated based on estimated net cash flows arising from the normal usage during the estimated useful life and the asset disposal.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(9) FIXED ASSETS *(continued)*

(b) Temporarily idle fixed assets

Items	Cost	Accumulated depreciation	Provision for impairment	Book value	*Notes*
Buildings and Plants	2			2	Renovation
Machineries and Equipment	87	45	32	10	Renovation
Others	14	11	3		Renovation
Total	103	56	35	12	

(c) The Group had no financial leased fixed asset from others on 31 Dec. 2010.

(d) Operating leased fixed asset to others

Items	**Ending book value**	Beginning book value
Buildings and Plants	**34**	36
Machineries and Equipment	**5**	5
Total	**39**	41

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(10) CONSTRUCTION IN PROGRESS

(a) Analysis of construction in progress

	Ending balance			Beginning balance		
Items	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Tiantie project	1,424		1,424	1,875		1,875
Bayuquan project	1,466		1,466	3,240		3,240
Putian cold rolling project	294		294			
High capability cold rolling silicon steel production line	43		43	2,988		2,988
Chemical plant renovation	4		4	2		2
New 4#,5# and 7# furnace	8		8	165		165
3# casting machine	611		611	187		187
Seamless 177 petroleum pipeline	224		224	200		200
Wire production line renovation	1		1	326		326
Oxygen producer	89		89	194		194
Central power station	3		3	301		301
Continuous rolling line of western district	11		11	5		5
Others	1,099		1,099	1,105		1,105
Total	5,277		5,277	10,588		10,588

Note: 1 Construction in progress this year decreased by 50% comparing with last year, was mainly because of part of the construction in progress is transferred to fixed assets when it is completed.

2 Part of the Tiantie project construction in progress was mortgaged by the Group as guarantee to repay bank loans. Disclosed in Note 7(16).

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(10) CONSTRUCTION IN PROGRESS *(continued)*

(b) Change in main project of construction in progress

Items	Budget	Beginning balance	Increase of the year	Transferred into fixed assets	Other decrease	Ending balance
Tiantie project	6,294	1,875	1,248	1,694	5	**1,424**
Bayuquan project	31,837	3,240	1,723	3,466	31	**1,466**
Putian cold rolling project	3,500		294			**294**
High capability cold rolling silicon steel production line	3,400	2,988	308	3,253		**43**
Chemical plant renovation	2,589	2	2			**4**
New 4#,5# and 7# furnace	2,302	165	22	179		**8**
3# casting machine	955	187	424			**611**
Seamless 177 petroleum pipeline	817	200	24			**224**
Wire production line renovation	629	326	267	592		**1**
Oxygen producer	518	194	52	157		**89**
Central power station	350	301	18	316		**3**
Continuous rolling line of western district	273	5	6			**11**
Others		1,105	790	793	3	**1,099**
Total		10,588	5,178	10,450	39	**5,277**

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(10) CONSTRUCTION IN PROGRESS *(continued)*

(b) Change in main project of construction in progress *(continued)*

Items	Accumulated capitalized borrowing cost	Of which: capitalized this year	Capitalization rate (%)	Expenditure of budget (%)	Project progress (%)	Resource of capital
Tiantie project	151	102	5.36	78	78	Self-financing,
Bayuquan project	1,475	91	5.04	85	85	Self-financing, Special borrowings, Issued stock
Putian cold rolling project	33	33	4.86	31	31	Self-financing, Borrowings
High capability cold rolling silicon steel production line	321	99	4.90	87	87	Self-financing,
Chemical plant renovation	21		4.90	99	99	Self-financing
New 4#,5# and 7# furnace	73	5	4.90	99	99	Self-financing
3# casting machine	24	21	4.90	63	63	Self-financing
Seamless 177 petroleum pipeline	35	9	4.90	90	90	Self-financing
Wire production line renovation	35	21	4.90	87	87	Self-financing
Oxygen producer	44	5	4.90	96	96	Self-financing
Central power station	21	5	4.90	85	85	Self-financing
Continuous rolling line of western district	11		4.90	77	77	Self-financing
Others	172	64				Self-financing, Borrowings
Total	2,416	455				

Note: The self-financing consisted of non-special borrowings and gains from operating.

(c) As at 31 Dec 2010, no book value of construction in progress was higher than its realizable value.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

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

(11) CONSTRUCTION MATERIAL

Project	Beginning balance	Increase of the year	Decrease of the year	Ending balance
Special materials	3	124	125	**2**
Special equipment	2,331	3,547	4,833	**1,045**
Total	2,334	3,671	4,958	**1,047**

Note: The ending balance of construction material was decreased by 55% comparing with the beginning balance due to the reduction of project recipients.

(12) INTANGIBLE ASSETS

Items	Beginning balance	Increase of the year	Decrease of the year	Ending balance
1. Total cost	7,680	72		**7,752**
Land use rights	7,639	53		**7,692**
software	9	19		**28**
Non-patented technology	32			**32**
2. Accumulative amortization	619	166		**785**
Land use rights	593	156		**749**
software	7	5		**12**
Industrial technology	19	5		**24**
3. Total net book value	7,061	(94)		**6,967**
Land use rights	7,046	(103)		**6,943**
software	2	14		**16**
Non-patented technology	13	(5)		**8**
4. Total provision for impairment				
Land use rights				
software				
Non-patented technology				
5. Total book value	7,061			**6,967**
Land use rights	7,046			**6,943**
software	2			**16**
Non-patented technology	13			**8**

Note: The amortization amount was 166 million this year

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(13) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITIES

(a) Recognized deferred income tax assets and deferred income tax liabilities

(i) Recognized deferred income tax assets

	Ending balance		Beginning balance	
Items	**Deferred income tax assets**	**Temporary difference or deductible loss**	Deferred income tax assets	Temporary difference or deductible loss
Provision for diminution in value of inventories	**141**	**565**	10	42
Provision for impairment against fixed assets	**30**	**120**	32	128
Accumulated depreciation of fixed asset	**5**	**18**	5	22
Adjustment for unrealized inter-Group profit	**20**	**81**	28	112
Salaries payable	**42**	**169**	46	182
Termination benefits	**16**	**65**	25	102
Employee training expenses	**14**	**55**	10	39
Deductible losses	**1,125**	**4,501**	915	3,659
Government grant	**36**	**143**	28	112
Safety production expense	**18**	**70**	13	50
Total	**1,447**	**5,787**	1,112	4,448

Note: Deferred income tax assets increased by 30% comparing with last year, was mainly because of the increase of provision for diminution in value of inventories and deductible losses.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(13) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITIES *(continued)*

(a) Recognized deferred income tax assets and deferred income tax liabilities *(continued)*

(ii) Recognized deferred income tax liabilities

Items	**Ending balance** Deferred income tax assets	**Ending balance** Temporary difference or deductible loss	Beginning balance Deferred income tax assets	Beginning balance Temporary difference or deductible loss
Fair value variation on available-for-sale financial asset	**25**	**99**	20	81
Capitalized borrowing cost of general purpose loan	**34**	**135**	41	162
Adjustment for unrealized inter-Group profit	**2**	**8**		
Total	**61**	**242**	61	243

(b) As at 31 Dec. 2010, there was no temporary difference or deductible loss in connection with which the deferred income tax assets was not recognized.

(14) PROVISIONS FOR IMPAIRMENT

Items	Beginning balance	Provision for this year	Decrease: Written back	Decrease: Written off	**Ending balance**
Provision for diminution in value of inventories	42	1,294		771	**565**
Provision for impairment against fixed assets	128	4		12	**120**
Total	170	1,298		783	**685**

(15) ASSETS WITH LIMITED PROPRIETARY RIGHTS OR USE RIGHTS

Disclosed in Note 7(10) and (16).

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(16) SHORT-TERM LOANS

Items	**Ending balance**	Beginning balance
Mortgage *(Note i)*	**200**	
Guaranteed loans *(Note ii)*	**1,895**	
Credit loan	**8,300**	13,710
Total	**10,395**	13,710

Note: i. The mortgage of 200 million at the end of the year is loaned by Tianjin Tiantie from Tianjin Binhai Rural Commercial Bank, and part of the Tiantie project's construction in progress was mortgaged as collateral, of which the book value is 717 million and the mortgage term is from 31 Oct.2010 to 30 Oct.2011.

ii. The guaranteed loans were used in Tiantie project, and provided guarantee by Tiantie Group.

(17) BILLS PAYABLE

Classification of bills	**Ending balance**	Beginning balance
Bank acceptance bills	**4,879**	3,509
Total	**4,879**	3,509

Note: i. The amount that would be due within the next accounting year was 4,879million.

ii. The bills payable increased by 39% comparing with last year, was mainly because of the increase of bills payable for purchasing fuel.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(18) ACCOUNTS PAYABLE

(a) Accounts payable classified according to nature

Items	Ending balance	Beginning balance
Accounts payable for purchasing	**4,372**	2,918
Construction cost	**210**	300
Operation expenses on supporting production	**54**	49
Freight	**29**	28
Others	**18**	23
Total	**4,683**	3,318

Note: The accounts payable increased by 41% comparing with last year, was mainly because of the increase of accounts payable for purchasing raw fuel.

(b) Accounts payable to shareholders with more than 5% (inclusive) voting shares of the Group and the related parties at the end of the year is disclosed in Note 9(6).

(c) There was no significant accounts payable aged over 1 year at the end of the year.

(19) ADVANCES FROM CUSTOMERS

(a) Advances from customers classified according to natures

Items	Ending balance	Beginning balance
Sales of products	**6,157**	5,942
Total	**6,157**	5,942

(b) Advances from shareholders with more than 5% (inclusive) voting shares of the Group and the related parties at the end of the year is disclosed in Note 9(6).

(c) There were no significant advances from customers aged over 1 year at the end of the year.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(20) EMPLOYEE BENEFITS PAYABLE

Items	Beginning balance	Accrued during this year	Paid during this year	**Ending balance**
1. Salaries, bonus and allowance	236	1,560	1,560	**236**
2. Staff welfare		267	267	
3. Social insurance		563	563	
Including: Medical insurance		143	143	
Basic Pension Insurance		312	312	
Annuity payment		59	59	
Unemployment insurance		31	31	
Staff and worker' injury insurance		18	18	
4. Housing fund		205	205	
5. Labor union fee and staff training fee	53	54	49	**58**
6. Termination benefits	37	112	121	**28**
7. Others		50	50	
Total	326	2,811	2,815	**322**

Note: Salaries, bonus and allowance would be paid in January 2011. Termination benefits and labor union fee and staff training fee would be paid in 2011.

(21) TAX AND SURCHARGES PAYABLE

Items	**Ending balance**	Beginning balance
VAT	**(1,850)**	(2,113)
Enterprise income tax	**(24)**	(203)
Individual income tax	**7**	9
City maintenance and construction tax	**21**	14
Education surcharges	**9**	6
Local education surcharges	**3**	2
Property tax	**8**	7
Land use tax		1
Stamp tax	**6**	5
Taxes to be deducted	**(16)**	(24)
Total	**(1,836)**	(2,296)

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(22) INTEREST PAYABLE

Items	Ending balance	Beginning balance
Interest on short-term financing bonds	**79**	
Total	**79**	

Note: The interest payable was from the interest on short-term financing bonds issued by the Company and the amount of the short-term financing bonds was 3,000 million.

(23) OTHER PAYABLES

(a) Analysis of other payables

Items	Ending balance	Beginning balance
Construction costs	**1,074**	1,611
Guarantee -project/spare parts	**863**	1,055
The Energy-saving and Emission-reducing funds transferred by Angang Holding	**278**	193
Performance guarantee	**209**	162
Freight charges	**114**	95
Deposit for steel shelves	**66**	43
Withholding tax payable	**1**	17
Others	**132**	107
total	**2,737**	3,283

(b) Other payables to shareholders with more than 5% (inclusive) voting shares of the Group and the related parties at the end of the year is disclosed in Note 9(6).

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(23) OTHER PAYABLES *(continued)*

(c) The large-amount other payables aged over 1 year

Creditor	Amount	Reason	Whether paid after the balance sheet date
MCC Coking And Refractory Engineering Consulting Co	**78**	Project quality margin	No
Three of China Metallurgical Group Co., Ltd.	**75**	Project quality margin	No
Angang Construction Group	**72**	Project quality margin	No
Northeast Geotechnical Investigation Co., Ltd	**35**	Project quality margin	No
Others	**182**		
Total	**442**		

(24) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR

(a) Long-term liability due within 1 year

Items	Ending balance	Beginning balance
Long-term loans due within 1 year *(Note 7(26))*	**5,961**	7,653
Total	**5,961**	7,653

(b) Long-term loans due within 1 year

(i) Analysis of long-term loans due within 1 year

Items	Ending balance	Beginning balance
Guaranteed loans*(Note.(26))*	**1,420**	315
Credit loans	**4,541**	7,338
Total	**5,961**	7,653

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(24) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR *(continued)*

(b) Long-term loans due within 1 year *(continued)*

(ii) Top five long-term loans due within 1 year

Loaner	Commence date	Expiry date	Interest rate (%)	Ending balance	Beginning balance
Industrial and Commercial Bank of China Anshan Branch	Jul 2008	Dec 2011	5.18	**700**	700
Bank of China Anshan Branch	Sep 2008	Sep 2011	4.86	**700**	700
Bank of China Anshan Branch	Jul 2008	Jul 2011	4.86	**600**	600
China Construction Bank Anshan City Angang Branch	Jul 2008	Jul 2011	4.86	**500**	500
Angang Finance	Jun 2008	Jun 2011	4.86	**500**	500
Total				**3,000**	3,000

(iii) There were no overdue loans in long-term loans due within 1 year.

(25) OTHER CURRENT LIABILITIES

Item	Content	Ending balance	Beginning balance
Deferred income	Government grants corresponding to asset	**23**	42
Short-term financing bonds		**3,000**	
Total		**3,023**	42

Note: The ending balance of other current liabilities was increased comparing with the beginning balance due to the increase of 3,000 million of short-term financing bonds issued by the Group.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(26) LONG-TERM LOANS

(a) Classification of Long-term loans

Items	Ending balance	Beginning balance
Guaranteed loans	**4,080**	
Credit loans	**14,598**	19,155
Less: Long-term loans due within 1 year *(Note: 7(24))*	**5,961**	7,653
Total	**12,717**	11,502

Note: Guaranteed loans were used in renovating equipment, Putian cold project and Tiantie project. The Tiantie group and Angang group provided guarantee.

(b) Top five long-term loans

Loaner	Commence date	Expiry date	Interest rate *(%)*	Ending balance	Beginning balance
China Construction Bank Tianjin Nankai Park Branch	Aug 2006	Jan 2014	5.94	**840**	1,120
Industrial and Commercial Bank of China Anshan Branch	Jul 2008	Dec 2012	5.18	**700**	700
Industrial and Commercial Bank of China Anshan Branch	Jul 2008	Jul 2013	5.18	**700**	700
China Development Bank Liaoning Branch	Jul 2007	Oct 2016	5.53	**500**	500
Industrial and Commercial Bank of China Anshan Branch	Jun 2010	May 2013	4.86	**400**	
Total				**3,140**	3,020

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(27) OTHER NON-CURRENT LIABILITIES

Item	Content	Ending balance	Beginning balance
Deferred income	Government grants corresponding to asset	**554**	74
Termination benefits	Employee benefits payable aged over 1 year	**37**	65
Total		**591**	139

Note: The increase of the other non-current liabilities comparing with last year was mainly because of the increase of government grants corresponding to asset.

(28) SHARE CAPITAL

Items	Beginning balance		Variation of the year(+,-)					Ending balance	
	Amount	Proportion	Issued new shares	Bonus shares	Shares transferred from accumulated fund	Others	Subtotal	Amount	Proportion
(1) Ordinary A shares with restrictions on sale									
State-owned shares	4,341	60						**4,341**	**60**
(2) Shares with non-restriction on sale									
a. Ordinary A shares	1,808	25						**1,808**	**25**
b. Foreign shares listed overseas ("H shares")	1,086	15						**1,086**	**15**
Total	7,235	100						**7,235**	**100**

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(29) CAPITAL RESERVE

Items	Beginning balance	Increase of the year	Decease of the year	Ending balance
Share premium	31,439			**31,439**
Other capital reserve				
Including: Fair value variation on available-for-sale financial asset	71	13		**84**
Other changes in shareholders' equity of the invested entity			2	**(2)**
Total	31,510	13	2	**31,521**

Note: i. Reduction of other capital reserve was due to fair value change on available-for-sale financial assets disclosed in the Note: 7 (7).

ii. Other changes in shareholders' equity of the invested entity this year was formed from other changes in shareholders' equity of the joint ventures companies under the equity method.

(30) SPECIAL RESERVE

Items	Beginning balance	Accrued during this year	Paid during this year	Ending balance
Safe production expenses	50	32	12	**70**
Total	50	32	12	**70**

Note: The increase of special reserve was safe production expenses accrued this year.

(31) SURPLUS RESERVE

Items	Beginning balance	Accrued during this year	Paid during this year	Ending balance
Statutory surplus reserve	3,357	213		**3,570**
total	3,357	213		**3,570**

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(32) UNDISTRIBUTED PROFIT

(a) Changes of undistributed profit

Items	This year	Last year	Appropriation or distribution proportion
Undistributed profit at the end of last year before adjustment	**10,280**	11,144	
Adjustment for undistributed profit at the beginning of the year		5	
Undistributed profit at the beginning of the year after adjustment	**10,280**	11,149	
Add: Net profit attributable to owners of parent company during this year	**2,039**	727	
Recovery of losses from surplus reserve			
Other transferred-in			
Less: Appropriation of statutory surplus reserve	**213**	77	10%
Appropriation of discretionary surplus reserve			
Dividend to shareholder	**434**	1,519	
Dividend of ordinary shares transferred to share capital			
Undistributed profit at the end of the year	**11,672**	10,280	

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(32) UNDISTRIBUTED PROFIT *(continued)*

(b) Analysis of profit distribution.

(i) The Annual General Meeting of Shareholders of 2009 reviewed and approved of the profit distribution plan for 2009 on 18 June 2010, based on the total share capital 7,234,807,847 shares as at 31 Dec. 2010. The Company declared cash dividend of RMB 0.06 per share to the ordinary shareholders, and distributed 369 million to ordinary A shareholders and 65 million to H shareholders respectively

(ii) The Board of Directors proposed on 29 Mar 2011 the distribution of a cash dividend of RMB0.15 per share to the Company's ordinary shareholders, totaling RMB1,085 million. The proposal is subject to the approval by the general meeting of shareholders. Such cash dividend has not been recognized as a liability on the balance sheet date.

(33) OPERATING INCOME AND OPERATING COSTS

(a) Operating income and operating costs

Items	**This year**	Last year
Operating income from main operation	**92,212**	70,057
Other operating income	**219**	69
Total	**92,431**	70,126
Operating costs from main operation	**82,486**	63,635
Other operating costs	**208**	77
Total	**82,694**	63,712

Note:

i. The operating income increased by 32% comparing with last year, was mainly due to the increase of product sales and selling prices.

ii. The operating costs increased by 30% comparing with last year, was mainly due to the increase of product sales and raw material purchase prices.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(33) OPERATING INCOME AND OPERATING COSTS *(continued)*

(b) Main operation classified according to industry

Name of industry	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
Ferrous metal smelting and steel rolling process	**92,212**	**82,486**	70,057	63,635
Total	**92,212**	**82,486**	70,057	63,635

(c) Main operation classified according to products

Name of products	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
Hot rolled products	**27,231**	**24,779**	25,316	23,326
Cold rolled products	**38,726**	**31,886**	24,159	21,306
Medium -thick plate	**15,008**	**14,857**	10,405	9,518
Others	**11,247**	**10,964**	10,177	9,485
Total	**92,212**	**82,486**	70,057	63,635

(d) Operating income according to regions

Regions	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
China	**84,601**	**76,001**	66,617	60,560
Overseas	**7,830**	**6,693**	3,509	3,152
Total	**92,431**	**82,694**	70,126	63,712

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(33) OPERATING INCOME AND OPERATING COSTS *(continued)*

(e) Top five buyers

Period	Sum of top five buyers	Proportion(%)
This year	21,755	24
Last year	14,848	21

(34) BUSINESS TAX AND SURCHARGES

Items	This year	Last year
Resources tax and Business Tax	**4**	4
City maintenance and construction tax	**173**	110
Education surcharge and local education surcharge	**99**	63
Custom duty	**9**	6
Total	**285**	183

Note:

i. Business tax and surcharges paid complying with Note 5.

ii. Business tax and surcharges were increased by 56% comparing with last year due to the increase of VAT resulted to the increase of city maintenance and construction tax and education and local education surcharges.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(35) SELLING EXPENSES

Items	This year	Last year
Packing expense	**725**	578
Delivery expense	**484**	257
Sales and service expense	**108**	60
Agency fee for commissioned sales	**84**	38
Employee benefits fees	**35**	30
Insurance expense	**9**	4
Warehouse storage expense	**6**	2
Others	**171**	112
Total	**1,622**	1,081

Note: The selling expenses increased by 50% comparing with last year, was mainly due to the increase of related export expenses caused by the increase of the product sales and export sales; the increase of rail freight caused by the increase of settlement amount with CIF; the increase of packing expense caused by the increase of unit packaging cost and the increase of selling expenses caused by combining Tianjin Tiantie's financial statement.

(36) ADMINISTRATIVE EXPENSES

Items	This year	Last year
Repairs and maintenance	**1,644**	1,420
Employee benefits fees	**526**	452
Tax	**329**	300
Amortization	**166**	155
Depreciation	**105**	81
Assistance expenditure of production	**92**	83
Sewage fee	**90**	74
Computer maintenance expenditure	**86**	77
Security and firefighting expenses	**69**	61
Warehouse expenditure	**61**	67
Others	**273**	192
Total	**3,441**	2,962

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(37) FINANCIAL EXPENSES

Items	This year	Last year
Interest expenses	**1,688**	1,585
Less: Interest income	**26**	16
Less: Capitalization of interest	**455**	694
Exchange gain or loss	**(58)**	(5)
Less: Capitalization of exchange gain or loss		
Others	**100**	32
Total	**1,249**	902

Note: The financial expenses increased by 38% comparing with last year, was mainly due to the decrease of capitalization of interest caused by decrease of project expenses and the increase of financial expenses caused by combining Tianjin Tiantie financial statement

(38) INVESTMENT INCOME

(a) Statement on investment

Items	This year	Last year
Long-term equity investment income measured by employing cost method	**16**	10
Long-term equity investment income measured by employing equity method	**393**	176
Investment income from keeping available-for-sale financial assets	**2**	
Total	**411**	186

Note: There were no severe restrictions in the transfer of investment income to the Group.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(38) INVESTMENT INCOME *(continued)*

(b) Long-term equity investment income measured by employing cost method

Investee	This year	Last year
WISDRI	15	10
Longmay Group	1	
Total	16	10

(c) Long-term equity investment income measured by employing equity method

Investee	This year	Last year	Reason of change
ANSC-TKS	258	72	
Angang Finance	76	82	
TKAS	18	6	
Changchun FAM	17	5	
TKAS-SSC	11	4	
ANSC-Dachuan	11	7	
Angang Shenyang	1	1	
Entity Packing	(2)	(1)	
Binhai Industry	3		
Total	393	176	Note

Note: The investment income measured by employing equity method increase was due to the investees' net profit increased this year.

(39) IMPAIRMENT LOSSES

Investee	This year	Last year
Loss on diminution in value of inventories	1,294	677
Loss on impairment of fixed assets	4	6
Total	1,298	683

Note: The impairment losses increased by 90% were due to the provision for diminution in value of inventories accrued more than last year.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(40) NON-OPERATING INCOME

Items	This year	Last year	The amount recorded into extraordinary gains and losses
Total gains from disposal of non-current assets	**21**	36	21
Including: Gains on fixed assets scrapped	**16**	35	16
Other gains on disposal of fixed assets	**5**	1	5
Government grant (Disclosed below: Details of government grants)	**117**	15	117
Others	**4**	42	4
Total	**142**	93	142

Note: The non-operating income increased by 53% comparing with last year mainly due to the increase of government grant.

Including: Details of government grants

Items	This year	Last year
R & D subsidy	**77**	1
Military project grants	**40**	4
Government supporting fund to Bayuquan		7
Tiantie cold-rolled sheet project		3
Total	**117**	15

Notes To The Financial Statements *(continued)*

For the year 2010 (Expressed in RMB million unless otherwise indicated)

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

(41) NON-OPERATING EXPENSES

Items	This year	Last year	The amount recorded into extraordinary gains and losses
Total loss on disposal of non-current assets	**35**	39	35
Including: Loss on fixed assets scrapped	**34**	38	34
Other loss on disposal of fixed assets	**1**	1	1
Others	**2**		2
Total	**37**	39	37

(42) INCOME TAX EXPENSES

Items	This year	Last year
Income tax calculated according to the Law of Tax and relevant regulations	**748**	1
Adjustments on deferred income tax	**(340)**	156
Total	**408**	157

Note: The income tax expenses increased by 160% due to the profit before income tax is more than last year.

(43) BASIC EPS AND DILUTED EPS

The basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. In accordance with the specific terms and clauses of the issuance contract, the number of newly issued ordinary shares shall be calculated and decided as of the date of receivable consideration (generally the date of issuance of stocks).

The numerator for the diluted earnings per share is the net profits belonging to the shareholders of ordinary shares, modulate in accordance with the items as follows:

(i) The interests of the diluted potential ordinary shares determined to be expenses in the current period;

(ii) The gains or expenses resulted from the conversion of the diluted potential ordinary shares; and

(iii) The effects of the income tax on the aforesaid modulation shall be taken into consideration.

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(43) BASIC EPS AND DILUTED EPS *(continued)*

The denominator for the diluted earnings per share shall be the sum of the weighted average number of ordinary shares for the basic earnings per share and the weighted average number of increased ordinary shares from assuming that the diluted potential ordinary shares convert into ordinary shares.

When calculating the weighted average number of increased ordinary shares resulted from that the diluted potential ordinary shares convert into ordinary shares already issued, the diluted potential ordinary shares issued in prior periods shall be supposed to be converted at the beginning of the current period. The diluted potential ordinary shares issued in the current period shall be supposed to be converted on the date of issuance.

(a) Basic EPS and diluted EPS

	This year		Last year	
Profits of the reporting year	**Basic EPS**	**Diluted EPS**	Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	**0.282**	**0.282**	0.100	0.100
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	**0.271**	**0.271**	0.095	0.095

(b) Calculation of basic EPS and diluted EPS

(i) Calculation of the current net profits belonging to the shareholders of ordinary shares when calculating the basic earnings per share:

Items	**This year**	Last year
Net profit attributable to ordinary shareholders	**2,039**	727
Including: Net profit attributable to continuing operations	**2,039**	727
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	**1,960**	688
Including: Net profit attributable to continuing operations	**1,960**	688

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(43) BASIC EPS AND DILUTED EPS *(continued)*

(b) Calculation of basic EPS and diluted EPS *(continued)*

(ii) Calculation of the weighted average number of ordinary shares issued to the public when calculating the basic earnings per share:

Items	This year	Last year
The number of ordinary shares issued to the public at the beginning of the year	**7,235**	7,235
Plus:the weighted average number of ordinary shares issued during this year		
Minus:the weighted average number of ordinary shares repurchase during this year		
The number of ordinary shares issued to the public at the end of the year	**7,235**	7,235

(iii) As the Company does not have diluted potential ordinary shares, Basic EPS the diluted EPS equals the basic EPS.

(44) OTHER COMPREHENSIVE INCOME

Items	This year	Last year
1. Gain from the available-for-sale financial assets	**18**	116
Minus: Income tax impact resulted from the available-for-sale financial assets	**5**	29
Subtotal	**13**	87
2. The share of investee' other comprehensive income under equity method	**(2)**	
Minus: Income tax impact resulted from the share of investee' other comprehensive income under equity method		
Subtotal	**(2)**	
Total	**11**	87

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(45) THE CASH FLOW STATEMENT *(continued)*

(a) Cash received relating to other operating activities

Items	**This year**	Last year
Government grants	**665**	281
Others	**7**	11
Total	**672**	292

(b) Cash paid relating to other operating activities

Items	**This year**	Last year
Freight fee payments for others	**465**	245
Agency fee for commissioned sales	**107**	75
Sewage fee	**90**	74
Computer maintenance expenses	**77**	71
Security and firefighting expenses	**63**	63
Afforestation fees	**53**	35
Pipeline transportation expenses	**16**	24
Agency fee	**12**	20
Others	**393**	182
Total	**1,276**	789

(c) Cash received relating to other investing activities

Items	**This year**	Last year
Income from trail run	**59**	529
interest revenue	**28**	17
Cash from Tianjin Tiantie on consolidation date		1,184
Total	**87**	1,730

(d) Cash paid relating to other financing activities

Items	**This year**	Last year
Payment to the banks of discount rate on bills payable	**70**	38
Total	**70**	38

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

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

(46) SUPPLEMENT TO CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash flows from operating activities

Supplement	This year	Last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**1,950**	686
Add: Provision for impairment	**515**	(1,990)
Depreciation of fixed assets	**7,010**	6,262
Amortization of intangible assets	**166**	155
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets("-" for gains)	**(4)**	
Loss on scrap of fixed assets	**18**	3
Loss on the change of fair value		
Financial expenses	**1,219**	898
Investment loss	**(411)**	(186)
Decrease in deferred tax assets("-" for increase)	**(335)**	162
Increase in deferred tax liabilities("-" for decrease)	**(5)**	(6)
Decrease in inventories ("-" for increase)	**(2,938)**	1,444
Decrease in operating receivables ("-" for increase)	**(2,788)**	(1,710)
Increase in operating payables ("-" for decrease)	**4,628**	(1,222)
Others	**1**	53
Net cash flow from operating activities	**9,026**	4,549
2. Change in cash and cash equivalents		
Cash at the end of the year	**3,651**	2,242
Less: cash at the beginning of the year	**2,242**	2,974
Add: cash equivalents at the end of the year		
Less: cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**1,409**	(732)

(b) Information on subsidiaries' acquisition

Items	This year	Last year
1. The price of subsidiaries' acquisition		1,407
2. Cash and cash equivalents paid for subsidiary acquisition		432
Minus: Cash and cash equivalents held by subsidiary		1,616
3. Net cash outflow for subsidiary acquisition		(1,184)
4. Net assets of the acquired subsidiaries		2,814
Of which: Current assets		3,812
Non-current assets		4,363
Current liabilities		3,681
Non-current liabilities		1,680

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

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

(46) SUPPLEMENT TO CASH FLOW STATEMENT (continued)

(c) Composition of cash and cash equivalents

Items	This year	Last year
1. Cash at bank and on hand	**3,651**	2,242
Of which: Cash	**1**	1
Bank deposits available	**2,975**	1,542
Other deposits available	**675**	699
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	**3,651**	2,242

8. ACCOUNTING TREATMENT OF ASSET SECURITIZATION

The Group had no operation about asset securitization this year.

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS

(1) INFORMATION ON THE PARENT OF THE GROUP

Group name	Related relationship	Group Type	Registration place	Legal representatives	The nature of business
Angang Holding	Parent Company	State owned Company	Tie Xi District Anshan Liaoning Province	Zhang Xiaogang	Production and sale of steel and metal products, steel filament Tubes, and metal structures

Group name	Registered Capital	The Group's shareholding	Proportion of voting-right	Ultimate controlling party	Organization Code
Angang Holding	10,794	67.29	67.29	Angang Holding *(Note)*	24142001-4

Note: On July 28, 2010, Angang Holding has received a notice about the restructuring of Angang Holding and Pangang Group Company Limited("Pangang Group") from the State-owned Assets Supervision and Administration Commission of the state Council (SASAC) which states that SASAC has agreed to the joint restructuring of Angang Holding and Pangang Group (the "Joint Restructuring"). The Joint Restructuring entails the establishment by SASAC (as the representative of the State Council)of a new company, Angang Group Company("Angang NewCo"), which will wholly own Angang Holding and Pangang Group. As the parent of Angang Holding and Pangang Group, Angang NewCo' registered capital was 17,309.70 million. Angang Holding, the controlling shareholder of the Company, became a wholly owned subsidiary of Angang Group Company.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(2) INFORMATION ON THE SUBSIDIARY OF THE GROUP

Disclosed in Note. 6(1).

(3) INFORMATION ON THE JOINTLY CONTROLLED ENTERPRISES AND ASSOCIATES OF THE GROUP

Disclosed in Note. 7(8).

(4) RELATED PARTIES WITHOUT CONTROL RELATIONSHIP

Name of enterprise	Relation with the Company	Organization code
ANSC-TKS	Jointly controlled enterprise	71093688-2
TKAS-SSC	Jointly controlled enterprise	785926056
Changchun FAM	Jointly controlled enterprise	76717649-0
ANSC-Dachuan	Jointly controlled enterprise	75990387-0
TKAS	Associate	767159789
Angang Finance	Associate	1188857-2
Binhai Industry	Subsidiary's associate	671473722
Angang Trade	Fellow subsidiary	24142372-5
Angang Construction Group	Fellow subsidiary	94129158-3
Angang Heavy machine Co., Ltd	Fellow subsidiary	24150326-6
Angang Fire-resistant material Co	Fellow subsidiary	94126547-3
Angang Steel rope Co., Ltd.	Fellow subsidiary	94126496-4
Angang Mining Co.	Fellow subsidiary	24150404-X
Angang Entity Group	Fellow subsidiary	24142765-4
Angang House Property Co.	Fellow subsidiary	94126840-4
Angang Railway transport facilities Construction Co.	Fellow subsidiary	94121854-6
Angang real estate Co., Ltd	Fellow subsidiary	11886337-0
Angang mechanization loading Co.	Fellow subsidiary	94126489-2
Angang mine construction	Fellow subsidiary	664557266
Angang engineering technology Co., Ltd	Fellow subsidiary	79159132-8
Angang Electric Co., Ltd	Fellow subsidiary	94126485-X
Angang Automation Co.	Fellow subsidiary	94126643-3
Angang Auto Transport Co., Ltd	Fellow subsidiary	94126444-6
Angang Reception Service Co.	Fellow subsidiary	94121967-X

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(5) RELATED PARTY TRANSACTIONS

(a) Related party transactions

(i) Purchase and receive services from Angang Holding and its subsidiaries

		This Year		Last Year	
Contents	**Pricing Policy**	**Amount**	**Percent of related transactions**	Amount	Percent of related transactions (%)
Raw materials	Note. I	**14,468**	**47**	14,086	63
Ancillary materials and spare parts	Note. ii	**1,653**	**12**	1,460	13
Energy and power supplies	Note. iii	**1,971**	**33**	1,927	36
Support services	Note. iv	**5,665**	**66**	6,034	53
Total		**23,757**		23,507	

(ii) Sales and render services to Angang Holding and its subsidiaries

Contents	**Pricing Policy**	**Amount**	**Percent of related transactions**	Amount	Percent of related transactions (%)
Products	Note.v	**9,225**	**10**	6,096	9
Scrap materials and Minus sieve powder		**122**	**84**	123	95
General services	Note.vi	**559**	**39**	512	39
Total		**9,906**		6,731	

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(5) RELATED PARTY TRANSACTIONS *(continued)*

(a) Related party transactions *(continued)*

(ii) Sales and render services to Angang Holding and its subsidiaries *(continued)*

Notes:

i. The purchase price, ascertained and modified on a semi-annual basis, is mainly not higher than the average prices quoted to the Group for importing principal raw materials of similar quality plus freight charges in the previous interim year and adjustment for grade, an extra 5% discount on the importing average prices; Or the average prices charged by independent suppliers plus 10% mark up of processing costs (if applicable);

ii. The selling prices are not higher than the average prices charged to independent customers for the preceding month.

iii. Mainly at state prices, operating costs plus 5% of gross profit margin.

iv. At state prices, market prices, not higher than 1.5% of the commissions, depreciation fees and maintenance costs, labour, materials and management fees, and processing costs plus no more than 5% of the gross margin.

v. The steel products and scrap materials are mainly at selling prices based on the average prices charged to independent customers for the preceding month or market prices. The basis of the price of the steel products offered to Angang Holding for development of new products is, if there is market price, at the market price, if there is no market price, at the cost plus a reasonable profit.

The minus sieve powder is at prices for sintered iron ore less the cost of sintering procedures performed by Angang Holding.

Retired assets and idle assets are mainly at market prices or assessed prices.

vi. At the state prices, operating costs plus 5% of gross profit margin, or market prices.

For the year 2010
(Expressed in RMB million
unless otherwise indicated)

Notes To The Financial Statements *(continued)*

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(5) RELATED PARTY TRANSACTIONS *(continued)*

(b) Leases

Lessor	Lessee	Leasing assets	Lease starting date	Lease expiring date	Rental income ascertained basis	Rental income
The Company	Angang Trade	Building and machinery	Jan 2010	Dec 2010	Lease agreement	1

(c) Guaranteed loans

Warrantor	Warrantee	Amount Guaranteed	Starting date	Expiring date	Whether fulfilled
Angang Holding	The Company	1,000	Aug 2008	Sep 2011	No
Angang Holding	Angang Putian	1,100	Apr 2010	Jun 2013	No
Tiantie Group	Tianjin Tiantie	3,875	Jan 2006	Jan 2014	No

(d) Assets transferred

				This year		Last year	
Transferred	Type	Content	Pricing policy	Amount	Percent of related transactions (%)	Amount	Percent of related transactions (%)
Angang Holding	Purchase	Fixed assets, intangible assets, construction in progress	Market price	**65**	**100**	87	100
Total				**65**		87	

Notes To The Financial Statements *(continued)*

For the year 2010 (Expressed in RMB million unless otherwise indicated)

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(5) RELATED PARTY TRANSACTIONS *(continued)*

(e) Directors' and supervisors' remunerations

The interval of remunerations	This year	Last year
Total	**4**	3
Including: (number)		
Over 0 .20 million	**8**	6
0.15 to 0.20 million		1
0.10 to 0.15 million		2
Within 0.10 million	**4**	10

(f) Other related parties transactions

(i) Received agency service from Angang Trade

The Group received agency services for domestic sales and export of products amount to 6.76 million tons and 1.71 million tons respectively for the year 2010 (7.30 million tons and 0.91 million tons for the year 2009).

(ii) Sales of products from The Group to the jointly controlled enterprises and the associates:

A. Sales of products

Name of enterprise	Sales in this year	Sales in Last year
ANSC-TKS	**3,187**	1,720
TKAS-SSC	**459**	297
Changchun FAM	**94**	73
Binhai Industry	**31**	14
TKAS	**3**	3
Tianjin Tiantie		1,136

B. Agency service received from TKAS-SSC

The Group received agency services for domestic sales of products from TKAS-SSC amount to RMB 5 million tons for the year 2010 (2009: 1 million).

C. The Group received supporting services from Binhai Industry amount to 95 million for the year 2010 (2009: 25 million).

For the year 2010 (Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(5) RELATED PARTY TRANSACTIONS *(continued)*

(f) Other related parties transactions *(continued)*

(iii) Loan deposit, interest paid in/to Angang Finance

Items	Annual interest rate	Opening balance	Increased	Decreased	Closing balance	Terms of credit
Loan	4.37%-4.86%	9,600	7,800	10,100	7,300	Credit
Deposit		1,288			2,607	

The Group's interest income of deposit from Angang finance was 11 million (for the year 2009: 8 million) and the interests for borrowing was 410 million (for the year 2009: 331 million).

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES

(a) Accounts receivable and prepayment with related parties

Items	Ending balance	Beginning balance
Accounts receivable		
Angang Trade	**792**	896
TKAS-SSC	**69**	98
Angang Heavy machine Co., Ltd	**26**	16
Angang Electric Co., Ltd	**3**	3
Angang House Property Co.		5
Angang Holding		2
Other related parties	**2**	1
Total	**892**	1,021
Prepayment		
Angang Trade	**6,245**	4,551
Angang Construction Group	**101**	2
Angang Automatism Co	**59**	35
Angang Heavy machine Co., Ltd	**26**	10
Angang Engineering Technology Co., Ltd	**15**	28
Angang Electric Co., Ltd	**2**	
Angang Entity Group	**1**	
Binhai Industry		1
Total	**6,449**	4,627

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES *(continued)*

(b) Accounts payable and advance from customers with related parties

Items	Ending balance	Beginning balance
Accounts payable		
Angang Trade	**38**	11
Angang Entity Group	**34**	22
Angang Construction Group	**27**	12
Angang Mine	**27**	
Angang Auto Transport Co., Ltd	**12**	12
Angang Mine Construction Co.	**12**	4
Angang Holding	**12**	3
Binhai Industry	**10**	9
Angang Railway transport facilities Construction Co.	**6**	
Angang House Property Co.	**5**	4
Angang Steel rope Co., Ltd.	**2**	3
Angang Automatism Co	**2**	2
Angang Electric Co., Ltd	**2**	1
Angang Heavy machine Co., Ltd	**1**	1
Other related parties	**1**	
Total	**191**	84
Advance from customers		
Angang Trade	**857**	1,238
ANSC-TKS	**381**	366
Angang Construction Group	**28**	8
Changchun FAM	**21**	6
Angang Entity Group	**13**	7
Angang Anshan Mining Co.	**6**	7
Angang Steel rope Co., Ltd.	**5**	2
TKAS	**1**	2
Angang Holding	**1**	
Total	**1,313**	1,636

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

9. RELATED PARTIES RELATIONSHIP AND TRANSACTIONS *(continued)*

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES *(continued)*

(b) Accounts payable and advance from customers with related parties *(continued)*

Items	Ending balance	Beginning balance
Other payables		
Angang Holding	**281**	199
Angang Construction Group	**206**	322
Angang Trade	**181**	263
Angang Heavy machine Co., Ltd	**43**	47
Angang Engineering Technology Co., Ltd	**41**	21
Angang Entity Group	**36**	33
Angang Automatism Co	**25**	32
Binhai Industry	**19**	
Angang Mine Construction Co.	**17**	21
Angang Auto Transport Co., Ltd	**9**	4
Angang Electric Co., Ltd	**8**	17
Angang House Property Co.	**7**	9
Angang Railway transport facilities Construction Co.		1
TKAS-SSC		1
Total	**873**	970

10. SHARE-BASED PAYMENT

As at 31 December 2010, the Group had no share-based payment.

11. CONTINGENCIES

As at 31 December 2010, there were no contingencies that need to be disclosed.

12. CAPITAL COMMITMENT

(1) SIGNIFICANT CAPITAL COMMITMENT

Terms	This year	Last year
Investment contracts entered into but not performed or performed partially	**318**	318
Construction and renovation contracts entered into but not performed or performed partially	**3,985**	2,764
Total	**4,303**	3,082

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

12. CAPITAL COMMITMENT *(continued)*

(2) PERFORMANCE OF THE CAPITAL COMMITMENT OF LAST YEAR

The construction and renovation contracts signed in 2009 but not performed or performed partially had been performed with 1,799 million in the year 2010.

13. EVENTS AFTER THE BALANCE SHEET DATE

1. Description of important events after the balance sheet date

i. Since Jan 7, 2011, the outstanding shares of restricted stock held by the company's controlling shareholder-Angang Holding can be traded. The amount of the outstanding shares which make up 60% of the total equity ratio was 4,340,884,709. Since this lifting of restrictions on sale, all of the shares held by Angang Holding were the outstanding shares of non-restricted stock.

ii. The Company entered an agreement with the ventures of Angang Shenyang, an associate of the Group, to inject additional capital of RMB11.55 million in Angang Shenyang. The equity interest of Angang Shenyang held by the Group would have no change after the additional capital injection. The Company entered an agreement with the ventures of Angang Wuhan, to inject additional capital of RMB48 million in Angang Wuhan. The Company injects additional capital of RMB17.6023 million in Angang Wuhan with land of He Fei High and New Technology Industrial Development Zone by its appraised value. The other inject with cash.

iii. The Company has entered into an agreement with the local authority in Anhui, Hefei Province to set up a wholly owned subsidiary in Anhui. In March 2011, this wholly owned subsidiary has been set up with the total investment cost amounted to RMB97.50 million.

iv. The Company entered two agreements with independent third parties to inject RMB37.5 million and RMB151.20 million respectively in two joint venture companies set up by these independent third parties. The Group would hold 15% equity interests each in these two joint venture companies after the capital injection.

v. The Company entered an agreement with Angang Holding and an independent third party to set up a joint venture company in which the Group would contribute RMB21 million and hold 15% equity interests in this newly set up joint venture company.

2. Description of profit distribution after the balance sheet date

See Note 7.(32).ii.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

14. OTHER SIGNIFICANT TRANSACTION

Under the Angang Holding's implementation program of the Annuity (Government made of steel [2010] Note.15), discussed and adopted by Angang Holding's tenth seven employee congress, states that Angang Holding implement annuity plan. This program has been agreed by SASAC and recorded in the Department of Human Resources and Social Security. The Company should pay for the annuity according to 4% of the total amount of average salary of last year each month. The individual's according to the month quota of personal account*1 (50% of the amount for persons with special difficulties) and shall be assumed by themselves. Angang Holding established annuity council to be responsible for the daily affairs, and the council shall select from the national authority qualified agencies through bidding as a business account manager, investment managers and custodians.

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT

(1) ACCOUNTS RECEIVABLE

Disclosed in note: 7(3)

(2) OTHER RECEIVABLES

(a) Classified by account nature

	Ending balance			
	Book balance		**Bad debt provision**	
Items	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	**15**	**100**		
Total	**15**	**100**		

	Ending balance			
	Book balance		Bad debt provision	
Items	Amount	Percentage (%)	Amount	Percentage (%)
Other accounts receivable with insignificant single accounts on which bad debt provision made individually	12	100		
Total	12	100		

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(2) OTHER RECEIVABLES *(continued)*

(b) The aging analysis of other receivables

Aging	Ending balance Amount	Ending balance Percentage (%)	Beginning balance Amount	Beginning balance Percentage (%)
Within 1 year	**13**	**87**	12	100
1 to 2 years	**2**	**13**		
2 to 3 years				
Over 3 years				
Total	**15**	**100**	12	100

(3) LONG-TERM EQUITY INVESTMENT

(a) Analysis of long-term equity investments by types

Type	Beginning balance	Increase of the year	Decrease of the year	Ending balance
Investment in subsidiaries	1,467	800		**2,267**
Investment in jointly controlled enterprises	934	315	6	**1,243**
Investment in associates	463	94	74	**483**
Other equity investments	230	25		**255**
Less: Provision for impairment of long-term equity investment				
Total	3,094	1,234	80	**4,248**

Note: The amount of long-term equity investment increased at the rate of 37%, mainly because of 800 million invested to Angang Putian and the increase of the net income of associated and jointly-controlled company.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(3) LONG-TERM EQUITY INVESTMENT *(continued)*

(b) Details for long-term equity investments

Investee	Accounting method	Initial investment cost	Beginning balance	Variation of the year	**Ending balance**
Angang Wuhan	Cost method	60	60		**60**
Tianjin Tiantie	Cost method	1,407	1,407		**1,407**
Angang PuTian	Cost method	800		800	**800**
ANSC-TKS	Equity method	533	652	272	**924**
ANSC-Dachuan	Equity method	190	198	11	**209**
Changchun FAM	Equity method	45	53	14	**67**
TKAS-SSC	Equity method	48	31	12	**43**
Angang Shenyang	Equity method	14	13		**13**
TKAS	Equity method	37	43	12	**55**
Entity Packing	Equity method	11	9	(2)	**7**
Angang Finance	Equity method	315	398	10	**408**
WISDRI	Cost method	35	10	25	**35**
Longmay Group	Cost method	220	220		**220**
Total			3,094	1,154	**4,248**

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(3) LONG-TERM EQUITY INVESTMENT *(continued)*

(b) Details for long-term equity investments *(continued)*

Investee	Proportion of Shareholding (%)	Proportion of voting-rights (%)	Note for difference between proportions of voting-rights and shareholding	Provision for impairment	Provision for impairment accrued in the this year	Cash dividends
Angang Wuhan	100	100				
Tianjin Tiantie	50	50				
Angang Putian	100	100				
ANSC-TKS	50	50				
ANSC-Dachuan	50	50				
Changchun FAM	50	50				3
TKAS-SSC	50	50				
Angang Shenyang	30	30				1
TKAS	45	45				5
Entity Packing	30	30				
Angang Finance	20	20				66
WISDRI	7	7				15
Longmay Group	1	1				1
Total						91

(4) OPERATING INCOME AND OPERATING COSTS

(a) Operating income and operating cost

Items	This year	Last year
Operating income from main operation	**89,995**	69,428
Other operating income	**38**	41
Total	**90,033**	69,469
Operating costs for main operation	**80,230**	62,938
Other operating costs	**57**	50
Total	**80,287**	62,988

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(4) OPERATING INCOME AND OPERATING COSTS *(continued)*

(b) Main operation classified according to industry

Industry nature	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
steel rolling process	**89,995**	**80,230**	69,428	62,938
Total	**89,995**	**80,230**	69,428	62,938

(c) Main operation classified according to product

Product types	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
Hot-rolled products	**29,687**	**27,249**	25,778	23,783
Cold-rolled products	**34,053**	**27,160**	23,068	20,152
Medium-thick plates	**15,008**	**14,857**	10,405	9,518
Others	**11,247**	**10,964**	10,177	9,485
Total	**89,995**	**80,230**	69,428	62,938

(d) Operating income according to regions

Regions	This year Operating income from main operation	This year Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
China	**82,203**	**73,594**	65,960	59,836
overseas	**7,830**	**6,693**	3,509	3,152
Total	**90,033**	**80,287**	69,469	62,988

Notes To The Financial Statements *(continued)*

For the year 2010 (Expressed in RMB million unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(4) OPERATING INCOME AND OPERATING COSTS *(continued)*

(e) Top five buyers

Period	**Sum of top five buyers**	**Proportion (%)**
This year	21,710	24
Last year	15,265	22

(5) INVESTMENT INCOME

(a) Statement on investment

Items	**This year**	Last year
Long-term equity investment income measured by employing cost method	**16**	10
Long-term equity investment income measured by employing equity method	**390**	176
Investment income from keeping available-for-sale financial assets	**2**	
Total	**408**	186

Note: There were no severe restrictions in the transfer of investment income to the Group.

(b) Long-term equity investment income measured by employing cost method

Investee	**This year**	Last year
WISDRI	**15**	10
Longmay Group	**1**	
Total	**16**	10

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(5) INVESTMENT INCOME *(continued)*

(c) Long-term equity investment income measured by employing equity method

Investee	**This year**	Last year	Reason of change
ANSC-TKS	**258**	72	
Angang Finance	**76**	82	
TKAS	**18**	6	
Changchun FAM	**17**	5	
TKAS-SSC	**11**	4	
ANSC-Dachuan	**11**	7	
Angang Shenyang	**1**	1	
Entity Packing	**(2)**	(1)	
Total	**390**	176	Note

Note: The investment income measured by employing equity method increase was due to the investees' net profit increased this year.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(continued)*

(6) SUPPLEMENT TO CASH FLOW STATEMENT

Supplement	This year	Last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**2,123**	772
Add: Provision for impairment	**515**	(1,990)
Depreciation of fixed assets	**6,754**	6,213
Amortization of intangible assets	**155**	153
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets("-" for gains)	**(4)**	
Loss on scrap of fixed assets	**18**	3
Loss on the change of fair value		
Financial expenses	**1,125**	880
Investment loss	**(408)**	(186)
Decrease in deferred tax assets ("-" for increase)	**(285)**	189
Increase in deferred tax liabilities ("-" for decrease)	**(7)**	(6)
Decrease in inventories ("-" for increase)	**(2,795)**	1,371
Decrease in operating receivables ("-" for increase)	**(2,447)**	(1,917)
Increase in operating payables ("-" for decrease)	**3,956**	(1,003)
Others	**3**	53
Net cash inflow from operating activities	**8,703**	4,532
2. Change in cash and cash equivalents		
Cash at the end of the year	**2,542**	1,138
Less: Cash at the beginning of the year	**1,138**	2,914
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**1,404**	(1,776)

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

16. SUPPLEMENTARY DOCUMENTS

(1) EXTRAORDINARY GAINS AND LOSSES

Items	Amounts	Note
Gains/losses from disposal of non-current assets	4	
Tax refund or exemption from unauthorized approval or non-official approved document or contingency		
Government grant which recorded into profit/loss of current year except that relevant to enterprise operation and in compliance with government policies	117	15
Capital occupation income from non-financial enterprise credited to current income statement		
Gains from the excess of the enterprise share of the net fair value of identifiable net assets over the cost of acquisition of the subsidiary, jointly controlled entity and associate		
Gains/losses from the exchange of non-monetary assets		
Gains/losses from trusted investment or assets of management		
Losses on provision for impairment of assets due to force majeure i.e. natural disaster		
Debt restructuring gains/losses		
Restructuring expense, i.e. employee placement, integration costs etc.		
Gains/losses from the excess over fair value of an unfair transaction		
Current net profit/loss of subsidiary under the common control from the beginning of the year of consolidation to the consolidation date		
Gains/Losses from contingencies irrelevant to the normal operations		
Investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets and gains/ losses from variation of fair value of trading financial assets, trading financial liabilities and available-for-sale financial assets except the hedging relevant to the principal business		
Written back of the provision for impairment of accounts receivable under the independent test		
Gains/losses from trusted loan		
Gains/loss from variation of fair value of investment property		
Effects of one-off adjustment on current profit/loss in accordance with taxation and accounting regulations		
Hosting income from entrusted operations		
Other non-operating income and expense Except above	-16	39
Other extraordinary gains/ losses subtotal	105	54
Effect on taxation	26	14
Effect on minority interest (after tax)		1
Total	79	39

Notes To The Financial Statements *(continued)*

For the year 2010 (Expressed in RMB million unless otherwise indicated)

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(1) EXTRAORDINARY GAINS AND LOSSES

Note: "+" refer to gains or incomes, "-" refer to losses or expenditures

The recognizing of Company's non-recurring gains and losses comply with the disclosure requirements of "explanatory announcement of Information Disclosures of Companies Issuing Public Shares, No. 1: non-recurring gains and losses" (CSRC' announcement [2009] No.43)

(2) THE DIFFERENCE BETWEEN IFRS AND PRC GAAP

		The group				Attributable to ordinary shareholders			
		Net profit		Net assets		Net profit		Net assets	
	Note	This year	Last year	Ending balance	Beginning balance	This year	Last year	Ending balance	Beginning balance
Under PRC GAAPs		**1,950**	686	**55,345**	53,798	**2,039**	727	**54,068**	52,432
Adjustment:									
— Safety production expenses	i	**20**	29			**20**	29		
— Deferred income tax assets	ii	**(5)**	(8)	**(18)**	(13)	**(5)**	(8)	**(18)**	(13)
— Interests in jointly controlled entities	iii			**2**				**2**	
Under IFRSs		**1,965**	707	**55,329**	53,785	**2,054**	748	**54,052**	52,419

Note:

i. Pursuant to the interpretation to the enterprise accounting standard (CAI QI [2006] No.478), safe production provision should be accrued based on the production amount or operating income by the Group related to the industry of mining, construction, production of dangerous goods and road transport, but the provision could be recorded to profit and loss only when they are actual paid under IFRSs.

ii. Based on above-mentioned adjustments, deferred assets and income tax expense had been recognized by liability method in light of PRC GAAP should not be recognized in light of IFRSs.

iii. According to the Law of the PRC on Chinese-Foreign Equity Joint Ventures (the "Joint Ventures Law") and Regulations for the implementation of the Joint Ventures Law, one of the Group's jointly controlled entities has transferred certain amount from the reserve to staff payable which led to the Group's share of net assets in the jointly controlled entities decreased. Under IFRSs, the reserve could not transfer to the liabilities.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(3) ROE AND EPS

Profit in this year	Weighted average ROE	EPS (Yuan per share) Basic EPS	Diluted EPS
Net profit attributable to ordinary shares	3.83	0.282	0.282
Net profit (exclusive of non-operating profit) attributable to ordinary shares	3.68	0.271	0.271

Note:

(i) Weighted average ROE $=P_0/(E_0+NP\div2+E_i\times M_i\div M_0-E_j\times M_j\div M_0\pm E_k\times M_k\div M_0)$

P_0 refers to the net profit attributable to ordinary shares and net profit (exclusive of non-operating profit) attributable to ordinary shares

NP refers to the net profit attributable to ordinary shares

E_0 refers to the net assets attributable to ordinary shares

E_i refers to the additional of net assets attributable to ordinary shares resulted from issuing the new shares or converting from convertible debentures in report period

E_j refers to the reduction of net assets attributable to ordinary shares resulted from share repurchase or cash dividend in report period

M_0 refers to the months of reporting period.

Mi refers to the duration from the second month since the additional of share capital occurred to the end of reporting period

M_j refers to the duration from the second month since the share capital withdrawn occurred to the end of reporting period

E_k refers to the change of net assets resulted from other transaction and matters

M_k refers to the duration from the second month since the variation of net assets resulted form other transaction and matters occurred to the end of reporting period

(ii) Basic EPS and Diluted EPS disclosed in note 7(43)

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS

There are following risks pursuant to the financial instrument adopted by the Group

— Credit risk;

— Liquidity risk;

— Interest rate risk;

— Foreign currency risk

This note presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks, etc.

The Group's risk management policies are established to identify and analyze the risks confronted by the Group, to set appropriate risk limits and control program, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Credit risk

The Group's credit risk is primarily attributable to receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

In respect of receivables, the Group has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires most of the customers prepay full amount either in cash or by issuing bills before delivering goods to them. Receivables are due within 1 to 4 months from the date of billing. Debtors with overdue balances that are more than one month past are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Most of the Group's customers have been transacting with the Group for many years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to some factors, such as ageing and maturity date.

As at 31 December 2010, there were no significant debtors that were past due and impaired.

At the balance sheet date, the Group had a certain concentration of credit risk, as 75.06% (2009: 93.63%) of the total accounts receivable and other receivables was due from the Group's top five buyers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees resulted in credit risk.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

The Group is responsible for their own cash management, including short term investment for temporary cash redundancy and the raising of loans to satisfy expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The interest-bearing financial instruments held by the Group on 31 December 2010 are set out at Note 7(1), (16), (24) and (26).

Sensitivity analysis:

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on earnings.

As at 31 December 2010, it is estimated that a general increase of one percentage point in interest rates of cash at bank and on hand, short-term loans, non-current liabilities due within 1 year, long-term borrowings and long-term payables, with all other variables held constant, would decrease the Group's net profit and equity by RMB 74 million (2009: 126 million).

The above sensitivity analysis has been ascertained assuming that the change in interest rates had occurred on the balance sheet date and had been applied to the Group's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year until the next annual balance sheet date. The analysis was performed on the same basis for 2009.

Notes To The Financial Statements *(continued)*

For the year 2010
(Expressed in RMB million unless otherwise indicated)

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(continued)*

(d) Foreign currency risk

The Group did not have a significant foreign currency risk exposure arising from its exports products and importing raw material for production and equipment for projects as the Group adopts locked exchanges rates to settle the amounts with main export and import agent.

(i) The Group's exposure to currency risk based on nominal amounts at 31 December 2010 is set out at Note 7(24) and (26).

(ii) The following are the significant exchange rates applied by the Group:

	Average rate		Reporting date mid-spot rate	
	2010	2009	**2010**	2009
Japanese yen	**0.0776**	0.0731	**0.0813**	0.0738
Euro	**8.92**	9.53	**8.81**	9.78

(iii) Sensitivity analysis

A 5% appreciation of the RMB against the Japanese yen, Euro and HK dollar at 31 Dec 2010 would have decreased /increased equity and profit or loss by the amount shown below:

		Shareholder's equities *(RMB Million)*	**Profit and losses** *(RMB Million)*
31 Dec 2010	Japanese yen	(3)	(3)
	Euro	(1)	(1)
31 Dec 2009	Japanese yen	(10)	(10)
	Euro	(1)	(1)

A 5% depreciation of the RMB against the Japanese yen, Euro at 31 Dec 2010 would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been ascertained assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the year until the next annual balance sheet date. The analysis was performed on the same basis for 2009.

For the year 2010
(Expressed in RMB million unless otherwise indicated)

Notes To The Financial Statements *(continued)*

16. SUPPLEMENTARY DOCUMENTS *(continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(continued)*

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

(5) ANALYSIS OF THE UNUSUAL SITUATION ABOUT MAIN ITEMS OF THE FINANCIAL STATEMENTS

Items on cash flow statement

(i) The net cash inflow from operating activities this year was RMB 9,026 million, comparing with 4,549 million of the last year, was mainly because of the increasing of net profits and the increasing of operating payables.

(ii) The net cash outflow from financing activities this year was RMB 2,867 million, comparing with 68 million of the last year, was mainly because the cash paid for settling debt is more than the cash received from borrowings.

Independent Auditor's Report

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
ANGANG STEEL COMPANY LIMITED
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Angang Steel Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 208 to 275, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

Independent Auditor's Report *(continued)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
29 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	**2010** **RMB million**	2009 *RMB million* (restated)
Turnover	5	**92,212**	70,057
Cost of sales		**(85,409)**	(65,721)
Sales related taxes		**(285)**	(183)
Gross profit		**6,518**	4,153
Other operating profit, net	6	**266**	103
Distribution and other operating expenses		**(1,622)**	(1,081)
Administrative expenses		**(1,844)**	(1,539)
Profit from operations		**3,318**	1,636
Finance costs	8(a)	**(1,333)**	(940)
Share of profits of jointly controlled entities	16	**297**	88
Share of profits of associates	17	**96**	88
Profit before tax		**2,378**	872
Income tax expense	7(a)	**(413)**	(165)
Profit for the year	8(b)	**1,965**	707
Attributable to:			
Owners of the Company		**2,054**	748
Non-controlling interests		**(89)**	(41)
		1,965	707
Earnings per share	11		
— Basic		**RMB0.284**	RMB0.103

For the year ended 31 December 2010

Consolidated Statement of Comprehensive Income

	2010 *RMB million*	2009 *RMB million* (restated)
Profit for the year	**1,965**	707
Other comprehensive income:		
Fair value change on other investments	**18**	116
Income tax relating to component of other comprehensive income	**(5)**	(29)
Other comprehensive income for the year, net of tax	**13**	87
Total comprehensive income for the year	**1,978**	794
Attributable to:		
Owners of the Company	**2,067**	835
Non-controlling interests	**(89)**	(41)
	1,978	794

Consolidated Statement of Financial Position

At 31 December 2010

	Note	At 31 December 2010 RMB million	At 31 December 2009 RMB million (restated)	At 1 January 2009 RMB million (restated)
Non-current assets				
Property, plant and equipment	12	**64,226**	60,853	49,995
Intangible assets	13	**8**	13	18
Construction in progress	14	**6,324**	12,922	18,789
Interests in jointly controlled entities	16	**1,245**	934	864
Interests in associates	17	**488**	465	1,388
Other investments	18	**434**	391	55
Deferred tax assets	7(b)	**1,368**	1,038	1,049
		74,093	76,616	72,158
Current assets				
Inventories	19	**13,134**	10,658	10,372
Amount due from immediate parent/former ultimate parent	33	**—**	2	97
Amounts due from fellow subsidiaries	33	**7,272**	5,547	2,576
Amount due from a jointly controlled entity	33	**69**	98	—
Amount due from an associate	33	**—**	1	—
Trade receivables	20	**4,872**	4,145	3,000
Prepayments, deposits and other receivables		**4,004**	3,742	2,796
Current tax assets		**24**	203	985
Cash and cash equivalents	21	**3,651**	2,242	2,974
		33,026	26,638	22,800

At 31 December 2010

Consolidated Statement of Financial Position *(continued)*

	Note	At 31 December **2010** ***RMB million***	2009 *RMB million* (restated)	At 1 January 2009 *RMB million* (restated)
Current liabilities				
Trade payables	22	**9,371**	6,744	7,805
Amount due to immediate parent/former ultimate parent	33	**294**	202	11
Amounts due to fellow subsidiaries	33	**1,651**	2,104	2,087
Amounts due to jointly controlled entities	33	**402**	373	25
Amounts due to associates	33	**30**	11	42
Deferred income		**23**	42	—
Other payables		**7,355**	6,989	5,578
Current portion of bank loans	23	**16,356**	21,363	8,601
Short-term debentures	24	**3,000**	—	—
		38,482	37,828	24,149
Net current liabilities		**(5,456)**	(11,190)	(1,349)
Total assets less current liabilities carried forward		**68,637**	65,426	70,809

Consolidated Statement of Financial Position *(continued)*

At 31 December 2010

	Note	At 31 December **2010** ***RMB million***	2009 *RMB million* (restated)	At 1 January 2009 *RMB million* (restated)
Total assets less current liabilities brought forward		**68,637**	65,426	70,809
Non-current liabilities				
Bank loans	23	**12,717**	11,502	17,565
Provisions	25	**37**	65	102
Deferred income		**554**	74	39
		13,308	11,641	17,706
NET ASSETS		**55,329**	53,785	53,103
CAPITAL AND RESERVES				
Share capital	26	**7,235**	7,235	7,235
Share premium	27	**31,414**	31,414	31,414
Reserves	28	**3,713**	3,467	3,274
Retained profits	29	**11,690**	10,303	11,180
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**54,052**	52,419	53,103
Non-controlling interests		**1,277**	1,366	—
TOTAL EQUITY		**55,329**	53,785	53,103

Approved and authorised for issue by the Board of Directors on 29 March 2011

Zhang Xiaogang
Chairman

Fu Jihui
Director

For the year ended 31 December 2010

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	Share capital *RMB million*	Share premium *RMB million*	Reserves *RMB million*	Retained profits *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2009, as previously reported		7,235	31,414	3,107	11,215	52,971	—	52,971
Effect of change in accounting policy *(note 2)*		—	—	167	(35)	132	—	132
At 1 January 2009, as restated		7,235	31,414	3,274	11,180	53,103	—	53,103
Total comprehensive income for the year		—	—	87	748	835	(41)	794
Acquisition of a subsidiary		—	—	—	—	—	1,407	1,407
Proposed transfer between reserves	28, 29	—	—	106	(106)	—	—	—
Final dividend — 2008	10(b)	—	—	—	(1,519)	(1,519)	—	(1,519)
Changes in equity for the year		—	—	193	(877)	(684)	1,366	682
At 31 December 2009		7,235	31,414	3,467	10,303	52,419	1,366	53,785
At 1 January 2010, as previously reported		**7,235**	**31,414**	**3,300**	**10,342**	**52,291**	**1,366**	**53,657**
Effect of change in accounting policy *(note 2)*		**—**	**—**	**167**	**(39)**	**128**	**—**	**128**
At 1 January 2010, as restated		**7,235**	**31,414**	**3,467**	**10,303**	**52,419**	**1,366**	**53,785**
Total comprehensive income for the year		**—**	**—**	**13**	**2,054**	**2,067**	**(89)**	**1,978**
Proposed transfer between reserves	28, 29	**—**	**—**	**233**	**(233)**	**—**	**—**	**—**
Final dividend — 2009	10(b)	**—**	**—**	**—**	**(434)**	**(434)**	**—**	**(434)**
Change in equity for the year		**—**	**—**	**246**	**1,387**	**1,633**	**(89)**	**1,544**
At 31 December 2010		**7,235**	**31,414**	**3,713**	**11,690**	**54,052**	**1,277**	**55,329**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB million	2009 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31(a)	**9,671**	3,779
Interest received	6	**26**	16
Interest paid		**(1,679)**	(1,605)
Income tax (paid)/refund		**(568)**	781
Net cash generated from operating activities		**7,450**	2,971
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(4,851)**	(6,341)
Proceeds from disposals of property, plant and equipment		**5**	23
Acquisition of a subsidiary	31(b)	**—**	1,184
Dividends income from associates and jointly controlled entities		**76**	37
Payment for purchase/additional capital contribution of other investments		**(25)**	(143)
Net cash used in investing activities		**(4,795)**	(5,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(434)**	(1,519)
Proceeds of bank loans		**22,265**	20,140
Repayment of bank loans		**(26,077)**	(17,084)
Proceeds of short-term debentures		**3,000**	—
Net cash (used in)/generated from financing activities		**(1,246)**	1,537
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,409**	(732)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**2,242**	2,974
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**3,651**	2,242

Notes to the Financial Statements

1. GENERAL INFORMATION

Angang Steel Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 8 May 1997 as a joint stock limited liability company. The address of its registered office is Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC. The Company's A-shares and H-shares are listed on the Shenzhen Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") respectively.

The Company is principally engaged in the production and sales of hot rolled sheets, cold rolled sheets, galvanised steel, seamless tubes, wire rods, thick plates, large section steel products and steel billets. The principal activities of its subsidiaries are set out in note 15 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2010, Anshan Iron and Steel Group Complex ("Angang Holding"), a state-owned enterprise incorporated in the PRC is the immediate parent and Angage Group Company Limited, a state-owned enterprise incorporated in the PRC is the ultimate parent.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

Classification of Land Leases

The adoption of the amendment to IAS 17 "Leases" has resulted in a change in accounting policy for the classification of leasehold land of the Group. Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation. In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (i.e. the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, the leasehold land of the Group has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Classification of Land Leases *(continued)*

The amendment to IAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	For the year ended 31 December	
	2010	2009
	RMB million	*RMB million*
Increase in administrative expenses — depreciation	**5**	5
Decrease in income tax expense	**(1)**	(1)

	At 31 December		At 1 January
	2010	2009	2009
	RMB million	*RMB million*	*RMB million*
Increase in property, plant and equipment	**6,943**	7,046	6,739
Decrease in lease prepayments	**(6,775)**	(6,875)	(6,563)
Decrease in deferred tax assets	**(44)**	(43)	(44)
Increase in reserves	**(167)**	(167)	(167)
Decrease in retained profits	**43**	39	35

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of other investments which are carried at their fair values.

The Group also prepares a set of financial statements which complies with the Accounting Standards for Business Enterprises in the PRC (the "PRC GAAP"). A reconciliation of the Group's profit for the year and the equity attributable to owners of the Company under IFRSs and the PRC GAAP is presented on page 276.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 38 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Company has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company has control.

Subsidiaries are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of an acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (w) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in the consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation *(continued)*

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Notes to the Financial Statements *(continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold land	according to the terms of lease of the land
Buildings	10 to 20 years
Plant, machinery and equipment	3 to 15 years
Transportation vehicles and other related equipment	2 to 12 years

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in profit or loss on the date of retirement or disposal.

(g) Construction in progress

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

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

Depreciation begins when the relevant assets are available for use.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(i) Research and development costs

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

(j) Intangible assets

Intangible assets represent industrial technology acquired by the Group and are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is calculated on a straight-line basis over the assets' estimated useful lives of 6 to 10 years.

Both the period and method of amortisation are reviewed annually.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Inventories

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

Cost is determined using the weighted average cost formula or the specific identification method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

Spare parts and tools are stated at cost less any allowance for obsolescence.

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Other investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss, available-for-sale financial assets or unlisted equity securities.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Unlisted equity securities

Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses.

Notes to the Financial Statements *(continued)*

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequent measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

(p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial liabilities and equity instruments *(continued)*

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sale of goods

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Service income

Service income is recognised when the service is rendered.

(iii) Dividend income

Dividend income is recognised when the shareholder's rights to receive payment are established.

(iv) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Employee benefits

(i) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

(w) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Impairment of assets *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provisions and contingent liabilities

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

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

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. SEGMENT INFORMATION

The Group's revenue and trading result are generated from production and sales of steel products and therefore no other reportable segments analysis of the Group is presented.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include dividend income, and gains or losses from investments and derivative instruments. Segment assets do not include amounts due from related parties and investments. Segment liabilities do not include amounts due to related parties, corporate borrowings, convertible loans and derivative instruments. Segment non-current assets do not include deferred tax assets.

Information about reportable segment profit or loss, assets and liabilities:

	2010 ***RMB million***	2009 *RMB million* (restated)
Year ended 31 December		
Revenue from external customers	**92,212**	70,057
Segment profit	**1,947**	697
Interest revenue	**26**	16
Interest expense	**1,303**	929
Depreciation and amortisation	**7,176**	6,417
Other material items of income and expense:		
Insurance compensation received	**52**	15
Share of profits of jointly controlled entities	**297**	88
Share of profits of associates	**96**	88
Income tax expense	**413**	165
Other material non-cash items:		
Impairment of assets	**4**	6
Allowance of inventories	**1,294**	677
Additions to segment non-current assets	**4,000**	7,471
As at 31 December		
Segment assets	**97,976**	96,177
Segment liabilities	**17,340**	13,914
Interests in jointly controlled entities	**1,245**	934
Interests in associates	**488**	465

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

4. SEGMENT INFORMATION *(continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2010 ***RMB million***	2009 *RMB million* (restated)
Revenue		
Total revenue of reportable segments and consolidated revenue	**92,212**	70,057
Profit or loss		
Total profit or loss of reportable segments	**1,947**	697
Dividend income from other investments	**18**	10
Consolidated profit for the year	**1,965**	707
Assets		
Total assets of reportable segments	**97,976**	96,177
Amount due from fellow subsidiaries	**7,272**	5,547
Deferred tax assets	**1,368**	1,038
Investments	**434**	391
Other assets	**69**	101
Consolidated total assets	**107,119**	103,254
Liabilities		
Total liabilities of reportable segments	**17,340**	13,914
Amount due to immediate parent/former ultimate parent	**294**	202
Amounts due to fellow subsidiaries	**1,651**	2,104
Amounts due to jointly controlled entities	**402**	373
Bank loans	**29,073**	32,865
Short-term debentures	**3,000**	—
Other liabilities	**30**	11
Consolidated total liabilities	**51,790**	49,469
Other material items		
Impairment of assets	**4**	6
Allowance of inventories	**1,294**	677
Depreciation and amortisation	**7,176**	6,417
Interest expenses	**1,303**	929
Insurance compensation received	**52**	15
Additions of construction in progress	**3,852**	7,232

4. SEGMENT INFORMATION *(continued)*

Geographical information:

	2010 *RMB million*	2009 *RMB million*
Revenue		
— The PRC	**84,382**	66,548
— Other countries	**7,830**	3,509
	92,212	70,057

In presenting the geographical information, revenue is based on the locations of the customers. All of the Group's non-current assets are located in the PRC.

Revenue from major customers:

	2010 ***RMB million***	2009 *RMB million*
Customer A	**8,604**	5,694
Customer B	**6,502**	4,895
Customer C	**3,187**	1,720

5. TURNOVER

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

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

6. OTHER OPERATING PROFIT, NET

	2010 RMB million	2009 RMB million
Loss on disposals of property, plant and equipment	**(14)**	(3)
Impairment losses on property, plant and equipment	**(4)**	(6)
Gain/(loss) from sales of raw and scrap materials	**14**	(10)
Net exchange gain	**58**	5
Interest income	**26**	16
Government grant *(note)*	**117**	15
Written back of long outstanding accounts payables	**—**	6
Written back of long outstanding other payables	**—**	29
Insurance compensation	**52**	15
Dividend income from other investments	**18**	10
Others	**(1)**	26
	266	103

Note: Government grant mainly are subsidy for the scientific research and grant for the military industrial project.

7. INCOME TAX

(a) Income tax expense in the income statement

	2010 RMB million	2009 RMB million (restated)
Current tax expense — Provision for PRC enterprise income tax for the year	**748**	1
Deferred tax expense *(note 7(b))*	**(335)**	164
	413	165

The provision for PRC enterprise income tax is based on a statutory rate of 25 % (2009: 25%) of the estimated assessable profits of the Group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

7. INCOME TAX *(continued)*

(a) Income tax expense in the income statement *(continued)*

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2010 ***RMB million***	2009 *RMB million* (restated)
Profit before tax	**2,378**	872
Tax at a statutory tax rate of 25% (2009: 25%)	**594**	218
Tax effect of non-taxable income	**(95)**	(46)
Tax effect of non-deductible expenses	**20**	56
Additional deduction*	**(106)**	(63)
	413	165

* Pursuant to relevant PRC tax regulations, the Group is entitled to claim an additional deduction based on 50% of approved costs related to research and development.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

7. INCOME TAX *(continued)*

(b) Deferred taxation

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

	Assets		Liabilities		Net	
	2010 **RMB million**	2009 RMB million (restated)	**2010** **RMB million**	2009 RMB million	**2010** **RMB million**	2009 RMB million (restated)
Borrowing costs capitalised	**—**	—	**(34)**	(41)	**(34)**	(41)
Allowance of inventories	**141**	10	**—**	—	**141**	10
Impairment losses on property, plant and equipment	**30**	32	**—**	—	**30**	32
Depreciation of property, plant and equipment	**5**	5	**—**	—	**5**	5
Expenses to be claimed on paid basis	**56**	56	**—**	—	**56**	56
Change in fair value of available-for-sale financial assets	**—**	—	**(25)**	(20)	**(25)**	(20)
Provision for termination benefits	**16**	25	**—**	—	**16**	25
Deductible expenses relating to Bayuquan port connected projects ("Bayuquan Project")	**867**	659	**—**	—	**867**	659
Tax loss	**258**	256	**—**	—	**258**	256
Others	**56**	56	**(2)**	—	**54**	56
	1,429	1,099	**(61)**	(61)	**1,368**	1,038
Set-off within legal tax units and jurisdictions	**(61)**	(61)	**61**	61	**—**	—
Net deferred tax assets	**1,368**	1,038	**—**	—	**1,368**	1,038

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

7. INCOME TAX *(continued)*

(b) Deferred taxation *(continued)*

(ii) Movement in temporary differences during the year:

	Balance at 1 January 2009 RMB million (restated)	Recognised in profit or loss RMB million (restated)	Acquisition of a subsidiary RMB million	Recognised in reserves RMB million	Balance at 31 December 2009 and 1 January 2010 RMB million (restated)	Recognised in profit or loss RMB million	Recognised in reserves RMB million	Balance at 31 December 2010 RMB million
Borrowing costs capitalised	(47)	6	—	—	(41)	7	—	(34)
Allowance of inventories	501	(491)	—	—	10	131	—	141
Impairment losses on property, plant and equipment	39	(7)	—	—	32	(2)	—	30
Depreciation of property, plant and equipment	5	—	—	—	5	—	—	5
Expenses to be claimed on paid basis	47	9	—	—	56	—	—	56
Change in fair value of available-for-sale financial assets	9	—	—	(29)	(20)	—	(5)	(25)
Provision for termination benefits	36	(11)	—	—	25	(9)	—	16
Deductible expenses relating to Bayuquan Project	438	221	—	—	659	208	—	867
Tax loss	—	74	182	—	256	2	—	258
Others	21	35	—	—	56	(2)	—	54
	1,049	(164)	182	(29)	1,038	335	(5)	1,368

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

8. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

(a) Finance costs

	2010	2009
	RMB million	*RMB million*
Interest and other borrowing costs	**1,758**	1,613
Less: Amount capitalised as construction in progress*	**(455)**	(684)
Net interest expenses	**1,303**	929
Bank charges	**21**	4
Others	**9**	7
	1,333	940

* The borrowing costs on funds borrowed generally have been capitalised at an average rate of 5.02 % (2009: 4.72%) per annum for construction in progress.

(b) Other items

	2010	2009
	RMB million	*RMB million* (restated)
Auditors' remuneration	**6**	6
Cost of inventories sold	**85,409**	65,721
Depreciation	**7,171**	6,412
Amortisation of intangible assets (included in administrative expenses)	**5**	5
Impairment losses on property, plant and equipment (included in other operating profit, net)	**4**	6
Allowance for inventories *(note 19)*	**1,294**	677
Staff costs		
— Salaries and wages, welfare and other costs	**2,043**	1,840
— Contributions to defined contribution scheme	**768**	656
	2,811	2,496
Repairs and maintenance	**3,362**	2,885
Research and development costs	**29**	10

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

Directors' and supervisors' remunerations were as follows:

	Directors' and supervisors' fees *RMB million*	Salaries, allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	2010 Total *RMB million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.53	—	0.08	0.61
Chen Ming	—	0.48	—	0.08	0.56
Fu Jihui	—	0.43	—	0.07	0.50
Non-executive director					
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Li Shijun	0.09	—	—	—	0.09
Ma Guoqiang	0.09	—	—	—	0.09
Liu Wei (resigned on 21 June 2010)	0.05	—	—	—	0.05
Kwong Chi Kit, Victor	0.09	—	—	—	0.09
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin	—	0.19	—	0.03	0.22
Shan Mingyi	—	0.43	—	0.08	0.51
	0.32	2.06	—	0.34	2.72

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

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

Directors' and supervisors' remunerations were as follows: *(continued)*

	Directors' and supervisors' fees *RMB million*	Salaries, allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	2009 Total *RMB million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.52	—	0.08	0.60
Tang Fuping (ceased on 26 June 2009)	—	0.20	—	0.03	0.23
Chen Ming (appointed on 6 February 2009)	—	0.20	—	0.03	0.23
Fu Jihui	—	0.29	—	0.05	0.34
Fu Wei (ceased on 12 June 2009)	—	0.09	—	0.01	0.10
Lin Daqing (ceased on 12 June 2009)	—	0.05	—	0.01	0.06
Wang Chun Ming (ceased on 12 June 2009)	—	0.09	—	0.01	0.10
Non-executive director					
Yu Wanyuan	—	—	—	—	—

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

Directors' and supervisors' remunerations were as follows: *(continued)*

	Directors' and supervisors' fees *RMB million*	Salaries, allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	2009 Total *RMB million*
Independent non-executive directors					
Wang Linsen (ceased on 12 June 2009)	0.05	—	—	—	0.05
Liu Yongze (ceased on 12 June 2009)	0.05	—	—	—	0.05
Francis Li Chak Yan (ceased on 12 June 2009)	0.05	—	—	—	0.05
Wang Xiaobin (ceased on 12 June 2009)	0.05	—	—	—	0.05
Wu Xichun (ceased on 12 June 2009)	—	—	—	—	—
Li Shijun (appointed on 12 June 2009)	0.05	—	—	—	0.05
Ma Guoqiang (appointed on 12 June 2009)	0.05	—	—	—	0.05
Liu Wei (appointed on 12 June 2009)	0.05	—	—	—	0.05
Kwong Chi Kit, Victor (appointed on 18 September 2009)	0.05	—	—	—	0.05
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin	—	0.16	—	0.02	0.18
Zhang Lifen (ceased on 12 June 2009)	—	0.20	—	0.03	0.23
Shan Mingyi	—	0.29	—	0.05	0.34
Li Ji (ceased on 12 June 2009)	—	0.06	—	0.01	0.07
	0.40	2.15	—	0.33	2.88

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

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

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2009: RMB Nil).

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: RMB Nil).

The five highest paid individuals of the Group in 2010 included three executive directors and two supervisors of the Company (2009: four executive directors and one supervisor) whose emoluments are disclosed above.

10. DIVIDENDS

(a) Dividend for the year

	2010 ***RMB million***	2009 *RMB million*
Final dividend proposed after the end of the reporting period of RMB0.15 per share (2009: RMB0.06 per share)	**1,085**	434

Pursuant to a resolution passed at the directors' meeting on 29 March 2011, a final dividend of RMB0.15 (2009: RMB0.06) per share totalling RMB1,085 million (2009: RMB434 million) was approved for shareholders' approval at the forthcoming annual general meeting.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividend for the previous financial year, approved and paid during the year

	2010 ***RMB million***	2009 *RMB million*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.06 per share (2009: RMB0.21 per share)	**434**	1,519

Pursuant to the PRC enterprise income tax law, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of RMB2,054 million (2009: RMB748 million) and the weighted average number of shares of 7,235 million in issue during the year (2009: 7,235 million).

(b) Diluted earnings per share

No diluted earnings per share are presented as the Company did not have any dilutive potential equity shares in existence during the two years ended 31 December 2010.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Plant, machinery and equipment *RMB million*	Transportation vehicles and other related equipment *RMB million*	Total *RMB million*
Cost:				
At 1 January 2009, as previously reported	15,721	40,871	2,684	59,276
Effect of change in accounting policy *(note 2)*	7,181	—	—	7,181
At 1 January 2009 (restated)	22,902	40,871	2,684	66,457
Additions	12	4	3	19
Acquisition of a subsidiary	1,114	1,417	57	2,588
Transfer from construction in progress *(note 14)*	4,023	10,068	601	14,692
Disposals	(18)	(129)	(51)	(198)
At 31 December 2009	28,033	52,231	3,294	83,558
At 1 January 2010, as previously reported	20,397	52,231	3,294	75,922
Effect of change in accounting policy *(note 2)*	7,636	—	—	7,636
At 1 January 2010, restated	28,033	52,231	3,294	83,558
Additions	90	5	28	123
Transfer from construction in progress *(note 14)*	3,218	6,541	691	10,450
Disposals	(9)	(90)	(12)	(111)
At 31 December 2010	31,332	58,687	4,001	94,020

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land and buildings *RMB million*	Plant, machinery and equipment *RMB million*	Transportation vehicles and other related equipment *RMB million*	Total *RMB million*
Accumulated depreciation and impairment:				
At 1 January 2009, as previously reported	2,662	12,295	1,063	16,020
Effect of change in accounting policy *(note 2)*	442	—	—	442
At 1 January 2009 (restated)	3,104	12,295	1,063	16,462
Charge for the year	1,228	4,765	419	6,412
Written back on disposals	(14)	(111)	(50)	(175)
Impairment losses *(note (b))*	3	3	—	6
At 31 December 2009	4,321	16,952	1,432	22,705
At 1 January 2010, as previously reported	3,731	16,952	1,432	22,115
Effect of change in accounting policy *(note 2)*	590	—	—	590
At 1 January 2010, restated	4,321	16,952	1,432	22,705
Charge for the year	1,418	5,310	443	7,171
Written back on disposals	(15)	(56)	(15)	(86)
Impairment losses *(note (b))*	—	4	—	4
At 31 December 2010	5,724	22,210	1,860	29,794
Carrying amount:				
At 31 December 2010	25,608	36,477	2,141	64,226
At 31 December 2009	23,712	35,279	1,862	60,853

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Note:

(a) All of the Group's land and buildings are located in the PRC. The land of the Group represented the land use rights on the land located in the PRC under medium term leases.

(b) During the year ended 31 December 2010, the Group planned to dispose of certain machinery which were obsolete. The recoverable amounts of these machinery were assessed based on their scrap value less costs to sell. As a result, the carrying amount of the machinery, after recognised the impairment losses, was written down by RMB4 million (2009: RMB6 million). The impairment loss for the year is included in "Other operating profit, net" in the consolidated income statement.

(c) At 31 December 2010, the Group was in the process of applying for or changing registration of the title certifications of certain of its land use rights with an aggregate carrying value of approximately RMB1,307 million (2009: RMB1,307 million), of which related to acquisition of the entire equity interests of Angang New Steel and Iron Company Limited as mentioned in the circular published by the Company on 11 November 2005 with an aggregate carrying value of approximately RMB10 million (2009: RMB10 million). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned land.

13. INTANGIBLE ASSETS

	Industrial technology *RMB million*
Cost:	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	32
Accumulated amortisation:	
At 1 January 2009	14
Amortisation for the year	5
At 31 December 2009 and 1 January 2010	19
Amortisation for the year	5
At 31 December 2010	24
Carrying amount:	
At 31 December 2010	8
At 31 December 2009	13

The remaining useful lives of the intangible assets are in the range of 1 to 5 years.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

14. CONSTRUCTION IN PROGRESS

	2010 **RMB million**	2009 *RMB million*
At 1 January	**12,922**	18,789
Acquisition of a subsidiary	**—**	1,593
Additions	**3,852**	7,232
	16,774	27,614
Transfer to property, plant and equipment *(note 12)*	**(10,450)**	(14,692)
At 31 December	**6,324**	12,922

At 31 December 2010 the carrying amount of construction in progress pledged as security for the Group's bank loans amounted to RMB717 million (2009: RMB Nil).

15. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2010 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼鋼材配送(武漢)有限公司 (Angang Steel Logistics (Wuhan) Company Limited)	Limited liability company	PRC	RMB60 million	100%	Not yet commence business
鞍鋼冷軋鋼板(莆田)有限公司 (Angang Cold Rolled Steel Sheets (Putian) Company Limited)	Limited liability company	PRC	RMB800 million	100%	Not yet commence business
天津鞍鋼天鐵冷軋薄板有限公司 (Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited) ("Tianjin Tiantie")	Equity joint venture	PRC	Registered capital RMB3,700 million Paid up capital RMB2,814 million	50%	Steel rolling processing

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010 **RMB million**	2009 RMB million
Unlisted investments		
— Share of net assets	**1,245**	934

Details of the Group's interests in the jointly controlled entities at 31 December 2010 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼新軋-蒂森克虜伯鍍鋅鋼板有限公司 (ANSC-TKS Galvanizing Co., Ltd.) ("ANSC-TKS")	Sino-foreign equity joint venture	PRC	USD132 million	50%	Production and sale of hot dip galvanised steel products
鞍鋼股份-大船重工大連鋼材加工配送有限公司 (ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Co., Ltd) ("ANSC-Dachuan")	Equity joint venture	PRC	RMB380 million	50%	Sale, processing and distribution of steel products
長春一汽鞍井鋼材加工配送有限公司 (Changchun FAM Steel Processing and Distribution Company Limited) ("Changchun FAM")	Sino-foreign equity joint venture	PRC	RMB90 million	50%	Sale, processing, distribution and storage of steel products
鞍鋼蒂森克虜伯鋼材配送(長春)有限公司 (TKAS (Changchun) Steel Service Center Ltd.) ("TKAS-SSC")	Sino-foreign equity joint venture	PRC	USD12 million	50%	Production, processing and sale of anti-fluorin steel and connected commercial activities

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following amounts are the Group's share of the jointly controlled entities that are accounted for by the equity method of accounting.

	2010 *RMB million*	2009 *RMB million*
At 31 December		
Non-current assets	**1,081**	1,184
Current assets	**1,638**	1,340
Non-current liabilities	**(388)**	(445)
Current liabilities	**(1,064)**	(1,104)
Net assets	**1,267**	975
Year ended 31 December		
Revenue	**4,410**	2,124
Expenses	**(4,113)**	(2,036)
	297	88

17. INTERESTS IN ASSOCIATES

	2010 *RMB million*	2009 *RMB million*
Unlisted investments		
— Share of net assets	**488**	465

17. INTERESTS IN ASSOCIATES *(continued)*

Details of the Group's interests in the associates at 31 December 2010 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼瀋陽鋼材加工配送有限公司 (Angang Shenyang Steel Product Processing And Distribution Company Limited) ("Angang Shenyang")	Equity joint venture	PRC	RMB48 million	30%	Sale, processing and distribution of steel products
蒂森克虜伯鞍鋼(長春)激光拼焊板有限公司 (TKAS (Changchun) Tailored Blanks Ltd) ("TKAS")	Sino-foreign equity joint venture	PRC	USD10 million	45%	Production and sale of tailored blanks
鞍鋼實業集團包裝鋼帶有限公司 (Angang Package Steel Strip Company Limited) ("Angang Steel Strip")	Equity joint venture	PRC	RMB36 million	30%	Production and sales of packing steel strip
鞍鋼集團財務有限責任公司 (Angang Holdings Financial Company Limited) ("Angang Finance")	Equity joint venture	PRC	RMB1,000 million	20%	Provision of financial service of deposit, lending, financing and etc.
天津天鐵濱海冶金實業有限公司 (Tianjin Tiantie Ban Hai Metallurgy Enterprise Company Limited) ("Ban Hai Enterprise")	Equity joint venture	PRC	RMB5 million	30%	Provision of service

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

17. INTERESTS IN ASSOCIATES *(continued)*

Summary financial information in respect of the Group's associates is set out below:

	2010 **RMB million**	2009 *RMB million*
At 31 December		
Total assets	**21,018**	19,660
Total liabilities	**(18,767)**	(17,492)
Net assets	**2,251**	2,168
Group's share of associates' net assets	**488**	465
Year ended 31 December		
Total revenue	**1,943**	1,423
Total profit for the year	**426**	399
Group's share of associates' profits for the year	**96**	88

18. OTHER INVESTMENTS

	2010 **RMB million**	2009 *RMB million*
Available-for-sale financial assets		
Equity securities, at fair value		
— Listed in the PRC	**179**	161
Unlisted equity securities, at cost	**255**	230
	434	391

The fair values of listed securities are based on current bid prices. Unlisted equity securities with carrying amount of RMB255 million (2009: RMB230 million) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

19. INVENTORIES

	2010	2009
	RMB million	*RMB million*
Raw materials and fuels	**3,739**	2,511
Work in progress	**3,531**	2,661
Finished goods	**1,931**	1,571
Spare parts, tools and ancillary materials	**3,933**	3,915
	13,134	10,658

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

	2010	2009
	RMB million	*RMB million*
Carrying amount of inventories sold	**84,886**	67,683
Allowance of inventories	**1,294**	677
Realisation of allowance of inventories	**(771)**	(2,639)
	85,409	65,721

20. TRADE RECEIVABLES

	2010	2009
	RMB million	*RMB million*
Accounts receivables	**1,169**	749
Bills receivables	**3,703**	3,396
	4,872	4,145

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2010	2009
	RMB million	*RMB million*
Less than 3 months	**4,402**	3,465
More than 3 months but less than 12 months	**463**	674
More than 1 year	**7**	6
	4,872	4,145

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

20. TRADE RECEIVABLES *(continued)*

As of 31 December 2010, trade receivables of RMB29 million (2009: RMB17 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 **RMB million**	2009 RMB million
Less than 3 months	**16**	7
More than 3 months but less than 12 months	**6**	4
More than 1 year	**7**	6
	29	17

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

21. CASH AND CASH EQUIVALENTS

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

As at 31 December 2010, deposits of RMB2,607 million (2009: RMB1,288 million) was placed in Angang Finance, an associate and a fellow subsidiary of the Group.

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. TRADE PAYABLES

	2010 RMB million	2009 RMB million
Accounts payables	**4,492**	3,235
Bills payables	**4,879**	3,509
	9,371	6,744

The ageing analysis of trade payables is as follows:

	2010 RMB million	2009 RMB million
Due on demand	**88**	237
Due within 3 months	**6,724**	4,133
Due after 3 months but within 6 months	**2,559**	2,020
Due after 6 months but within 1 year	**—**	344
Due after 1 year but within 2 years	**—**	10
	9,371	6,744

23. BANK LOANS

The bank loans are repayable as follows:

	2010 RMB million	2009 RMB million
On demand or within one year	**16,356**	21,363
In the second year	**3,401**	5,535
In the third to fifth years, inclusive	**8,411**	5,061
After five years	**905**	906
	29,073	32,865
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(16,356)**	(21,363)
Amount due for settlement after 12 months	**12,717**	11,502

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

23. BANK LOANS *(continued)*

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2010 **RMB million**	2009 RMB million
RMB	**28,995**	32,665
Euro	**8**	10
Japanese Yen	**70**	190
	29,073	32,865

The interest rate at 31 December is as follows:

	2010	2009
Bank loans	**0.25% to 5.94%**	0.25% to 5.346%

Bank loans of RMB18,677 million (2009: RMB19,155 million) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Among the bank loans of the Group as at 31 December 2010, RMB2,100 million (2009: RMB1,000 million) and RMB3,875 million (2009: RMB3,505 million) were guaranteed by Angang Holding and 天津天鐵冶金集團有限公司 (Tianjin Tian Tie Metallurgy Holding Ltd.), a non-controlling shareholder and two of its subsidiaries respectively. Other than the guarantees as stated above, the bank loans of the Group amounted to RMB200 million (2009: RMB Nil) was secured by pledge of the construction in progress of a subsidiary of the Company.

As at 31 December 2010, loans from Angang Finance, an associate and a fellow subsidiary of the Group, amounted to RMB7,300 million (2009: RMB9,600 million).

24. SHORT-TERM DEBENTURES

During the year, the Group issued short-term debentures with an aggregate principal amount of RMB3,000 million ("Debentures") in the PRC inter-bank debenture market. The interest rate of the Debentures is 2.84% per annum and the term of maturity is 365 days.

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

25. PROVISIONS

	2010 **RMB million**	2009 RMB million
At 1 January	**102**	146
Provision used for the year	**(37)**	(44)
At 31 December	**65**	102
Less: Amount included under "other payables"	**(28)**	(37)
	37	65

Taking into consideration the relevant laws and regulations and the actual situation, as certain employees no longer generate economic benefits for the Group, they have been treated by the Group for compensation purposes by providing them with termination benefits. The termination benefits are calculated based on the salaries and welfare payable to these employees from 1 January 2010 to the normal retirement age. The present value of the future cash flow expected to be required to settle the obligation is recognised as provision for termination benefits.

26. SHARE CAPITAL

	2010		2009	
	Number of shares million	***RMB million***	*Number of shares million*	*RMB million*
Issued and fully paid:				
State-owned legal person shares of RMB1 each				
At 1 January and 31 December	**4,869**	**4,869**	4,869	4,869
A shares of RMB1 each				
At 1 January and 31 December	**1,280**	**1,280**	1,280	1,280
H shares of RMB1 each				
At 1 January and 31 December	**1,086**	**1,086**	1,086	1,086
	7,235	**7,235**	7,235	7,235

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

26. SHARE CAPITAL *(continued)*

Note:

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

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the net debt-to-adjusted capital ratio at a reasonable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

26. SHARE CAPITAL *(continued)*

Note: (continued)

(b) Capital management *(continued)*

The net debt-to-adjusted capital ratio at 31 December 2010 and 2009 was as follows:

	2010 **RMB million**	2009 RMB million (restated)
Current liabilities		
Trade and other payables	**16,726**	13,733
Amount due to immediate parent/former ultimate parent	**294**	202
Amounts due to fellow subsidiaries	**1,651**	2,104
Amounts due to jointly controlled entities	**402**	373
Amounts due to associates	**30**	11
Current portion of bank loans	**16,356**	21,363
Short-term debentures	**3,000**	—
	38,459	37,786
Non-current liabilities		
Bank loans	**12,717**	11,502
Total debt	**51,176**	49,288
Add: Proposed dividends	**1,085**	434
Less: Cash and cash equivalents	**(3,651)**	(2,242)
Net debt	**48,610**	47,480
Total equity	**55,329**	53,785
Less: Proposed dividends	**(1,085)**	(434)
Adjusted capital	**54,244**	53,351
Net debt-to-adjusted capital ratio	**90%**	89%

The increase in the net debt-to-adjusted capital ratio during 2010 resulted primarily from the increase of the debt.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2010, 32.71% (2009: 32.71%) of the shares were in public hands.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

27. SHARE PREMIUM

	RMB million
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	31,414

28. RESERVES

	Statutory surplus reserve *(note (a))* *RMB million*	**Specified reserve** *RMB million*	**Excess over share capital** *RMB million*	**Fair value reserve** *(note (b))* *RMB million*	**Total** *RMB million*
2009					
At 1 January 2009, as previously reported	3,280	21	(167)	(27)	3,107
Effect of change in accounting policy *(note 2)*	—	—	167	—	167
At 1 January 2009, as restated	3,280	21	—	(27)	3,274
Proposed transfer for the year *(note 29)*	77	29	—	—	106
Change in fair value of available-for-sale financial assets, net of deferred tax	—	—	—	87	87
At 31 December 2009 (restated)	3,357	50	—	60	3,467
2010					
At 1 January 2010, as previously reported	**3,357**	**50**	**(167)**	**60**	**3,300**
Effect of change in accounting policy *(note 2)*	**—**	**—**	**167**	**—**	**167**
At 1 January 2010, as restated	**3,357**	**50**	**—**	**60**	**3,467**
Proposed transfer for the year *(note 29)*	**213**	**20**	**—**	**—**	**233**
Change in fair value of available-for-sale financial assets, net of deferred tax	**—**	**—**	**—**	**13**	**13**
At 31 December 2010	**3,570**	**70**	**—**	**73**	**3,713**

28. RESERVES *(continued)*

Note:

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

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

(ii) allocations to the statutory surplus reserve of at least 10% of the net profit after tax, as determined under the PRC GAAP; and

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

(b) The fair value reserve comprises the cumulative change in the fair value of available-for-sale financial assets net of deferred tax held at the end of the reporting period.

29. RETAINED PROFITS

	2010 ***RMB million***	2009 *RMB million* (restated)
At 1 January, as previously reported	**10,342**	11,215
Effect of change in accounting policy *(note 2)*	**(39)**	(35)
At 1 January, as restated	**10,303**	11,180
Profit for the year	**2,054**	748
Transfer between reserves *(note 28)*	**(233)**	(106)
Dividend approved in respect of the previous year *(note 10(b))*	**(434)**	(1,519)
At 31 December	**11,690**	10,303

30. DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under the PRC GAAP and the amount determined under IFRSs. As at 31 December 2010, the reserve available for distribution was RMB11,672 million (2009: RMB10,280 million). Final dividend of RMB1,085 million (2009: RMB434 million) in respect of the financial year 2010 was proposed after the end of the reporting period.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to cash generated from operations

	2010	2009
	RMB million	*RMB million*
		(restated)
Operating activities		
Profit before tax	**2,378**	872
Adjustments for:		
Interest income	**(26)**	(16)
Interest expenses	**1,303**	929
Share of profits of jointly controlled entities	**(297)**	(88)
Share of profits of associates	**(96)**	(88)
Depreciation	**7,171**	6,412
Amortisation of intangible assets	**5**	5
Loss on disposals of property, plant and equipment	**14**	3
Net exchange gain	**(58)**	(5)
Government grant	**(29)**	(4)
Allowance of inventories	**1,294**	677
Realisation of allowance of inventories	**(771)**	(2,639)
Realisation of impairment losses on property, plant and equipment	**(12)**	(34)
Other operating income	**(2)**	(17)
Impairment losses on property, plant and equipment	**4**	6
Operating profit before changes in working capital carried forward	**10,878**	6,013

Notes to the Financial Statements *(continued)*

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(a) Reconciliation of profit before tax to cash generated from operations *(continued)*

	2010 *RMB million*	2009 *RMB million* (restated)
Operating profit before changes in working capital brought forward	**10,878**	6,013
(Increase)/decrease in inventories	**(2,938)**	1,444
Increase in amounts due from fellow subsidiaries	**(454)**	(2,182)
(Increase)/decrease in accounts receivables	**(342)**	1
Increase in bills receivables	**(307)**	(819)
Decrease in amount due from immediate parent/former ultimate parent	**2**	95
Decrease/(increase) in amount due from a jointly controlled entity	**29**	(98)
Decrease in amount due from an associate	**1**	—
(Increase)/decrease in prepayments, deposits and other receivables	**(262)**	235
Increase/(decrease) in accounts payables	**1,257**	(1,368)
Increase/(decrease) in bills payables	**1,370**	(1,076)
Increase in amount due to immediate parent/former ultimate parent	**92**	184
(Decrease)/increase in amounts due to fellow subsidiaries	**(453)**	57
Increase in amounts due to jointly controlled entities	**29**	348
Increase/(decrease) in amounts due to associates	**19**	(34)
(Decrease)/increase in other payables	**260**	898
Increase in deferred income	**490**	81
Cash generated from operations	**9,671**	3,779

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Acquisition of a subsidiary

On 29 September 2009, the Group contributed RMB432 million capital in Tianjin Tiantie. After the capital contribution, the Group increased its shareholding in Tianjin Tiantie from 34.51% to 50%.

The fair value of the identifiable assets and liabilities of Tianjin Tiantie acquired as at its date of contribution is as follows:

	RMB million (restated)
Net assets acquired:	
Property, plant and equipment	2,588
Construction in progress	1,593
Interest in an associate	2
Deferred tax assets	182
Inventories	687
Trade receivables	340
Amount due from an associate	1
Prepayments, deposits and other receivables	1,249
Cash and cash equivalents	1,616
Trade payables	(1,383)
Amount due to an associate	(3)
Other payables	(403)
Bank loans	(3,655)
Non-controlling interests	(1,407)
Net assets shared by the Group prior contribution of capital completed	(975)
Satisfied by:	
Cash and cash equivalents	432
Net cash inflow arising on acquisition:	
Cash consideration paid	(432)
Cash and cash equivalents acquired	1,616
	1,184

Tianjin Tiantie contributed approximately loss of RMB82 million to the Group's profit for the year for the period between the date of acquisition and the end of the reporting period.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Acquisition of a subsidiary *(continued)*

If the acquisition had been completed on 1 January 2009, total Group turnover for the year ended 31 December 2009 would have been RMB70,905 million, and profit for the year ended 31 December 2009 would have been RMB552 million. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is intended to be a projection of future results.

32. COMMITMENTS

The Group had capital commitments outstanding at the end of the reporting period not provided for in the financial statements as follows:

	2010 ***RMB million***	2009 *RMB million*
Authorised and contracted for:		
— Construction projects of production lines	**3,985**	2,764
— Investment in a subsidiary to be set up	**318**	318
	4,303	3,082

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

33. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group, Angang Holding and its subsidiaries other than the Group (collectively referred to as "Angang Holding Group"), the jointly controlled entities and associates during the year.

(a) Significant transactions and balances with Angang Holding Group

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

	Note	**2010** **RMB million**	2009 RMB million
Sales of finished goods (before deducting sales related taxes)	(a)	**9,225**	6,096
Sales of scrap materials and minus sieve powder (before deducting sales related taxes)	(a)	**122**	123
Fee received for utilities and services provided	(b)	**559**	512
Sales of assets	(c)	**—**	3
Purchase of raw materials	(d)	**14,468**	14,086
Purchase of ancillary materials and spare parts	(e)	**1,653**	1,460
Utility supplies	(f)	**1,971**	1,927
Fees paid for welfare and other support services	(g)	**5,665**	6,034
Purchase of assets	(h)	**65**	87
Interest received	(i)	**11**	8
Interest paid	(i)	**410**	331

Note:

(a) The Group sold finished goods and scrap materials to Angang Holding Group mainly at selling prices based on the prices charged to independent customers. Steel products sold to Angang Holding Group for their development of new products were set at market prices, or production cost plus reasonable profit margin if no market prices were available.

The Group sold minus sieve powder to Angang Holding Group at prices for sinter ore less the costs of producing the same by Angang Holding Group.

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

(c) The Group sold certain assets to Angang Holding Group for their own use at selling prices based on market value.

Notes to the Financial Statements *(continued)*

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Holding Group *(continued)*

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

Note: (continued)

(d) The Group purchased its principal raw materials from Angang Holding Group at prices determined and modified on a semi-annual basis. The purchase price is mainly no higher than the average prices quoted to the Group for importing principal raw materials of similar quality in the previous interim period ("Quoted Prices") plus freight charges, price adjustments for the quality and 5% discount on the Quoted Prices or the average purchase prices charged by independent suppliers plus price adjustments for the quality, or raw materials price plus 10% mark up of the last semi-annual processing costs or market prices.

(e) The Group purchased ancillary materials and spare parts from Angang Holding Group at selling prices no higher than the average prices of such materials charged by Angang Holding Group to independent customers.

(f) The Group purchased utilities supplies from Angang Holding Group mainly at State prices or production cost plus 5%.

(g) Angang Holding Group provided certain supporting services to the Group. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; examination, repair and maintenance of equipment; design and engineering services; and other employees' supporting related services. Service fees were charged at applicable State prices, market prices, no higher than 1.5% of commission, depreciation and repair and maintenance, labour cost, material costs and management fee, and no higher than 5% mark up of processing costs.

(h) The Group purchased certain assets from Angang Holding Group at prices based on the market value.

(i) Angang Holding Group provided financial services in the form of deposit taking, settlement, borrowing and discounting services at State prices. The applicable borrowing rates are 10% lower of the interest rates quoted by The People's Bank of China.

As at 31 December 2010, the deposits placed with Angang Finance amounted to RMB2,607 million (2009: RMB1,288 million) and the loans from Angang Finance amounted to RMB7,300 million (2009: RMB9,600 million).

(ii) Bank loans

As at 31 December 2010, certain bank loans amounted to RMB2,100 million (2009: RMB1,000 million) were guaranteed by Angang Holding.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Holding Group *(continued)*

(iii) Amount due from/to immediate parent/former ultimate parent

Amount due from/to immediate parent/former ultimate parent mainly represents fees receivables for utilities and services provided and fees payable for support services.

The amount due from/to immediate parent/former ultimate parent is unsecured, interest free and has no fixed terms of repayment.

(iv) Amounts due from/to fellow subsidiaries

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

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

(v) Supply of Materials and Services Agreement

The Company entered into a Supply of Material and Services Agreement 2010/11 ("Supply Agreement") with Angang Holding on 27 October 2009, which is effective on 1 January 2010 for 2 years. According to the Supply Agreement, the cap of total transactions for the year amounted to RMB82,800 million.

(b) Significant transactions with other related parties

(i) Significant transactions with ANSC-TKS

The Group sold finished products to ANSC-TKS amounting to RMB3,187 million for the year (2009: RMB1,720 million) for further processing.

(ii) Significant transactions with Changchun FAM

The Group sold finished products to Changchun FAM amounting to RMB94 million for the year (2009: RMB73 million) for further processing.

(iii) Significant transactions with TKAS-SSC

The Group sold finished products to TKAS-SSC amounting to RMB459 million for the year (2009: RMB297 million) for further processing.

The Group paid agency fee for the agency services provided by TKAS-SSC for domestic sales of products amounting to RMB5 million (2009: RMB1 million).

Notes to the Financial Statements *(continued)*

33. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant transactions with other related parties *(continued)*

(iv) Significant transactions with TKAS

The Group sold finished products to TKAS amounting to RMB3 million for the year (2009: RMB3 million) for further processing.

(v) Significant transactions with Ban Hai Enterprise

The Group sold scrap steel to Ban Hai Enterprise amounting to RMB31 million for the year (2009: RMB14 million).

The Group paid services fee for the services provided by Ban Hai Enterprise amounting to RMB95 million for the year (2009: RMB25 million).

(vi) Amounts due from/to jointly controlled entities and associates

Amounts due from/to jointly controlled entities and associates mainly represent the amounts receivables/receipts in advance by the Group in respect of sales of finished products and payables for the construction fee and services fee.

The amounts due from/to jointly controlled entities and associates are unsecured, interest free and have no fixed terms of repayment.

(vii) Transactions with key management personnel

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

	2010 ***RMB million***	2009 *RMB million*
Directors' and supervisors' fees	**0.32**	0.40
Salaries, allowance and other benefits in kind	**3.35**	2.62
Retirement scheme contributions	**0.56**	0.43
	4.23	3.45

34. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Group is required to contribute to the retirement benefits scheme based on 20% (2009: 20%) of the total salary in accordance with the regulations of the local labour bureau.

All the employees of the Group are entitled to receive, on retirement, pension payments from these schemes. Except as disclosed in note 25 to the financial statements, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, interest rate risk and equity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has no significant foreign currency risk exposure arising from the transactions as the Group has fixed the exchange rates to settle the amounts with the export and import agents for the export of products and import of raw materials for production and equipments for construction.

At 31 December 2010, if the RMB had weakened 5 per cent against the Japanese Yen with all other variables held constant, consolidated profit after tax for the year would have been RMB3 million (2009: RMB10 million) lower, arising mainly as a result of the foreign exchange loss on borrowings denominated in Japanese Yen. If the RMB had strengthened 5 per cent against the Japanese Yen with all other variables held constant, consolidated profit after tax for the year would have been RMB3 million (2009: RMB10 million) higher, arising mainly as a result of the foreign exchange gain on borrowings denominated in Japanese Yen.

(b) Credit risk

The carrying amount of the cash and cash equivalents, trade and other receivables, investments, amounts due from fellow subsidiaries and amount due from a jointly controlled entity included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has certain concentrations of credit risk.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from fellow subsidiaries and a jointly controlled entity are closely monitored by the directors.

The credit risk on cash and cash equivalents is limited.

35. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year *RMB million*	Between 1 and 2 years *RMB million*	Between 3 and 5 years *RMB million*	Over 5 years *RMB million*
At 31 December 2010				
Trade payables	**9,371**	—	—	—
Amount due to immediate parent	**294**	—	—	—
Amounts due to fellow subsidiaries	**1,651**	—	—	—
Amounts due to jointly controlled entities	**402**	—	—	—
Amounts due to associates	**30**	—	—	—
Other payables	**7,355**	—	—	—
Bank loans	**16,356**	**3,401**	**8,411**	**905**
Short-term debentures	**3,000**	—	—	—
At 31 December 2009				
Trade payables	6,744	—	—	—
Amount due to former ultimate parent	202	—	—	—
Amounts due to fellow subsidiaries	2,104	—	—	—
Amounts due to jointly controlled entities	373	—	—	—
Amounts due to associates	11	—	—	—
Other payables	6,989	—	—	—
Bank loans	21,363	5,535	5,061	906

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank loans. The Group's bank deposits and certain of the Group's bank loans bear interests at variable rates varied with the then prevailing market condition. The Group's other bank loans bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

At 31 December 2010, if the interest rate at that date had been decreased by 1 per cent with all other variables held constant, consolidated profit after tax for the year would have been RMB74 million (2009: RMB126 million) higher, arising mainly as a result of lower interest expense on bank loans. If the interest rate at that date had been increased by 1 per cent with all other variables held constant, consolidated profit after tax for the year would have been RMB74 million (2009: RMB126 million) lower, arising mainly as a result of higher interest expense on bank loans.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

35. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Equity price risk

The Group's available-for-sale financial assets are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 31 December 2010, if the equity share price increases/decreases by 10 per cent with all other variables held constant, the Group's consolidated other comprehensive income would have been RMB18 million (2009: RMB16 million) higher/lower, arising as a result of change of fair value of available-for-sale financial assets.

(f) Categories of financial instruments at 31 December 2010

	2010 ***RMB million***	2009 *RMB million*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**15,879**	12,054
Other investments, at cost	**255**	230
Available-for-sale financial assets, at fair value	**179**	161
Financial liabilities:		
Financial liabilities at amortised cost	**46,332**	44,982

(g) Fair values

Except as disclosed in note 18 to the financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the year ended 31 December 2010

Notes to the Financial Statements *(continued)*

35. FINANCIAL RISK MANAGEMENT *(continued)*

(g) Fair values *(continued)*

Disclosures of level in fair value hierarchy at 31 December 2010:

Description	Fair value measurement using: Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total 2010 *RMB million*
Available-for-sale financial assets	**179**	**—**	**—**	**179**

Description	Fair value measurement using: Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total 2009 *RMB million*
Available-for-sale financial assets	161	—	—	161

36. EVENTS AFTER THE REPORTING PERIOD

The directors proposed a final dividend subsequent to the end of the reporting period (note 10).

Subsequent to the end of the reporting period, the Company entered two agreements with independent third parties to inject RMB37.5 million and RMB151.20 million respectively in two joint venture companies set up by these independent third parties. The Group would hold 15% equity interests each in these two joint venture companies after the capital injection.

In addition, the Company entered an agreement with the venturers of Angang Shenyang, an associate of the Group, to inject additional capital of RMB11.55 million in Angang Shenyang. The equity interest of Angang Shenyang held by the Group would have no change after the additional capital injection.

The Company entered an agreement with Angang Holding and an independent third party to set up a joint venture company in which the Group would contribute RMB21 million and hold 15% equity interest in this newly set up joint venture company.

The Company has entered into an agreement with the local authority in Anhui, Hefei Province to set up a wholly owned subsidiary in Anhui. In March 2011, this wholly owned subsidiary has been set up with the total investment cost amounted to RMB97.50 million.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2010

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 **RMB million**	2009 RMB million
Non-current assets		
Property, plant and equipment	**60,205**	58,316
Intangible assets	**8**	13
Construction in progress	**3,764**	11,030
Investments in subsidiaries	**2,267**	1,467
Interests in jointly controlled entities	**1,245**	934
Interests in associates	**483**	463
Other investments	**434**	391
Deferred tax assets	**1,112**	830
	69,518	73,444
Current assets		
Inventories	**12,378**	10,045
Amount due from immediate parent/former ultimate parent	**—**	2
Amounts due from fellow subsidiaries	**6,951**	5,547
Amount due from a jointly controlled entity	**69**	98
Trade receivables	**4,337**	3,906
Prepayments, deposits and other receivables	**2,902**	2,675
Current tax assets	**24**	197
Cash and cash equivalents	**2,542**	1,138
	29,203	23,608
Current liabilities		
Trade payables	**8,081**	5,520
Amount due to immediate parent/former ultimate parent	**294**	202
Amounts due to fellow subsidiaries	**1,484**	2,047
Amounts due to jointly controlled entities	**402**	373
Amounts due to associates	**—**	2
Deferred income	**23**	42
Other payables	**6,804**	6,903
Current portion of bank loans	**13,841**	19,538
Short-term debentures	**3,000**	—
	33,929	34,627
Net current liabilities	**(4,726)**	(11,019)
Total assets less current liabilities carried forward	**64,792**	62,425

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

	2010 **RMB million**	2009 RMB million
Total assets less current liabilities brought forward	**64,792**	62,425
Non-current liabilities		
Bank loans	**10,057**	9,822
Provisions	**37**	65
Deferred income	**517**	74
	10,611	9,961
NET ASSETS	**54,181**	52,464
CAPITAL AND RESERVES		
Share capital	**7,235**	7,235
Share premium	**31,414**	31,414
Reserves	**3,713**	3,467
Retained profits	**11,819**	10,348
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**54,181**	52,464

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 3 to the financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment for property, plant and equipment and intangible assets

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

38. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(b) Depreciation

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

(c) Allowance for inventories

As explained in note 3(k), the Group's inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value. Spare parts and tools are stated at cost less any allowance for obsolescence. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs to be incurred in selling the inventories and the costs of completion in case for work in progress or the usage for future repair and maintenance. Uncertainty exists in these estimations.

Differences between Financial Statements

For the year ended 31 December 2010

Prepared in accordance with International Financial Reporting Standards ("IFRSs") and Accounting Standards for Business Enterprises in the PRC ("PRC GAAP")

	Note	Profit for the year of the Group 2010 RMB million	Profit for the year of the Group 2009 RMB million	Profit for the year attributable to owners of the Company 2010 RMB million	Profit for the year attributable to owners of the Company 2009 RMB million
Under IFRSs		**1,965**	707	**2,054**	748
Adjustments:					
— Safety production expenses	(i)	**(20)**	(29)	**(20)**	(29)
— Deferred tax charge	(ii)	**5**	8	**5**	8
Under PRC GAAP		**1,950**	686	**2,039**	727

	Note	Total equity of the Group 2010 RMB million	Total equity of the Group 2009 RMB million	Equity attributable to owners of the Company 2010 RMB million	Equity attributable to owners of the Company 2009 RMB million
Under IFRSs		**55,329**	53,785	**54,052**	52,419
Adjustments:					
— Deferred tax	(ii)	**18**	13	**18**	13
— Interests in jointly controlled entities	(iii)	**(2)**	—	**(2)**	—
Under PRC GAAP		**55,345**	53,798	**54,068**	52,432

Note:

(i) According to the document (Cai Qi* [2006] No. 478), entities involved in mining, construction, production of dangerous goods and land transport are required to accrue production safety expenses to the relevant period's income statement at fixed rates on production volume or operating revenue. Under IFRSs, expenses are recognised when they are actually incurred.

(ii) According to the above adjustment made in (i), no income tax is recognised by liability method under IFRSs, whereas deferred tax assets are provided by PRC GAAP.

(iii) According to the Law of the PRC on Chinese-Foreign Equity Joint Ventures (the "Joint Ventures Law") and Regulations for the Implementation of the Joint Ventures Law, one of the Group's jointly controlled entities has transferred certain amount from the reserve to staff payable which led to the Group's share of net assets in the jointly controlled entities decreased. Under IFRSs, the reserve could not transfer to the liabilities.

Five Years Summary

A PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC

	2010 **RMB million**	2009 *RMB million*	2008 *RMB million* (restated)	2007 *RMB million*	2006 *RMB million*
Principal operating revenue	**92,431**	70,126	79,616	65,499	54,330
Net profit	**1,950**	686	2,981	7,553	7,003
Total assets	**105,114**	100,987	92,184	86,783	58,385
Total liabilities	**(49,769)**	(47,189)	(39,076)	(32,520)	(28,262)
Net assets	**55,345**	53,798	53,108	54,263	30,123

B. PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2010 **RMB million**	2009 *RMB million* (restated)	2008 *RMB million* (restated)	2007 *RMB million* (restated)	2006 *RMB million* (restated)
Turnover	**92,212**	70,057	78,985	65,294	54,283
Profit for the year attributable to owners of the Company	**2,054**	748	2,989	7,530	7,090
Non-current assets	**74,093**	76,616	72,158	56,566	47,063
Current assets	**33,026**	26,638	22,800	30,951	11,590
Current liabilities	**(38,482)**	(37,828)	(24,149)	(20,811)	(17,377)
Net current (liabilities)/assets	**(5,456)**	(11,190)	(1,349)	10,140	(5,787)
Total assets less current liabilities	**68,637**	65,426	70,809	66,706	41,276
Non-current liabilities	**(13,308)**	(11,641)	(17,706)	(12,443)	(11,135)
Net assets	**55,329**	53,785	53,103	54,263	30,141

Five Years Summary *(continued)*

Note:

(a) Turnover was stated as the amount before deducting sales related taxes.

(b) In 2007, the Group changed its accounting policy relating to interest in jointly controlled entities. The new accounting policy has been applied retrospectively by restating opening balance at 1 January 2006 and 2007.

In 2010, the Group changed its accounting policy relating to adoption of the amendment to IAS 17 and which has been applied retrospectively by restating opening balance at 1 January 2006, 2007, 2008 and 2009.

(c) Figures in years earlier than 2006 are stated in accordance with the policies before the change on a consistent basis.

Other Relevant Corporate Information

INCORPORATION OF THE COMPANY:

Date	:	8 May 1997
Place	:	396 Nan Zhong Hua Road, Tie Dong District, Anshan City, Liaoning Province

BUSINESS ADDRESS OF THE COMPANY IN HONG KONG:

23rd Floor, Entertainment Building, 30 Queen's Road, Central, Hong Kong

REGISTRATION NUMBER OF LEGAL PERSON BUSINESS LICENSE HELD BY THE COMPANY:

210000400006026

TAXATION REGISTRATION NUMBER:

210302242669479

AUDITORS:

Name of the international auditors	:	RSM Nelson Wheeler
Place of Business	:	29th Floor, Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong
Name of the PRC auditors	:	RSM China Certified Public Accountants (Special General Partnership)
Place of Business	:	8-9/F, Block A, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing

Documents Available for Inspection

1. Financial statements signed by the Legal Representative, Chief Accountant and Head of the Accounting Department of the Company and with seal affixed;

2. Original of the auditors' report sealed by the accounting firm and signed and sealed by certified public accountants;

3. Originals of all documents and manuscripts of announcements disclosed by the Company in the China Securities Journal and the Securities Times in 2010;

4. Annual report of the Company submitted to the Hong Kong Stock Exchange.

The above documents are available for inspection at the secretarial office of the Board, Angang Steel Company Limited* situated at No. 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province.

Note: This report is prepared in both Chinese and English. The Chinese version shall prevail in case of any inconsistency in the interpretation of the two versions.

Angang Steel Company Limited*
The Board

29 March 2011

Designed and produced by: **Wonderful Sky Financial Group Limited** Tel.: 2851 1038

ANGANG STEEL COMPANY LIMITED

2010 ANNUAL REPORT