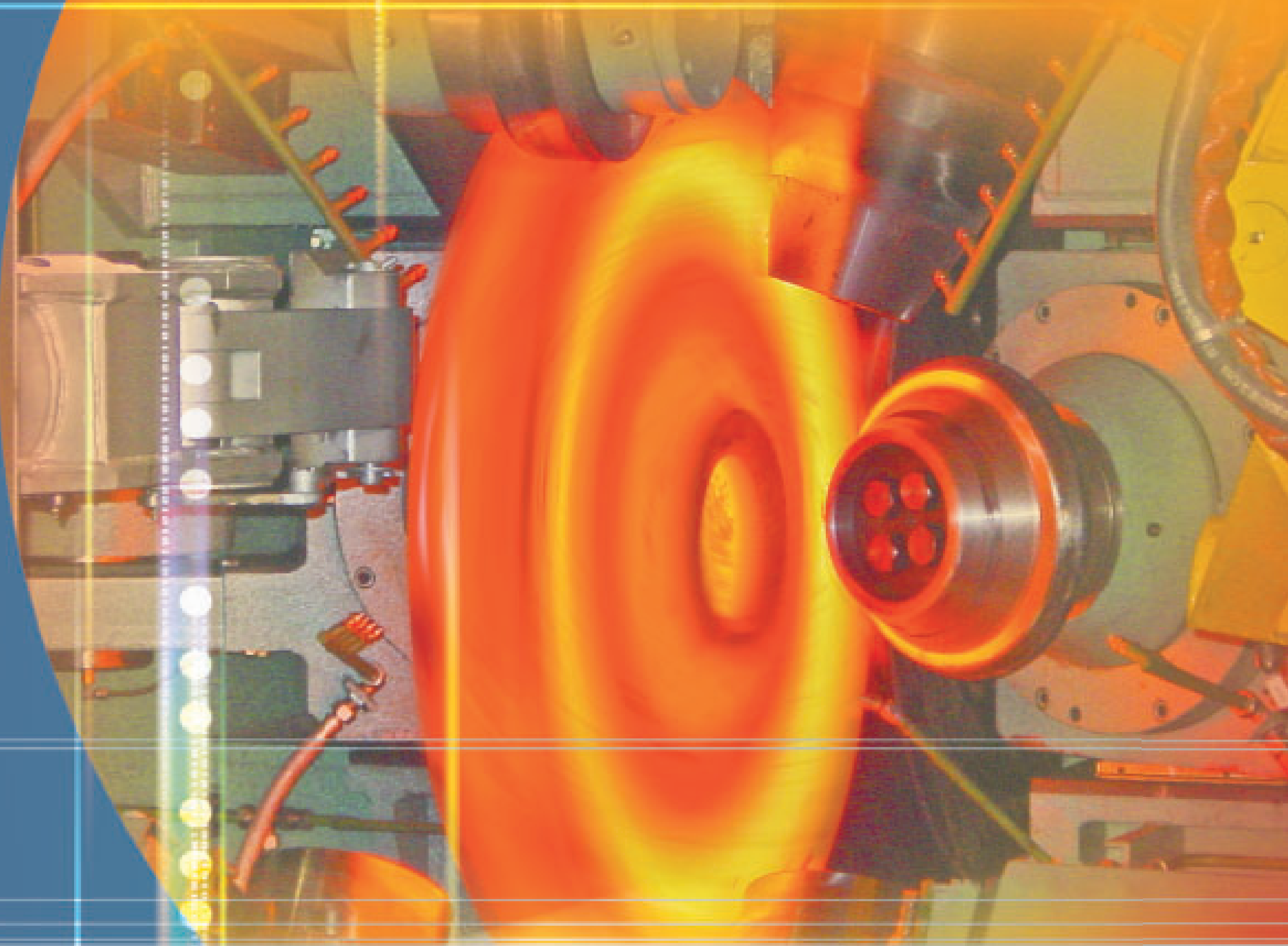
# 2010 Annual Report



MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Code: 00323
A Share Code: 600808

# Contents



## IMPORTANT NOTICE

The Board, the Supervisory Committee, the Directors, the Supervisors and Senior Management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

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

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

# I. Definitions

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

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

# II. Company Profile

## 1. BASIC INFORMATION

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

# II. Company Profile (continued)

| | | |
|---|---|---|
| Places of Listing, Stock Abbreviation and Stock Code of H Shares | : | Hong Kong Stock Exchange<br>Maanshan Iron & Steel<br>323 |
| Date of First Registration | : | 1 September 1993 |
| Place of Registration | : | Anhui Provincial Administration for Industry and Commerce |
| Corporate Business License | : | 340000400002545 |
| Tax Registration No. | : | 340504610400837 |
| Organisation Code | : | 61040083-7 |
| Accountants Appointed by the Company | : | Ernst & Young Hua Ming<br>Office Address:<br>Level 16, (Block 3), Ernst & Young Tower<br>East Tower, Oriental Economic and Trade City<br>Oriental Plaza,<br>No. 1 Changan Street East City, East District<br>Beijing, the PRC<br>Postal code: 100738<br><br>Ernst & Young Hong Kong<br>Office Address:<br>18/F, Two International Finance Centre,<br>8 Finance Street, Central, Hong Kong |

## 2. ISSUE AND LISTING

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

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

## 3. PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

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

### Steel Plates

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

### Section Steel

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

# II. Company Profile (continued)

### Wire Rods

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

### Train Wheels

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




# III. Extracts of Accounting and Business Data

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

| Item | 2010 |
|---|---|
| Operating profit | **1,565,448** |
| Profit before tax | **1,711,112** |
| Net profit attributable to shareholders of the Company | **1,101,839** |
| Net profit excluding non-recurring gains or losses attributable to shareholders of the Company | **999,677** |
| Net cash flows from operating activities | **400,007** |

## 2. NON-RECURRING GAINS OR LOSSES OF THE GROUP PREPARED UNDER CHINA ACCOUNTING STANDARDS (UNIT: RMB'000):

| Item | 2010 |
|---|---|
| Subsidy income | **78,449** |
| Amortisation of deferred income | **79,527** |
| Losses on disposal of non-current assets | **(6,514)** |
| Other net non-operating income and expenses | **(5,800)** |
| Other investment income | **403** |
| Change in fair value gains and losses of financial assets held-for-trading | **(210)** |
| Income tax effect | **(34,163)** |
| Non-recurring gains or losses attributable to minority shareholders | **(9,531)** |
| Total net non-recurring gains or losses | **102,161** |

## 3. ITEMS ACCOUNTED UNDER THE FAIR VALUE METHOD OF THE GROUP PREPARED UNDER CHINA ACCOUNTING STANDARDS (UNIT: RMB'000)

| Item | Balance at the beginning of the reporting period | Balance at the end of the reporting period | Changes during the reporting period | Effects on the profit for the reporting period |
|---|---|---|---|---|
| Financial assets held-for-trading | 1,037 | 827 | (210) | (210) |
| Total | 1,037 | 827 | (210) | (210) |

# III. Extracts of Accounting and Business Data (continued)

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

### (1) Major Accounting Data and Financial Indicators Prepared under China Accounting Standards

| Index item | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Revenue | **64,981,112** | 51,859,970 | 71,259,739 | 50,670,879 | 35,419,347 |
| Profit before tax | **1,711,112** | 562,876 | 805,874 | 2,796,705 | 2,801,535 |
| Income tax | **519,502** | 29,010 | 74,645 | 220,591 | 347,378 |
| Minority interests | **89,771** | 141,391 | 20,995 | 100,731 | 57,901 |
| Net profit attributable to shareholders of the Company | **1,101,839** | 392,475 | 710,234 | 2,475,382 | 2,396,256 |
| Net profit excluding non-recurring gains or losses attributable to shareholders of the Company | **999,677** | 242,094 | 626,027 | 2,485,197 | 2,351,864 |
| Net cash flow from operating activities | **400,007** | 6,668,700 | 8,387,795 | 3,624,951 | 5,282,804 |
| Basic earnings per share (RMB) | **0.143** | 0.051 | 0.104 | 0.382 | 0.371 |
| Diluted earnings per share (RMB) | **N/A** | N/A | N/A | 0.350 | 0.369 |
| Basic earnings per share excluding non-recurring gains or losses (RMB) | **0.130** | 0.031 | 0.091 | 0.383 | 0.364 |
| Net cash flow from operating activities per share (RMB) | **0.052** | 0.866 | 1.226 | 0.559 | 0.818 |
| Return on net assets (weighted average) (%) | **4.08** | 1.50 | 3.06 | 11.39 | 12.15 |
| Return on net assets excluding non-recurring gains or losses (weighted average) (%) | **3.70** | 0.92 | 2.70 | 11.44 | 11.92 |

| Index item | **At the end of 2010** | At the end of 2009 | At the end of 2008 | At the end of 2007 | At the end of 2006 |
|---|---|---|---|---|---|
| Total assets | **70,104,925** | 67,984,107 | 66,144,556 | 71,126,024 | 54,873,612 |
| Shareholders' equity attributable to shareholders of the Company | **27,294,087** | 26,464,653 | 26,006,983 | 23,017,264 | 20,470,065 |
| Net assets per share attributable to shareholders of the Company (RMB) | **3.54** | 3.44 | 3.80 | 3.55 | 3.17 |

## (2) Major Accounting Data and Financial Indicators Prepared under Hong Kong Accounting Standards

| Index item | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Revenue | **63,040,970** | 50,411,554 | 70,009,580 | 49,052,851 | 34,319,874 |
| Profit before tax | **1,711,112** | 562,876 | 805,874 | 2,788,575 | 2,799,931 |
| Income tax | **519,502** | 29,010 | 74,645 | 220,591 | 347,378 |
| Non-controlling interest | **89,771** | 141,391 | 20,995 | 100,731 | 57,901 |
| Net profit from ordinary activities attributable to shareholders | **1,101,839** | 392,475 | 710,234 | 2,467,253 | 2,394,652 |
| Net cash flow from operating activities | **400,007** | 6,668,700 | 8,387,795 | 3,624,951 | 5,282,804 |
| Basic earnings per share (RMB) | **0.143** | 0.051 | 0.104 | 0.381 | 0.371 |
| Diluted earnings per share (RMB) | **N/A** | N/A | N/A | 0.349 | 0.369 |
| Basic earnings per share excluding non-recurring gains or losses (RMB) | **0.130** | 0.031 | 0.091 | 0.383 | 0.364 |
| Net cash flow per share from operating activities (RMB) | **0.052** | 0.866 | 1.226 | 0.559 | 0.818 |
| Return on net assets (weighted average) (%) | **4.08** | 1.50 | 3.06 | 11.36 | 12.15 |
| Return on net assets excluding non-recurring gains or losses (weighted average) (%) | **3.70** | 0.92 | 2.70 | 11.41 | 11.92 |

| Index item | At the end of 2010 | At the end of 2009 | At the end of 2008 | At the end of 2007 | At the end of 2006 |
|---|---|---|---|---|---|
| Total assets | **70,395,361** | 68,126,067 | 66,283,579 | 70,914,865 | 54,716,446 |
| Shareholders' equity attributable to shareholders of the Company | **27,294,087** | 26,464,653 | 26,006,983 | 23,008,971 | 20,461,771 |
| Net assets per share attributable to shareholders of the Company (RMB) | **3.54** | 3.44 | 3.80 | 3.55 | 3.17 |

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

| **Product category** | **Sales of 2010** | | Sales of 2009 | | Sales of 2008 | |
|---|---|---|---|---|---|---|
| | **Volume** | **Percentage (%)** | Volume | Percentage (%) | Volume | Percentage (%) |
| Steel plates | **7,250** | **50** | 6,630 | 47 | 6,760 | 48 |
| Section steel | **2,400** | **17** | 2,490 | 18 | 2,480 | 17 |
| Wire rods | **4,590** | **32** | 4,780 | 34 | 4,630 | 33 |
| Train wheels and rims | **160** | **1** | 150 | 1 | 260 | 2 |
| Total | **14,400** | **100** | 14,050 | 100 | 14,130 | 100 |

# IV. Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2010.

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


During the slow recovery of the world economy in 2010, global crude steel output increased by 12.2%, hitting a historic high. Steel product demand slowed down after fast growth, and the prices of steel products also fell after a rise. China's national economic operation was in a good shape, witnessed by continued growth in the principal steel-consuming sectors and increased demand for domestic steel products. But the growth in crude steel output slowed, and the oversupply situation remained unchanged. For the whole year, the iron and steel industry recorded lower profit margins, given the less increase in the prices of steel products on the domestic market than the increase in the production costs of iron and steel enterprises.

Faced with the challenging market environment, the Company managed to deliver remarkable results after adjusting its product mix as the business theme and striving to increase the output of products with high added-value. Output of automobile plates, home electrical appliances plates and electrical steel amounted to approximately 750,000 tonnes, 1,000,000 tonnes and 430,000 tonnes respectively, representing increases of approximately 55%, 71% and 105% respectively over 2009. The operational efficiency of the quality accountability system was improved by reinforcing quality cost assessment and accountability; the economic operation of systems was enhanced steadily by intensifying the primary-auxiliary linkage; the procurement costs of raw materials and fuels were effectively controlled by revamping the procurement scheme; and the sales-output ratio of steel products was maintained at 100% after making aggressive efforts to launch a large customer marketing system. In 2010, the Group produced 14,560,000 tonnes of pig iron, 15,400,000 tonnes of crude steel and 14,700,000 tonnes of steel products (of which the Company produced 13,260,000 tonnes of pig iron, 14,030,000 tonnes of crude steel and 13,350,000 tonnes of steel products), representing slight increases over the previous year.

Under the China Accounting Standards, the Group's revenue for 2010 amounted to RMB64,981 million, representing an increase of 25.30% over the previous year; net profit attributable to shareholders of the Company in 2010 amounted to RMB1,102 million, representing an increase of 180.74% over the previous year; and basic earnings per share amounted to RMB0.143, representing an increase of 180.39% over the previous year. Under the Hong Kong Accounting Standards, the Group's revenue for 2010 amounted to RMB63,041 million, representing an increase of 25.05% over the previous year; net profit from ordinary activities attributable to shareholders of the Company in 2010 amounted to RMB1,102 million, representing an increase of 180.74% over the previous year; and basic earnings per share amounted to RMB0.143, representing an increase of 180.39% over the previous year. Under the China Accounting Standards, the Group's total assets amounted to RMB70,105 million, representing an increase of 3.12% year-on-year; and net assets attributable to shareholders of the Company amounted to RMB27,294 million, representing an increase of 3.13% year-on-year. Under the Hong Kong Accounting Standards, the Group's total assets amounted to RMB70,395 million, representing an increase of 3.33% year-on-year; and net assets attributable to shareholders of the Company amounted to RMB27,294 million, representing an increase of 3.13% year-on-year.

Taking into account the Company's profit level, future development needs and shareholders' interests, the Board recommended the payment of a final cash dividend of RMB0.05 (tax inclusive) per share for 2010 but no capital reserve fund will be transferred to share capital. This distribution scheme is subject to the consideration at the annual general meeting.

Pursuant to the authorisation by the shareholders' general meeting, the Company successfully issued the first tranche of medium-term notes of 2010 on 4 February 2010. The amount of the medium-term notes was RMB1,000 million with a term of three years and a coupon rate of 4.45%. The proceeds raised were deposited to the Company's account on 8 February 2010.

During the reporting period, the Company remained committed to promoting a coordinated development between the Company itself, the society and the environment as a whole. It embarked on a development path towards a "low-carbon economy and green production" by strengthening the integrated management of energy, power and the intermediaries and intensifying the integrated utilisation of energy resources. Having retained the title as "pilot enterprise that integrates industrialisation and computerisation for the promotion of energy conservation and emissions reduction" in China, the Company became one of the pilot "conservation-oriented and environment-friendly enterprises" in China, and received national financial incentives of approximately RMB51 million. During 2010, chemical oxygen demand decreased by 696 tonnes; comprehensive consumption of energy per tonne of crude steel decreased by 7 kg of standard coal; consumption of new water per tonne of crude steel decreased by 0.78 tonnes; the water recycling rate was approximately 97.57%; and the integrated utilisation rate of industrial solid wastes was approximately 97.82%. Having achieved the energy conservation target under the "Eleventh Five-year Plan" one year ahead of schedule, the Company also successfully accomplished the additional energy conservation task involving 240,000 tonnes of standard coal as assigned by the Anhui Provincial Government. Meanwhile, the Company was committed to the community's welfare. It played an active role in carrying out poverty alleviation, disaster relief and other activities, and in contributing donations to the construction of a Xinhua Bookstore in Yushu County, Qinghai Province and the construction of Fengdie Primary School in Zhouqu County, Gansu Province.

Looking forward to 2011, the world economy is anticipated to regain growth. China will take an accelerated change of the economic development pattern as its theme, focusing its efforts on speeding up economic restructuring and improving the quality and efficiency of development. Through the implementation of a proactive fiscal policy and a prudent monetary policy, China will be able to maintain the continuity and stability of its macroeconomic policies and increase the pertinence, flexibility and effectiveness of such policies. It will enhance the coordination, sustainability and endogenous dynamics of its economic development, so as to achieve steady and relatively fast growth in the national economy and a basic stability of general price levels. Under such situation, demand from the iron and steel market will rise. However, given a large proportion of iron ore imports, a high concentration of suppliers, weaker advantages in contract prices than spot prices and increased pressure on iron ore costs, together with an increase in international coal prices due to the floods in Australia, the profit margins of iron and steel enterprises will be further squeezed.

In 2011, the Group plans to produce 15,170,000 tonnes of pig iron, 16,300,000 tonnes of crude steel and 15,460,000 tonnes of steel products (of which the Company plans to produce 13,550,000 tonnes of pig iron, 14,380,000 tonnes of crude steel and 13,580,000 tonnes of steel products). To this end, the Company will take “strengthening management innovation and furthering cost reduction and efficiency enhancement” as its business theme. The economic operation of systems will be improved and cost advantages will be enhanced by strengthening and stabilising balanced production; a service-oriented sales and marketing system will be built to improve product value and efficiency by making products with competitive advantages; and the vitality of corporate development will be enhanced by strengthening management innovation to strive to make a good start of the “Twelfth Five-year Plan”.

The Board believes that in the new year, the Company will manage to make a great progress on various tasks with the support from our shareholders and various sectors as well as the endeavours of the Board, the Supervisory Committee, the management and all the staff. We will strive to deliver good operating results and sustainable development so as to create returns for our shareholders, to work for the benefits of our staff and to serve the community.

**Gu Jianguo**

*Chairman*

22 March 2011

Maanshan City, Anhui Province, the PRC

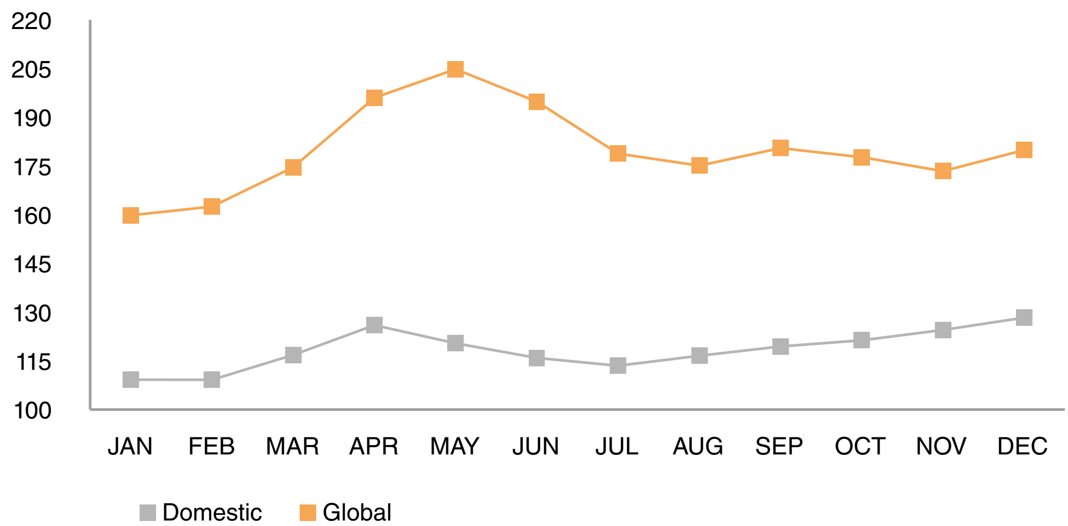
# V. Management Discussion and Analysis

## 1. BUSINESS ENVIRONMENT

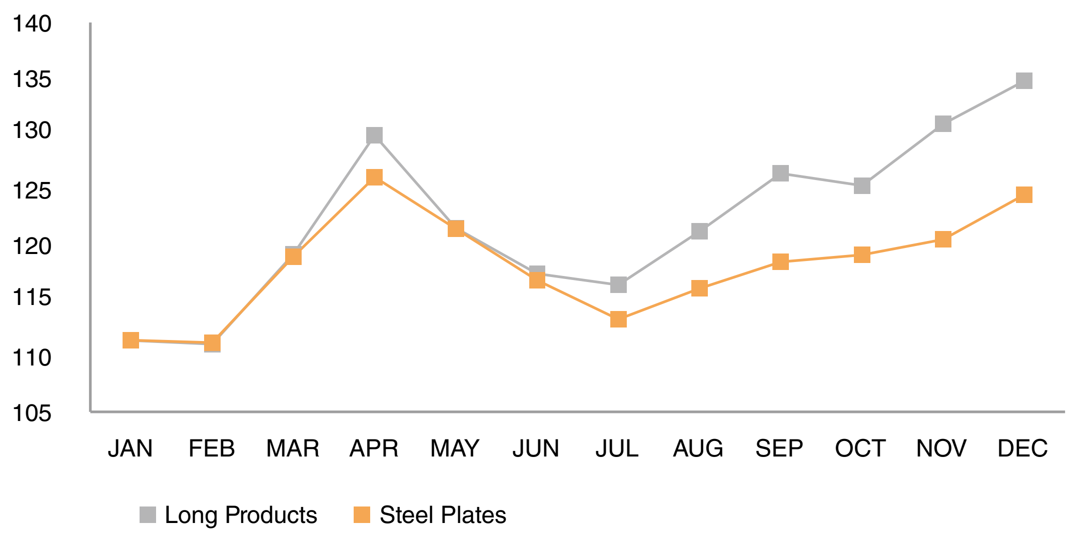
### (1) The Steel Product Market

The prices of steel products in the global market rose first and dropped subsequently in 2010, showing a volatile trend at different stages. The average consolidated price index for global steel products for the year was 179.8, up 33.1 year-on-year, representing an increase of 22.6%. In particular, the average price index for long products was 194.6, up 26.9 year-on-year, representing an increase of 16%; the average price index for steel plates was 172.4, up 36.1 year-on-year, representing an increase of 26.5%. The biggest difference in consolidated price index for steel products was 51.7, an increase of 55.26% over the previous year.

2010 Consolidated Price Indices for Global and Domestic Steel Products

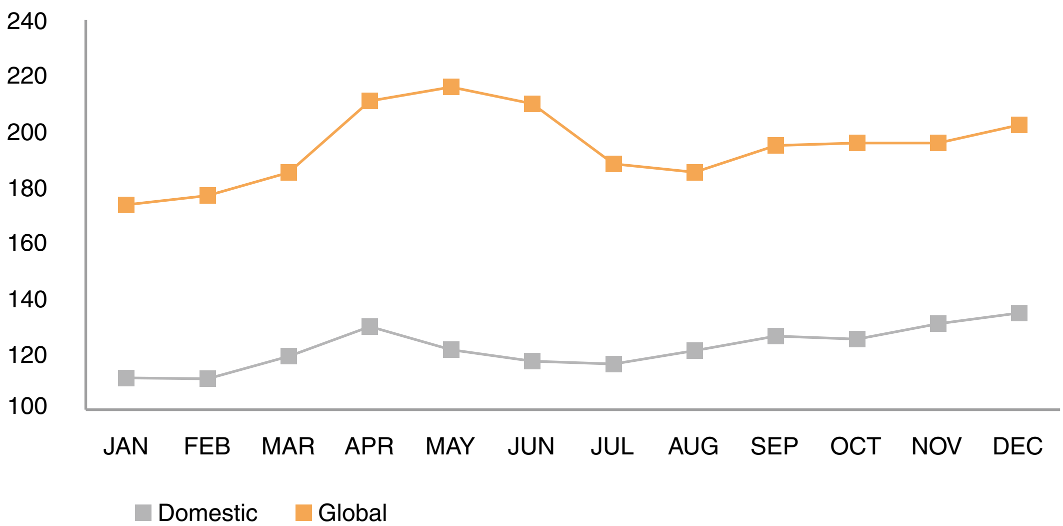



2010 Price Indices for Domestic Long Products and Steel Plates

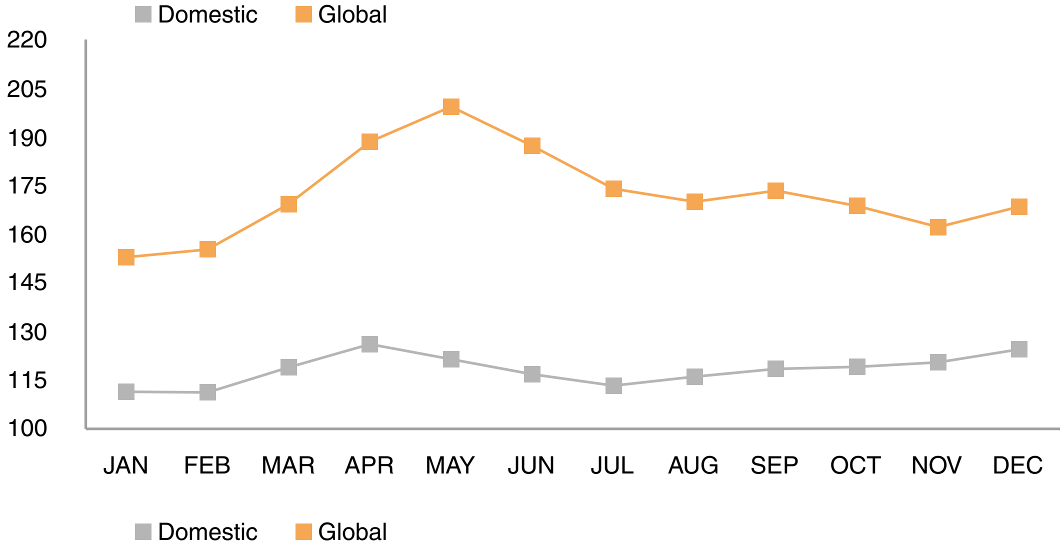


The overall prices of steel products in the domestic market fluctuated upwards, showing a year-on-year rise in the prices of steel products throughout the year. In 2010, the average consolidated price index for domestic steel products was 118.99, up 15.87 year-on-year, representing an increase of 15.79%. In particular, the average price index for long products was 122.24, up 15.13 year-on-year, representing an increase of 15.22%; the average price index for steel plates was 118.07, up 14.57 year-on-year, representing an increase of 17.28%. The biggest difference in consolidated price index for steel products increased slightly over the previous year.

2010 Indices for Global and Domestic Long Products




2010 Prices Indices for Global and Domestic Steel Plates



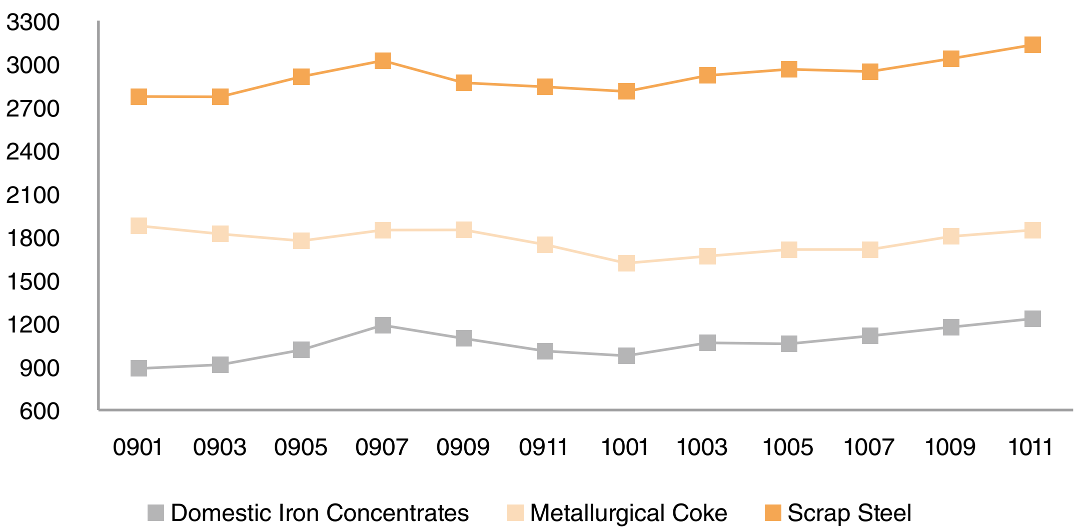
Steel product exports picked up significantly in 2010. Of the total net imports and exports of steel products and steel billets in 2010, there was a net crude steel export equivalent to 27,300,000 tonnes, an increase of 24,420,000 tonnes over the previous year. But when compared with 47,640,000 tonnes in 2008, there was yet a fall of 43%. In the second half of the year, the growth momentum for steel product exports was restrained by the falling international steel prices and the modification of China's export policy.

Generally speaking, in 2010 the prices of steel products in the domestic and international markets were all higher than those in the previous year, while the price trends of long products remained identical to those of steel plates, and the price trends of steel plates looked stronger than those of long products. There was still a wide gap between the price level of steel products for the year and that before the global financial crisis.

### (2) The Markets of Raw Materials and Fuels

In 2010, the international market prices for bulk raw materials were climbing high, leading to a rapid rise in the prices of domestic raw materials, and an increase in the pressure on production costs for iron and steel enterprises. During the year, the consolidated average manufacturing cost for pig iron by domestic large and medium-sized iron and steel enterprises increased by 19.67% year-on-year on the basis of the aggressive efforts to decrease costs and increase efficiency. In particular the procurement costs for domestic iron concentrates, imported iron ore, coking coal, injection coal and metallurgical coke increased by 46.44%, 45.21%, 26.44%, 22.33% and 12.12% respectively.

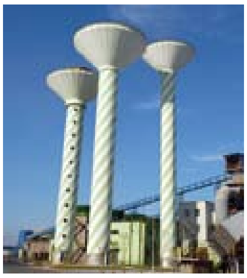
Price of Externally Purchased Raw Materials and Fuels for Nationwide Large and Medium-sized Iron and Steel Enterprises since 2009



## 2. MAJOR WORK

The Company focused on "building competitive advantages; improving profitability" as its business theme in 2010. Starting with enhancing both the quality and efficiency of the economic operation, the Company adjusted product mix, improved product quality, emphasized system operation and strived to create competitiveness in variety, quality and cost as well as reducing operating costs and increasing operating profits. As a result, satisfactory results were achieved in production operations. During the year, the Company produced 7,230,000 tonnes of steel plates, 2,680,000 tonnes of section steel, 4,620,000 tonnes of wire rods and 170,000 tonnes of train wheels and rims, of which the outputs of automobile plates, home electrical appliances plates and electrical steel segments increased by approximately 55%, 71% and 105% over the previous year respectively. The Company's principal products had a market share of approximately 2.6%.

Technological innovation serves as an effective support to the Company's product mix adjustment. The Company pushed forward the development of products with competitive advantages and the upgrade of product mix by fully leveraging its strength in the "research, production and sales" mechanism supported by an R&D platform at the technology center. Mass production of automobile panels and refrigerator side panels was carried out; a load test-run on high-power locomotive wheel was conducted; and expected results were achieved in the trial manufacture of sample wheels for CRH Train with a speed of 250 km per hour. The Company, as a leading work unit, also collaborated with 14 enterprises, higher education institutions and research institutions in jointly forming a nationwide strategic alliance on technology innovation for producing high-performance construction steel. New products developed by the Company during the year amounted to approximately 2,040,000 tonnes.



The Company accomplished good results in its work regarding the supervision and management on quality. The Company integrated the functions for testing raw and supplemental materials by establishing a check-and-balance mechanism for requisition, manufacturing and inspection; implemented "process re-engineering" by using computer to sample overseas purchased concentrate fine ore; and moved the inspection function of steel rolling inspection stations more upfront by establishing a repeated-inspection system for both upper and lower work processes. Quality and cost management was carried out for the steel rolling system by conducting a quality and cost analysis and establishing a quality accountability system and a quality control appraisal system. During the year, there was a steady rise in the physical quality of products, as well as a significant fall in the rejection rate and quality loss. Germany's TSI certification and the U.S.'s AAR new version certification were granted to wheel products. These products again won the Best Quality Awards from General Electric of the U.S.

Significant results were achieved in reducing operating costs. Downtime of main equipment was reduced significantly through strengthening controls over work processes and intensifying "zero fault" management on equipment. The rate of direct supply of raw materials was increased significantly through integrating procurement resources. Synergy was created between highways and enterprises, and closed-loop management for raw materials storage was carried out, thereby effectively controlling the Company's overall procurement costs for fuels and raw materials.

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

### (1) Analysis of income from principal operation by segment and by product

The iron and steel segment accounted for 96.83% of the income from principal operation as well as accounting for 105.18% of the gross profit of income from principal operation. (Unit: RMB million)

| Business segment/ product segment | Revenue | Cost of sales | Gross profit margin (%) | Year-on-year increase/ (decrease) of revenue (%) | Year-on-year increase/ (decrease) of cost of sales (%) | Year-on-year increase/ (decrease) of gross profit margin (%) |
|---|---|---|---|---|---|---|
| Iron and steel | 61,040 | 57,486 | 5.82 | 26.61 | 25.15 | Increased by 1.1 percentage-points |
| **Product segment** | | | | | | |
| Steel plates | 31,560 | 29,674 | 5.98 | 34.11 | 28.50 | Increased by 4.11 percentage-points |
| Section steels | 9,015 | 8,743 | 3.02 | 17.37 | 23.63 | Decreased by 4.91 percentage-points |
| Wire rods | 17,175 | 16,043 | 6.59 | 18.81 | 16.01 | Increased by 2.25 percentage-points |
| Train wheels and rims | 1,268 | 1,137 | 10.33 | (9.23) | 30.24 | Decreased by 27.18 percentage-points |

### (2) Geographical analysis of the Group's revenue (Unit: RMB million)

| Region | Ratio (%) | Revenue | Year-on-year increase of revenue (%) |
|---|---|---|---|
| Anhui | 45.01 | 29,247 | 30.22 |
| Jiangsu | 14.38 | 9,343 | 11.41 |
| Shanghai | 9.96 | 6,469 | 24.57 |
| Zhejiang | 8.76 | 5,694 | 22.61 |
| Guangdong | 7.67 | 4,987 | 31.00 |
| Other PRC regions | 11.84 | 7,692 | 16.18 |
| Exports | 2.38 | 1,549 | 106.53 |

(3) During the reporting period, the Group's gross profit margin of principal operation was 5.36%, a decrease of 0.18 percentage-points as compared to the corresponding period of the previous year. This was mainly attributable to the significant increase in the prices of iron ore and fuels.

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

### (1) Assets

As compared to the end of the previous year, cash and bank balances decreased by 26.64% was mainly due to the increase in long-term investment expenses and procurement expenses of raw materials and fuels during the reporting period; bills receivable increased by 89.42% was mainly due to the increase in bank acceptance bills received as a result of an increase in sales revenue; trade receivables increased by 33.40% mainly due to the significant increase in the export volume of steel products in 2010 compared to the corresponding period of the previous year; dividends receivable increased by 379.98% mainly due to the increase in accrued dividends from associates; prepayments increased by 67.26% mainly due to the significant increase in the expected consumption of raw materials and fuels arising from an increase in production capacity and a significant increase in the prices of raw materials and fuels compared to the end of the previous year; other receivables increased by 165.44% mainly due to the increase in import tariffs and value-added tax prepaid to customs resulted from an increase in import volume; inventories increased by 38.53% mainly due to the increase in raw materials and fuels inventories at the year end and an increase in the procurement prices of raw materials and fuels; investment properties increased by 43.24% mainly due to the increase in land-use rights of the lands leased by subsidiaries; and deferred tax assets decreased by 36.65% mainly due to the write-off for provisions of inventory impairment made in 2009 during the year and the fact that certain amounts of deductible tax losses being recognised in previous years were utilised during the year.

As compared to the end of the previous year, the proportion of cash and bank balances out of total assets decreased from 12.8% to 9.1%; the proportion of bills receivable out of total assets increased from 6.5% to 11.95%; and the proportion of inventories out of total assets increased from 13.22% to 17.76%. There were no material differences in the proportions of other assets out of total assets as compared to the end of the previous year.

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

### (2) Liabilities

As compared to the end of the previous year, deposits received increased by 33.4% mainly due to the increase in demand in the steel market and a rise in the prices of steel products; taxes payable decreased by 379.19% mainly due to the increase in deductible input value-add tax and prepayments of enterprise income tax; dividends payable decreased by 27.73% mainly due to the dividends paid out by the Company during the reporting period; interests payable increased by 614.93% mainly due to the increase in the interest of mid-term note which has been accrued but hasn't been matured to pay the interests; non-current liabilities due within one year increased by 862.94% mainly due to the transfer of bonds with warrants payable in full amount from bonds payable to non-current liabilities due within one year; bonds payable decreased by 80.68% mainly due to the transfer of bonds with warrants payable in full amount from bonds payable to non-current liabilities due within one year; and exchange fluctuation reserve increased by 133.67% mainly due to the appreciation of reporting currencies of some of the Company's overseas subsidiaries against Renminbi.

As compared to the end of the previous year, the proportion of non-current liabilities due within one year out of total assets increased from 1.2% to 11.21%, while the proportion of bonds payable out of total assets decreased from 7.6% to 1.42%. There were no material differences in the proportions of other liabilities out of total assets as at the end of the previous year.

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

During the reporting period, the Group's financial expenses decreased by 22.01% over the previous year mainly due to the increase in exchange gains generated from foreign currency bank borrowings resulted from the appreciation of Renminbi; assets impairment losses decreased by 69.56% over the previous year mainly due to the decrease in the provisions made for the declined value of inventories during 2010; non-operating expenses increased by 339.78% over the previous year mainly due to the increase in loss from disposal of fixed assets; and minority interests decreased by 36.51% mainly due to the acquisition of some of shareholders' equity of the minority shareholders.

During the reporting period, the Group's income tax expenses amounted to RMB520 million, representing an increase of 1,690.79% over the previous year mainly due to the increase in the total profit during the reporting period.

## 6. OPERATING RESULTS DURING THE REPORTING PERIOD PREPARED UNDER CHINA ACCOUNTING STANDARDS

In 2010, the Group's revenue increased by 25.30% over the same period of the previous year mainly due to increases in sales volume and prices of steel products; business tax and surcharges increased by 21.22% over the same period of the previous year mainly due to the increase in the Company's operating income over the previous year; cost of sales increased by 24.57% over the same period of the previous year mainly due to the increase in sales volume of steel products and the rise in the procurement prices of raw materials and fuels; gains from changes in fair value decreased by 194.03% over the same period of the previous year mainly due to the decrease in fair value of financial assets held-for-trading; operating profit increased by 318.33% over the same period of the previous year, profit before tax increased by 203.99% over the same period of the previous year, and net profit attributable to shareholders of the Company increased by 180.74% over the same period of the previous year, were mainly due to the significant increase in operating income in 2010.

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

In 2010, the Group realised a net profit attributable to shareholders of the Company amounting to RMB1,102 million, a difference of RMB702 million when compared to the net increase in cash flows generated from operating activities amounting to RMB400 million, mainly due to the increase in inventory and operating receivables. The amount of net increase in cash flows generated from operating activities decreased by RMB6,296 million as compared to the same period of the previous year, mainly due to the increase in inventory and operating receivables. The amount of net cash outflow from investing activities decreased by RMB4,341 million as compared to the same period of the previous year mainly due to the withdrawal of deposits pledged during the reporting period. The amount of net cash outflow from financing activities decreased by RMB1,763 million as compared to the same period of the previous year mainly due to the issuance of medium-term notes during the period.

## 8. ACCOUNT UNDER FAIR VALUE AND ITS GAINS AND LOSSES

In 2010, the Group's financial assets held-for-trading were accounted under the fair value method, using the market price of stocks as the fair value prices.

During the reporting period, the effect on profits for the period by change in fair value of financial assets held-for-trading amounted to RMB0.21 million, accounting for 0.13‰ of the operating profit for the period. The sustainability, risk and future trend of financial assets held-for-trading has no material impact on the Company.

## 9. MAJOR SUPPLIERS AND CUSTOMERS

In 2010, the Group's purchases from the top five suppliers totalled RMB12,943 million, accounting for 21% of the Group's total purchase amount for the year. The Group's sales to the top five customers totalled RMB9,269 million, representing a 14% of the total sales revenue of the Group for the year. Of the above-mentioned major suppliers, Holding is the controlling shareholder of the Company. Other than that, in 2010, none of the Directors, Supervisors, their connected parties and other shareholders (to the knowledge of the Board holding 5% or more of the Company's shares) held any beneficial interest in the Group's five largest suppliers or customers.

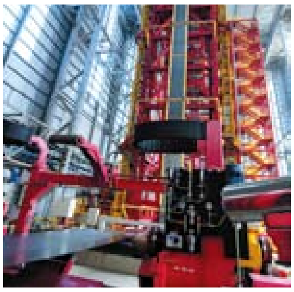
## 10. THE OPERATIONS AND RESULTS OF THE GROUP'S MAJOR CONTROLLING SUBSIDIARIES AND INVESTED ENTITIES

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB203 million. As at the end of the reporting period, it had total assets amounting to RMB3,121 million and net assets of RMB1,014 million.

- Ma Steel International Trade and Economics Corporation, the wholly-owned subsidiary, has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net loss for the reporting period amounted to RMB57 million. As at the end of the reporting period, it had total assets amounting to RMB6,209 million and net liabilities of RMB20 million.

- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB100 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit for the reporting period amounted to RMB29 million. As at the end of the reporting period, it had total assets amounting to RMB301 million and net assets of RMB163 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB183 million and net assets of RMB128 million.



- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB48 million. As at the end of the reporting period, it had total assets amounting to RMB1,248 million and net assets of RMB147 million.

- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB27 million. As at the end of the reporting period, it had total assets amounting to RMB1,329 million and net assets of RMB183 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB17 million. As at the end of the reporting period, it had total assets amounting to RMB572 million and net assets of RMB143 million.

- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB18 million. As at the end of the reporting period, it had total assets amounting to RMB617 million and net assets of RMB183 million.

- Anhui Masteel Holly Industries Co., Ltd. has a registered capital of RMB30 million, in which the Company holds direct and indirect stakes of 71% and 29%, respectively. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB399 million and net assets of RMB143 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB79 million. As at the end of the reporting period, it had total assets amounting to RMB423 million and net assets of RMB403 million.

- Maanshan Habour Group Co., Ltd has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB32 million. As at the end of the reporting period, it had total assets amounting to RMB908 million and net assets of RMB413 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB168 million. As at the end of the reporting period, it had total assets amounting to RMB677 million and net assets of RMB652 million.

- Ma Steel (Hefei) Processing and Distribution Co., Ltd has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB33 million. As at the end of the reporting period, it had total assets amounting to RMB757 million and net assets of RMB154 million.

## 11. PROJECT CONSTRUCTION

- In 2010, the Group's expenses on construction projects amounted to RMB1,260 million, representing a decrease of 21% over the previous year.

- Major investment projects financed by non-fundraising proceeds: (Unit: RMB million)

| Project name | Total investment | Construction progress |
|---|---|---|
| CRH Train Wheel Steel Project | 2,944 | Hoisting of steel structure in the main factory building |
| Hydrogenation of Benzene Project at the Coke Plant | 320 | Construction in full operation |
| Recovered Coal Gas Power Generation Project at the Thermal Power Plant | 220 | Construction completed, preparatory stage of installing equipment |
| Energy Management Center Project of No.1 Energy Plant | 91 | Flat fielding completed, started construction |
| Newly Finished Wheel Machining and Inspection Line of Wheel Company | 70 | Preparatory stage |
| HVOF Spraying Project of No.2 Machinery Company | 56 | Construction completed |
| Coal Moisture Controlling Project at the Coke Plant | 54 | Under construction |
| No. 2 Iron Making Plant Comprehensive Utilisation of Converter Sludge Project | 50 | Construction in full operation |
| Mold Alloy Plating Project at No. 2 Machinery Plant | 45 | Trial stage of thermal loads |

## 12. FINANCIAL POSITION AND EXCHANGE RISKS

As at 31 December 2010, the total amount of loans borrowed by the Group amounted to RMB14,857 million, including loans of RMB3,488 million for working capital and long-term loans of RMB11,369 million. Except for US dollar loans amounting to US$814 million, all other loans were denominated in Renminbi. Except for US dollar loan which carried interests at a LIBOR plus a fixed percentage, among the Renminbi loans, loans amounting to RMB3,686 million carried fixed interest rates and loans amounting to RMB11,171 million carried floating interest rates. The amounts of all the Group's loans varied according to the scale of production and construction projects. No overdue loans have been recorded so far.

As at 31 December 2010, in accordance with China Accounting Standards, the Group's gearing ratio (total liabilities/total assets) was 60.06%; under the Hong Kong Accounting Standards, the Group's gearing ratio (total liabilities/total assets) was 60.23%.

At present, all funding required for the Company's construction were internally generated funds. As at the end of the reporting period, banking facilities granted by the banks to the Group amounted to approximately RMB53,000 million.

As at 31 December 2010, the Group's cash and bank balances amounted to RMB6,383 million. Bills receivable amounted to RMB8,375 million. Deposits received for the coming month constituted a substantial part of the cash and bank balances and bank acceptance bills.

The Group's import of raw materials was settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the RMB to US dollar exchange rate appreciated continuously in 2010, an exchange gain of RMB134 million was resulted from the change in exchange rate during the year. Meanwhile, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate has no adverse effect on the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of Euro and Japanese Yen exchange fluctuations on procurement payment was relatively small. Moreover, during the reporting period, while the borrowing rates of US loan were lower than that of RMB loan, in addition to the depreciation of US dollar, the Company has increased part of the US financing while reducing part of RMB financing.

## 13. IMPORTANT ACCOUNTING ESTIMATES AND THEIR IMPACT ON THE COMPANY'S FINANCIAL POSITION AND OPERATING RESULTS

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

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

The Group's inventories mainly comprise raw materials, work in progress, finished goods and spare parts. By comparing the procurement costs of these inventories with the re-assessed net realisable values, a provision for impairment of approximately RMB14 million was made for spare parts, a write-off of provision of approximately RMB0.66 million was made to spare parts, and a write-off of provision of approximately RMB33 million was made to raw materials in 2010. Total provisions for impairment of inventories amounted to approximately RMB14 million during the reporting period, and these provisions did not have a material impact on the Company's operating results in 2010.

## 14. CHANGES IN THE OPERATING ENVIRONMENT AND COPING STRATEGIES IN 2011

- **Changes in the international and domestic operating environments**

With regard to the international situation, the global economy continues to show a recovery trend after being driven by the economic stimulus policies previously enforced by various nations. However, because of the lingering deep-level impact of the financial crisis, complicated with the emergence of new issues regarding global developments, there are increasing instabilities and uncertainties affecting the economic operation. The fragility and imbalance of the global economic recovery will be further felt, and the international environment is becoming more complex in 2011.

With regard to the domestic situation, the new year, which marks the commencement of the "Twelfth Five-year Plan", is a critical period for the nation's economy to change from recovery to stable growth. As to consumption, China will take the protection and improvement of people's livelihood as a fundamental starting point for expanding consumption. Given the government's establishment of a long-term mechanism to boost consumption demand through pushing forward the change of its consumption expansion policies from temporary policies to permanent policies, consumption will continue to grow. With respect to investment, social investment will continue to maintain stable growth, and the investment portfolio will be further optimised as a result of commencements of construction of new projects under planning, strengthened efforts on the construction of social security housing projects, accelerated economic development in the middle and western parts of China and the development of strategic emerging industries, together with the increasing implementation and elaboration of relevant national policies to encourage and guide private investments. On the export side, it is difficult for exports to grow substantially in 2011, given the fact that product exports will face more barriers due to growing trade protectionism and that pressure remains on the appreciation of the Renminbi exchange rate. Considering all of the above-mentioned factors, total demand for steel products will rise in 2011 as a result of the stimulation effect of expanding domestic demand.

However, the domestic CPI has been staying at above 4.4% for five consecutive months, indicating that there is increasing inflationary pressure and weakened spending power of the people. The cost pressure on industrial enterprises, especially the iron and steel industry, is mounting due to increasing constraints on the resources environment and the challenges from energy conservation and emissions reduction. The production operations of iron and steel enterprises will continue to face significant pressure in 2011.

- **Coping strategies of the Company**

In the new year, the Company will closely focus on the business theme of "strengthening management innovation and furthering cost reduction and efficiency enhancement" by devoting efforts to variety, cost, quality and other core elements; formulating and implementing detailed measures; reinforcing management; and clearly determining accountabilities, with a view to striving to create satisfactory operating results in a challenging market environment.

a. Strengthen and stabilise balanced production, and continue to push forward economic operation. Maximise the potential of technology and equipment through dynamically improving production patterns and balancing resources; strengthen and improve the application of ERP systems to enhance the integration of industrialisation and computerisation; intensifying "zero fault" management for equipment to enhance the assurance ability of equipment system; and improve production techniques, equipment upgrades and operation modes simultaneously to facilitate the primary-auxiliary linkage and economic operation.

b. Strengthen procurement management and improve logistics. Improve the coal and ore blending schemes in line with market changes to raise the performance-price ratio; expand the cooperation with strategic suppliers and strengthen procurement through price-comparison procurement and centralised procurement and establish an online-bidding procurement system; carry out special management of supplemental materials for steel-making by establishing a standard consumption system to eliminate waste; and improve two-way logistics by railway, waterway and highway to raise the ratio of direct supply of bulk raw materials to factories.

c. Increase the proportion of products with competitive advantages. Further improve the "research, production and sales" work mechanism; increase the market shares of products with high added-value including automobile plates, home electrical appliances plates, electrical steel, wheels and high-efficiency and conservation-oriented construction materials; further adjust the product mix.

d. Steadily enhance product quality. Improve the long-term mechanism for quality enhancement by strengthening our work on stabilising quality for all products and reinforcing "zero defect" management for product quality and quality accountability.

e. Carry out energy conservation and emissions reduction with aggressive efforts. Intensify energy conservation and emissions reduction among all staff by focusing on conservation of energy during work processes and an efficient use of energy; strengthen contract energy management by carrying out research on low-carbon technology; speed up the construction of new energy-saving and environmentally friendly projects such as the integrated utilisation of gas for power generation, striving to complete these projects and leverage their functions as early as possible.

f. Build a service-oriented sales and marketing system by fully implementing a scheme that emphasises large high-end customers, expanding the steel product processing and distribution network and increasing the proportion of strategic users and direct users. Establish a meticulous marketing service system by building a "three-in-one" platform for communication, technical services and management accountability to provide users with personalised value-added services.

g. Exercise stringent controls over project construction costs. Fully implement a mechanism for conducting experts' review of investments in fixed assets and a subsequent evaluation system to further regulate project construction management, reduce investment costs and improve investment efficiency.

h. Enhance inventory management, control capital expenditure, improve the efficiency in the use of funds and lower the cost in the use of funds.

## 15. LONG-TERM STRATEGIES OF THE COMPANY

In the long run, as China is in the process of urbanisation and industrialisation, there remains substantial room for the development of the iron and steel industry as a fundamental industry and a pillar industry in China's national economy in the future. The basic assurance bestowed upon the Company for achieving relatively rapid development remains unchanged. Under China's recent "Twelfth Five-year Plan" for the development of the iron and steel industry, priority will be given to the use of steel in the development of high-speed rail, urban rail transportation, marine engineering, high-end equipment manufacturing and ultra-high voltage smart grids, thus offering new opportunities for the Company's development.

To determine its corporate positioning and development objectives, the Company has developed a "Twelfth Five-year" development strategy and plan, taking into account the current development situations and trends in the domestic and international iron and steel industries as well as the actual situations of the Company. In the next five years, for the principal iron and steel operations, the Company will optimise the structure, make premier products, create a brand, fully leverage its strengths in the product mix comprising "steel plates, section steel, wire rods and train wheels", and increase the proportion of products with competitive advantages. Focus will be placed on the development of "functionality" for long products; as to wire products, our principal product will be fastener, with a focus laid on the development of premier and hard wires as well as annealing-free cold heading steel for screw nuts; for rod products, the proportion of anti-seismic steel bars, low-temperature resistant steel bars, corrosion resistant steel bars and high-strength steel bars will be increased; as to section steel, the proportion of steel for offshore petroleum platform, H-shaped steel for railway, H-shaped steel for automobile frame and high-strength angle steel for steel towers will be increased. With respect to steel plates, the general direction will be "low cost, high strength and functionality" for hot-rolled plates; allocation of resources will be optimised; hot rolling production lines will complement each other in terms of variety and specifications; the proportion of pipeline steel, bridge steel, stable corten steel, acid-resistant steel, hot-rolled structural steel for automobile, hot-rolled pickling plate for home appliances, hot-rolled axle steel for automobile and hot-rolled high-strength series steel for automobile will be increased; as to cold-rolled plates, the aim is placed on “research and development of lightweight high-strength automobile plates in order to gradually create an advantage in the future”; increasing mass production and stabilising supply; and increasing the proportion of cold-rolled automobile plates, M180B1 baked hardening steel, MC600DP cold-rolled dual-phase steel, medium and high-grade galvanized automobile plates, home electrical appliances plates and environmental galvanized panels. The Company will develop and promote environmentally-friendly and decoratively functional colour-coating products and colour-coating plates for home electrical appliances. As to train wheels and rims, the development of a selected collection of wheels for CRH Train, wheels for high-speed trains, solid wheels for locomotives, wheels for heavy freight and low-noise wheels for urban rail will be carried out. While aiming to become a leading market player in the principal iron and steel operations, the Company will carry out the development of related industries in a timely manner, with an emphasis on fostering the development of machinery manufacturing, engineering technology, modern logistics, trade, coal chemical, automobile fittings and other related industries, with a view to extending its assets and searching for new income bases. At the same time, the channels for the supply of outsourced resources will be secured and a raw materials transportation assurance system will be established.

# VI. Report of the Directors

## 1. DAILY WORK OF THE BOARD

### (1) Implementation of the Resolutions of the Shareholders' Meetings by the Board

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

### (2) Description of the Board Meetings in 2010 and Details of the Resolutions:

- On 25 March 2010, the Company held the twelfth meeting of the sixth session of the Board. The major detail of the meeting was to consider and approve the adjustment scheme of 2009 budget.

- On 30 March 2010, the Company held the thirteenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 31 March 2010.

- On 20 April 2010, the Company held the fourteenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 21 April 2010.

- On 8 June 2010, the Company held the fifteenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 9 June 2010.

- On 19 August 2010, the Company held the sixteenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 20 August 2010.

- On 6 September 2010, the Company held the seventeenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 7 September 2010.

- On 21 October 2010, the Company held the eighteenth meeting of the sixth session of the Board. The major detail of the meeting was to consider and approve the Company's 2010 Third Quarterly Report.

- On 24 December 2010, the Company held the nineteenth meeting of the sixth session of the Board. An announcement on the resolutions was published in Shanghai Securities News and on the websites of the SSE and the Hong Kong Stock Exchange on 25 December 2010.

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

In 2010, the Audit Committee held four meetings and all members attended each meeting. The meeting was chaired by Chairman Mr. Wong Chun Wa. Major details of the meetings are as follows:

- Reviewed the Company's audited financial statement of 2009, and the unaudited first quarterly financial statement, interim financial statement and third quarterly financial statement of 2010 and considered that the Company had complied with the requirements of the relevant regulations on the preparation of financial statements in every material respect and had made adequate disclosure with no material omissions.

- Reviewed the connected transactions between the Company and Holding during 2009 and considered that such transactions were conducted during the ordinary course of business between the two parties and the transactions conducted were under normal business terms or terms which were not less favourable than those provided to independent third parties (or under terms which were provided to independent third parties), and that such transactions were in the best interests of the Company and its shareholders. The yearly total amounts for the Company's transactions conducted in 2009 pursuant to the "Sale and Purchase of Ore Agreement" did not exceed the cap amounts for the Hong Kong Stock Exchange's waiver.

- Inspected the Company's external guarantees as at 31 December 2009 and 30 June 2010 and issued independent opinions.

- Reviewed the Board's self-assessment report on the Company's 2009 internal control and was of the view that the internal control and the risk management procedures were effective.

- Reviewed the Audit Committee's summary report in respect of the Company's auditing work in 2009 conducted by the auditors.

- Agreed that the Company would pay a fee totalling RMB5.175 million to Ernst & Young Hua Ming and Ernst & Young for their annual audit and execution of interim agreed upon procedures for year 2009 and agreed that the two accounting firms would be re-appointed as the Company's domestic and international auditors for 2010.

- Reviewed the Report on the "Discharge of Duties by the Audit Committee for 2009".

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

In 2010, the Remuneration Committee held one meeting and all members attended the meeting in person. The meeting was chaired by Mr. Su Yong. Major details of the meeting are as follows:

- In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of the Company" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations as well as completion of operation targets, together with a reference to respective scopes of work and major duties for the relevant Directors and Senior Management, the Remuneration Committee conducted appraisals on the 2009 operating performance of the Company's relevant Directors and Senior Management, and the appraisal results were submitted to the Board meeting held on 30 March 2010 for consideration.

- Reviewed the Report on the "Discharge of Duties by the Remuneration Committee for 2009".

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

In 2010, the Nomination Committee held one meeting and all committee members attended each meeting in person. The meeting was chaired by Mr. Hui Leung Wah. The meeting reviewed the Report on the "Discharge of Duties by the Nomination Committee for 2009".

### (6) The Board's Accountability of the Company's Internal Control

The Board of the Company accepts its accountability towards the sound condition and effectiveness of the Company's establishment of internal control system.

For details of the sound condition of the Company's establishment of the internal system and the Boards' self-assessment, please refer to "(8) Internal Control of 1. Corporate Governance Report" under "Section VIII. Corporate Governance" of this annual report.

## 2. PROFIT DISTRIBUTION

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

| Year of distribution of dividend | Amount of cash dividend (tax inclusive) | Net profit attributable to shareholders of the Company | Ratio of cash dividend to net profit (%) |
|---|---|---|---|
| 2007 | 879 | 2,475 | 35.52 |
| 2008 | – | 710 | – |
| 2009 | 308 | 392 | 78.57 |

- Profit distribution proposal for the current period: The Board of the Company recommended the payment of a final cash dividend for 2010 to be RMB0.05 per share (tax inclusive), but no capital reserve fund will be transferred to share capital.

  As audited by the domestic and international auditors, the Company's net profit amounted to RMB905.72 million under China Accounting Standards and RMB902.92 million under Hong Kong Accounting Standards for the year 2010. After appropriating 10% as the Company's statutory reserves, profit available for distribution to shareholders as at the end of 2010 amounted to RMB7,171.63 million under China Accounting Standards and RMB6,794.37 million under Hong Kong Accounting Standards. In accordance with the Articles of Association, the Company distributes after-tax profits based on the lower of the profit amounts reported in the two financial statements respectively under China Accounting Standards and Hong Kong Accounting Standards. As a result, profit available for distribution to shareholders for year 2010 should be RMB6,794.37 million. The Board recommended the payment of cash dividend of RMB0.05 (tax inclusive) per share for 2010 based on the latest share capital of 7,700,681,186 shares of the Company. The retained profit of the Company will be carried forward to the year 2011 and no capital reserve fund will be transferred to share capital. The profit distribution proposal need to be submitted to the 2010 annual general meeting for consideration and approval.

  As stipulated in the "Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H shareholders Which are Overseas Non-resident Enterprises" (Guo Shui Han Document No. 897 (2008)), when Chinese resident enterprises distribute annual dividends to their H shareholders who are overseas non-resident enterprises with their names listed in the stock ledger of H shareholders, they have the obligation to withhold the enterprise income at a uniform rate of 10%. All shareholders registered in the name of non-individual shareholders on the H share register of members, including HKSCC (Nominees) limited, other enterprise nominees and trustees, or other groups and organizations will be treated as non-resident enterprise shareholders, thus, the Company will distribute the final dividend after withholding the 10% income tax.

As stipulated in the "Circular on Certain Policy Questions Concerning Individual Income Tax Issued by the Ministry of Finance and the State Administration of Taxation" (Cai Shui Zi Document No.20 (1994)), the dividends and bonuses received by foreign individuals from foreign investment enterprises shall be temporarily exempted from individual income tax. The 10% income tax will not be withheld by the Company to any natural person shareholders whose names appear on the H share register of members.

All investors and shareholders should read the above-mentioned contents carefully. If shareholders' identity needs to be changed, please enquiry the nominees or trustees for the relevant procedures. The Company does not have the obligation and will not take the responsibility of determining shareholders' identity. The Company will strictly comply with the relevant laws and withhold the 10% income tax in accordance with the H shareholder register of members as at the date of the suspension of share rights registration stipulated in the Company's 2010 annual general meeting (for details please refer to the Company's 2010 annual general meeting circular to be published separately shortly); The Company assumes no responsibility arising from any delay in or inaccurate determination of shareholders' identity.

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

Pursuant to the requirements stated in the Circular Zheng Jian Fa Document No.56 (2003) issued by the CSRC, Ernst & Young Hua Ming has issued the "Specific Statement on the Funds Receivables from the Controlling Shareholder of Maanshan Iron & Steel Company Limited and Other Related Parties". In the statement, as at 31 December 2010, except for the working capital transactions in the daily operations between the Company and its controlling shareholder and other related parties, there was no misappropriation of funds by the controlling shareholder of the Company and other related parties as stated in the Circular Zheng Jian Fa Document No.56 (2003).

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

In accordance with the relevant requirements of the CSRC, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all are Independent Directors of the Company, conducted conscientious audit on the Company's external guarantees accumulated up to the year 2010 as well as for the period, which are stated as follows:

(1) As at 31 December 2010, the approval procedures of all the external guarantees of the Company were legal and in compliance with regulations.

(2) As at 31 December 2010, no external guarantees were provided to any controlling shareholder, or to any connected parties or non-legal person entities or individuals in which the Company held less than 50% interests.

(3) As at 31 December 2010, the total amount of accumulated and current portions of external guarantees was lower than 50% of the net assets of the Company as reported in the 2010 consolidated financial statements.

## 5. OTHER MATTERS

### (1) Work System of the Audit Committee

The Board of the Company has set up the Audit Committee with sound work system. For the composition of the Audit Committee and its major work scope, please refer to "(4) Audit Committee" of "1. Corporate Governance Report" in "VIII. Corporate Governance" in this annual report.

### (2) Management System for People with Access to Insider Information

In order to regulate the Company's management on people with access to insider information, the fifteenth meeting of the sixth session of the Board considered and approved the "Registration and Management System for People with Access to the Company's Insider Information" on 8 June 2010. During the reporting period, as far as the Board was aware of, the Company did not discover any trading in the Company's shares by insiders using insider information before the Company disclosed any material price-sensitive information; nor was there any investigation or rectification carried out by the regulatory departments. As such, the above-mentioned system was executed effectively.

(3) For segment information on business analysis of the Company and the Group as at 31 December 2010, please refer to Note X.4 to the financial statements prepared under China Accounting Standards and Note 4 to the financial statements prepared under Hong Kong Accounting Standards.

(4) The Group's profit for the year ended 31 December 2010 and the Group's operating status as at that date are set out in the financial statements prepared under China Accounting Standards and the financial statements prepared under Hong Kong Accounting Standards.

### (5) Fixed Assets

Details of changes in fixed assets of the Company and the Group for the year ended 31 December 2010 are set out in Note V.12 to the financial statements prepared under China Accounting Standards and Note 14 to the financial statements prepared under Hong Kong Accounting Standards, respectively.

### (6) Pre-emptive Rights

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

### (7) Purchase, Sale and Redemption of Listed Shares

During 2010, the Company has not redeemed any of its listed shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

### (8) Reserves

Details of the movements in the various reserves of the Company and the Group for the year ended 31 December 2010 are set out in the statement of changes in equity and the consolidated statement of changes in equity prepared under China Accounting Standards and Note 35(b) to the financial statements and the consolidated statement of changes in equity prepared under Hong Kong Accounting Standards.

### (9) Service Contracts of Directors and Supervisors

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

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

## (10) Directors' and Supervisors' Interests in Contracts

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

## (11) Directors' Interests in Competing Businesses

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

# VII. Report of the Supervisory Committee

Dear shareholders,

Entrusted by the Supervisory Committee of the Company and pursuant to the relevant requirements of the Company Law and the Articles of Association of the Company, I hereby report to you the major work of the Supervisory Committee in 2010.

## 1. MEETINGS OF THE SUPERVISORY COMMITTEE IN 2010

The Supervisory Committee held five meetings in 2010 based on the needs for its work. On the basis of having promptly acquired a thorough understanding of the Company's production operations and financial status, the Supervisory Committee approved resolutions on the relevant matters after conscientious consideration. Major matters discussed at the meetings include: (1) listening to the report by the Company's Directors and financial officers on the Company's production operations and financial status, and reviewing the annual report, interim report and quarterly reports of the Company; (2) considering and approving connected transactions of the Company in 2009; (3) considering and approving the "2009 Work Report of the Supervisory Committee" and the "2009 Report on the Performance of Duties by Supervisors"; (4) considering and approving the resolution on the provision of a guarantee for a wholly-owned subsidiary Maanshan Iron & Steel (HK) Ltd.; (5) considering and approving the resolution on the disposal of fixed assets of the Company and changes in the provisions for prices decreases of inventories; and (6) considering and approving the Company's 2009 Social Responsibility Report and Internal Control Self-evaluation Report.

## 2. BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS IN 2010

The Supervisory Committee discharged its supervisory duties conscientiously in 2010 pursuant to the relevant requirements of the Company Law, the Articles of Association and the Rules of Meeting Procedure of the Supervisory Committee. Members of the Supervisory Committee attended Board meetings of the Company, and considered that the Board conscientiously executed the resolutions passed at shareholders' general meetings, faithfully fulfilled its obligation of good faith, and did not harm the interests of the Company or shareholders, and that all resolutions made by the Board were in compliance with the requirements of the relevant laws and regulations including the Company Law and the Articles of Association.

The Supervisory Committee carried out effective supervision over the operation management of the Company, and considered that in 2010 the Company has successfully completed all the production operations plans for the whole year and achieved good operating results; the Company's risk resistance capability and overall competitiveness were being enhanced continuously; the management of the Company worked in a diligent and responsible manner, and executed the resolutions passed by the Board conscientiously; and no breaches on rules were found during the course of operation.

The Supervisory Committee participated in the Company's important work by attending Board meetings. It effectively supervised the meeting agenda, voting procedures, voting results and so forth; made recommendations on the Company's operating activities, resolutions, profit distribution plan and so forth; and effectively supervised the guiding concept for making decisions, and whether specific decisions so made were in compliance with State laws and regulations, the Articles of Association and the resolutions passed at shareholders' general meetings, or were in the interests of shareholders.

## 3. THE SUPERVISORY COMMITTEE'S INDEPENDENT OPINIONS ON THE COMPANY'S OPERATIONS IN 2010

### (1) Operations in compliance with the law

The Board operated in a regulated manner, and its decision-making process was lawful and valid in compliance with the relevant requirements stipulated in the Company Law, the Articles of Association and the Rules of Meeting Procedure of the Supervisory Committee. The Company has established and improved the internal control system. The Directors and the Management of the Company were able to work in a diligent and responsible manner when discharging their duties. No acts that breached the laws, regulations and the Articles of Association of the Company or harmed the interests of the Company have been discovered.

### (2) Inspection of the Company's financial situation

Having inspected the Company's financial status, the Supervisory Committee considered that the Company's financial statements truly reflected the financial status and operating results of the Company; and that the audit report was truthful and reasonable, which was helpful for shareholders to acquire a practical understanding of the financial and operating status of the Company; and that the 2010 Annual Report prepared by the Board truthfully, lawfully and comprehensively reflected the Company's situation, and contained no false representations, misleading statements or material omissions.

### (3) Inspection of the use of fundraising proceeds

The Supervisory Committee has inspected the use of fundraising proceeds. The proceeds raised from the exercise of "Magang CWB1 Warrants" were fully utilised at the end of 2008. The procedures for the raising and the use of the proceeds were carried out in a regulated manner, and the exact amount of such proceeds applied to various projects was consistent with the committed amounts of proceeds applied to such projects, which was in compliance with the Company's operating needs and the relevant requirements of the Board and with no breaches on regulations having been found. The Company has not carried out any major fundraising activities since 2008.

### (4) Acquisitions and sales of assets by the Company

Save for the provision of a guarantee by the Company to a wholly-owned subsidiary Maanshan Iron & Steel (HK) Ltd. in 2010, no significant acquisitions, asset sales, asset swaps or mortgages were carried out; no insider trading was found and no events that have harmed the interests of certain shareholders or caused asset losses to the Company were found.

### (5) Connected transactions

The connected transactions of the Company in 2010 were conducted in strict compliance with the Articles of Association and pursuant to the connected transactions agreements and that the transactions were fair and reasonable; major connected transactions were conducted on an arm's length basis and fulfilled the statutory approval process; and no act that harmed the interests of the Company and its shareholders were found.

### (6) Internal control self-evaluation report

Having audited the Board's 2010 self-evaluation report on the Company's internal control as well as details of the establishment and implementation of the internal control system, the Supervisory Committee considered that the Company has established a relatively sound internal control system which was effectively implemented; and that the internal control self-evaluation report truthfully and objectively reflected details of the establishment and implementation of such internal control system.

### (7) Supervisory Committee's audit opinions on the Company's 2010 Annual Report

The procedures for preparing and reviewing the Company's 2010 Annual Report were in compliance with the relevant requirements of the laws, regulations and the Articles of Association. The content and the format thereof were in compliance with all the requirements of the CSRC and stock exchanges. The information contained therein could truthfully reflect the Company's operating results and financial status in the current year. No staff involved in the preparation and review of the annual report have been found to have acted against the confidentiality provisions.

In 2011, the Supervisory Committee of the Company will, in strict compliance with the Company Law, Articles of Association and relevant regulations and policies promulated by the country, continue to faithfully discharge its duties to further improve the Company's regulated operations. It will supervise to ensure that the Company is operating in accordance with relevant regulations and actively supervise the establishment and effective operation of the internal control system. It will focus on the supervision and management of the Company's internal control and carry out inspection on important issues such as major investments, management of raised funds, connected transactions and other important aspects of the Company. It will strive to discharge the duty of inspecting the finance of the Company, and carry out supervision on the financial operations of the Company by understanding and reviewing the financial statements on a regular basis.

**Zhang Xiao Feng**
*Chairman of the Supervisory Committee*
22 March 2011

# VIII. Corporate Governance

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

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance by enhancing fundamental system. The thirteenth meeting of the sixth session of the Board of the Company held on 30 March 2010 considered and approved the newly amended "Administrative Measures for Information Disclosure of the Company". Additional contents such as accountability for significant mistakes in information disclosure including the annual report were added to the measures, so as to safeguard the legal rights of the Company, shareholders and the stakeholders.

## 1. CORPORATE GOVERNANCE REPORT

In 2010, the Company has complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules.

### (1) Directors

***Directors and the composition of the Board***

In 2010, the Company's Board comprised nine Directors, of whom four were Executive Directors and five were Non-executive Directors. Among the Non-executive Directors, four of them were Independent Directors, accounting for four-ninth of the members of the Board.

The four Executive Directors and one Non-Executive Director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction, and are capable of making rational decisions on the matters to be resolved by the Board. Among the four Independent Directors, there is a Director of a consultancy company in Hong Kong, with years of experience in the accounting profession; a General Manager in corporate finance at the MTR Corporation Limited in Hong Kong with extensive experience in finance management; a Head of the Enterprise Management Department of the School of Management of Fudan University who is knowledgeable in corporate management; and a Professor of the School of Law at Minzu University of China who is very experienced in legal matters. These Independent Directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board fully complied with the requirements of the relevant laws, regulations and regulatory documents in the PRC and overseas. The names of all Directors were published in the Company's correspondence and specifications were made to Independent Directors.

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

All of the Directors of the Company had confirmed in written form that they had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Hong Kong Listing Rules.

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

***Attendance of Directors at Board meetings in 2010:***

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

### *Chairman and General Manager*

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

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

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

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

### *Non-executive Directors*

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

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

### *Duties and authorities of the Board and the Management*

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

- To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;
- To decide on the annual operating plans and key investment proposals of the Company;
- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;
- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and trust management within the limit as stipulated in the Articles of Association.

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

The Company's Management performed their major responsibilities in accordance with the duties and authorities conferred by the Articles of Association, mainly including:

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

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

– To propose the Company's fundamental management system;

– To formulate the Company's basic constitutions;

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

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

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

– To propose the convening of extraordinary Board meetings.

### *Board meeting*

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

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

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

### *Directors' remuneration*

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

### *Supervisors' remuneration*

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

### *Senior Management's remuneration*

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

### (3) Nomination of Directors

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

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

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

### (4) Audit Committee

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

– To propose the appointment or change of external auditors;

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

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

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

- To review the Company's internal control system.

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

### (5) Remuneration Committee of the Board

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

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

- To review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board;

- To review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment;

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

- Other responsibilities as delegated by the Board.

### (6) Nomination Committee

In 2010, the Nomination Committee of the sixth session of the Board of the Company comprises Independent Directors Mr. Hui Leung Wah, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Han Yi and Chairman Mr. Gu Jianguo, with Mr. Hui Leung Wah as Chairman of the Committee. The major duties of the Committee are:

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

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

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

- To examine the independence of Independent Directors; and

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

### (7) Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for 2010. They have audited the enclosed financial statements prepared under China Accounting Standards and Hong Kong Accounting Standards respectively. The remuneration for the two accounting firms amounted to RMB4,535,000 in aggregate. Among the total remuneration, RMB3,950,000 represented the annual audit fee and RMB585,000 represented the fee for the execution of interim agreed upon procedures. Both the audit fee and the fee for the execution of agreed upon procedures were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

As at 31 December 2010, Ernst & Young Hua Ming and Ernst & Young have provided auditing services to the Group for 17 consecutive years. Ms. Zhong Li and Ms. Zhao Ning were the certified public accountants who have signed the Company's 2010 auditors' report. Ms. Zhong Li has provided auditing services to the Company for the first time, while Ms. Zhao Ning has provided auditing services to the Company for three consecutive years.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company and such services were not included in the scope of audit. In 2010 the fee amounted to HK$16,900.

# VIII. Corporate Governance (continued)

## (8) Internal Control

### *Sound condition of the establishment of internal control system*

Pursuant to the requirements of "Basic Principles of Corporate Internal Control" jointly published by five ministries of the Central Government including the Ministry of Finance, and taking into account the five elements including internal environment, risk evaluation, control activities, information and communication and internal supervision, the Company has formulated the "Internal Control Manual", establishing a sound internal control system in order to ensure that the corporate operation and management are in compliance with the relative laws and regulations, the safety of assets and the truthfulness, accuracy and completeness of information disclosure, thus improving operating efficiency and pushing forward the realization of the corporate strategic development goal.

In April 2010, the five ministries of the Central Government including the Ministry of Finance have jointly published complementary guidelines on internal control for enterprises in order to promote the formation, implementation and evaluation of corporate internal control. Pursuant to the guidelines, the Company revised the "Internal Control Manual" in order to further improve the internal control system of the Company, ensuring the effectiveness of the Company's internal control system at all time.

On 22 March 2011, pursuant to the regulations by the CSRC, the twenty-first meeting of the sixth session of the Board considered and approved the "Implementation Scheme for the Company's Internal Control Regulations" which includes work plan and implementation scheme for further establishing a sound internal control system.

### *The establishment and operation of internal control system in relation to financial reporting*

The Company's internal control system in relation to the preparation and disclosure of financial reports was formulated in accordance with the relevant State laws, rules, regulations of authorities and regulatory documents including the "Basic Principles of Corporate Internal Control" and its complementary guidelines jointly published by the five ministries of the Central Government including the Ministry of Finance. The content of the internal control system covered the arrangement of the preparation of financial reports and its control, the preparation of financial reports and its control, the submission and disclosure of the financial reports and its control and so forth. During the reporting period, the Company implemented the above-mentioned system effectively.

### *Implementation of self-assessment report on internal supervision and control*

The Enterprise Management Department of the Company is responsible for organising and coordinating the establishment and implementation of internal control. The Procurement, Sales and Financial Departments of the Company are the main executors of the internal control system. The Audit Department is responsible for monitoring the execution of the internal control system of the Company. While performing the annual audit, the auditors issued a "Management Letter Comments" by conducting limited investigation and evaluation on the Company's internal control over the composition of financial statements and identified the relevant issues. The Audit Committee monitors the execution of the Company's internal control through evaluating the work of the Audit Department and the auditors. The Board confirms whether the internal control system of the Company is effective or not in accordance with the report from the Audit Committee.

On 22 March 2011, the twenty-first meeting of the sixth session of the Board considered and approved the "Self-assessment Report on Internal Control of the Company for year 2010 by the Board" and confirmed that the internal control of the Company in 2010 was effective.

### *Deficiencies of internal control and rectification situation*

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

## (9) Communication with shareholders

### *Effective communication*

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

During the reporting period, the Company stated clearly in the 2009 annual general meeting notice that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings. Mr. Gu Jianguo, Chairman, Mr. Su Jiangang, Director, General Manager and the Person-in-charge of Financial Operations, and Mr. Gao Haijian, Director, Deputy General Manager and Secretary to the Board attended the shareholders' general meetings in person and fully prepared for answering questions of shareholders' concern. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter.

The Company placed importance on the management of investor relations. It strived to strengthen the communication with domestic and overseas investors through various channels and forms; and addressed investors' concern in timely manner. In 2010, the Company welcomed 22 on-site field researches and site visits of domestic and overseas securities analysts, fund managers and other investment institutions, held more than one hundred telephone conferences with domestic and overseas investors including securities analysts and fund managers and achieved satisfactory results.

***Voting by poll***

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

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

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

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

As Ernst & Young Hua Ming and Ernst & Young, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee recommended to re-appoint the firms as the auditors for the Company for year 2010. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2009 annual general meeting held on 8 June 2010.

## 2. PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

In 2010, the Independent Directors of the Company strictly carried out the working rules of Independent Directors, faithfully fulfilled their duties and fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association and actively attended the meetings of the Board and its specialized committees, they also involved in the decision making on material matters of the Company, provided constructive suggestions on the Company's corporate governance and production operation, and evaluated and issued independent opinions on matters such as connected transactions and external guarantees. During the reporting period, the Independent Directors did not have any contrary opinion on any matters of the Company.

The Company's Independent Directors have been diligent and responsible to the Company and the shareholders as a whole. They have not been influenced by the Company's substantial shareholders, the de facto controllers, or other units or individuals who have conflict of interests with the Company, thus protecting the lawful interests of the shareholders, especially the minority shareholders, independently and objectively.

## 3. INDEPENDENCE OF THE COMPANY DURING THE REPORTING PERIOD

### *The "Five Separations with Holding"*

As regards employees, the Company's personnel in production, technical, financial and sales are independent of Holding. Senior Management such as the Company's General Manager and Deputy General Manager are on the Company's payroll. As regards assets, the Company owns separate production systems, complementary systems and ancillary facilities. Industry property rights, trademarks and non-patent technologies are independently owned by the Company, as are systems for purchasing and marketing. As regards finance, the Company has established an independent financial department and independent accounting systems; and has also formulated a sound financial management system. As regards organisation, the Company has established a sound corporate organisation structure. The Board and the Supervisory Committee have been operating independently. Other internal departments are not subordinated to any functional departments at the controlling shareholder. As regards business operations, the Company possesses independent and complete operating businesses and business autonomy.

### *Competition in the same business with Holding*

The Company does not have any competition in the same business with Holding due to change of the system and other reasons.

### *Connected transactions with Holding*

For details of the relevant transactions, please refer to "6. Connected Transactions" under "XIII. Significant Matters" in this annual report.

## 4. DURING THE REPORTING PERIOD, THERE WAS NO ISSUE OF CORPORATE GOVERNANCE UNSOLVED OF THE COMPANY.

# IX. Directors, Supervisors, Senior Management and Staff

## 1. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Current Directors

**Mr. Gu Jianguo**, aged 58, Chairman of the Company. Mr. Gu became Director and Deputy General Manager of the Company in September 1993. He was appointed Vice Chairman and General Manager of the Company in July 1995 and became General Manager of Maanshan Magang Holding Company ("Magang Holding") and Chairman of the Company in June and July 1997, respectively. In September 1998, Magang Holding was restructured into Holding and Mr. Gu was appointed General Manager of Holding. He has ceased to be General Manager of the Company since September 1999. Mr. Gu has also held the office of Secretary of the Party Committee of Holding and of the Company since January 2009, and has been Chairman of Holding since January 2010. Mr. Gu resigned from the office of Chairman of the Holding in February 2011. Mr. Gu is also Chairman of Maanshan Iron & Steel (HK) Limited and Chairman of MG Trading and Development GmbH. Mr. Gu held 3,886 shares in the Company.

**Mr. Su Jiangang**, aged 56, Director and General Manager of the Company. Mr. Su became Chief Economist of the Company in June 1997. He became Director of the Company in September 1997 and Deputy General Manager of the Company in September 1999. He has been General Manager of the Company since January 2008. Mr. Su has been Secretary of the Party Committee of Holding and of the Company since December 2009 and Director of Holding since January 2010. Mr. Su became General Manger of Holding in February 2011. Mr. Su is also Director of Maanshan Iron & Steel (HK) Limited and Director of MG Trading and Development GmbH. Mr. Su held 3,886 shares in the Company.

**Mr. Zhao Jianming**, aged 57, Director of the Company. Mr. Zhao was appointed Deputy General Manager of the Company and Deputy Secretary of the Party Committee of the Company in June 1997 and has been Director of the Company since September 1997. Since September 1999, he has ceased to be Deputy General Manager of the Company and became Director of Holding on 1 January 2010. Mr. Zhao also holds the office of Deputy Secretary of the Party Committee of Holding and Secretary of the Disciplinary Committee of Holding and the Company.

**Mr. Gao Haijian**, aged 54, Director, Deputy General Manager and Secretary to the Board of the Company. Mr. Gao was appointed Deputy General Manager of the Company in June 1997. He has been Director of the Company since September 1999 and has been Secretary to the Board of the Company on January 2008.

**Mr. Hui Zhigang**, aged 57, Director and Deputy General Manager of the Company. Mr. Hui was appointed Deputy General Manager of the Company in June 2001 and became Director of the Company in February 2008. He is also Chairman of Maanshan Harbour Group Co., Ltd.

### Current Independent Directors

**Mr. Wong Chun Wa**, aged 37, Independent Director of the Company. Mr. Wong is associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he became Qualified Accountant of Zhongtian International Limited from February 2006 to October 2006. He established ACT Business Consultants Limited in December 2006 and acted as the company's Director. Mr. Wong has been Independent Director of the Company since 31 August 2005. Mr. Wong is also Independent Director of China Zhongwang Holdings Limited.

**Mr. Su Yong**, aged 56, Independent Director of the Company. Mr. Su was appointed Head of the Enterprise Management Department of the School of Management of Fudan University in October 2003, and Deputy Director of the University's Eastern Management Research Centre in October 2004 respectively. Mr. Su has been Independent Director of the Company since 31 August 2005 and also serves as Independent Director of Shanghai Friendship (Group) Joint Stock Company Limited, Shanghai Baosight Software Co. Ltd, Shanghai International Airport Co. Ltd and SGSB Group Co. Ltd,.

**Mr. Hui Leung Wah**, aged 48, Independent Director of the Company. Mr. Hui joined HSBC Investment Banking in 1990 and served as Corporate Finance Director, Chief Operations Officer of the Asia-Pacific region and other positions. He joined MTR Corporation Limited in Hong Kong since August 2004 as General Manager of Corporate Finance. Mr. Hui has been an Independent Director of the Company since 31 August 2005.

**Mr. Han Yi**, aged 47, Independent Director of the Company. Mr. Han was appointed Professor of the School of Law and Advisor of master degree students of Anhui University from May 2002 to June 2008. From September 2004 to May 2007, Mr. Han joined the programme for postdoctoral fellows at Renmin University of China. He was appointed Professor of the School of Law of Minzu University of China in June 2008. Mr. Han is Professor of the School of Law and Advisor of master degree students at Zhongnan University of Finance and Political Law. Mr. Han has been Independent Director of the Company since 31 August 2005.

## Current Supervisors

**Mr. Zhang Xiaofeng**, aged 49, Chairman of the Supervisory Committee of the Company. Mr. Zhang was appointed Director of the Publicity Department (United Front Work Department) in July 1997 and Chairman of the Labor Union of Holding and the Company in August 2008. Mr. Zhang has ceased to be Director of the Publicity Department (United Front Work Department) since September 2008, and has been Chairman of the Supervisory Committee of the Company since 31 August 2008.

**Mr. Fang Jinrong**, aged 47, Supervisor of the Company. Mr. Fang was appointed Deputy Supervisor of the Finance Department of Magang Holding in November 1997. In September 1998, Magang Holding was restructured into Holding, and Mr. Fang was appointed Deputy Manager of the Finance Department of Holding. He has been Manager of the Finance Department since February 2004. He became a Supervisor of the Company on 31 August 2005.

**Mr. Liu Xianli**, aged 56, Supervisor of the Company. Mr. Liu was appointed Factory Manager of Medium-gauge Plate Factory and Hot-rolled Plate Factory of the Company in January 1997. Mr. Liu was appointed Secretary of the Party Committee of the Hot-rolled Plate Factory of the Company in February 2004, and Secretary of the Party Committee and Deputy Factory Manager of First General Steel Making and Rolling Factory in March 2005. Mr. Liu was appointed Manager of the Enterprise Management Department of the Company in February 2006. He has been a Supervisor of the Company since 31 August 2008.

## Current Independent Supervisors

**Madam Cheng Shaoxiu**, aged 68, Independent Supervisor of the Company. Madam Cheng was Chief Accountant of Anhui Guoyuan Holding (Group) Company Limited from May 2001 to September 2004. She was Independent Director of the Company from September 1999 to August 2005. She has been Independent Supervisor of the Company since 31 August 2005.

**Madam An Qun**, aged 48, Independent Supervisor of the Company. Madam An has been Chief Supervisor of the Teaching and Research Department of Law Studies of School of Party Committee, Anhui Province since June 2003 and Professor of Law since December 2004. She has been Independent Supervisor of the Company since 31 August 2005.

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

### Current Senior Management

**Mr. Shi Xiongliang**, aged 58, Deputy General Manager of the Company. Mr. Shi was appointed Deputy Chief Engineer of the Company in August 1999, and Deputy General Manager and Chief Engineer of the Company in June 2001. Mr. Shi has ceased to be Chief Engineer of the Company since 1 January 2010.

**Mr. Ding Yi**, aged 47, Deputy General Manager of the Company. Mr. Ding was appointed Assistant to General Manager of the Company in January 2002 and Deputy General Manager of the Company in January 2004. Mr. Ding was also Chairman of Maanshan BOC-Ma Steel Gases Company Limited.

**Mr. Su Shihuai**, aged 51, Deputy General Manager and Chief Engineer of the Company. Mr. Su was appointed Deputy Chief Engineer of the Company in January 2002, and concurrently served as Executive Vice Director of the Technology Centre and Director of the New Product Development Centre. Mr. Su was appointed Deputy Chief Engineer of the Company in February 2007 and served concurrently as Deputy Director of the Technology Centre in August 2009. He has been appointed as Deputy General Manager and Chief Engineer of the Company concurrently since 1 January 2010.

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

As at the end of the reporting period, there was no change to the shareholdings of the current Directors Mr. Gu Jianguo and Mr. Su Jiangang in the Company and none of the other current Directors, Supervisors and Senior Management held any shares of the Company.

Save as disclosed above, as at 31 December 2010, none of the current Directors, Supervisors or Senior Management had any interests or short positions in any of the shares, relevant shares or bonds of the Company or any of its associated corporations (within the meaning of Part XV of the "Securities and Futures Ordinance") which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance, or required to notice the Company and the Hong Kong Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

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

## 2. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Remuneration Committee of the Board based on their respective appraisals and in accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management", with recommendations thereof to be proposed to the Board. Emoluments were taken effect by the Board with the authorisation granted by the shareholders' general meeting. Details of the emoluments received by the Company's Executive Directors and Senior Management received in 2010 are listed as follows (Unit: RMB'000):

| Name | Position | Annual emoluments (tax inclusive) |
|---|---|---|
| Gu Jianguo | Chairman | 898.1 |
| Su Jiangang | Director and General Manager | 897.9 |
| Gao Haijian | Director, Deputy General Manager and Secretary to the Board | 718.8 |
| Hui Zhigang | Director and Deputy General Manager | 718.9 |
| Shi Xiongliang | Deputy General Manager | 719 |
| Ding Yi | Deputy General Manager | 718 |
| Su Shihuai | Deputy General Manager and Chief Engineer | 717.9 |

The above-mentioned emoluments received by the Company's Executive Directors and Senior Management include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2010 in accordance with the pension scheme of the Company.

Annual emoluments received by the Company's Non-independent Supervisors were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for Independent Supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholders' general meeting. Details of the emoluments received by Non-independent Supervisors from the Company in 2010 are listed as follows (Unit: RMB'000):

| Name | Position | Annual emoluments (tax inclusive) |
|---|---|---|
| Zhang Xiaofeng | Chairman of the Supervisory Committee | 718 |
| Liu Xianli | Supervisor | 295.4 |

The above-mentioned emoluments received by the Company's Non-independent Supervisors include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2010 in accordance with the pension scheme of the Company.

In 2010, Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all Independent Directors of the sixth session of the Board, received an allowance for Independent Director of RMB100,000 (tax inclusive; RMB80,000 tax exclusive) each from the Company. Madam Cheng Shaoxiu and Madam An Qun, both Independent Supervisors of the sixth session of the Supervisory Committee, received an allowance for Independent Supervisor of RMB62,500 (tax inclusive; RMB50,000 tax exclusive) each from the Company.

Mr. Zhao Jianming, Director and Mr. Fang Jinrong, Supervisor, received their emoluments at Holding.

In 2010, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB6,927,000 (tax inclusive).

## 3. PERSONNEL MOVEMENT

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

There was no new appointment or removal of other Senior Management during the reporting period.

## 4. EMPLOYEES

As at the end of 2010, the Company had a total of 41,538 employees, of whom 33,583 were workers at production lines, 360 were sales representatives, 4,015 were technicians, 276 were financial staff and 3,304 were managerial staff. There were 12.20% of employees who had postgraduate qualifications or above. The number of resigned or retired staff for whom the Company was responsible for pensions amounted to 22,477.

# X. Movements in Share Capital and Shareholders

## 1. SHARE MOVEMENTS

### (1) Table on Share Movements

Unit: Share

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

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

## 2. ISSUANCE AND LISTING OF SECURITIES IN RECENT YEARS

### (1) Issuance and Listing of Bonds with Warrants

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

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

The proportion of exercise rights for the "馬鋼CWB1" warrants is 1:1. Accordingly, each warrant represents the right to subscribe for one A share issued by the Company. The term of the warrants is 24 months upon the listing of the warrants.

### (2) The Exercise of "馬鋼CWB1" Warrants

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

The second exercise of "馬鋼CWB1" warrants took place in November in 2008. Under this exercise, 942,129,470 warrants were successfully exercised. After the exercise, the Company's total number of shares increased from 6,758,551,761 shares to 7,700,681,186 shares, while 19,618,814 unsuccessfully exercised warrants were written off in accordance with the regulations.

## 3. THE NUMBER OF SHAREHOLDERS AND SHAREHOLDING STRUCTURE

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

*Unit: Share*

| | |
|---|---|
| **Total number of shareholders** | As at the end of the reporting period, the Company had a total of 380,565 shareholders. |

***Shareholdings of top ten shareholders***

| Name of the shareholder | Type of shareholders | As a percentage to number of shares held (%) | Total number of shares held | Number of shares held with selling restrictions | Number of pledged or frozen shares |
|---|---|---|---|---|---|
| Magang (Group) Holding Company Limited | State-owned shareholder | 50.47 | 3,886,423,927 | 0 | 0 |
| HKSCC (Nominees) Limited | Foreign shareholder | 22.17 | 1,707,485,897 | 0 | Not applicable |
| 中國建設銀行－上投摩根中國優勢證券投資基金 | Others | 1.25 | 96,040,000 | 0 | Unknown |
| 中國建設銀行－鵬華價值優勢股票型證券投資基金 | Others | 0.73 | 56,000,000 | 0 | Unknown |
| 王勇 | Others | 0.26 | 19,800,000 | 0 | Unknown |
| 中國工商銀行－南方成份精選股票型證券投資基金 | Others | 0.25 | 18,924,383 | 0 | Unknown |
| 中國農業銀行－益民創新優勢混合型證券投資基金 | Others | 0.23 | 17,823,409 | 0 | Unknown |
| 中國銀行－華寶興業先進成長股票型證券投資基金 | Others | 0.18 | 14,000,000 | 0 | Unknown |
| 中國銀行－嘉實滬深300指數證券投資基金 | Others | 0.18 | 13,683,680 | 0 | Unknown |
| 中國工商銀行股份有限公司－華夏滬深300指數證券投資基金 | Others | 0.13 | 9,800,000 | 0 | Unknown |

***Shareholdings of top ten shareholders without selling restrictions***

| Name of shareholder | Number of shares held without selling restrictions | Type of shares |
|---|---|---|
| Magang (Group) Holding Company Limited | 3,886,423,927 | RMB-denominated ordinary shares |
| HKSCC (Nominees) Limited | 1,707,485,897 | Overseas-listed foreign shares |
| 中國建設銀行－上投摩根中國優勢證券投資基金 | 96,040,000 | RMB-denominated ordinary shares |
| 中國建設銀行－鵬華價值優勢股票型證券投資基金 | 56,000,000 | RMB-denominated ordinary shares |
| 王勇 | 19,800,000 | RMB-denominated ordinary shares |
| 中國工商銀行－南方成份精選股票型證券投資基金 | 18,924,383 | RMB-denominated ordinary shares |
| 中國農業銀行－益民創新優勢混合型證券投資基金 | 17,823,409 | RMB-denominated ordinary shares |
| 中國銀行－華寶興業先進成長股票型證券投資基金 | 14,000,000 | RMB-denominated ordinary shares |
| 中國銀行－嘉實滬深300指數證券投資基金 | 13,683,680 | RMB-denominated ordinary shares |
| 中國工商銀行股份有限公司－華夏滬深300指數證券投資基金 | 9,800,000 | RMB-denominated ordinary shares |

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

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). The Company is not aware of whether the above-mentioned shareholders had connected relationship or whether they were concerted parties.

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

HKSCC (Nominees) Limited held 1,707,485,897 H shares of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody.

As at 31 December 2010 and 28 February 2011, which is the latest practicable date for the publication of this report, to the best knowledge of the Directors, the Company had sufficient public float as stipulated by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange ("Hong Kong Listing Rules").

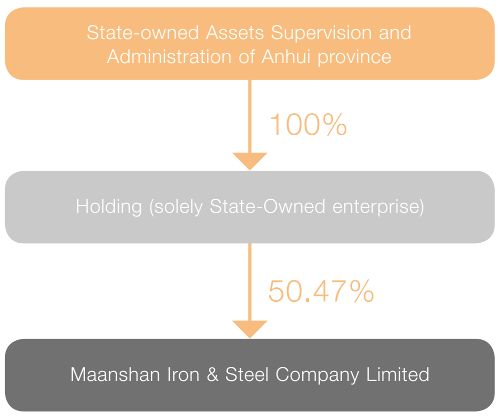
### (2) Save as disclosed above, details of the holders of the Company's H Shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 31 December 2010 were as follows:

| Name of shareholder | Capacity as holder or deemed holder of interests | Number of shares interested or deemed interested (shares) | Approximate percentage of the Company's issued H shares (%) |
|---|---|---|---|
| JP Morgan Chase & Co. | Note 1 | 88,171,926 (Long position) | 5.09 |
| | custodian | 7,523,618 (Short position) | 0.43 |
| Blackrock, Inc | Note 2 | 88,082,089 (Long position) | 5.08 |
| | | 7,639,489 (Short position) | 0.44 |

Note 1: JP Morgan Chase & Co. has a long position of 10,970,423 shares as the actual owner; and 77,201,503 shares as the custodian.

Note 2: Blackrock, Inc has a long position of 88,082,089 shares in the form of interests held by legal entities controlled by the substantial shareholder; and a short position of 7,639,489 shares.

### (3) The Proprietorship and Controlling Relationship between the Company and its De Facto Controller



# XI. Relevant Details of “06 Magang Warrants”

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

*Unit:RMB*

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

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

# XII. Shareholders' General Meeting

During the reporting period, the Company held one shareholders' general meetings in strict accordance with the holding procedures stipulated in relevant laws, regulations and the Articles of Association. The details are as follows:

On 8 June 2010, the Company held the 2009 annual general meeting at Magang Guest House, No. 2 Xi Yuan Road, Maanshan City, Anhui Province. Details of the meeting were published in Shanghai Securities News, and the websites of the SSE and the Hong Kong Stock Exchange on 9 June 2010.

# XIII. Significant Matters

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

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

3. The Company received the written notice from Holding on 25 February 2011 that the sixth meeting of the first session of the board of directors of Holding was held on 24 February 2011. Mr. Gu Jianguo, Chairman of Holding, presided over the meeting. In order to further regulate Holding's governance structure, the meeting approved Mr. Gu's resignation from the position of General Manager of Holding and decided to appoint Mr. Su Jiangang, Director of Holding as well as Director and General Manager of the Company, as General Manager of Holding.

   The Board of the Company will confirm an appropriate candidate for General Manager of the Company as soon as possible. Mr. Su will resign from the office of General Manager of the Company after the new General Manager is appointed.

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

| Item no. | Type of securities | Securities code | Abbreviation | Initial investment amount | Number of shares held | Book value at the end of the reporting period | Proportion in securities investment at the end of the reporting period | Gains/(losses) during the reporting period |
|---|---|---|---|---|---|---|---|---|
| 1 | Stock | 601857 | PetroChina | 585 | 35,000 | 407 | 49% | (76.65) |
| 2 | Stock | 601390 | China Railway Group | 158 | 33,000 | 145 | 18% | (63.03) |
| 3 | Stock | 601898 | China Coal Energy | 202 | 12,000 | 134 | 16% | (29.04) |
| 4 | Stock | 601186 | China Railway Construction Corporation Limited | 182 | 20,000 | 141 | 17% | (42) |
| Other securities investments held at the end of the reporting period | | | | – | – | – | – | – |
| Gain/loss from disposal of securities investments | | | | – | – | – | – | – |
| Total | | | | 1,127 | – | 827 | 100% | (210.72) |

5. During the reporting period, the Board of the Company approved the reorganisation of Anhui Chang Jiang Steel Company Limited. According to the progress of such matter, the Company will fulfill the obligation of information disclosure strictly in accordance with the stipulations of the relevant laws, regulations, rules and regulatory documents.

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

## 6. CONNECTED TRANSACTIONS

### Normal Business Transactions between the Company and Holding

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

(1) The "Sale and Purchase of Ore Agreement" for 2007 to 2009 the Company entered into with Holding on 18 October 2006, which was approved at the extraordinary general meeting held on 14 December 2006, expired on 31 December 2009.

To ensure that the Company has sufficient ore to meet the production demands, Holding agreed to continuously provide the Company with ore on a first priority basis. The Company entered into the "Sale and Purchase of Ore Agreement" for 2010 to 2012 with Holding on 15 October 2009 which was subsequently approved at the extraordinary general meeting held on 15 December 2009.

The payment made by the Company to Holding in respect of the "Sale and Purchase of Ore Agreement" from 1 January 2010 to 31 December 2010 was as follows (Unit: RMB'000):

| | **Amount paid** | **Proportion of transaction of the same category (%)** |
|---|---|---|
| Purchase of iron ore, limestone and dolomite | 2,202,373 | 14 |

The price of iron ore per tonne purchased every year by the Company from Holding shall be determined between the two parties on a half-year basis during the term of the agreement. The price per tonne for a particular first half-year shall first be arrived at, through arm's length negotiations, with reference to the weighted average price per tonne of the same type of iron ore supplied by the three largest independent suppliers and delivered to the Company's vicinity at Maanshan City of Anhui Province in the PRC in the second half of the preceding year, and the price per tonne shall be further adjusted retrospectively at the end of that first half-year and shall not be higher than the three largest independent suppliers' weighted average price per tonne for that first half-year. The price per tonne for the second half-year shall first be arrived at, through arm's length negotiations, with reference to the three largest independent suppliers' weighted average price per tonne for the first half-year, and the price shall be further adjusted retrospectively at the end of the second half-year and shall not be higher than the three largest independent suppliers' weighted average price per tonne for that second half-year.

The respective prices of limestone and dolomite per tonne purchased every year by the Company from Holding shall be determined between the two parties on a half-year basis during the term of the agreement. The respective prices per tonne of a particular first half-year shall first be arrived at, through arm's length negotiations, with reference to the respective weighted average prices per tonne of limestone and dolomite supplied by the respective three largest independent suppliers and delivered to the Company's vicinity at Maanshan City of Anhui Province in the PRC in the second half of the preceding year, and the respective prices per tonne shall be further adjusted retrospectively at the end of that first half-year and shall not be higher than the respective three largest independent suppliers' weighted average prices per tonne for that first half-year. The respective prices per tonne for the second half-year shall first be arrived at, through arm's length negotiations, with reference to the respective three largest independent suppliers' weighted average prices per tonne for the first half-year; and the respective prices shall be further adjusted retrospectively at the end of the second half-year and shall not be higher than the respective three largest independent suppliers' weighted average prices per tonne for that second half-year.

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. During the reporting period, such transactions were conducted pursuant to the terms as set out in the "Sale and Purchase of Ore Agreement" with effect from 2010 to 2012. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB2,486,410,000.

The continuing connected transactions between the Company and Holding under the "Sale and Purchase of Ore Agreement" for the year 2010 have been approved by the Board of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated in the relevant letters of waiver issued by the Hong Kong Stock Exchange have not been exceeded. Ernst & Young, the auditors of the Company, has performed the relevant audit procedures for such financial information in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules", issued by Hong Kong Institute of Certified Public Accountants and issued the conclusion regarding the disclosed connected transactions.

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

| | **Amount paid** | **Proportion of transaction of the same category (%)** |
|---|---|---|
| Steel products and other products purchased by Holding from the Company | 2,395 | 0.0004 |
| Water, electricity, telephone and other services acquired by Holding from the Company | 64,463 | 7 |
| Payment by the Company for fixed assets and construction services | 111,220 | 12 |
| Payment by the Company to Holding for other services and products | 285,355 | 100 |

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

The total amount of these transactions, accounting for 1.81% of the audited tangible asset value of the Company for the year ended 31 December 2010, did not have any adverse impact on the Company's profits.

### Other Connected Transactions between the Company and Holding

The Company and Holding entered into the "Capital Contribution Agreement in Relation to the Jointly Investment in and Establishment of a Finance Company" on 24 December 2010. Both parties planned to jointly contribute capital to establish Magang Group Finance Company Limited (the "Finance Company"). The registered capital of the Finance Company amounted to RMB1,000 million (inclusive of US$5 million). The Company has contributed RMB490 million (inclusive of US$5 million), accounting for 49% of the registered capital, while Holding has contributed RMB510 million, accounting for 51% of the registered capital.

The abovementioned connected transaction had been considered and approved at the nineteenth meeting of the sixth session of the Board. Four Independent Directors Mr. Wang Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi were of the view that the Board's voting procedures about the investment and the relevant resolutions were legal and valid and did not harm the interests of the Company and the shareholders as a whole.

The China Banking Regulatory Commission approved the establishment of Finance Company on 28 February 2011 (Yin Jian Fu [2011] Document No.57). The relevant work of the establishment shall be finished within 6 months upon the date of approval.

- As at 31 December 2010, save for ordinary business transactions and dividends due to Holding, there was no amount due to or from the Company and connected parties.

- Material contracts with the controlling shareholder

  Save for the "Sale and Purchase of Ore Agreement" and the "Agreement for Capital Contribution in relation to the Formation of Finance Company", neither the Company nor any of its subsidiaries has entered into any material contract with the controlling shareholder at any time during the year ended 31 December 2010.

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

## 8. EXTERNAL GUARANTEES PROVIDED BY THE COMPANY AS AT THE END OF THE REPORTING PERIOD

*Unit: RMB million*

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

| Guaranteed entity | Date of incurrence | Guarantee amount | Type of guarantee | Guarantee period | Completed or not | Guarantee for connected parties (Yes or No) |
|---|---|---|---|---|---|---|
| Not applicable | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |

| | |
|---|---|
| Total guarantee amount during the reporting period | 0 |
| Balance of guarantees as at the end of the reporting period | 0 |
| **Guarantees provided by the Company for subsidiaries** | |
| Total guarantee amount for subsidiaries during the reporting period | (3,483) |
| Balance of guarantees for subsidiaries as at the end of the reporting period | 374 |
| **Total guarantee amount provided by the Company (including guarantees for subsidiaries)** | |
| Total guarantee amount | 374 |
| Total guarantee amount as a percentage of net assets of the Company | 1.43% |
| *Including:* | |
| Guarantee amount provided for shareholders, the de facto controller and connected parties | 0 |
| Guarantee amount provided directly or indirectly for entities with gearing (assets-liabilities) ratio exceeding 70% | 0 |
| Total guarantee amount exceeding 50% of net assets | 0 |
| Total amount of the three guarantees mentioned above | 0 |

During the reporting period, all the Company's guarantees were provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB374 million. All the guarantees were approved by the Board of the Company beforehand.

# XIII. Significant Matters (continued)

**9.** During the reporting period, there were no undertakings which may incur significant impact on the Company's operating results and financial position made during, or already made but extending into, the reporting period, by the Company or shareholders holding 5% or more of the Company's shares.

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

## 11. INDEX OF INFORMATION DISCLOSURES ON NEWSPAPERS

| No. | Announcement title | Newspapers | Date of announcement |
|---|---|---|---|
| 1 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 4 January 2010 |
| 2 | Announcement on Result of the Issuance of First Phase of Medium Term Note of 2010 of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 9 February 2010 |
| 3 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 31 March 2010 |
| 4 | Announcement on Resolutions of the Tenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 31 March 2010 |
| 5 | Announcement on the Provisions of Guarantees by Maanshan Iron & Steel Company Limited to Maanshan Iron & Steel (HK) Limited, a Wholly-owned Subsidiary | Shanghai Securities News | 31 March 2010 |
| 6 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 21 April 2010 |

| No. | Announcement title | Newspapers | Date of announcement |
|---|---|---|---|
| 7 | Announcement on Resolutions of the Eleventh Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 21 April 2010 |
| 8 | Announcement on the Provisions of Guarantees by Maanshan Iron & Steel Company Limited to Maanshan Iron & Steel (HK) Limited, a Wholly-owned Subsidiary | Shanghai Securities News | 21 April 2010 |
| 9 | Notice of 2009 Annual General Meeting of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 21 April 2010 |
| 10 | Announcement on Resolutions Passed at the 2009 Annual General Meeting of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 9 June 2010 |
| 11 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 9 June 2010 |
| 12 | Announcement on the Implementation of A Share Bonus and Dividend Distribution | Shanghai Securities News | 8 July 2010 |
| 13 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 20 August 2010 |
| 14 | Announcement on Resolutions of the Thirteenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 20 August 2010 |
| 15 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 7 September 2010 |
| 16 | Announcement on Interest Payment on “06馬鋼債” of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 5 November 2010 |

# XIII. Significant Matters (continued)

| No. | Announcement title | Newspapers | Date of announcement |
|---|---|---|---|
| 17 | Announcement on the Rating Tracking of "06 馬鋼債" of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 14 December 2010 |
| 18 | Announcement on Connected Transactions of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 25 December 2010 |
| 19 | Announcement on Resolutions of the Board of Maanshan Iron & Steel Company Limited | Shanghai Securities News | 25 December 2010 |

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

# Independent Auditors' Report

ERNST & YOUNG
安永

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

We have audited the consolidated financial statements of Maanshan Iron & Steel Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 81 to 192, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, 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.

## AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors' 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 auditors consider 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.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
22 March 2011

# Consolidated Balance Sheet

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| REVENUE | 4, 5 | **63,040,970** | 50,411,554 |
| Cost of sales | | **(59,675,969)** | (47,674,579) |
| Gross profit | | **3,365,001** | 2,736,975 |
| Other income and gains | 5 | **809,187** | 307,770 |
| Selling and distribution costs | | **(504,393)** | (448,636) |
| Administrative expenses | | **(1,232,657)** | (1,170,688) |
| Other expenses | | **(17,222)** | (41,630) |
| Finance costs | 7 | **(913,553)** | (1,004,155) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | **83,213** | 68,245 |
| Associates | | **121,536** | 114,995 |
| PROFIT BEFORE TAX | 6 | **1,711,112** | 562,876 |
| Income tax expense | 10 | **(519,502)** | (29,010) |
| PROFIT FOR THE YEAR | | **1,191,610** | 533,866 |
| Attributable to: | | | |
| Owners of the parent | 11 | **1,101,839** | 392,475 |
| Non-controlling interests | | **89,771** | 141,391 |
| | | **1,191,610** | 533,866 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 13 | | |
| Basic | | **14.3 cents** | 5.10 cents |
| Diluted | | **N/A** | N/A |

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

# Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **1,191,610** | 533,866 |
| OTHER COMPREHENSIVE INCOME | | |
| Exchange differences on translation of foreign operations | **23,285** | 65,195 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | **23,285** | 65,195 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **1,214,895** | 599,061 |
| Attributable to: | | |
| Owners of the parent | **1,125,124** | 457,670 |
| Non-controlling interests | **89,771** | 141,391 |
| | **1,214,895** | 599,061 |

# Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

| | Notes | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **34,405,603** | 38,272,899 |
| Construction in progress | 15 | **1,785,387** | 2,021,193 |
| Investment properties | 16 | **6,771** | 4,727 |
| Prepaid land premiums | 17 | **1,694,947** | 1,746,690 |
| Other intangible assets | 18 | **168,407** | 109,090 |
| Investments in jointly-controlled entities | 20 | **330,338** | 309,672 |
| Investments in associates | 21 | **595,381** | 580,959 |
| Available-for-sale financial investments | 22 | **108,772** | 108,772 |
| Deferred tax assets | 23 | **493,868** | 779,581 |
| Total non-current assets | | **39,589,474** | 43,933,583 |
| **CURRENT ASSETS** | | | |
| Inventories | 24 | **12,320,565** | 8,835,996 |
| Construction contracts | 25 | **131,230** | 152,798 |
| Trade and bills receivables | 26 | **9,472,382** | 5,244,120 |
| Prepayments, deposits and other receivables | 27 | **2,207,756** | 1,116,255 |
| Tax recoverable | | **290,436** | 141,960 |
| Equity investments at fair value through profit or loss | 28 | **827** | 1,037 |
| Pledged time deposits | 29 | **997,625** | 2,919,782 |
| Cash and cash equivalents | 29 | **5,385,066** | 5,780,536 |
| Total current assets | | **30,805,887** | 24,192,484 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 30 | **10,819,579** | 11,715,391 |
| Other payables and accruals | 31 | **9,759,848** | 7,853,123 |
| Tax payable | | **42,613** | 34,148 |
| Bonds with warrants | 32, 33 | **5,346,476** | – |
| Interest-bearing bank and other borrowings | 32 | **3,488,229** | 1,989,246 |
| Total current liabilities | | **29,456,745** | 21,591,908 |
| **NET CURRENT ASSETS** | | **1,349,142** | 2,600,576 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **40,938,616** | 46,534,159 |

# Consolidated Statement of Financial Position (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

| | Notes | **2010** RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **40,938,616** | 46,534,159 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 32 | **12,366,564** | 13,603,960 |
| Bonds with warrants | 32, 33 | **–** | 5,165,410 |
| Deferred income | | **573,289** | 579,927 |
| Total non-current liabilities | | **12,939,853** | 19,349,297 |
| **Net assets** | | **27,998,763** | 27,184,862 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 34 | **7,700,681** | 7,700,681 |
| Reserves | 35(a) | **19,208,372** | 18,455,945 |
| Proposed final dividend | 12 | **385,034** | 308,027 |
| | | **27,294,087** | 26,464,653 |
| **Non-controlling interests** | | **704,676** | 720,209 |
| **Total equity** | | **27,998,763** | 27,184,862 |

**Gu Jianguo**
*Director*

**Su Jiangang**
*Director*

# Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued share capital RMB'000 | Capital reserve account RMB'000 | Statutory reserve RMB'000 | Reserve fund RMB'000 | Enterprise expansion fund RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Year ended 31 December 2010** | | | | | | | | | | | | |
| At 1 January 2010 | | 7,700,681 | 8,338,359 | 2,956,282 | 58,836 | 42,802 | 17,420 | 7,042,246 | 308,027 | 26,464,653 | 720,209 | 27,184,862 |
| Profit for the year | | – | – | – | – | – | – | 1,101,839 | – | 1,101,839 | 89,771 | 1,191,610 |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | – | – | – | – | – | 23,285 | – | – | 23,285 | – | 23,285 |
| Total comprehensive income for the year | | – | – | – | – | – | 23,285 | 1,101,839 | – | 1,125,124 | 89,771 | 1,214,895 |
| Transfer from/(to) reserves | 35 | – | – | 110,288 | 14,709 | 10,946 | – | (135,943) | – | – | – | – |
| Proposed final 2010 dividend | 12 | – | – | – | – | – | – | (385,034) | 385,034 | – | – | – |
| Final 2009 dividend declared | | – | – | – | – | – | – | – | (308,027) | (308,027) | – | (308,027) |
| Dividend paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | (77,552) | (77,552) |
| Acquisition of non-controlling interests | | – | – | – | – | – | – | – | – | – | (32,791) | (32,791) |
| Others | | – | – | 12,337 | – | – | – | – | – | 12,337 | 5,039 | 17,376 |
| At 31 December 2010 | | 7,700,681 | 8,338,359* | 3,078,907* | 73,545* | 53,748* | 40,705* | 7,623,108* | 385,034 | 27,294,087 | 704,676 | 27,998,763 |
| **Year ended 31 December 2009** | | | | | | | | | | | | |
| At 1 January 2009 | | 7,700,681 | 8,338,359 | 2,928,527 | 45,729 | 34,267 | (47,775) | 7,007,195 | – | 26,006,983 | 520,119 | 26,527,102 |
| Profit for the year | | – | – | – | – | – | – | 392,475 | – | 392,475 | 141,391 | 533,866 |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | – | – | – | – | – | 65,195 | – | – | 65,195 | – | 65,195 |
| Total comprehensive income for the year | | – | – | – | – | – | 65,195 | 392,475 | – | 457,670 | 141,391 | 599,061 |
| Transfer from/(to) reserves | 35 | – | – | 27,755 | 13,107 | 8,535 | – | (49,397) | – | – | – | – |
| Proposed final 2009 dividend | 12 | – | – | – | – | – | – | (308,027) | 308,027 | – | – | – |
| Dividend paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | (9,973) | (9,973) |
| Capital contribution by non-controlling shareholders | | – | – | – | – | – | – | – | – | – | 68,672 | 68,672 |
| At 31 December 2009 | | 7,700,681 | 8,338,359* | 2,956,282* | 58,836* | 42,802* | 17,420 * | 7,042,246* | 308,027 | 26,464,653 | 720,209 | 27,184,862 |

* These reserve accounts comprise the consolidated reserves of RMB19,208,372,000 (2009: RMB18,455,945,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **1,711,112** | 562,876 |
| Adjustments for: | | | |
| Finance costs | 7 | **913,553** | 1,004,155 |
| Share of profits and losses of jointly-controlled entities | | **(83,213)** | (68,245) |
| Share of profits and losses of associates | | **(121,536)** | (114,995) |
| Bank interest income | | **(72,045)** | (94,570) |
| Dividend income from equity investments at fair value through profit or loss | | **(17)** | (13) |
| Dividend income from available-for-sale financial investments | | **(14,399)** | (20,863) |
| Depreciation of property, plant and equipment | 14 | **4,810,646** | 4,820,673 |
| Depreciation of investment properties | 16 | **158** | 86 |
| Recognition of prepaid land premiums | 17 | **41,551** | 41,586 |
| Amortisation of other intangible assets | 18 | **5,593** | 4,089 |
| Recognition of deferred income | | **(79,527)** | (79,503) |
| Fair value (gains)/losses on equity investments at fair value through profit or loss | | **210** | (224) |
| (Gain)/loss on disposal of items of property, plant and equipment, net | | **6,513** | (16,899) |
| Gain on disposal of prepaid land premiums | | **(928)** | – |
| Provision for inventories | | **13,906** | 57,811 |
| Reversal of provision for doubtful debts, net | | **(112)** | (213) |
| Provision for an investment in an associate | 21 | **3,739** | – |
| Foreign exchange (gains)/losses, net | | **(134,174)** | 15,146 |
| | | **7,001,030** | 6,110,897 |
| (Increase)/decrease in inventories | | **(3,498,476)** | 808,696 |
| (Increase)/decrease in construction contracts | | **21,568** | (7,243) |
| Increase in trade and bills receivables | | **(4,228,535)** | (3,349,924) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(1,032,398)** | 452,252 |
| Increase in trade and bills payables | | **443,688** | 3,141,125 |
| Increase/(decrease) in other payables and accruals | | **1,981,930** | (296,312) |
| Decrease in provisions for pension benefits and housing subsidies | | **–** | (32,341) |
| Cash generated from operations | | **688,807** | 6,827,150 |
| Income tax paid | | **(288,800)** | (158,450) |
| Net cash flows from operating activities | | **400,007** | 6,668,700 |

# Consolidated Statement of Cash Flows (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **400,007** | 6,668,700 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **72,045** | 94,570 |
| Dividend income from equity investments at fair value through profit or loss | | **17** | 13 |
| Dividend income from available-for-sale financial investments | | **14,399** | 20,863 |
| Dividend income from a jointly-controlled entity | | **74,199** | 56,600 |
| Dividend income from associates | | **37,575** | 27,000 |
| Government subsidies granted for specific projects | | **74,890** | 95,881 |
| Purchases of items of property, plant and equipment, construction in progress and other intangible assets | | **(2,081,003)** | (1,613,375) |
| Purchases of prepaid land premiums | | **(10,319)** | (23,063) |
| Proceeds from disposal of items of property, plant and equipment | | **10,801** | 33,396 |
| Proceeds from disposal of prepaid land premiums | | **16,899** | 135 |
| Proceeds from retrieval of held-to-maturity investments | | **–** | 2,939 |
| Investments in available-for-sale financial investments | | **–** | (5,855) |
| Investment in associates | | **(35,000)** | (9,000) |
| Investment in a jointly-controlled entity | | **(4,900)** | (500) |
| Acquisition of non-controlling interests | | **(32,791)** | – |
| (Increase)/decrease in non-pledged time deposits with original maturity greater than three months when acquired | | **277,588** | (277,588) |
| Decrease/(increase) in pledged time deposits | | **1,922,157** | (2,406,062) |
| Net cash flows from/(used in) in investing activities | | **336,557** | (4,004,046) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank and other borrowings | | **14,283,542** | 25,484,947 |
| Repayment of bank and other borrowings | | **(13,877,213)** | (26,931,563) |
| Capital contribution by non-controlling shareholders | | **–** | 68,672 |
| Interest paid | | **(682,438)** | (831,720) |
| Dividend paid | | **(502,570)** | (400,036) |
| Dividend paid to non-controlling shareholders | | **(77,553)** | (9,973) |
| Net cash flows used in financing activities | | **(856,232)** | (2,619,673) |

# Consolidated Statement of Cash Flows (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(119,668)** | 44,981 |
| Cash and cash equivalents at beginning of year | | **5,502,948** | 5,437,367 |
| Effect of foreign exchange rate changes, net | | **1,786** | 20,600 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **5,385,066** | 5,502,948 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents | 29 | **5,385,066** | 5,502,948 |

# Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **32,075,220** | 36,293,704 |
| Construction in progress | 15 | **1,672,928** | 1,726,598 |
| Investment properties | 16 | **17,999** | 18,404 |
| Prepaid land premiums | 17 | **1,215,033** | 1,238,079 |
| Investments in subsidiaries | 19 | **1,200,553** | 1,200,553 |
| Investments in jointly-controlled entities | 20 | **234,500** | 234,500 |
| Investments in associates | 21 | **298,276** | 263,276 |
| Available-for-sale financial investments | 22 | **108,772** | 108,772 |
| Deferred tax assets | 23 | **479,719** | 767,990 |
| Total non-current assets | | **37,303,000** | 41,851,876 |
| **CURRENT ASSETS** | | | |
| Inventories | 24 | **10,470,470** | 7,576,642 |
| Construction contracts | 25 | **131,230** | 152,798 |
| Trade and bills receivables | 26 | **9,807,209** | 5,254,519 |
| Prepayments, deposits and other receivables | 27 | **1,550,243** | 625,699 |
| Tax recoverable | | **290,436** | 141,960 |
| Equity investments at fair value through profit or loss | 28 | **827** | 1,037 |
| Pledged time deposits | 29 | **–** | 2,049,546 |
| Cash and cash equivalents | 29 | **3,087,224** | 3,759,523 |
| Total current assets | | **25,337,639** | 19,561,724 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 30 | **7,492,822** | 8,801,394 |
| Other payables and accruals | 31 | **8,424,580** | 7,288,488 |
| Bonds with warrants | 32, 33 | **5,346,476** | – |
| Interest-bearing bank and other borrowings | 32 | **2,762,043** | 816,000 |
| Total current liabilities | | **24,025,921** | 16,905,882 |
| **NET CURRENT ASSETS** | | **1,311,718** | 2,655,842 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **38,614,718** | 44,507,718 |

# Statement of Financial Position (Continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

| | Notes | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **38,614,718** | 44,507,718 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 32 | **12,276,564** | 13,577,000 |
| Bonds with warrants | 32, 33 | **–** | 5,165,410 |
| Deferred income | | **540,573** | 562,620 |
| Total non-current liabilities | | **12,817,137** | 19,305,030 |
| **Net assets** | | **25,797,581** | 25,202,688 |
| **EQUITY** | | | |
| Issued capital | 34 | **7,700,681** | 7,700,681 |
| Reserves | 35(b) | **17,711,866** | 17,193,980 |
| Proposed final dividend | 12 | **385,034** | 308,027 |
| **Total equity** | | **25,797,581** | 25,202,688 |

**Gu Jianguo**
*Director*

**Su Jiangang**
*Director*

## 1. CORPORATE INFORMATION

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

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

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

## 2.1 BASIS OF PREPARATION

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

### Basis of consolidation

*Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributable to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION *(CONTINUED)*

### Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit and loss or retained profits, as appropriate.

*Basis of consolidation prior to 1 January 2010*

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation.

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | Business Combinations |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* |
| *Improvements to HKFRSs 2009* | Amendments to a number of HKFRSs issued in May 2009 |
| HK Interpretation 4 Amendment | Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| HK Interpretation 5 | *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* |

Other than as further explained below regarding the impact of HKAS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs* 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

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

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance lease. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

  The Group has reassessed its leases in mainland of the PRC, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in mainland of the PRC remained as operating leases.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4] |
| HKFRS 9 | *Financial Instruments* [6] |
| HKFRS 12 | Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets* [5] |
| HKAS 24 (Revised) | *Related Party Disclosures* [3] |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1] |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* [2] |

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

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010 whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34, HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

*Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

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

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

### Joint ventures

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

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

A joint venture is treated as:

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Joint ventures *(Continued)*

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

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

### Jointly-controlled entities

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

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

### Associates

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Associates *(Continued)*

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

### Impairment of non-financial assets

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Related parties

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

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

(b) the party is an associate;

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

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

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

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

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Property, plant and equipment and depreciation *(Continued)*

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

| | |
|---|---|
| Buildings and structures | 4.9% – 9.7% |
| Plant, machinery and equipment | 9.7% |
| Transportation vehicles and equipment | 19.4% |

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

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

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

### Construction in progress

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

### Investment properties

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Investment properties *(Continued)*

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

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

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

### Intangible assets

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

*Research and development costs*

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

*Mine participation right*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Intangible assets *(Continued)*

*Back-up roll technology*

The technology has an estimated useful life of 10 years. Such technology is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over the foreseeable economic benefits period for the Group.

### Operating leases

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

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

### Investments and other financial assets

*Initial recognition and measurement*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Investments and other financial assets *(Continued)*

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

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

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

*Loans and receivables*

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

*Held-to-maturity investments*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Investments and other financial assets *(Continued)*

*Available-for-sale financial investments*

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Fair value of financial instruments

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

### Impairment of financial assets

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

*Financial assets carried at amortised cost*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Impairment of financial assets *(Continued)*

*Financial assets carried at amortised cost (Continued)*

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

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

*Assets carried at cost*

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

*Available-for-sale financial investments*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Impairment of financial assets *(Continued)*

*Available-for-sale financial investments (Continued)*

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

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

### Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Derecognition of financial assets *(Continued)*

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

### Financial liabilities

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

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

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

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Financial liabilities *(Continued)*

*Financial guarantee contracts*

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

*Bonds with warrants*

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

*Derecognition of financial liabilities*

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

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

### Offsetting of financial instruments

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Inventories

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

Spare parts are stated at cost less provision for obsolescence.

### Cash and cash equivalents

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

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

### Provisions

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

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

### Income tax

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Income tax *(Continued)*

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

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

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

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Income tax *(Continued)*

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

### Government grants

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

### Revenue recognition

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Construction contracts

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

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

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

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

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

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

### Foreign currencies

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Foreign currencies *(Continued)*

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

### Pension benefits

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

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

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

### Borrowing costs

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### Dividends

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

*Operating lease commitments – Group as lessor*

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

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

### Judgements *(Continued)*

*Classification between investment properties and owner-occupied properties*

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

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

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

### Estimation uncertainty

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

*Useful lives and impairment of property, plant and equipment*

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

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

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

### Estimation uncertainty *(Continued)*

*Impairment of receivables*

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

*Provision for inventories under net realisable value*

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

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

*Impairment of available-for-sale financial investments*

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

*Deferred tax assets*

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

## 4. OPERATING SEGMENT INFORMATION

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

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| The PRC | **61,492,460** | 49,661,673 |
| Overseas | **1,548,510** | 749,881 |
| | **63,040,970** | 50,411,554 |

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| The PRC | **38,857,711** | 42,930,910 |
| Overseas | **129,123** | 114,320 |
| | **38,986,834** | 43,045,230 |

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

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

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **63,040,970** | 50,411,554 |
| **Other income and gains** | | |
| Bank interest income | **72,045** | 94,570 |
| Trading of iron ore | **429,118** | – |
| Dividend income from available-for-sale financial investments | **14,399** | 20,863 |
| Dividend income from equity investments at fair value through profit or loss | **17** | 13 |
| Subsidies income* | **78,449** | 95,218 |
| Fair value gains on equity investments at fair value through profit or loss | **–** | 224 |
| Recognition of deferred income | **79,527** | 79,503 |
| Reversal of provision for doubtful debts, net | **112** | 213 |
| Gain on disposal of items of property, plant and equipment, net | **–** | 16,899 |
| Foreign exchange gains | **134,174** | – |
| Others | **1,346** | 267 |
| | **809,187** | 307,770 |

Note:

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

## 6. PROFIT BEFORE TAX

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

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Cost of inventories sold * | | **59,675,969** | 47,674,579 |
| Depreciation of property, plant and equipment | 14 | **4,810,646** | 4,820,673 |
| Depreciation of investment properties | 16 | **158** | 86 |
| Recognition of prepaid land premiums | 17 | **41,551** | 41,586 |
| Amortisation of other intangible assets ** | 18 | **5,593** | 4,089 |
| Reversal of provision for doubtful debts, net # | | **(112)** | (213) |
| Impairment of an investment in an associate ## | 21 | **3,739** | – |
| Auditors' remuneration | | **4,535** | 5,175 |
| Staff costs (excluding directors' and supervisors' remuneration (note 8)): | | | |
| Wages and salaries | | **2,552,147** | 2,268,720 |
| Welfare and benefits | | **820,560** | 702,971 |
| Pension scheme contributions | | **594,437** | 523,621 |
| | | **3,967,144** | 3,495,312 |
| Contingent rents under operating leases in respect of land and buildings | | **48,540** | 44,440 |
| Foreign exchange losses/(gains), net | | **(134,174)** | 15,146 |
| (Gain)/loss on disposal of items of property, plant and equipment, net | | **6,513** | (16,899) |
| Rental income on investment properties | | **(1,655)** | (1,500) |
| Bank interest income | | **(72,045)** | (94,570) |
| Dividend income from available-for-sale financial investments | | **(14,399)** | (20,863) |
| Dividend income from equity investments at fair value through profit or loss | | **(17)** | (13) |
| Fair value (gains)/losses on equity investments at fair value through profit or loss | | **210** | (224) |
| Recognition of deferred income ### | | **(79,527)** | (79,503) |

## 6. PROFIT BEFORE TAX *(CONTINUED)*

Notes:

* Included in the cost of inventories sold for the year is a provision for inventories of RMB13,906,000 (2009: RMB57,811,000).

** The amortisation of other intangible assets is included in "Cost of sales" in the consolidated income statement.

# The reversal of provision for doubtful debts is included in "Other income" in the consolidated income statement.

## The impairment of an investment in an associate is included in "Other expenses" in the consolidated income statement.

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

## 7. FINANCE COSTS

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

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Fees | **524** | 524 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **626** | 616 |
| Performance related bonuses | **3,592** | 3,574 |
| Pension scheme contributions | **30** | 25 |
| | **4,248** | 4,215 |
| | **4,772** | 4,739 |

### (a) Independent directors and independent supervisors

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Independent directors* | | |
| Mr. Wong Chun Wa | **100** | 100 |
| Mr. Su Yong | **100** | 100 |
| Mr. Hui Leung Wah | **100** | 100 |
| Mr. Han Yi | **100** | 100 |
| | **400** | 400 |
| *Independent supervisors* | | |
| Ms. Cheng Shaoxiu | **62** | 62 |
| Ms. An Qun | **62** | 62 |
| | **124** | 124 |
| | **524** | 524 |

There were no other emoluments payable to the independent directors and independent supervisors during the year (2009: Nil).

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

### (b) Executive directors and supervisors

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| *Executive directors* | | | | | |
| Mr. Gu Jianguo | – | 108 | 784 | 6 | 898 |
| Mr. Su Jiangang | – | 108 | 784 | 6 | 898 |
| Mr. Gao Haijian | – | 87 | 627 | 5 | 719 |
| Mr. Hui Zhigang | – | 87 | 627 | 5 | 719 |
| Mr. Zhao Jianming | – | – | – | – | – |
| | – | 390 | 2,822 | 22 | 3,234 |
| *Supervisors* | | | | | |
| Mr. Zhang Xiaofeng | – | 87 | 627 | 4 | 718 |
| Mr. Liu Xianli | – | 149 | 143 | 4 | 296 |
| Mr. Fang Jinrong | – | – | – | – | – |
| | – | 236 | 770 | 8 | 1,014 |
| | – | 626 | 3,592 | 30 | 4,248 |

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

### (b) Executive directors and supervisors *(Continued)*

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

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2009: Nil).

## 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2009: four) directors and supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: one) non-director, non-supervisor, highest paid employee for the year are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **87** | 87 |
| Performance related bonuses | **627** | 630 |
| Pension scheme contributions | **5** | 4 |
| | **719** | 721 |

The remuneration of the non-director, non-supervisor, highest paid employee fell within the band of nil to RMB1,000,000 (2009: Nil to RMB1,000,000).

## 10. INCOME TAX

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Group: | | |
| Current – The mainland of the PRC | | |
| Charge for the year | **121,622** | 90,619 |
| Under/(over) provision in prior years | **80,086** | 83,610 |
| Current – Hong Kong | **977** | 618 |
| Current – Elsewhere | **31,104** | 21,494 |
| Deferred (note 23) | **285,713** | (167,331) |
| Total tax charge for the year | **519,502** | 29,010 |

The corporate income tax ("CIT") for the Company for the current year has been provided at the rate of 25% (2009: 25%) on the assessable profits according to the relevant tax rules and regulations.

## 10. INCOME TAX *(CONTINUED)*

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

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

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

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

Profits tax for a subsidiary in Hong Kong has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

## 10. INCOME TAX *(CONTINUED)*

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

| | **Group** | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **RMB'000** | **%** | RMB'000 | % |
| Profit before tax | **1,711,112** | | 562,876 | |
| Tax at the applicable tax rate | **427,778** | **25** | 140,719 | 25 |
| Effect of different tax rates for specific provinces or enacted by the local authority of subsidiaries | **(12,508)** | **(1)** | 5,029 | 1 |
| Expenses not deductible for tax | **122,981** | **7** | 26,064 | 4 |
| Adjustments in respect of current tax of previous periods | **80,086** | **5** | 83,610 | 15 |
| Tax concessions | **(36,603)** | **(2)** | (43,286) | (8) |
| Tax relief granted | **(16,544)** | **(1)** | (35,047) | (6) |
| Income not subject to tax | **(6,736)** | **–** | (17,461) | (3) |
| Profits and losses attributable to jointly–controlled entities and associates | **(51,187)** | **(3)** | (45,810) | (8) |
| Tax losses utilised | **(2,146)** | **–** | (86,887) | (15) |
| Tax losses not recognised | **14,285** | **–** | 2,079 | – |
| Effect of withholding tax at 5% on the dividend income from an associate of the Group in the PRC | **96** | **–** | – | – |
| Tax charge at the Group's effective rate | **519,502** | **30** | 29,010 | 5 |

The share of tax attributable to jointly-controlled entities and associates amounting to RMB22,000 (2009: RMB117,000) and RMB39,737,000 (2009: RMB34,405,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" in the consolidated income statement.

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB902,920,000 (2009: RMB15,973,000) which has been dealt with in the financial statements of the Company (note 35(b)).

## 12. DIVIDEND

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Proposed final – RMB5 cents (2009: RMB4 cents) per ordinary share | **385,034** | 308,027 |

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB1,101,839,000 (2009: RMB392,475,000), and the weighted average of 7,700,681,186 (2009: 7,700,681,186) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2010** | | | | |
| At 1 January 2010: | | | | |
| Cost | 20,723,321 | 40,896,761 | 436,314 | 62,056,396 |
| Accumulated depreciation and impairment | (6,396,815) | (17,038,122) | (348,560) | (23,783,497) |
| Net carrying amount | 14,326,506 | 23,858,639 | 87,754 | 38,272,899 |
| At 1 January 2010, net of accumulated depreciation and impairment | 14,326,506 | 23,858,639 | 87,754 | 38,272,899 |
| Additions | 4,573 | 13,391 | 1,874 | 19,838 |
| Transfer from construction in progress (note 15) | 453,469 | 1,030,635 | 11,385 | 1,495,489 |
| Depreciation provided during the year | (1,143,964) | (3,633,953) | (32,729) | (4,810,646) |
| Reclassifications | 468,744 | (476,693) | 7,949 | – |
| Disposals/write-off | (9,016) | (6,140) | (820) | (15,976) |
| Other transfers | (556,001) | – | – | (556,001) |
| At 31 December 2010, net of accumulated depreciation and impairment | 13,544,311 | 20,785,879 | 75,413 | 34,405,603 |
| At 31 December 2010: | | | | |
| Cost | 21,417,743 | 41,034,085 | 443,931 | 62,895,759 |
| Accumulated depreciation and impairment | (7,873,432) | (20,248,206) | (368,518) | (28,490,156) |
| Net carrying amount | 13,544,311 | 20,785,879 | 75,413 | 34,405,603 |

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

Group

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

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

**Company**

| | Buildings and structures RMB'000 | Plant, machinery and equipment RMB'000 | Transportation vehicles and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2010** | | | | |
| At 1 January 2010: | | | | |
| Cost | 19,789,647 | 39,293,802 | 409,814 | 59,493,263 |
| Accumulated depreciation and impairment | (6,245,485) | (16,621,326) | (332,748) | (23,199,559) |
| Net carrying amount | 13,544,162 | 22,672,476 | 77,066 | 36,293,704 |
| At 1 January 2010, net of accumulated depreciation and impairment | 13,544,162 | 22,672,476 | 77,066 | 36,293,704 |
| Transfer from construction in progress (note 15) | 292,706 | 645,003 | 11,385 | 949,094 |
| Depreciation provided during the year | (1,096,588) | (3,470,550) | (29,129) | (4,596,267) |
| Reclassifications | 468,744 | (476,693) | 7,949 | – |
| Disposals/write-off | (9,016) | (5,832) | (462) | (15,310) |
| Other transfers | (556,001) | – | – | (556,001) |
| At 31 December 2010, net of accumulated depreciation and impairment | 12,644,007 | 19,364,404 | 66,809 | 32,075,220 |
| At 31 December 2010: | | | | |
| Cost | 20,318,733 | 39,033,031 | 416,494 | 59,768,258 |
| Accumulated depreciation and impairment | (7,674,726) | (19,668,627) | (349,685) | (27,693,038) |
| Net carrying amount | 12,644,007 | 19,364,404 | 66,809 | 32,075,220 |

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

Company

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

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

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

At 31 December 2010, certificates of ownership in respect of the Group's buildings with a total cost of RMB2,611,686,000 (2009: RMB2,410,823,000) have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates.

As 31 December 2010, certain of the Group's production equipment with a net carrying amount of RMB37,987,000 were pledged as securities for the Group's bank loans, as further detailed in note 32 to the financial statements.

## 15. CONSTRUCTION IN PROGRESS

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **31 December 2010** | | |
| Cost: | | |
| At 1 January 2010 | **2,021,193** | **1,726,598** |
| Additions | **1,259,683** | **895,424** |
| Transfer to property, plant and equipment (note 14) | **(1,495,489)** | **(949,094)** |
| At 31 December 2010 | **1,785,387** | **1,672,928** |
| Accumulated impairment: | | |
| At 1 January 2010 and 31 December 2010 | **–** | **–** |
| At 31 December 2010, net of accumulated impairment | **1,785,387** | **1,672,928** |

## 15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

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

## 16. INVESTMENT PROPERTIES

**Group**

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **4,727** | 1,206 |
| Addition | **90** | – |
| Transfer from property, plant and equipment (note 14) | **–** | 3,607 |
| Transfer from prepaid land premiums (note 17) | **2,112** | – |
| Depreciation provided during the year | **(158)** | (86) |
| Carrying amount at 31 December | **6,771** | 4,727 |

**Company**

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **18,404** | 18,809 |
| Depreciation provided during the year | **(405)** | (405) |
| Carrying amount at 31 December | **17,999** | 18,404 |

## 16. INVESTMENT PROPERTIES *(CONTINUED)*

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

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37 to the financial statements.

## 17. PREPAID LAND PREMIUMS

**Group**

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Carrying amount at 1 January | **1,746,690** | 1,765,348 |
| Additions | **8,819** | 23,063 |
| Disposals | **(16,899)** | (135) |
| Transfer to investment properties (note 16) | **(2,112)** | – |
| Recognised during the year | **(41,551)** | (41,586) |
| Carrying amount at 31 December | **1,694,947** | 1,746,690 |

**Company**

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Carrying amount at 1 January | **1,238,079** | 1,269,926 |
| Additions | **8,819** | – |
| Recognised during the year | **(31,865)** | (31,847) |
| Carrying amount at 31 December | **1,215,033** | 1,238,079 |

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

As at 31 December 2010, certain of the Group's prepaid land premiums with an aggregate net carrying amount of RMB26,041,000 (2009: RMB26,542,000) were pledged to secure bank loans granted for the Group, as further detailed in note 32 to the financial statements.

## 18. OTHER INTANGIBLE ASSETS

**Group**

| | Mine participation right RMB'000 | Back-up roll technology RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2010** | | | |
| Carrying amount at 1 January | **109,090** | **–** | **109,090** |
| Additions | **9,255** | **45,083** | **54,338** |
| Amortisation provided during the year | **(4,841)** | **(752)** | **(5,593)** |
| Exchange realignment | **10,572** | **–** | **10,572** |
| Carrying amount at 31 December | **124,076** | **44,331** | **168,407** |
| At end of year: | | | |
| Cost | **150,422** | **45,083** | **195,505** |
| Accumulated amortisation | **(26,346)** | **(752)** | **(27,098)** |
| Net carrying amount | **124,076** | **44,331** | **168,407** |

| | Mine participation right RMB'000 | Back-up roll technology RMB'000 | Total RMB'000 |
|---|---|---|---|
| 31 December 2009 | | | |
| Carrying amount at 1 January | 85,191 | – | 85,191 |
| Additions | 2,593 | – | 2,593 |
| Amortisation provided during the year | (4,089) | – | (4,089) |
| Exchange realignment | 25,395 | – | 25,395 |
| Carrying amount at 31 December | 109,090 | – | 109,090 |
| At end of year: | | | |
| Cost | 128,553 | – | 128,553 |
| Accumulated amortisation | (19,463) | – | (19,463) |
| Net carrying amount | 109,090 | – | 109,090 |

## 19. INVESTMENTS IN SUBSIDIARIES

**Company**

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **1,200,553** | 1,200,553 |

Particulars of the Company's subsidiaries are as follows:

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

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up registered capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Maanshan Iron & Steel (HK) Limited ("Masteel HK") | Hong Kong | HKD4,800,000 | 80 | 20 | Trading of steel and iron ore; and provision of steel trading agency services and transportation services |
| Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (notes ii, iii) | PRC | RMB35,000,000 | 70 | 30 | Processing and sale of metallic products; processing of vehicle spare parts; and sale of construction materials and chemical products (except dangerous products) |
| Maanshan Iron & Steel (Australia) Proprietary Limited (note iii) | Australia | AUD21,737,900 | 100 | – | Production and sale of iron ore through an unincorporated joint venture |
| MG Trading and Development GmbH (note iii) | Germany | EUR153,388 | 100 | – | Trading of equipment, iron and steel products; and provision of technology services |
| Ma Steel International Trade and Economic Corporation (notes i, iii) | PRC | RMB50,000,000 | 100 | – | Import of machinery and raw materials; and export of steel products |
| Ma Steel (Cihu) Processing and Distribution Co., Ltd. (notes i, iii) | PRC | RMB30,000,000 | – | 92 | Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services |

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") (notes ii, iv) | PRC | RMB30,000,000 | 71 | 29 | Production and sale of packing materials for steel and other products; provision of on-site packing services; research, development, production and sale of vehicle spare parts, electronic engineering products, and macro–molecular compound materials; processing and sale of metallic products |
| Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. (notes i, iii) | PRC | RMB1,000,000 | 90 | – | Provision of equipment inspection and technical consultancy services; and equipment inspection work |
| Ma Steel (Jinhua) Processing and Distribution Co., Ltd. (notes ii, iii) | PRC | RMB120,000,000 | 75 | – | Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage, transportation and after-sale services |

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

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

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

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

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

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

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

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

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/paid-up registered capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Anhui Masteel Stereoscopic Auto-Parking Equipment Company Limited ("Masteel Auto-Parking") (notes ii, iii, iv) | PRC | USD2,500,000 | – | 100 | Development, production, installation and sale of automatic parking equipment, storage equipment, engineering and related steel frame, decoration materials, electronic spare parts, instruments and meters; and provision of related integration and consulting services |
| Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd ("Jiangnan Iron and Steel") (notes i, iii) | PRC | RMB1,000,000 | – | 100 | Monitoring and testing of steel materials and products, titanium alloy, thermostatic materials products, raw materials and fuels; service of physical and chemical inspection technique; application, appraisal and repair of physical and chemical devices |

## 19. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Notes:

(i) Registered as limited companies under PRC law

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

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

(iv) During the year, the Group acquired the non-controlling interests of the Holly Industrial for a cash consideration of RMB32.8 million. Upon the acquisition, Holly Industrial and its subsidiary, Masteel Auto-Parking, became the wholly-owned subsidiaries of the Group.

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

## 20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **–** | – | **234,500** | 234,500 |
| Share of net assets | **330,338** | 309,672 | **–** | – |
| | **330,338** | 309,672 | **234,500** | 234,500 |

The Group's other receivable and trade payable balances with the jointly-controlled entities are disclosed in notes 27 and 30 to the financial statements, respectively.

Particulars of the jointly-controlled entities are as follows:

| Name | Place of registration | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|
| Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") | PRC | 50 | 50 | 50 | Manufacture and sale of gas products (hydrogen, oxygen, argon and other gases) in gas and liquid and other industrial gases; provision of product-related sale services, technical services and other related services |
| MASTEEL-CMI International Training Center Co., Ltd ("MASTEEL-CMI") (note i) | PRC | 50 | 50 | 50 | Provision of training services on operation, repair and maintenance of cold rolling production lines to CMI customers |
| Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration") | PRC | 49 | (note ii) | 49 | Manufacture and sale of complete set of rotary hearth furnace equipment |

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

Note:

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

(ii) As at the end of the reporting period, the Group holds a 49% equity interest of Sino-Japan Resource Regeneration. The chairman of the board of directors was appointed by the Group. Among the board of directors, two of the directors were appointed by the Group and three of the directors were appointed by Nippon Steel Engineering Co., Ltd. According to the articles of association of Sino-Japan Resource Regeneration, the resolution of the financial and operating policies require more than half of the votes of the directors and the approval from the chairman of the board of directors. Thus, the Group accounted for Sino-Japan Resource Regeneration as an investment in jointly-controlled entity under the equity method.

The above equity investments in the jointly-controlled entities are directly held by the Company, except for the equity investments in Sino-Japan Resource Regeneration which is held through Design & Research Institute of Maanshan Iron & Steel Company Limited, a non-wholly owned subsidiary of the Company.

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Assets | **686,332** | 701,065 |
| Liabilities | **(25,496)** | (81,721) |
| Revenue | **508,267** | 466,802 |
| Net profit | **166,387** | 136,490 |

## 21. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **–** | – | **298,276** | 263,276 |
| Share of net assets | **599,120** | 580,959 | **–** | – |
| | **599,120** | 580,959 | **298,276** | 263,276 |
| Provision for impairment | **(3,739)** | – | **–** | – |
| | **595,381** | 580,959 | **298,276** | 263,276 |

The Group's trade receivable, other receivable, trade payable and other payable balances with the associates are disclosed in notes 26, 27, 30 and 31 to the financial statements, respectively.

Particulars of the Group's associates are as follows:

| **Name** | **Place of registration and operations** | **Percentage of ownership interest attributable to the Group** | **Principal activities** |
|---|---|---|---|
| Jiyuan Shi JinMa Coke., Ltd. ("Jiyuan JinMa Coke") (note i) | PRC | 36 | Production and sale of coke, tar, benzene and coal gas |
| Tengzhou Shenglong JinMa Coke., Ltd. ("Tengzhou Shenglong Coke") (note i) | PRC | 32 | Production and sale of coke, tar, coal gas and coke chemical products; provision of logistics services |
| Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic") (note i) | PRC | 20 | Set-up of iron and steel e-commerce and related services; provision of iron and steel e-commerce technology and information services |

## 21. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Particulars of the Group's associates are as follows: (continued)

| Name | Place of registration and operations | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|
| Maanshan Harbour Group Co., Ltd. ("Maanshan Harbour") (note i) | PRC | 45 | Loading/unloading and cargo forwarding agency services; storage, transportation of cargo and division/merge of cargo in containers; provision of general services to ships, repair and manufacture of spare parts of ships |
| Anhui All-monitor Automobile Transmission System Co., Ltd. ("All-Monitor Transmission System") (note i) | PRC | 31.95 | Development, production, and sale of vehicle automatic transmission products and related spare parts; provision of related design technique, equipment production and transportation services |
| Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour") (note i) | PRC | 35 | Loading/unloading and cargo forwarding agency services |

Note:

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

The above equity investments in the associates are directly held by the Company, except for the equity investments in "All-Monitor Transmission System" which is held through Holly Industrial, a non-wholly owned subsidiary of the Company.

## 21. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Assets | **5,858,152** | 5,506,510 |
| Liabilities | **(4,135,939)** | (3,394,778) |
| Revenue | **5,039,839** | 4,305,904 |
| Net profit | **414,456** | 364,181 |

## 22. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

| | **Group and Company** | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Unlisted equity investments, at cost | **108,772** | 108,772 |

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

## 23. DEFERRED TAX

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

**Group**

**Year 2010**

**Deferred tax assets**

| | Repair and maintenance expenses RMB'000 | Asset provisions RMB'000 | Pre-operation expenses RMB'000 | Salary payable RMB'000 | Sales incentive payable RMB'000 | Deductible tax losses RMB'000 | Unrealised profit RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | 9,688 | 38,044 | 4,453 | 27,799 | 86,340 | 592,628 | 11,323 | 9,306 | 779,581 |
| Deferred tax credited/ (charged) to the income statement during the year (note 10) | (1,321) | (5,748) | (4,453) | 16,809 | 16,125 | (319,446) | (1,518) | 13,839 | (285,713) |
| Gross and net deferred tax assets recognised in the consolidated statement of financial position at 31 December 2010 | 8,367 | 32,296 | – | 44,608 | 102,465 | 273,182 | 9,805 | 23,145 | 493,868 |

## 23. DEFERRED TAX *(CONTINUED)*

Group

Year 2009

Deferred tax assets

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

Deferred tax liabilities

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

## 23. DEFERRED TAX *(CONTINUED)*

**Company**

**Year 2010**

**Deferred tax assets**

| | Repair and maintenance expenses RMB'000 | Asset provisions RMB'000 | Pre-operation expenses RMB'000 | Salary payable RMB'000 | Sales incentive payable RMB'000 | Deductible tax losses RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2010 | **9,688** | **38,044** | **4,453** | **27,799** | **86,340** | **592,628** | **9,038** | **767,990** |
| Deferred tax credited/ (charged) to the income statement during the year | **(1,321)** | **(5,748)** | **(4,453)** | **16,809** | **16,125** | **(319,446)** | **9,763** | **(288,271)** |
| Gross and net deferred tax assets recognised in the statement of financial position at 31 December 2010 | **8,367** | **32,296** | **–** | **44,608** | **102,465** | **273,182** | **18,801** | **479,719** |

Year 2009

Deferred tax assets

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

## 23. DEFERRED TAX *(CONTINUED)*

At 31 December 2010, the Group had unrecognised deferred tax assets in respect of tax credits arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credits amounting to RMB158 million and RMB5 million, respectively.

At 31 December 2010, there was no significant unrecognised deferred tax liability (2009: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

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

## 24. INVENTORIES

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **8,193,400** | 4,501,953 | **6,970,398** | 4,079,966 |
| Work in progress | **1,554,841** | 1,249,927 | **1,428,626** | 1,240,867 |
| Finished goods | **921,346** | 1,130,116 | **420,468** | 366,399 |
| Spare parts | **1,650,978** | 1,954,000 | **1,650,978** | 1,889,410 |
| | **12,320,565** | 8,835,996 | **10,470,470** | 7,576,642 |

At 31 December 2010, the carrying amount of the Group's inventories, which were pledged as securities for the Group's trading facilities for the issuance of bank bills, was RMB309,831,000 (2009: RMB223,882,000), as further detailed in note 30 to the financial statements.

## 25. CONSTRUCTION CONTRACTS

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Gross amount due from contract customers | **131,230** | 152,798 |
| Contract costs incurred to date plus recognised profits less recognised losses | **841,501** | 269,508 |
| Less: Progress billings | **(710,271)** | (116,710) |
| | **131,230** | 152,798 |

At 31 December 2010, retentions held by customers for contract work included in the Group's trade receivables amounted to RMB13 million (2009: RMB16 million).

## 26. TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables | **1,113,569** | 843,471 | **2,364,217** | 1,089,393 |
| Bills receivable | **8,374,603** | 4,421,190 | **7,456,374** | 4,183,147 |
| | **9,488,172** | 5,264,661 | **9,820,591** | 5,272,540 |
| Impairment | **(15,790)** | (20,541) | **(13,382)** | (18,021) |
| | **9,472,382** | 5,244,120 | **9,807,209** | 5,254,519 |

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

## 26. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables: | | | | |
| Within three months | **698,866** | 658,413 | **1,895,330** | 904,198 |
| Four to six months | **266,853** | 64,211 | **283,128** | 36,585 |
| Seven to twelve months | **84,229** | 64,348 | **96,232** | 62,864 |
| One to two years | **39,310** | 27,319 | **40,161** | 62,300 |
| Two to three years | **5,441** | 8,018 | **35,014** | 5,351 |
| Over three years | **3,080** | 621 | **970** | 74 |
| | **1,097,779** | 822,930 | **2,350,835** | 1,071,372 |
| Bills receivable | **8,374,603** | 4,421,190 | **7,456,374** | 4,183,147 |
| | **9,472,382** | 5,244,120 | **9,807,209** | 5,254,519 |

Bills receivable will mature within one year.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **20,541** | 19,815 | **18,021** | 17,082 |
| Impairment losses recognised | **–** | 321 | **–** | – |
| Amount written off as uncollectible | **(4,639)** | 939 | **(4,639)** | 939 |
| Impairment losses reversed | **(112)** | (534) | **–** | – |
| At 31 December | **15,790** | 20,541 | **13,382** | 18,021 |

## 26. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The above provision for impairment of the Group's trade and bills receivables is a provision for individually impaired trade receivables, with a carrying amount before provision of RMB26,630,000 (2009: RMB31,389,000). The individually impaired trade receivables relate to customers that were in financial difficulties or the customers were in default or delinquency in principal payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Neither overdue nor impaired | **9,410,754** | 5,199,890 | **9,752,664** | 5,230,559 |
| Overdue less than six months | **40,133** | 18,624 | **39,591** | 12,060 |
| Overdue over six months | **21,495** | 25,606 | **14,954** | 11,900 |
| | **9,472,382** | 5,244,120 | **9,807,209** | 5,254,519 |

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

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

Included in the Group's trade and bills receivables are amounts due from Holding and its subsidiaries and the Group's associate of RMB78,830,000 (2009: RMB27,369,000) and RMB436,000 (2009: RMB1,149,000), respectively. These balances principally arose from normal trading activities.

As at 31 December 2009, all of the Company's trade receivables were pledged as securities for the Group's bank loans of RMB680,000,000, as further detailed in note 32 to the financial statements.

As at 31 December 2010, certain of the Group's bills receivable of RMB52,582,000 (2009: RMB29,000,000) were pledged as securities for the Group's bank loans, as further detailed in note 32 to the financial statements.

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | **1,377,144** | 823,339 | **1,278,962** | 571,603 |
| Deposits and other receivables | **837,682** | 299,986 | **278,212** | 61,027 |
| | **2,214,826** | 1,123,325 | **1,557,174** | 632,630 |
| Impairment | **(7,070)** | (7,070) | **(6,931)** | (6,931) |
| | **2,207,756** | 1,116,255 | **1,550,243** | 625,699 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Neither overdue nor impaired | **827,303** | 287,452 | **267,419** | 37,053 |
| Overdue less than six months | **2,266** | 3,678 | **2,235** | 3,679 |
| Overdue over six months | **1,043** | 1,786 | **1,627** | 13,364 |
| | **830,612** | 292,916 | **271,281** | 54,096 |

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

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

Included in the Group's prepayments, deposits and other receivables are amounts due from Holding and its subsidiaries, and the Group's jointly-controlled entity and associate of RMB81,500 (2009: RMB1,483,000), nil (2009: RMB6,751,000) and RMB118,800,000 (2009: RMB25,671,000), respectively.

## 28. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Listed equity investments in the PRC | **827** | 1,037 |

The above equity investments at 31 December 2010 and 2009 were classified as held for trading.

## 29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **5,022,463** | 5,502,948 | **2,860,621** | 3,759,523 |
| Time deposits | **1,360,228** | 3,197,370 | **226,603** | 2,049,546 |
| | **6,382,691** | 8,700,318 | **3,087,224** | 5,809,069 |
| Less: Pledged time deposits for | | | | |
| – Trade facilities (Note (i)) | **(997,625)** | (857,575) | **–** | (1,086) |
| – Performance bonds | **–** | (13,747) | **–** | – |
| – Other banking facilities (Note (ii)) | **–** | (2,048,460) | **–** | (2,048,460) |
| | **(997,625)** | (2,919,782) | **–** | (2,049,546) |
| Cash and cash equivalents in the statement of financial position | **5,385,066** | 5,780,536 | **3,087,224** | 3,759,523 |
| Less: Non-pledged time deposits with original maturity greater than three months when acquired | **–** | (277,588) | | |
| Cash and cash equivalents in the consolidated statement of cash flows | **5,385,066** | 5,502,948 | | |

## 29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(CONTINUED)*

Notes:

(i) At 31 December 2010, these time deposits of the Group were pledged as securities for the Group's trading facilities for the issuance of bank bills and general banking facilities amounting to RMB990,988,000 (2009: RMB857,575,000) and RMB6,637,000 (2009: nil), respectively, as further detailed in note 30 to the financial statements.

(ii) At 31 December 2009, these time deposits of the Group comprises of RMB682,820,000 and RMB1,365,640,000 which were pledged as securities for the Group's bank loans of RMB680,000,000 and RMB1,366,112,000, respectively, as further detailed in note 32 to the financial statements.

At the end of the reporting period, the above balances of the Group denominated in RMB amounted to RMB5,675,055,000 (2009: RMB6,248,731,000). The RMB is not freely convertible into other currencies, however, under the mainland of the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## 30. TRADE AND BILLS PAYABLES

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **10,652,743** | 11,530,506 | **7,377,756** | 8,689,210 |
| One to two years | **77,985** | 110,735 | **55,786** | 86,545 |
| Two to three years | **45,396** | 35,436 | **38,229** | 25,639 |
| Over three years | **43,455** | 38,714 | **21,051** | – |
| | **10,819,579** | 11,715,391 | **7,492,822** | 8,801,394 |

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

## 30. TRADE AND BILLS PAYABLES *(CONTINUED)*

Included in the Group's trade and bills payables are amounts due to Holding and its subsidiaries, and the Group's jointly-controlled entities and associates of RMB76,560,000 (2009: RMB110,024,000), RMB18,889,000 (2009: RMB13,002,000) and RMB17,621,000 (2009: RMB21,351,000), respectively. These balances principally arose from normal trading activities.

At 31 December 2010, the carrying amounts of the Group's inventories and time deposits, which were pledged to secure the Group's trading facilities for the issuance of bank bills, amounted to RMB309,831,000 (2009: RMB223,882,000) and RMB990,988,000 (2009: RMB857,575,000), respectively, as further detailed in notes 24 and 29 to the financial statements.

## 31. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Other payables | **1,632,611** | 1,760,760 | **1,591,580** | 1,703,565 |
| Advanced from customers | **8,127,237** | 6,092,363 | **6,833,000** | 5,584,923 |
| | **9,759,848** | 7,853,123 | **8,424,580** | 7,288,488 |

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

Included in the Group's other payables and accruals are amounts due to Holding and its subsidiaries and the Group's associate, amounting to RMB626,980,000 (2009: RMB797,018,000) and RMB146,000 (2009: RMB367,000), respectively. These balances principally arose from normal trading activities.

## 32. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective contractual interest rate (%) | Maturity | Group 2010 RMB'000 | Group 2009 RMB'000 | Company 2010 RMB'000 | Company 2009 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans – unsecured | 1.1-5.6 | 2011 | **952,094** | 1,133,246 | **264,908** | – |
| Bank loans – secured | 5.3 | 2011 | **15,000** | – | **–** | – |
| Current portion of long term bank loans – unsecured | 1.9-5.3 | 2011 | **2,497,135** | 816,000 | **2,497,135** | 816,000 |
| Current portion of long term bank loans – secured | 5.0 | 2011 | **14,000** | – | **–** | – |
| Other loans – unsecured | 4.8 | 2011 | **10,000** | 40,000 | **–** | – |
| Bonds with warrants (note 33) | 5.0 | 2011 | **5,346,476** | – | **5,346,476** | – |
| | | | **8,834,705** | 1,989,246 | **8,108,519** | 816,000 |
| **Non-current** | | | | | | |
| Bank loans – unsecured | 0.4-5.3 | 2012-2013 | **11,368,731** | 11,337,848 | **11,278,731** | 11,330,888 |
| Bank loans – secured | | | **–** | 2,066,112 | **–** | 2,046,112 |
| Other loans – unsecured | | | **–** | 200,000 | **–** | 200,000 |
| | | | **11,368,731** | 13,603,960 | **11,278,731** | 13,577,000 |
| Medium term notes | 4.45 | 2013 | **997,833** | – | **997,833** | – |
| Bonds with warrants (note 33) | | | **–** | 5,165,410 | **–** | 5,165,410 |
| | | | **12,366,564** | 18,769,370 | **12,276,564** | 18,742,410 |
| | | | **21,201,269** | 20,758,616 | **20,385,083** | 19,558,410 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Analysed into: | | | | |
| Bank loans repayable: | | | | |
| Within one year | **3,478,229** | 1,949,246 | **2,762,043** | 816,000 |
| In the second year | **10,308,731** | 10,981,000 | **10,218,731** | 10,961,000 |
| In the third to fifth years, inclusive | **1,060,000** | 2,422,960 | **1,060,000** | 2,416,000 |
| | **14,846,960** | 15,353,206 | **14,040,774** | 14,193,000 |
| Other borrowings repayable: | | | | |
| Within one year | **5,356,476** | 40,000 | **5,346,476** | – |
| In the second year | **–** | 200,000 | **–** | 200,000 |
| In the third to fifth years, inclusive | **997,833** | 5,165,410 | **997,833** | 5,165,410 |
| | **6,354,309** | 5,405,410 | **6,344,309** | 5,365,410 |
| | **21,201,269** | 20,758,616 | **20,385,083** | 19,558,410 |

Certain of the bank and other borrowings of RMB9,837,675,000 (2009: RMB9,285,666,000) are guaranteed by Holding.

As at 31 December 2010, certain other loans of RMB10,000,000 (2009: RMB40,000,000) in aggregate were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with an annual interest rate at 4.8%.

Except for bank and other borrowings of RMB5,392,177,000 (2009: RMB5,735,688,000) which are denominated in the United States dollar, all other borrowings are denominated in RMB.

Please refer to note 33 below for the details of bonds with warrants.

As at 31 December 2010, certain of the Group's bank loans of RMB14,000,000 (2009: RMB20,000,000) were secured by the pledge of certain of the Group's prepaid land premiums with an aggregate net carrying value of RMB26,041,000 (2009: RMB26,542,000), as further detailed in note 17 to the financial statements.

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

As at 31 December 2010, certain of the Group's bank loans of RMB52,582,000 (2009: RMB29,000,000) were secured by the pledge of certain of the Group's bills receivable of RMB52,582,000 (2009: RMB29,000,000), as further detailed in note 26 to the financial statements.

As at 31 December 2010, certain of the Group's bank loans of RMB15,000,000 were secured by the pledge of certain of the Group's production equipment with an aggregate net carrying value of RMB37,987,000, as further detailed in note 14 to the financial statements.

As at 31 December 2009, certain of the Group's bank loans of RMB680,000,000 were secured by the pledge of all of the Company's trade receivables and certain of the Group's time deposits of RMB682,820,000, as further detailed in notes 26 and 29 to the financial statements.

As at 31 December 2009, certain of the Group's bank loans of RMB1,366,112,000 were secured by the pledge of certain of the Group's time deposits of RMB1,365,640,000, as further detailed in note 29 to the financial statements.

## 33. BONDS WITH WARRANTS

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

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

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

## 33. BONDS WITH WARRANTS *(CONTINUED)*

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

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

The carrying amount of the liability component of the bonds with warrants as at 31 December 2010 is arrived at as follows:

| | **RMB'000** |
|---|---|
| Nominal value of bonds with warrants issued | 5,500,000 |
| Equity component | (733,019) |
| Direct transaction costs attributable to the liability component | (125,584) |
| Liability component at the issue date | 4,641,397 |
| The carrying amount at 1 January 2009 | 4,992,975 |
| Interest expense | 249,435 |
| Less: Interest paid | (77,000) |
| The carrying amount at 31 December 2009 and 1 January 2010 | **5,165,410** |
| Interest expense | **258,066** |
| Less: Interest paid | **(77,000)** |
| The carrying amount at 31 December 2010 | **5,346,476** |
| Portion classified as current liabilities | **(5,346,476)** |
| Non-current portion | **–** |

## 34. SHARE CAPITAL

**Group and Company**

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| A shares of RMB1.00 each | **5,967,751** | 5,967,751 |
| H shares of RMB1.00 each | **1,732,930** | 1,732,930 |
| | **7,700,681** | 7,700,681 |

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

## 35. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 85 of the financial statements.

### (b) Company

| | Capital reserve account RMB'000 | Statutory reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | |
| At 1 January 2010 | **8,338,359** | **2,873,596** | **5,982,025** | **17,193,980** |
| Total comprehensive income for the year | **–** | **–** | **902,920** | **902,920** |
| Transfer from/(to) reserves | **–** | **90,572** | **(90,572)** | **–** |
| Proposed final 2010 dividend | **–** | **–** | **(385,034)** | **(385,034)** |
| At 31 December 2010 | **8,338,359** | **2,964,168** | **6,409,339** | **17,711,866** |
| **Year ended 31 December 2009** | | | | |
| At 1 January 2009 | 8,338,359 | 2,864,522 | 6,283,153 | 17,486,034 |
| Total comprehensive income for the year | – | – | 15,973 | 15,973 |
| Transfer from/(to) reserves | – | 9,074 | (9,074) | – |
| Proposed final 2009 dividend | – | – | (308,027) | (308,027) |
| At 31 December 2009 | 8,338,359 | 2,873,596 | 5,982,025 | 17,193,980 |

## 35. RESERVES *(CONTINUED)*

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

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

Subsequent to the end of the reporting period, the directors determined that the Company should transfer RMB90.6 million (2009: RMB9.1 million) to the SR. This represents 10% of the Company's profit after tax of RMB905.7 million (2009: RMB90.8 million) determined in accordance with PRC accounting standards and regulations.

During the year, the share of the subsidiaries' current year appropriations to the SR, the reserve fund and the enterprise expansion fund, in accordance with the percentage of equity held by the Group, amounted to RMB19.7 million (2009: RMB18.7 million), RMB14.7 million (2009: RMB13.1 million) and RMB10.9 million (2009: RMB8.5 million), respectively.

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

As at 31 December 2010, the Company had retained profits of RMB6,409 million (31 December 2009: RMB5,982 million) after the appropriation of the proposed final dividend, as determined in accordance with the lower of the amount determined under PRC accounting standards and regulations and the amount determined under Hong Kong Financial Reporting Standards, available for distribution by way of cash or in kind.

As at 31 December 2010, in accordance with the Company Law of the People's Republic of China (2005 revised), an amount of RMB8.34 billion (2009: RMB8.34 billion) standing to the credit of the Company's capital reserve account, as determined under PRC accounting standards and regulations, was available for distribution by way of future capitalisation issue.

## 36. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **–** | – | **373,500** | 3,856,674 |

As at 31 December 2010, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were not utilised (2009: an amount of RMB616,246,000 was being utilised).

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

## 37. OPERATING LEASE ARRANGEMENTS

The Group has leased its investment properties in note 16 to the financial statements under an operating lease arrangement ranging from 2 to 18 years. The periodic rent is fixed during the operating lease periods.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Within one year | **1,900** | 1,750 |
| In the second to fifth years, inclusive | **6,000** | 7,000 |
| After five years | **8,908** | 9,908 |
| | **16,808** | 18,658 |

## 38. CAPITAL COMMITMENTS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Authorised, but not contracted for | **5,206,758** | 4,872,181 | **5,185,147** | 4,647,251 |
| Contracted, but not provided for | **454,463** | 1,860,432 | **319,301** | 1,786,964 |
| | **5,661,221** | 6,732,613 | **5,504,448** | 6,434,215 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Contracted, but not provided for | **35,000** | – | **35,000** | – |

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Authorised, but not contracted for | **111** | 797 |

## 39. RELATED PARTY TRANSACTIONS

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

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

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Transactions with Holding and its subsidiaries: | | | |
| Purchases of iron ore | (i) | **2,202,373** | 2,337,035 |
| Fees paid for welfare, support services and other services | (ii), (iii) | **227,642** | 196,643 |
| Rental expenses | (iii) | **48,540** | 44,440 |
| Agency fee paid | (iii) | **8,025** | 3,708 |
| Purchases of items of property, plant and equipment and construction services | (iii) | **111,220** | 162,378 |
| Fees received for the supply of utilities, services and other consumable goods | (iii) | **(64,463)** | (129,742) |
| Sales of steel and other by-products | (iii) | **(2,395)** | (4,819) |
| Finance costs | (iv) | **1,148** | 2,989 |

## 39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Transactions with associates of the Company: | | | |
| Purchases of coke | (iii) | **372,010** | 444,931 |
| Loading expenses | (iii) | **154,484** | 140,748 |
| Transactions with a jointly-controlled entity of the Company: | | | |
| Rental income | (iii) | **(1,250)** | (1,250) |
| Fee received for the supply of electricity | (iii) | **(257,836)** | (239,757) |
| Fee received for the provision of general public utilities | (iii) | **4,635** | 4,678 |
| Purchase of gas products | (iii) | **489,191** | 463,502 |

Notes:

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 15 October 2009 entered into between the Company and Holding.

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

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

(iv) Certain other loans of RMB10,000,000 (2009: RMB46,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and an annual interest rate at 4.8%.

## 39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Holding has guaranteed certain bank loans and bonds with warrants of the Group amounting to RMB9.8 billion (2009: RMB9.3 billion) as at the end of the reporting period at nil consideration, as further detailed in note 32 to the financial statements.

(c) Details on balances with Holding and its subsidiaries, the Group's jointly-controlled entities and associates are set out in notes 26, 27, 30 and 31 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

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

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short term employee benefits | **6,359** | 5,619 |
| Post-employment benefits | **43** | 34 |
| Total compensation paid to key management personnel | **6,402** | 5,653 |

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

In the opinion of the directors, the transactions set out in items (a) (i) to (iii) above were carried out in the normal course of business of the Group.

The above transactions with Holding and its subsidiaries in respect of item (a) above also constitute disclosable connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2010** **Group**

**Financial assets**

| | Financial assets at fair value through profit or loss – held for trading investments<br>RMB'000 | Loans and receivables<br>RMB'000 | Available-for-sale financial investments<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Available-for-sale financial investments | – | – | 108,772 | 108,772 |
| Trade and bills receivables | – | 9,472,382 | – | 9,472,382 |
| Financial assets included in prepayments, deposits and other receivables | – | 830,613 | – | 830,613 |
| Equity investments at fair value through profit or loss | 827 | – | – | 827 |
| Pledged time deposits | – | 997,625 | – | 997,625 |
| Cash and cash equivalents | – | 5,385,066 | – | 5,385,066 |
| | 827 | 16,685,686 | 108,772 | 16,795,285 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

| **2010** | **Group** |
|---|---|
| **Financial liabilities** | |
| | **Financial liabilities at amortised cost** |
| | **RMB'000** |
| Trade and bills payables | **10,819,579** |
| Financial liabilities included in other payables and accruals | **1,511,448** |
| Bonds with warrants | **5,346,476** |
| Interest-bearing bank and other borrowings | **15,854,793** |
| | **33,532,296** |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

2009 Group

Financial assets

| | Financial assets at fair value through profit or loss – held for trading investments RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial investments RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Available-for-sale financial investments | – | – | 108,772 | 108,772 |
| Trade and bills receivables | – | 5,244,120 | – | 5,244,120 |
| Financial assets included in prepayments, deposits and other receivables | – | 292,916 | – | 292,916 |
| Equity investments at fair value through profit or loss | 1,037 | – | – | 1,037 |
| Pledged time deposits | – | 2,919,782 | – | 2,919,782 |
| Cash and cash equivalents | – | 5,780,536 | – | 5,780,536 |
| | 1,037 | 14,237,354 | 108,772 | 14,347,163 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

2009 — Group

Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade and bills payables | 11,715,391 |
| Financial liabilities included in other payables and accruals | 1,463,265 |
| Bonds with warrants | 5,165,410 |
| Interest-bearing bank and other borrowings | 15,593,206 |
| | 33,937,272 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

**2010** — **Company**

**Financial assets**

| | Financial assets at fair value through profit or loss – held for trading investments RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial investments RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Available-for-sale financial investments | – | – | 108,772 | 108,772 |
| Trade and bills receivables | – | 9,807,209 | – | 9,807,209 |
| Financial assets included in prepayments, deposits and other receivables | – | 271,281 | – | 271,281 |
| Equity investments at fair value through profit or loss | 827 | – | – | 827 |
| Cash and cash equivalents | – | 3,087,224 | – | 3,087,224 |
| | 827 | 13,165,714 | 108,772 | 13,275,313 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

**2010** **Company**

**Financial liabilities**

| | **Financial liabilities at amortised cost RMB'000** |
|---|---|
| Trade and bills payables | **7,492,822** |
| Financial liabilities included in other payables and accruals | **1,460,372** |
| Bonds with warrants | **5,346,476** |
| Interest-bearing bank and other borrowings | **15,038,607** |
| | **29,338,277** |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

2009 Company

Financial assets

| | Financial assets at fair value through profit or loss – held for trading investments RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial investments RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Available-for-sale financial investments | – | – | 108,772 | 108,772 |
| Trade and bills receivables | – | 5,254,519 | – | 5,254,519 |
| Financial assets included in prepayments, deposits and other receivables | – | 54,096 | – | 54,096 |
| Equity investments at fair value through profit or loss | 1,037 | – | – | 1,037 |
| Pledged time deposits | – | 2,049,546 | – | 2,049,546 |
| Cash and cash equivalents | – | 3,759,523 | – | 3,759,523 |
| | 1,037 | 11,117,684 | 108,772 | 11,227,493 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY *(CONTINUED)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

| 2009 | Company |
|---|---|
| Financial liabilities | |
| | Financial liabilities at amortised cost |
| | RMB'000 |
| Trade and bills payables | 8,801,394 |
| Financial liabilities included in other payables and accruals | 1,420,341 |
| Bonds with warrants | 5,165,410 |
| Interest-bearing bank and other borrowings | 14,393,000 |
| | 29,780,145 |

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

| Group | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Available-for-sale financial investments | **108,772** | 108,772 | **108,772** | 108,772 |
| Trade and bills receivables | **9,472,382** | 5,244,120 | **9,472,382** | 5,244,120 |
| Financial assets included in prepayments, deposits and other receivables | **830,613** | 292,916 | **830,613** | 292,916 |
| Equity investments at fair value through profit or loss | **827** | 1,037 | **827** | 1,037 |
| Pledged time deposits | **997,625** | 2,919,782 | **997,625** | 2,919,782 |
| Cash and cash equivalents | **5,385,066** | 5,780,536 | **5,385,066** | 5,780,536 |
| | **16,795,285** | 14,347,163 | **16,795,285** | 14,347,163 |
| **Financial liabilities** | | | | |
| Trade and bills payables | **10,819,579** | 11,715,391 | **10,819,579** | 11,715,391 |
| Financial liabilities included in other payables and accruals | **1,511,448** | 1,463,265 | **1,511,448** | 1,463,265 |
| Bonds with warrants | **5,346,476** | 5,165,410 | **5,346,476** | 5,165,410 |
| Interest-bearing bank and other borrowings | **15,854,793** | 15,593,206 | **15,854,793** | 15,593,206 |
| | **33,532,296** | 33,937,272 | **33,532,296** | 33,937,272 |

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY *(CONTINUED)*

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows: *(Continued)*

| **Company** | **Carrying amounts** | | **Fair values** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Available-for-sale financial investments | **108,772** | 108,772 | **108,772** | 108,772 |
| Trade and bills receivables | **9,807,209** | 5,254,519 | **9,807,209** | 5,254,519 |
| Financial assets included in prepayments, deposits and other receivables | **271,281** | 54,096 | **271,281** | 54,096 |
| Equity investments at fair value through profit or loss | **827** | 1,037 | **827** | 1,037 |
| Pledged time deposits | **–** | 2,049,546 | **–** | 2,049,546 |
| Cash and cash equivalents | **3,087,224** | 3,759,523 | **3,087,224** | 3,759,523 |
| | **13,275,313** | 11,227,493 | **13,275,313** | 11,227,493 |
| **Financial liabilities** | | | | |
| Trade and bills payables | **7,492,822** | 8,801,394 | **7,492,822** | 8,801,394 |
| Financial liabilities included in other payables and accruals | **1,460,372** | 1,420,341 | **1,460,372** | 1,420,341 |
| Bonds with warrants | **5,346,476** | 5,165,410 | **5,346,476** | 5,165,410 |
| Interest-bearing bank and other borrowings | **15,038,607** | 14,393,000 | **15,038,607** | 14,393,000 |
| | **29,338,277** | 29,780,145 | **29,338,277** | 29,780,145 |

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY *(CONTINUED)*

The fair values of financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged time deposits, trade and bills receivables, available-for-sale financial investments, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the bonds with warrants is estimated using an equivalent market interest rate for a similar bond with warrants.

The fair values of listed equity investments are based on quoted market prices.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

*Assets measured at fair value as at 31 December 2010:*

**Group and Company**

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | **827** | **–** | **–** | **827** |

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY *(CONTINUED)*

*Assets measured at fair value as at 31 December 2009:*

Group and Company

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Equity investments at fair value through profit or loss | 1,037 | – | – | 1,037 |

The Group and the Company did not have any financial liabilities measured at fair value at 31 December 2010 and 2009.

During the years ended 31 December 2010 and 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, bonds with warrants, pledged time deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group does not use any derivative financial instruments to hedge its cash flow interest rate risk.

As at 31 December 2010, changes in market interest rates could have an insignificant impact on the Group's total equity apart from retained profits. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Interest rate risk *(Continued)*

| | Group | |
|---|---|---|
| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
| **2010** | | |
| United States dollar | **50** | **(20,961)** |
| RMB | **50** | **(34,895)** |
| United States dollar | **(50)** | **20,961** |
| RMB | **(50)** | **34,895** |
| 2009 | | |
| United States dollar | 50 | (18,436) |
| RMB | 50 | (29,725) |
| United States dollar | (50) | 18,436 |
| RMB | (50) | 29,725 |

### Foreign currency risk

The businesses of the Group are principally located in the mainland of the PRC. While most of the transactions are conducted in RMB, certain of its sales, purchases and borrowings were denominated in United States dollars, Euro and Japanese Yen. Fluctuations of the exchange rates of RMB against these foreign currencies can affect the Group's results of operations.

As at 31 December 2010, the aforesaid foreign currencies could have an insignificant impact on the Group's total equity apart from retained profits. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Foreign currency risk *(Continued)*

| | Group | |
|---|---|---|
| | **Increase/ (decrease) in %** | **Increase/ (decrease) in profit before tax RMB'000** |
| **2010** | | |
| United States dollar | **1** | **(50,361)** |
| Euro | **1** | **310** |
| Japanese Yen | **1** | **(58)** |
| United States dollar | **(1)** | **50,361** |
| Euro | **(1)** | **(310)** |
| Japanese Yen | **(1)** | **58** |
| 2009 | | |
| United States dollar | 5 | (30,845) |
| Euro | 5 | (113) |
| Japanese Yen | 5 | (878) |
| United States dollar | (5) | 30,845 |
| Euro | (5) | 113 |
| Japanese Yen | (5) | 878 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other major financial assets of the Group, which comprise bills receivable, available-for-sale financial investments, equity investments at fair value through profit or loss, pledged time deposits, cash and cash equivalents, and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in note 36 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group has certain concentrations of credit risk as 44% (2009: 47%) of the Group's trade receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and deposits and receivables are disclosed in notes 26 and 27 to the financial statements, respectively.

### Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the next year in accordance with its strategic plan. In the opinion of the directors of the Company, most of the borrowings that mature within one year are able to be renewed and the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

**Group**

| | **2010** | | | | | |
|---|---|---|---|---|---|---|
| | **Within 1 year RMB'000** | **1 to 2 years RMB'000** | **2 to 3 years RMB'000** | **3 to 5 years RMB'000** | **Over 5 years RMB'000** | **Total RMB'000** |
| Bonds with warrants | **5,577,000** | **–** | **–** | **–** | **–** | **5,577,000** |
| Interest-bearing bank and other borrowings | **3,788,491** | **10,535,038** | **2,137,769** | **–** | **–** | **16,461,298** |
| Trade and bills payables | **10,819,579** | **–** | **–** | **–** | **–** | **10,819,579** |
| Other payables | **1,511,448** | **–** | **–** | **–** | **–** | **1,511,448** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 2 to 3 years RMB'000 | 3 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Bonds with warrants | 77,000 | 5,577,000 | – | – | – | 5,654,000 |
| Interest-bearing bank and other borrowings | 2,471,242 | 11,464,352 | 2,483,291 | – | – | 16,418,885 |
| Trade and bills payables | 11,715,391 | – | – | – | – | 11,715,391 |
| Other payables | 1,463,266 | – | – | – | – | 1,463,266 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Liquidity risk *(Continued)*

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

**Company**

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Within 1 year RMB'000** | **1 to 2 years RMB'000** | **2 to 3 years RMB'000** | **3 to 5 years RMB'000** | **Over 5 years RMB'000** | **Total RMB'000** |
| Bonds with warrants | **5,577,000** | **–** | **–** | **–** | **–** | **5,577,000** |
| Interest-bearing bank and other borrowings | **3,042,268** | **10,441,203** | **2,137,769** | **–** | **–** | **15,621,240** |
| Trade and bills payables | **7,492,822** | **–** | **–** | **–** | **–** | **7,492,822** |
| Other payables | **1,460,372** | **–** | **–** | **–** | **–** | **1,460,372** |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 2 to 3 years RMB'000 | 3 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Bonds with warrants | 77,000 | 5,577,000 | – | – | – | 5,654,000 |
| Interest-bearing bank and other borrowings | 1,277,897 | 11,443,474 | 2,476,161 | – | – | 15,197,532 |
| Trade and bills payables | 8,801,394 | – | – | – | – | 8,801,394 |
| Other payables | 1,420,341 | – | – | – | – | 1,420,341 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

### Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, other payables, liability components of bonds with warrants, less cash and cash equivalents and pledged time deposits. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Interest-bearing bank and other borrowings | **15,854,793** | 15,593,206 |
| Trade and bills payables | **10,819,579** | 11,715,391 |
| Other payables | **1,632,611** | 1,760,760 |
| Liability component of bonds with warrants | **5,346,476** | 5,165,410 |
| Less: Cash and cash equivalents | **(5,385,066)** | (5,780,536) |
| Pledged time deposits | **(997,625)** | (2,919,782) |
| Net debt | **27,270,768** | 25,534,449 |
| Equity attributable to owners of the parent | **27,294,087** | 26,464,653 |
| Total capital | **27,294,087** | 26,464,653 |
| Capital and net debt | **54,564,855** | 51,999,102 |
| Gearing ratio | **50%** | 49% |

## 43. EVENT AFTER THE REPORTING PERIOD

(i) At 22 March 2011, the board of directors proposed a final dividend of RMB5 cents per share totaling RMB385,034,000 to all equity shareholders of the Company. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

(ii) On 24 December 2010, the board of directors resolved to invest RMB490 million (inclusive of US$5 million) in relation to the formation of Finance Company with Holding and the Group entered into Agreement for Capital Contribution in relation to the formation of Finance Company with Holding. The Group will contribute RMB490 million (inclusive of US$5 million) as capital injection to Finance Company and will hold a total of 49% equity interest in the Finance Company. Holding will contribute RMB510 million as capital injection to Finance Company and will hold a total of 51% equity interest in Finance Company. On 28 February 2011, the formation of Finance Company has been approved by the relevant department of the China Banking Regulatory Commission.

## 44. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements prepared under PRC accounting standards are audited by Ernst & Young Hua Ming.

No difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under PRC according standards and Hong Kong Financial Reporting Standards during the reporting period.

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.

# Report of the Auditors

ERNST & YOUNG
安永

Ernst & Young Hua Ming (2011) Shen Zi No. 60438514_A05

**To the shareholders of Maanshan Iron & Steel Company Limited:**

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements.

## 1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

## 2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Standards on Auditing. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about 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 the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices 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.

Ernst & Young Hua Ming (2011) Shen Zi No. 60438514_A05

## 3. OPINION

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of Maanshan Iron & Steel Company Limited as at 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

**Ernst & Young Hua Ming**

Beijing, the People's Republic of China

**Zhong Li**
Chinese Certified Public Accountant

**Zhao Ning**
Chinese Certified Public Accountant

22 March 2011

# Consolidated Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2010
Renminbi Yuan

| ASSETS | Note V | **2010** | 2009 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and bank balances | 1 | **6,382,691,015** | 8,700,317,608 |
| Financial assets held for trading | 2 | **826,640** | 1,037,360 |
| Bills receivable | 3 | **8,374,602,622** | 4,421,189,686 |
| Trade receivables | 4 | **1,097,779,220** | 822,930,091 |
| Dividends receivable | 5 | **118,800,000** | 24,751,198 |
| Prepayments | 6 | **1,377,143,617** | 823,338,565 |
| Other receivables | 7 | **711,812,863** | 268,164,615 |
| Inventories | 8 | **12,451,795,018** | 8,988,794,051 |
| Total current assets | | **30,515,450,995** | 24,050,523,174 |
| NON-CURRENT ASSETS: | | | |
| Long term equity investments | 9,10 | **1,034,491,013** | 999,403,592 |
| Investment properties | 11 | **6,771,343** | 4,727,175 |
| Fixed assets | 12 | **34,405,603,226** | 38,272,898,821 |
| Construction materials | | **281,058,134** | 223,238,270 |
| Construction in progress | 13 | **1,504,328,744** | 1,797,954,642 |
| Intangible assets | 14 | **1,863,353,636** | 1,855,779,750 |
| Deferred tax assets | 15 | **493,868,095** | 779,581,081 |
| Total non-current assets | | **39,589,474,191** | 43,933,583,331 |
| TOTAL ASSETS | | **70,104,925,186** | 67,984,106,505 |

# Consolidated Balance Sheet (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2010
Renminbi Yuan

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note V | **2010** | 2009 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short term loans | 17 | **977,093,278** | 1,173,245,805 |
| Bills payable | 18 | **5,269,342,225** | 5,400,287,600 |
| Accounts payable | 19 | **5,550,236,792** | 6,315,104,235 |
| Deposits received | 20 | **8,127,236,452** | 6,092,362,835 |
| Payroll and benefits payable | 21 | **284,521,457** | 275,489,773 |
| Taxes payable | 22 | **(411,180,601)** | (85,807,517) |
| Interests payable | | **58,185,998** | 8,138,718 |
| Dividends payable | 23 | **506,995,720** | 701,538,763 |
| Other payables | 24 | **946,266,361** | 753,587,311 |
| Non-current liabilities due within one year | 25 | **7,857,611,313** | 816,000,000 |
| Total current liabilities | | **29,166,308,995** | 21,449,947,523 |
| NON-CURRENT LIABILITIES: | | | |
| Long term loans | 26 | **11,368,731,100** | 13,603,960,000 |
| Bonds payable | 27 | **997,833,200** | 5,165,409,845 |
| Deferred income | 28 | **573,288,652** | 579,926,538 |
| Total non-current liabilities | | **12,939,852,952** | 19,349,296,383 |
| Total liabilities | | **42,106,161,947** | 40,799,243,906 |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | 29 | **7,700,681,186** | 7,700,681,186 |
| Capital reserve | 30 | **8,338,358,399** | 8,338,358,399 |
| Surplus reserves | 31 | **3,206,200,814** | 3,057,920,649 |
| Retained profits | 32 | **8,008,142,354** | 7,350,273,452 |
| Exchange fluctuation reserve | | **40,704,768** | 17,419,949 |
| Equity attributable to owners of the parent | | **27,294,087,521** | 26,464,653,635 |
| Minority interests | | **704,675,718** | 720,208,964 |
| Total shareholder's equity | | **27,998,763,239** | 27,184,862,599 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | **70,104,925,186** | 67,984,106,505 |

The financial statements are signed by the following person

| Company Representative: | Chief Accountant: | Head of Accounting: |
|---|---|---|
| **Gu Jianguo** | **Su Jiangang** | **Zhang Qianchun** |
| 22 March 2011 | 22 March 2011 | 22 March 2011 |

# Consolidated Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note V | 2010 | 2009 |
|---|---|---|---|
| Revenue | 33 | **64,981,112,494** | 51,859,969,514 |
| Less: Cost of sales | 33 | **61,173,087,326** | 49,106,658,380 |
| Business taxes and surcharges | 34 | **265,952,521** | 219,403,050 |
| Selling expenses | 35 | **238,440,760** | 229,232,917 |
| Administrative expenses | 36 | **1,207,589,989** | 1,138,339,300 |
| Financial expenses | 37 | **732,400,757** | 939,046,170 |
| Assets impairment losses | 38 | **17,532,724** | 57,598,030 |
| Add: Gain/(loss) on fair value changes | | **(210,720)** | 224,110 |
| Investment income | 39 | **219,550,777** | 204,300,261 |
| including: share of profits of associates and jointly-controlled entities | | **204,748,955** | 183,239,930 |
| Operating profit | | **1,565,448,474** | 374,216,038 |
| Add: Non-operating income | 40 | **159,047,930** | 191,703,227 |
| Less: Non-operating expenses | 41 | **13,384,684** | 3,043,520 |
| including: loss on disposal of non-current assets | | **6,513,280** | – |
| Profit before tax | | **1,711,111,720** | 562,875,745 |
| Less: Income tax | 42 | **519,502,407** | 29,009,600 |
| Net profit | | **1,191,609,313** | 533,866,145 |
| Attributable to owners of the Parent | | **1,101,838,516** | 392,475,316 |
| Minority shareholders | | **89,770,797** | 141,390,829 |

# Consolidated Statement of Income (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note V | **2010** | 2009 |
|---|---|---|---|
| EARNINGS PER SHARE: | | | |
| Basic | 43 | **14.30 cents** | 5.10 cents |
| Diluted | | **N/A** | N/A |
| Other comprehensive income | 44 | **23,284,819** | 65,195,156 |
| Total comprehensive income | | **1,214,894,132** | 599,061,301 |
| Including: | | | |
| Total comprehensive income attributable to owners of the Parent | | **1,125,123,335** | 457,670,472 |
| Total comprehensive income attributable to the Minority shareholders | | **89,770,797** | 141,390,829 |

# Consolidated Statement of Changes In Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Attributable to owners of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital (Note V.29) | Capital reserve (Note V.30) | Surplus reserves (Note V.31) | Retained profits (Note V.32) | Exchange fluctuation reserve | Sub-total | Minority interests | Total shareholders equity |
| 1. At 1 January 2010 | 7,700,681,186 | 8,338,358,399 | 3,057,920,649 | 7,350,273,452 | 17,419,949 | 26,464,653,635 | 720,208,964 | 27,184,862,599 |
| 2. Increase/(decrease) during the year | | | | | | | | |
| (i) Net profit | - | - | - | 1,101,838,516 | - | 1,101,838,516 | 89,770,797 | 1,191,609,313 |
| (ii) Other comprehensive income | - | - | - | - | 23,284,819 | 23,284,819 | - | 23,284,819 |
| Sub-total (i) and (ii) | - | - | - | 1,101,838,516 | 23,284,819 | 1,125,123,335 | 89,770,797 | 1,214,894,132 |
| (iii) Capital contribution and withdrawal by shareholders | | | | | | | | |
| (a) Acquisition of minority interests | - | - | - | - | - | - | (32,790,825) | (32,790,825) |
| (b) Others | - | - | 12,337,798 | - | - | 12,337,798 | 5,039,382 | 17,377,180 |
| (iv) Profit appropriation | | | | | | | | |
| (a) Transfer to surplus reserves | - | - | 135,942,367 | (135,942,367) | - | - | - | - |
| (b) Dividend paid | - | - | - | (308,027,247) | - | (308,027,247) | (77,552,600) | (385,579,847) |
| (v) Transfer within shareholders' equity | - | - | - | - | - | - | - | - |
| 3. At 31 December 2010 | 7,700,681,186 | 8,338,358,399 | 3,206,200,814 | 8,008,142,354 | 40,704,768 | 27,294,087,521 | 704,675,718 | 27,998,763,239 |

# Consolidated Statement of Changes In Equity (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Attributable to equity holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share Capital (Note V.29) | Capital reserve (Note V.30) | Surplus reserves (Note V.31) | Retained profits (Note V.32) | Exchange fluctuation reserve | Sub-total | Minority interests | Total shareholders equity |
| 1. At 1 January 2009 | 7,700,681,186 | 8,338,358,399 | 3,008,523,500 | 7,007,195,285 | (47,775,207) | 26,006,983,163 | 520,119,259 | 26,527,102,422 |
| 2. Increase/(decrease) during the year | | | | | | | | |
| (i) Net profit | – | – | – | 392,475,316 | – | 392,475,316 | 141,390,829 | 533,866,145 |
| (ii) Other comprehensive income | – | – | – | – | 65,195,156 | 65,195,156 | – | 65,195,156 |
| Sub-total (i) and (ii) | – | – | – | 392,475,316 | 65,195,156 | 457,670,472 | 141,390,829 | 599,061,301 |
| (iii) Capital contribution and withdrawal by shareholders | | | | | | | | |
| (a) Capital contribution by shareholders | – | – | – | – | – | – | 68,672,447 | 68,672,447 |
| (b) Others | – | – | – | – | – | – | – | – |
| (iv) Profit appropriation | | | | | | | | |
| (a) Transfer to surplus reserves | – | – | 49,397,149 | (49,397,149) | – | – | – | – |
| (b) Dividend paid | – | – | – | – | – | – | (9,973,571) | (9,973,571) |
| (v) Transfer within shareholders' equity | – | – | – | – | – | – | – | – |
| 3. At 31 December 2009 | 7,700,681,186 | 8,338,358,399 | 3,057,920,649 | 7,350,273,452 | 17,419,949 | 26,464,653,635 | 720,208,964 | 27,184,862,599 |

# Consolidated Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note V | 2010 | 2009 |
|---|---|---|---|
| 1. Cash flows from operating activities: | | | |
| Cash received from sale of goods or rendering of services | | **76,923,056,450** | 60,319,597,258 |
| Refunds of taxes | | **1,638,844** | – |
| Cash received relating to other operating activities | 45 | **78,592,586** | 95,300,970 |
| Sub-total of cash inflows | | **77,003,287,880** | 60,414,898,228 |
| Cash paid for goods and services | | **(68,938,506,167)** | (46,582,033,928) |
| Cash paid to and on behalf of employees | | **(3,968,017,755)** | (3,449,444,939) |
| Cash paid for all taxes | | **(3,140,704,020)** | (3,215,612,152) |
| Cash paid relating to other operating activities | 45 | **(556,052,567)** | (499,106,690) |
| Sub-total of cash outflows | | **(76,603,280,509)** | (53,746,197,709) |
| Net cash flows from operating activities | 46 | **400,007,371** | 6,668,700,519 |
| 2. Cash flows from investing activities: | | | |
| Cash received from retrieval of investments | | **–** | 2,938,870 |
| Cash received from investment income | | **198,621,207** | 199,045,430 |
| Net cash received from disposal of fixed assets, intangible assets and other long term assets | | **27,314,670** | 33,532,979 |
| Cash received due to decrease in pledged deposits, net | | **2,199,744,370** | – |
| Cash received relating to other investing activities | 45 | **74,889,566** | 95,880,000 |
| Sub-total of cash inflows | | **2,500,569,813** | 331,397,279 |
| Cash paid for acquisitions of fixed assets, intangible assets and other long term assets | | **(2,091,321,539)** | (1,636,438,980) |
| Cash paid for acquisitions of investments | | **(39,900,000)** | (292,942,800) |
| Cash paid for purchasing minority interests | | **(32,790,825)** | – |
| Cash paid due to increase in pledged deposits, net | | **–** | (2,406,061,806) |
| Sub-total of cash outflows | | **(2,164,012,364)** | (4,335,443,586) |
| Net cash flows from investing activities | | **336,557,449** | (4,004,046,307) |

# Consolidated Cash Flow Statement (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note V | 2010 | 2009 |
|---|---|---|---|
| 3. Cash flows from financing activities: | | | |
| Cash received from borrowings | | **13,286,042,257** | 25,484,946,355 |
| Cash received from capital contribution | | **–** | 68,672,446 |
| including: capital contribution by minority shareholders received by subsidiaries | | **–** | 68,672,446 |
| Cash received from issuance of medium-term notes | | **997,500,000** | – |
| Sub-total of cash inflows | | **14,283,542,257** | 25,553,618,801 |
| Cash repayments of borrowings | | **(14,559,651,522)** | (26,931,562,894) |
| Cash paid for distribution of dividend or profits and for interest expenses | | **(580,122,890)** | (1,241,730,076) |
| including: dividend paid to minority shareholders by subsidiaries | | **(77,552,600)** | (9,973,571) |
| Sub-total of cash outflows | | **(15,139,774,412)** | (28,173,292,970) |
| Net cash flows from financing activities | | **(856,232,155)** | (2,619,674,169) |
| 4. Effect of foreign exchange rate changes on cash | | **1,785,113** | 20,600,546 |
| 5. Net increase/(decrease) in cash and cash equivalents | | **(117,882,222)** | 65,580,589 |
| Add: Balance of cash and cash equivalents at beginning of year | | **5,502,947,835** | 5,437,367,246 |
| 6. Balance of cash and cash equivalents at end of year | 47 | **5,385,065,613** | 5,502,947,835 |

# Balance Sheet

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2010
Renminbi Yuan

| ASSETS | Note XI | **2010** | 2009 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and bank balances | | **3,087,223,561** | 5,809,069,109 |
| Financial assets held for trading | | **826,640** | 1,037,360 |
| Bills receivable | | **7,456,373,686** | 4,183,146,951 |
| Trade receivables | 1 | **2,350,835,807** | 1,071,371,524 |
| Dividend receivable | | **197,494,579** | 24,751,198 |
| Prepayments | | **1,278,962,474** | 571,602,521 |
| Other receivables | 2 | **73,786,134** | 29,344,892 |
| Inventories | 3 | **10,601,699,907** | 7,729,440,621 |
| Total current assets | | **25,047,202,788** | 19,419,764,176 |
| NON-CURRENT ASSETS: | | | |
| Long term equity investments | 4 | **2,219,360,976** | 2,181,564,626 |
| Investment properties | | **17,999,035** | 18,404,084 |
| Fixed assets | | **32,075,219,828** | 36,293,704,502 |
| Construction materials | | **252,574,410** | 221,471,149 |
| Construction in progress | | **1,420,353,347** | 1,505,126,557 |
| Intangible assets | | **1,215,033,032** | 1,238,079,244 |
| Deferred tax assets | | **479,719,267** | 767,989,564 |
| Total non-current assets | | **37,680,259,895** | 42,226,339,726 |
| TOTAL ASSETS | | **62,727,462,683** | 61,646,103,902 |

# Balance Sheet (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
31 December 2010
Renminbi Yuan

| LIABILITIES AND SHAREHOLDERS' EQUITY | **2010** | 2009 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Short term loans | **264,908,000** | – |
| Bills payable | **2,762,510,000** | 3,057,932,063 |
| Accounts payable | **4,730,311,762** | 5,743,462,652 |
| Deposits received | **6,832,999,783** | 5,584,922,592 |
| Payroll and benefits payable | **229,661,197** | 208,145,931 |
| Taxes payable | **(388,889,831)** | (66,882,101) |
| Interests payable | **58,022,621** | 8,039,421 |
| Dividends payable | **506,995,720** | 701,538,763 |
| Other payables | **895,353,523** | 710,762,838 |
| Non-current liabilities due within one year | **7,843,611,313** | 816,000,000 |
| Total current liabilities | **23,735,484,088** | 16,763,922,159 |
| NON-CURRENT LIABILITIES: | | |
| Long term loans | **11,278,731,100** | 13,577,000,000 |
| Bonds payable | **997,833,200** | 5,165,409,845 |
| Deferred income | **540,572,623** | 562,619,538 |
| Total non-current liabilities | **12,817,136,923** | 19,305,029,383 |
| Total liabilities | **36,552,621,011** | 36,068,951,542 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital | **7,700,681,186** | 7,700,681,186 |
| Capital reserve | **8,338,358,399** | 8,338,358,399 |
| Surplus reserves | **2,964,168,101** | 2,873,596,445 |
| Retained profits | **7,171,633,986** | 6,664,516,330 |
| Total shareholder's equity | **26,174,841,672** | 25,577,152,360 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | **62,727,462,683** | 61,646,103,902 |

# Statement of Income

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note XI | **2010** | 2009 |
|---|---|---|---|
| Revenue | 6 | **65,373,961,475** | 52,577,803,993 |
| Less: Cost of sales | 6 | **62,655,167,678** | 50,682,172,839 |
| Business taxes and surcharges | | **236,987,944** | 192,555,640 |
| Selling expenses | | **216,160,050** | 211,682,235 |
| Administrative expenses | | **967,508,708** | 902,399,740 |
| Financial expenses | | **509,092,010** | 862,154,362 |
| Assets impairment losses | 7 | **13,906,462** | 57,810,860 |
| Add: Gain/(loss) on fair value changes | | **(210,720)** | 224,110 |
| Investment income | 8 | **401,763,634** | 222,049,960 |
| Including: share of profits associates and jointly controlled entities | | **208,619,071** | 183,133,600 |
| Operating profit | | **1,176,691,537** | (108,697,613) |
| Add: Non-operating income | | **110,771,981** | 141,823,422 |
| Less: Non-operating expenses | | **8,476,662** | 2,628,327 |
| Including: loss on disposal of non-current assets | | **5,987,267** | – |
| Profit before tax | | **1,278,986,856** | 30,497,482 |
| Less: Income tax | | **373,270,297** | (60,258,920) |
| Net profit | | **905,716,559** | 90,756,402 |
| Other comprehensive income | | **–** | – |
| Total comprehensive income | | **905,716,559** | 90,756,402 |

# Statement of Changes In Equity

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Share capital | Capital reserve | Surplus reserves | Retained profits | Total shareholders' equity |
|---|---|---|---|---|---|
| 1. At 1 January 2010 | **7,700,681,186** | **8,338,358,399** | **2,873,596,445** | **6,664,516,330** | **25,577,152,360** |
| 2. Increase/(decrease) during the year | | | | | |
| (i) Net profit | – | – | – | 905,716,559 | 905,716,559 |
| (ii) Other comprehensive income | – | – | – | – | – |
| Sub-total (i) and (ii) | – | – | – | 905,716,559 | 905,716,559 |
| (iii) Capital contribution and withdrawal | | | | | |
| (a) Capital contribution by shareholders | – | – | – | – | – |
| (b) Others | – | – | – | – | – |
| (iv) Profit appropriation | | | | | |
| (a) Transfer to surplus reserves | – | – | 90,571,656 | (90,571,656) | – |
| (b) Dividend paid | – | – | – | (308,027,247) | (308,027,247) |
| (c) Others | – | – | – | – | – |
| (v) Transfers within shareholders' equity | – | – | – | – | – |
| 3. At 31 December 2010 | **7,700,681,186** | **8,338,358,399** | **2,964,168,101** | **7,171,633,986** | **26,174,841,672** |

# Statement of Changes In Equity (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Share capital | Capital reserve | Surplus reserves | Retained profits | Total shareholders' equity |
|---|---|---|---|---|---|
| 1. At 1 January 2009 | 7,700,681,186 | 8,338,358,399 | 2,864,520,805 | 6,582,835,568 | 25,486,395,958 |
| 2. Increase/(decrease) during the year | | | | | |
| (i) Net profit | – | – | – | 90,756,402 | 90,756,402 |
| (ii) Other comprehensive income | – | – | – | – | – |
| Sub-total (i) and (ii) | – | – | – | 90,756,402 | 90,756,402 |
| (iii) Capital contribution and withdrawal | | | | | |
| (a) Capital contribution by shareholders | – | – | – | – | – |
| (b) Others | – | – | – | – | – |
| (iv) Profit appropriation | | | | | |
| (a) Transfer to surplus reserves | – | – | 9,075,640 | (9,075,640) | – |
| (b) Dividend paid | – | – | – | – | – |
| (c) Others | – | – | – | – | – |
| (v) Transfers within shareholders' equity | – | – | – | – | – |
| 3. At 31 December 2009 | 7,700,681,186 | 8,338,358,399 | 2,873,596,445 | 6,664,516,330 | 25,577,152,360 |

# Cash Flow Statement

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | Note XI | 2010 | 2009 |
|---|---|---|---|
| 1. Cash flows from operating activities: | | | |
| Cash received from sale of goods or rendering of services | | **73,226,450,977** | 58,445,263,233 |
| Cash received relating to other operating activities | | **33,372,000** | 63,628,999 |
| Sub-total of cash inflows | | **73,259,822,977** | 58,508,892,232 |
| Cash paid for goods and services | | **(67,455,646,935)** | (46,465,648,472) |
| Cash paid to and on behalf of employees | | **(3,614,583,500)** | (3,068,781,566) |
| Cash paid for all taxes | | **(2,629,543,400)** | (2,858,722,148) |
| Cash paid relating to other operating activities | | **(571,281,122)** | (402,634,585) |
| Sub-total of cash outflows | | **(74,271,054,957)** | (52,795,786,771) |
| Net cash flows from operating activities | 9 | **(1,011,231,980)** | 5,713,105,461 |
| 2. Cash flows from investing activities: | | | |
| Cash received from retrieval of investments | | **–** | 2,938,870 |
| Cash received from investment income | | **278,245,265** | 193,949,405 |
| Net cash received from disposal of fixed assets, intangible assets and other long term assets, net | | **12,344,916** | 9,457,226 |
| Cash received due to decrease in pledged deposits, net | | **2,049,545,713** | – |
| Cash received relating to other investing activities | | **57,428,300** | 78,000,000 |
| Sub-total of cash inflows | | **2,397,564,194** | 284,345,501 |
| Cash paid for acquisitions of fixed assets, intangible assets and other long term assets | | **(1,735,416,651)** | (1,202,246,367) |
| Cash paid for acquisitions of investments | | **(35,000,000)** | (88,663,609) |
| Cash paid due to increase in pledged deposits, net | | **–** | (2,043,545,713) |
| Sub-total of cash outflows | | **(1,770,416,651)** | (3,334,455,689) |
| Net cash flows from investing activities | | **627,147,543** | (3,050,110,188) |

# Cash Flow Statement (Continued)

(Prepared under China Accounting Standards for Business Enterprises)
Year ended 31 December 2010
Renminbi Yuan

| | **2010** | 2009 |
|---|---|---|
| 3. Cash flows from financing activities: | | |
| Cash received from borrowings | **10,575,527,950** | 24,061,800,551 |
| Cash received from issuance of medium-term notes | **997,500,000** | – |
| Sub-total of cash inflows | **11,573,027,950** | 24,061,800,551 |
| Cash repayments of borrowings | **(10,791,303,200)** | (26,166,167,640) |
| Cash paid for distribution of dividend or profits and for interest expenses | **(1,051,907,837)** | (1,144,403,881) |
| Sub-total of cash outflows | **(11,843,211,037)** | (27,310,571,521) |
| Net cash flows from financing activities | **(270,183,087)** | (3,248,770,970) |
| 4. Effect of foreign exchange rate changes on cash | **(18,032,311)** | (17,015,313) |
| 5. Net increase/(decrease) in cash and cash equivalents | **(672,299,835)** | (602,791,010) |
| Add: Balance of cash and cash equivalents at beginning of year | **3,759,523,396** | 4,362,314,406 |
| 6. Balance of cash and cash equivalents at end of year | **3,087,223,561** | 3,759,523,396 |

## I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the "Company"), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the "Original Magang", now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People's Republic of China (the "PRC") on 1 September 1993. The registration number of the Company's business license is Qi Gu Wan Zong Zi No. 340000400002545. Headquarter of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. The Company's A shares and H shares were issued and listed in Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The Company together with its subsidiaries (collectively known as the "Group") is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company was RMB6,455,300,000, and the number of shares was 6,455,300,000, which included state-owned share with selling restrictions of 3,830,560,000 shares, domestic legal person share of 87,810,000 shares, domestic natural person share of 10,000 shares, ordinary A share of 803,990,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1.

From the year 2007 to 2009, among the total number of warrants of 1,265,000,000 attached to the Company's bonds with warrants of 1,245,381,186 warrants were exercised by certain holders in exchange for the Company's ordinary A share. After exercising, the Company's registered capital increased to RMB7,700,681,186.

As at 31 December 2010, the Company had issued 7,700,681,000 shares in total, including ordinary A share of 5,967,751,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.29 to the financial statements.

The Company's principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycle and processing of discarded vehicles (limited to the internal discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificate); rendering of technological services and consultancy services.

The parent company of the Group is Magang (Group) Holding Company Limited (the "Holding"), which is incorporated in the PRC.

The financial statements were approved by the board of directors on 22 March 2011. According to the Article of Association of the Company, the financial statements will be submitted to the shareholders' meeting for approval.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the "China Accounting Standards for Business Enterprises – General Principals" and 38 specific accounting standards issued by the Ministry of Finance (the "MOF") in February 2006, application guidance, interpretations and other related regulations issued later on (collectively known as the "CAS").

The financial statements are prepared based on an ongoing basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

### 2. STATEMENT OF ADOPTION OF THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the group as of 31 December 2010, and the results of their operations and their cash flows for the year then ended.

### 3. ACCOUNTING PERIOD

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

### 4. REPORTING CURRENCY

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies for recording purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

### 5 BUSINESS COMBINATION

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as "Business combination involving entities under common control" and "Business combination involving entities not under common control".

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 5. BUSINESS COMBINATION *(CONTINUED)*

#### Business combination involving entities under common control

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under business combination involving entities under common control, the combining entity obtains control of another involving entity being absorbed on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

#### Business combination involving entities not under common control

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

Any excess of the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 6. CONSOLIDATED FINANCIAL STATEMENTS

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the year ended 31 December 2010. Subsidiary is a company or entity that controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance offsets minority interests. Any changes in the minority interests without losing control is recognized as an equity transaction.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

### 7. CASH AND CASH EQUIVALENTS

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuation arising from the translation mentioned above are recognised as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the cash flow statement.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognised when and only when:

(1) The contractual rights to the cash flows from the financial asset expire; or

(2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognised in the income statement.

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

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognised initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

The financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria are satisfied:

(1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different measurement basis of financial instruments.

(2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.

(3) Hybrid instruments which contains one or more embedded derivatives, unless the containing of embedded derivatives does not have substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from relevant hybrid instruments.

(4) Hybrid instruments which contains embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Classification and measurement of financial assets *(Continued)*

*Financial assets at fair value through profit or loss (Continued)*

For the equity investment where is there is quoted market price from an active market or the fair value cannot be reliably measured, such equity investment shall not be designated as financial assets at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset at fair value through profit and loss in initial recognition, it shall not be reclassified to other categories of financial asset. Also, assets from other categories of financial asset shall not reclassify to financial assets at fair value through profit and loss.

In accordance with the above conditions, the Group has designated these kinds of financial assets mainly includes the financial assets held for trading.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised, impaired, or amortised.

*Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortised using the effective interest method, with interests recognised as interest income or expense. The fair value changes of available-for-sale financial assets are recognised as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognised initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognised as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

#### Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs became the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, but it does not belong to financial liabilities that are designated at fair value through profit or loss. It is subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Bonds with warrants

The Group evaluates the terms of the issuance of bonds with warrants to determine whether it contains both a liability and an equity component. The bonds with warrants issued contain both a liability and an equity component. On initial recognition, it should be bifurcated the liability and equity component and accounted for them separately. In the bifurcation, the liability component shall be initially recognised and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. The portion of the transaction costs relating to the liability components is recognised as part of the liability and amortised in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognised as part of the equity and is not remeasured in subsequent years.

The issuance of bonds with warrants contain both a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognised as derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

#### Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. Such techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

*Financial assets carried at amortised cost*

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

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortised cost would have had the impairment not been recognised at the reversal date.

*Available-for-sale financial assets*

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income due to decline in the fair value shall be removed and recognised in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in the income statement.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 9. FINANCIAL INSTRUMENTS *(CONTINUED)*

#### Impairment of financial assets *(Continued)*

*Available-for-sale financial assets (Continued)*

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognised directly in other comprehensive income.

*Financial assets carried at cost*

If there is objective evidence that an impairment loss on the financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognised in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under abovementioned principles.

#### Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognise the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognise the financial assets.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognise the financial assets and recognise the related assets and liabilities incurred. If the control over the financial has not lost, the Group recognises the financial assets to the extent of its continuing involvement of the financial asset and recognise an associated liability.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 10. RECEIVABLES

(1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the income statement.

(2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognized as impairment loss and charged to the income statement.

### 11. INVENTORIES

Inventories include raw materials, work in progress, finished goods, construction contract and spare parts.

Inventories are initially recognised at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories, other than construction contracts and spare parts, are determined on weighted average basis. Cost of spare parts, lower valued consumables and packing materials are charged to the income statement when issued.

Contract costs shall comprise direct materials, direct labour, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised loss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statement.

Provision of impairment for construction contract is assessed at period end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognised in the income statement.

Inventories are accounted for using perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable value. If the cost is in excess of amounts expected to be realised from their sale or use, provision for inventories is recognised in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on category basis for raw materials, and on an individual basis for finished goods.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 12. LONG TERM EQUITY INVESTMENTS

Long term equity investments consist of investments in subsidiaries, jointly controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long term equity investments are initially recognised at initial investment cost on acquisition.

Long term investment shall be recognised at initial investment cost upon acquisition. For the long term investments that acquired through business combination involving entities under common control, the initial investment cost shall be the share in the carrying amount the acquiree's equity. For business combination involving entities not under common control, the initial investment cost of should be the cost of acquisition (For those complete the business combination involving entities not under common control in various stages by means of numerous transactions, the initial investment cost is the sum of the carrying amount of the acquiree's equity investments held before the acquisition date and new investment cost on the acquisition date), which is the sum of the fair value of assets paid, liabilities incurred or assumed and equity securities issued. In addition to the long term investment acquired through business combination, it should be treated as follow: for the transaction is paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses. For the issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities. For the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in investment contract or agreement is not at fair value.

The cost method is applied for long term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the company.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

The equity method is applied for long term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference had been charged to the income statement.

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognised). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortisation in straight line method (if exists) should be recognised as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

When long term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under equity method, the amount recognised in the equity previously shall be transferred to the income statement upon its disposal.

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in note II.23. For the other long term investments which do not have quoted market price from active market, and the fair value cannot be reliably measured, the impairment assessment and measurement of provision for impairment, further details are stated in note II.9.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 13. INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including land use rights and properties lent out under operating lease) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalised when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to the income statement.

The Group accounts for investment properties under cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over its estimated useful life, the period over which that future economic benefits will flow into the Group.

For the impairment assessment and measurement of provision for impairment of the investment properties adopts the cost model, further details are stated in note II.23.

### 14. FIXED ASSETS

Fixed assets are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognized; otherwise, is charged to the income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

| | **Estimated useful life** | **Estimated residual value** | **Annual depreciation rate** |
|---|---|---|---|
| Buildings and structures | 10 – 20 year | 3% | 4.9 – 9.7% |
| Plant, machinery and equipment | 10 year | 3% | 9.7% |
| Transportation vehicles and equipment | 5 year | 3% | 19.4% |

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 14. FIXED ASSETS *(CONTINUED)*

The components of fixed assets which have difference useful life and generate difference kind of benefits to the enterprise, it should have difference depreciation rate and method.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts if appropriate, at least at each balance sheet date.

For the impairment assessment and measurement of provision for impairment of the fixed assets, further details are stated in note II.23.

### 15. CONSTRUCTION IN PROGRESS

Construction in progress is recognised based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalised borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

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

For the impairment assessment and measurement of provision for impairment of the construction in progress, further details are stated in note II.23.

### 16. BORROWING COSTS

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 16. BORROWING COSTS *(CONTINUED)*

The capitalisation of borrowing costs commences when:

(1) Expenditures for the assets are being incurred;

(2) Borrowing costs are incurred;

(3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter treated as an expense

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following methods:

(1) For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income

(2) For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

### 17. INTANGIBLE ASSETS

Intangible assets are recognized if and only if it is probably that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognized and measured at its fair value

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 17. INTANGIBLE ASSETS *(CONTINUED)*

The useful lives of the Group's intangible assets are as follows:

| | **Useful life** |
|---|---|
| Land use rights | 50 years |
| Mining rights | 25 years |
| Back-up roll technology | 10 years |

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortised over the useful lives on straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

For the intangible assets with indefinite useful live, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, it should not have amortisation and its useful live is reviewed at least at each financial year end. If there is indication that the useful live is finite, it should follow the accounting treatment of intangible assets with finite lives as mentioned above.

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. "Research" refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. "Development" refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

For the impairment assessment and measurement of provision for impairment of the intangible assets, further details are stated in note II.23.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 18. PROVISIONS

Except for contingent considerations or contingent liabilities assumed under a business combination, a provision is recognized if:

(1) the obligation is a present obligation assumed by the Group; and

(2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value and etc. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

For the provision that is being acquired from business combination, it should be initially measured at fair value. After the initial recognition, the amount of provision should be subsequently measured at the higher of the amount being recognised and the initial recognised amount after deducting the accumulated amortisation in accordance with revenue recognition principal.

### 19. REVENUE

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

#### Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 19. REVENUE *(CONTINUED)*

#### Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

When the Group enters in to contract or agreement with other parties which contains both sales of goods and rending of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

#### Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and effective interest rate.

#### Lease income

Lease income from operating lease is recognised over the lease terms on a straight-line basis. Contingent lease income is recognised when it incurred.

### 20. GOVERNMENT GRANTS

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

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 21. INCOME TAX

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognised directly in equity, which recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognised as assets and liabilities and its tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

(1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

(1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and

(2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 21. INCOME TAX *(CONTINUED)*

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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

### 22. LEASE

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as finance lease. All the other leases are termed as operating leases.

#### Operating lease as lessee

Rental payable under the operating leases are charged to the income statement or capitalized on the straight-line basis over the lease term, contingent rental payment is charged to the income statement when it incurs.

#### Operating lease as lessor

Rental receivable under operating leases are credited to the income statement over the lease terms on a straight-line basis.

### 23. IMPAIRMENT OF ASSETS

The Group determines the impairment of assets according to following method, except for inventories, deferred tax assets, financial assets, and long term equity investment measured at cost method which do not have quoted market price in an active market and their fair value cannot be reliably measured.

The Group assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 23. IMPAIRMENT OF ASSETS *(CONTINUED)*

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Impairment losses cannot be reversed in the prospective accounting periods.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 24. EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the unpaid amount of employee benefits as a liability. An entity shall recognise the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. endowment insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalised in related assets or charged to the income statement.

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contribution into the Annuity Plan and charged to the income statement.

Termination benefits are recognised as liabilities and charged to the income statement when, and only when, the Group demonstrably commits itself to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy by having a detailed formal plan or voluntary redundancy advices which are without realistic possibility of withdrawal.

The Group accounts for the early retirement scheme in the same way as termination benefits. All salaries and social security contributions the Group committed to pay for the period from early retirement date to normal retirement date shall be recognised as employee benefits and charged to the income statement if the conditions on termination benefits are met.

### 25. PROFIT DISTRIBUTION

The cash dividend of the Company is recognized as a liability upon the approval at the annual general meeting.

### 26. RELATED PARTIES

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 27. SEGMENT REPORTING

Reportable segments are identified and segments' information are disclosed based on operating segments which are determined based on the internal organization structure, management requirements and internal reporting system.

An operating segment is a component of the Group meeting all the following conditions:

(1) it may earn revenues and incur expense from business activities;

(2) its operating results are reviewed regularly by the Company's management, to make decisions about the resources to be allocated to the segment and to assess its performance;

(3) its financial information regarding financial position, operating results and cash flows are available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic.

### 28. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have significant effect on the amounts recognised in the financial statements:

*Operating lease – as lessor*

The Group has entered into operating leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to lease contract.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 28. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

#### Judgments *(CONTINUED)*

*Classification between investment properties and owner-occupied properties*

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

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

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

#### Estimation uncertainty

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

*Impairment of available-for-sale financial assets*

The Group has classified certain assets into available for sale, and the change in fair value is recognised in the shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(CONTINUED)*

### 28. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(CONTINUED)*

#### Estimation uncertainty *(Continued)*

*Deferred tax assets*

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

*Estimation of useful lives of fixed assets*

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

*Impairment of receivables*

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

*Estimation of inventories under net realisable value*

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

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

## III. TAX

### 1. THE PRINCIPAL KINDS OF TAXES AND THE RELATED RATES ARE AS FOLLOWS:

| | |
|---|---|
| Value-added tax | The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refunds rates of 9% – 17%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales. |
| Business tax | Payable based on 3% – 5% of the taxable income. |
| City construction and maintenance tax | Payable based on 7% of the net VAT and business tax to be paid. |
| Income tax | The Company and certain of its subsidiaries were subject to corporate income tax rate at 25% on their assessable profit. |
| Education surcharge | Payable based on 3% of the net VAT and business tax to be paid. |
| Local education surcharge | Payable based on 1% of the net VAT and business tax to be paid. |
| Real estate tax | Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations. |
| Other taxes | In accordance with tax laws and other relevant regulations. |

### 2. TAX BENEFITS AND APPROVAL DOCUMENTS

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rate ranged from 22% to 25% and enjoy the "Two years exempted and subsequent three years with 50% reduction" tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax rate at 15%. Other subsidiaries located in elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the countries, ranging from 16.5% to 30%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

## III. TAX *(CONTINUED)*

### 3. OTHER NOTES

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

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

In response to the notice issued by relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

### 1. SUBSIDIARIES

The details of subsidiaries are as follows:

| Name of investee | Business Type | Place of incorporation and registration | legal represent-tative | Business nature | Registered capital | Principal activities | Organisation code | Paid-in capital as at year end | Other items constitute net investment | Percentage of equity (%) | Percentage of voting right (%) | Cons-olid-ation Y/N | Minority shareholders | Amount in minority interests available for reduction share of loss of minority interest | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Subsidiaries acquired by establishment or investment** | | | | | | | | | | | | | | | |
| Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.") | Public | Anhui, PRC | Lu Kecong | Trading | RMB 50,000,000 | Import of machinery and raw materials and export of steel products | 150509582 | RMB 50,000,000 | – | 100 | 100 | Y | – | – | (i) |
| Design & Research Institute of Maanshan Iron & Steel company Limited ("Design & Research Institute") | Limited liability | Anhui, PRC | Fang Zheng- fang | Service industry | RMB 100,000,000 | Planning and design of metallurgical construction and environmental protection projects, construction supervision and contract service | 732997248 | RMB 7,500,000 | – | 66.82 | 66.82 | Y | 54,104,047 | 54,104,047 | (i) |
| MG Control Technique Company Limited ("MG Control Technique") | Limited liability | Anhui, PRC | Yan Hua | Manufa-cturing | RMB 12,000,000 | Design of automation systems; purchase, installation and repairs of automation, computers and communication systems | 738900283 | RMB 7,500,000 | – | 97.93 | 100 | Y | 447,910 | 447,910 | (i) |
| Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah") | Sino-foreign joint venture | Anhui, PRC | Xu Ruilin | Manufa-cturing | USD 8,389,000 | Production, sale and transportation of slag products and provision of related consultation services | 743065876 | USD 5,872,300 | – | 70 | 70 | Y | 38,352,148 | 38,352,148 | (i) |
| Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)") | Sino-HK joint Venture | Anhui, PRC | Zhu Jinnan | Manufa-cturing | RMB 35,000,000 | Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products) | 746769078 | RMB 8,225,885 | – | 100 | 100 | Y | – | – | (i) |
| Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)") | Limited liability | Anhui, PRC | Zhu Jinnan | Manufa-cturing | RMB 30,000,000 | Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services | 764791762 | RMB 20,000,000 | – | 92 | 92 | Y | 5,171,483 | 5,171,483 | (i) |
| Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)") | Sino-foreign joint Venture | Guangdong, PRC | Zhu Jinnan | Manufa-cturing | RMB 120,000,000 | Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services | 751955545 | RMB 120,000,000 | – | 66.7 | 66.7 | Y | 61,125,133 | 61,125,133 | (i) |

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

### 1. SUBSIDIARIES *(CONTINUED)*

| Name of investee | Business Type | Place of incorporation and registration | legal representative | Business nature | Registered capital | Principal activities | Organisation code | Paid-in capital as at year end | Other items constitute net investment | Percentage of equity (%) | Percentage of voting right (%) | Consolidation Y/N | Minority shareholders | Amount in minority interests available for reduction share of loss of minority interest | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Subsidiaries acquired by establishment or investment** ***(Continued)*** | | | | | | | | | | | | | | | |
| Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") | Wholly-owned subsidiary | Hong Kong, PRC | N/A | Manufacturing | HKD 4,800,000 | Trading of steel and iron ores, and provision of steel trading agency services and transportation services | N/A | HKD 4,800,000 | – | 100 | 100 | Y | – | – | (i) |
| Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial") | Taiwan, HK, Macau and PRC joint venture | Anhui, PRC | Qiu Xiao-gen | Manufacturing | RMB 30,000,000 | Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products | 754878645 | RMB 30,000,000 | – | 100 | 100 | Y | – | – | (ii) |
| Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment") | Limited liability | Anhui, PRC | Wu Haitong | Manufacturing | RMB 1,000,000 | Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work | 771108968 | RMB 1,000,000 | – | 90 | 90 | Y | 572,098 | 572,098 | (i) |
| Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)") | Sino-foreign joint venture | Zhejiang, PRC | Zhu Jinnan | Manufacturing | RMB 120,000,000 | Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services | 773136073 | RMB 120,000,000 | – | 75 | 75 | Y | 35,806,966 | 35,806,966 | (i) |
| MG Trading and Development GmbH ("MG Trading") | Wholly-owned subsidiary | Germany | N/A | trading | EUR 153,388 | Trading of equipment, iron and steel products and provision of technology services | N/A | EUR 153,388 | – | 100 | 100 | Y | – | – | (i) |
| Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)) | Limited liability | Australia | N/A | Mine production and sales | AUD 21,737,900 | Production and sales of iron ores through an unincorporated joint venture | N/A | AUD 21,737,900 | – | 100 | 100 | Y | – | – | (i) |

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

### 1. SUBSIDIARIES *(CONTINUED)*

| Name of investee | Business Type | Place of incorporation and registration | legal represent-tative | Business nature | Registered capital | Principal activities | Organisation code | Paid-in capital as at year end | Other items constitute net investment | Percentage of equity (%) | Percentage of voting right (%) | Cons-olid-ation Y/N | Minority shareholders | Amount in minority interests available for reduction share of loss of minority interest | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Subsidiaries acquired by establishment or investment *(Continued)*** | | | | | | | | | | | | | | | |
| Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") | Limited liability | Anhui, PRC | Qin Chang-rong | Manufa-cturing | RMB 500,000,000 | Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used and repair and maintenance of used | 788567175 | RMB 355,000,000 | – | 71 | 71 | Y | 294,067,649 | 294,067,649 | (i) |
| Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing") | Limited liability | Anhui, PRC | Zhu Jinnan | Manufa-cturing | RMB 120,000,000 | Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services | 793567946 | RMB 73,200,000 | – | 89 | 89 | Y | 16,913,142 | 16,913,142 | (i) |
| Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique") | Limited liability | Anhui, PRC | Zhu Jinnan | Manufa-cturing | RMB 150,000,000 | Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services | 670909619 | RMB 106,500,000 | – | 71 | 71 | Y | 44,799,755 | 44,799,755 | (i) |
| Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller") | Limited liability | Anhui, PRC | Wang Xiao-guang | Manufa-cturing | USD 30,000,000 | Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services | 667902117 | USD 15,300,000 | – | 51 | 51 | Y | 97,838,292 | 97,838,292 | (i) |
| Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading") | Limited liability | Anhui, PRC | Zheng Minzhu | Trading | RMB 500,000 | Trading of used automobiles, sales of automobiles and accessories, provision of after-sale services and leasing properties | 664226184 | RMB 500,000 | – | 100 | 100 | Y | – | – | (i) |

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

### 1. SUBSIDIARIES *(CONTINUED)*

| Name of investee | Business Type | Place of incorporation and registration | legal represent-tative | Business nature | Registered capital | Principal activities | Organisation code | Paid-in capital as at year end | Other items constitute net investment | Percentage of equity (%) | Percentage of voting right (%) | Cons-olid-ation Y/N | Minority shareholders | Amount in minority interests available for reduction share of loss of minority interest | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Subsidiaries acquired by establishment or investment *(Continued)*** | | | | | | | | | | | | | | | |
| Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd ("Jiangnan Iron and Steel") | Limited liability | Anhui, PRC | Zhang Mingru | Manufa-cturing | RMB 1,000,000 | Monitoring and testing of steel materials and products, titanium alloy, thermostatic materials products, raw materials and fuels; service of physical and chemical inspection technique; Application, appraisal and repair of physical and chemical devices. Subsidiaries acquired not under common control | 69570971X | RMB 1,000,000 | - | 100 | 100 | Y | - | - | (iii) |
| **Subsidiaries acquired not under common control** | | | | | | | | | | | | | | | |
| Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing") | Limited liability | Jiangsu, PRC | Zhu Jinnan | Manufa-cturing | USD 20,000,000 | Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except of dangerous chemical products) | 75732471X | USD 20,000,000 | - | 71 | 71 | Y | 55,477,095 | 55,477,095 | (i) |
| **Subsidiaries acquired under common control** | | | | | | | | | | | | | | | |
| Anhui Masteel stereoscopic Auto-packing Equipments Company Limited ("Masteel Auto-Parking") | Limited liability | Anhui, PRC | Li Hanxing | Manufa-cturing | USD 2,500,000 | Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services | 758545127 | USD 2,500,000 | - | 100 | 100 | Y | - | - | (ii) |

(i) These companies are the subsidiaries of the Group. These subsidiaries are included in consolidation for the year ended 31 December 2010 and 2009, and both their financial positions and operating results are reflected in the consolidated financial statements. During the reporting year, the Group's initial investment in these entities has not changed.

(ii) During the current period, the Group acquired the minority interests of Holly Industrial for RMB32.79 million. Holly Industrial and its subsidiaries, Masteel Auto-Parking, became wholly-owned subsidiaries of the Group after the acquisition.

(iii) The above subsidiary was established during the current period.

### 2. CHANGE IN THE SCOPE OF CONSOLIDATION

Except for the establishment of a subsidiary during the year, the scope of financial statements consolidation is consistent with previous year.

## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

### 3. ENTITIES NEWLY INCLUDED IN THE CONSOLIDATION SCOPE THIS YEAR

In 2010, the subsidiaries newly included in the consolidation scope are as follows:

| | **Net assets at the end of 2010** | **Net profit from the date of incorporation to year end** |
|---|---|---|
| Jiangnan Iron and Steel | 1,042,158 | 42,158 |

### 4. EXCHANGE RATES USED TO TRANSLATE THE STATEMENTS OF FOREIGN OPERATIONS

| | **Average rates** | | **Closing rates** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| EUR | **9.3018** | 9.7281 | **8.8065** | 9.7971 |
| HKD | **0.8657** | 0.8813 | **0.8509** | 0.8805 |
| AUD | **6.4217** | 5.4215 | **6.7139** | 6.1294 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CASH AND BANK BALANCES

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Exchange rate** | **RMB equivalents** | Original currency | Exchange rate | RMB equivalents |
| Cash on hand | | | | | | |
| – RMB | - | - | **155,208** | – | – | 160,559 |
| Balances with financial institutions | | | | | | |
| – RMB | - | - | **4,683,911,396** | – | – | 5,384,124,037 |
| – HKD | **351,544** | **0.8509** | **299,129** | 324,191 | 0.8805 | 285,450 |
| – USD | **59,303,332** | **6.6227** | **392,748,175** | 29,073,666 | 6.8371 | 198,778,593 |
| – EUR | **5,066,783** | **8.8065** | **44,620,629** | 1,950,018 | 9.7971 | 19,103,715 |
| – JPY | **453,195** | **0.0813** | **36,827** | 102,030 | 0.0738 | 7,528 |
| – AUD | **40,204,839** | **6.7139** | **269,931,269** | 30,174,512 | 6.1294 | 184,951,653 |
| | | | **5,391,547,425** | | | 5,787,250,976 |
| Others | | | | | | |
| – RMB | - | - | **990,988,382** | – | – | 864,446,073 |
| – USD | - | - | – | 300,000,000 | 6.8282 | 2,048,460,000 |
| | | | **990,988,382** | | | 2,912,906,073 |
| Total | | | **6,382,691,015** | | | 8,700,317,608 |

As at 31 December 2010, the Group's cash and bank balances amounting to RMB997,625,402 have been pledged to banks as securities (31 December 2009: RMB2,919,781,773), including other monetary assets amounting to RMB990,988,382 (31 December 2009: RMB864,446,073) pledged as securities for trade facilities and performance bonds, and time deposits amounting to USD1,000,000 (equivalent to RMB6,637,020) (31 December 2009: USD1,000,000, equivalent to RMB6,875,700) pledged to banks to issue credit letter. As at 31 December 2009, the Group's cash and bank balances still included other monetary assets amounting to USD300,000,000 which had been pledged as securities to obtain bank loans of RMB 2,048,460,000.

As at 31 December 2010, the Group has cash and bank balances amounting to RMB287,188,479 have been deposited outside the PRC (31 December 2009: RMB246,420,054).

Cash deposited in current account earns interest at floating interest rate. Terms of time deposits take from 1 month, 6 months to 1 year, which is depended on cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 2. FINANCIAL ASSETS HELD FOR TRADING

| | **2010** | 2009 |
|---|---|---|
| Equity instruments held for trading | **826,640** | 1,037,360 |

The above equity instruments were all listed in Shanghai or Shenzhen Stock Exchange. According to the management's opinion, there is no material restriction on realisation of investments as at the balance sheet date.

### 3. BILLS RECEIVABLE

| | **2010** | 2009 |
|---|---|---|
| Bank acceptance bills | **8,374,602,622** | 4,414,688,750 |
| Commercial acceptance bills | **–** | 6,500,936 |
| Total | **8,374,602,622** | 4,421,189,686 |

As at 31 December 2010 and 31 December 2009, there was no trade receivables transferred from bills receivable because of pledging or the drawers' inability to pay, and the top five largest bills receivable that were not expired but had been endorsed out were as follows:

**2010**

| **Issue entity** | **Issue date** | **Maturity date** | **Amount** |
|---|---|---|---|
| Company 1 | 2010-10-15 | 2011-4-12 | **43,000,000** |
| Company 2 | 2010-11-18 | 2011-2-16 | **40,000,000** |
| Company 3 | 2010-12-22 | 2011-6-21 | **30,000,000** |
| Company 4 | 2010-12-20 | 2011-3-1 | **30,000,000** |
| Company 5 | 2010-7-13 | 2011-1-8 | **28,000,000** |
| Total | | | **171,000,000** |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 3. BILLS RECEIVABLE *(CONTINUED)*

2009

| Issue entity | Issue date | Maturity date | Amount |
|---|---|---|---|
| Company 1 | 2009-7-20 | 2010-1-20 | 22,000,000 |
| Company 2 | 2009-10-27 | 2010-4-27 | 21,500,000 |
| Company 3 | 2009-11-20 | 2010-2-20 | 21,000,000 |
| Company 4 | 2009-11-5 | 2010-5-5 | 20,000,000 |
| Company 5 | 2009-10-15 | 2010-4-15 | 20,000,000 |
| Total | | | 104,500,000 |

At 31 December 2010, certain of the Group's short-term loans were acquired from bills receivable discounted amounted to RMB52,582,299 (31 December 2009: RMB29,000,000).

### 4. TRADE RECEIVABLES

The Group's trade receivables were interest- free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analysed below:

| | **2010** | 2009 |
|---|---|---|
| Within one year | **1,049,949,000** | 786,972,355 |
| One to two years | **39,677,062** | 27,797,830 |
| Two to three years | **11,293,541** | 10,700,056 |
| Over three years | **12,649,598** | 18,000,512 |
| | **1,113,569,201** | 843,470,753 |
| Less: Provisions for bad debts | **15,789,981** | 20,540,662 |
| Total | **1,097,779,220** | 822,930,091 |

As at 31 December 2009, the Company's trade receivables were pledged to acquire bank loans amounting to RMB680,000,000, further details are stated in Note V.26 to the financial statements.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 4. TRADE RECEIVABLES *(CONTINUED)*

The balances of trade receivables are analysed as follows:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | | Provision for bad debts | | Book value | | Provision for bad debts | |
| | Balance | Ratio (%) | Amount | Ratio (%) | Balance | Ratio (%) | Amount | Ratio (%) |
| Individually significant and assessed impairment individually | **936,327,886** | **84** | **(6,927,040)** | **1** | 768,936,691 | 91 | (15,388,457) | 2 |
| Other insignificant but assessed impairment individually | **177,241,315** | **16** | **(8,862,941)** | **5** | 74,534,062 | 9 | (5,152,205) | 7 |
| Total | **1,113,569,201** | **100** | **(15,789,981)** | | 843,470,753 | 100 | (20,540,662) | |

The movement of provision for bad debts against trade receivables for the year is disclosed in Note 16.

An analysis of the amount of provision for bad debts being written off in the current year:

| **Reason** | **2010** | 2009 |
|---|---|---|
| Bankrupt or liquidated debtors | **4,638,129** | – |
| Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable | **–** | – |
| Less: Reversal of bad debts provisions written-off in prior year | **–** | 938,001 |
| Total | **4,638,129** | (938,001) |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 4. TRADE RECEIVABLES *(CONTINUED)*

As at 31 December 2010, the top five largest customers were as follows:

| | Relation with the Group | Balance | Aging | Ratio (%) |
|---|---|---|---|---|
| Company 1 | **Independent third party** | **176,221,549** | **Within one year** | **16** |
| Company 2 | **Independent third party** | **100,964,605** | **Within one year** | **9** |
| Company 3 | **Independent third party** | **99,402,907** | **Within one year** | **9** |
| Company 4 | **Independent third party** | **57,024,479** | **Within one year** | **5** |
| Company 5 | **Parent company** | **51,390,735** | **Within one year** | **5** |
| | | **485,004,275** | | **44** |

As at 31 December 2009, the top five largest customers were as follows:

| | Relation with the Group | Balance | Aging | Ratio (%) |
|---|---|---|---|---|
| Company 1 | Independent third party | 235,794,221 | Within one year | 28 |
| Company 2 | Independent third party | 117,618,163 | Within one year | 14 |
| Company 3 | Parent company | 16,843,818 | Within one year | 2 |
| Company 4 | Independent third party | 13,717,632 | Within one year | 2 |
| Company 5 | Independent third party | 12,193,962 | Within one year | 1 |
| | | 396,167,796 | | 47 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 4. TRADE RECEIVABLES *(CONTINUED)*

The following balances of trade receivables are denominated in foreign currencies:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Exchange rate** | **RMB equivalents** | Original currency | Exchange rate | RMB equivalents |
| USD | **47,603,264** | **6.6227** | **315,262,136** | 16,891,889 | 6.8282 | 115,341,199 |
| EUR | **574,555** | **8.8065** | **5,059,819** | 1,174,545 | 9.7971 | 11,507,135 |
| HKD | **2,563,002** | **0.8509** | **2,180,858** | – | – | – |
| AUD | **2,663,305** | **6.7139** | **17,881,163** | – | – | – |
| Total | | | **340,383,976** | | | 126,848,334 |

As at 31 December 2010 and 31 December 2009, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 31 December 2010 and 31 December 2009, trade receivables due from either shareholders who hold 5% or above of the Company's equity interests or other related parties are stated in Note VI.6 to the financial statements.

### 5. DIVIDENDS RECEIVABLE

**2010**

| | **Opening balance** | **Addition** | **Reduction** | **Closing balance** | **Reason for not yet collected** | **Whether impaired** |
|---|---|---|---|---|---|---|
| Within one year | | | | | | |
| Jiyuan JinMa Coke | **18,000,000** | **136,800,000** | **36,000,000** | **118,800,000** | Not paid | No |
| BOC-Ma Steel | **6,751,198** | **67,119,078** | **73,870,276** | **–** | | |
| Total | **24,751,198** | **203,919,078** | **109,870,276** | **118,800,000** | | |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 5. DIVIDENDS RECEIVABLE *(CONTINUED)*

2009

| | Opening balance | Addition | Reduction | Closing balance | Reason for not yet collected | Whether impaired |
|---|---|---|---|---|---|---|
| Within one year | | | | | | |
| Jiyuan JinMa Coke | – | 18,000,000 | – | 18,000,000 | Not paid | No |
| BOC-Ma Steel | – | 6,751,198 | – | 6,751,198 | Not paid | No |
| Total | – | 24,751,198 | – | 24,751,198 | | |

### 6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Balance** | **Ratio (%)** | Balance | Ratio (%) |
| Within one year | **1,353,499,820** | **98** | 719,482,438 | 88 |
| One to two years | **8,415,265** | **1** | 32,754,016 | 4 |
| Two to three years | **5,170,354** | **–** | 52,094,796 | 6 |
| Over three years | **10,058,178** | **1** | 19,007,315 | 2 |
| Total | **1,377,143,617** | **100** | 823,338,565 | 100 |

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects were not yet completed which resulted in the unsettlement of the corresponding prepayments. The above prepayments for construction projects will be written off against relevant estimated liabilities (recorded in trade payables) when the final inspection and settlement were completed.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 6. PREPAYMENTS *(CONTINUED)*

As at 31 December 2010, the top five largest prepayments were as follows:

| | **Relationship with the Group** | **Balance** | **Payment date** | **Reason for not yet settled** |
|---|---|---|---|---|
| Company 1 | **Independent third party** | **231,737,601** | **2010** | **(i)** |
| Company 2 | **Independent third party** | **122,694,005** | **2010** | **(i)** |
| Company 3 | **Independent third party** | **102,848,958** | **2010** | **(i)** |
| Company 4 | **Independent third party** | **102,436,673** | **2010** | **(i)** |
| Company 5 | **Independent third party** | **89,922,417** | **2010** | **(i)** |
| | | **649,639,654** | | |

As at 31 December 2009, the top five largest prepayments were as follows:

| | Relationship with the Group | Balance | Payment date | Reason for not yet settled |
|---|---|---|---|---|
| Company 1 | Independent third party | 105,313,965 | 2009 | (i) |
| Company 2 | Independent third party | 73,733,014 | 2009 | (i) |
| Company 3 | Independent third party | 61,211,533 | 2009 | (i) |
| Company 4 | Independent third party | 61,106,344 | 2009 | (i) |
| Company 5 | Independent third party | 49,000,000 | 2009 | (i) |
| | | 350,364,856 | | |

(i) As at the balance sheet date, the unsettlement of the Group's top five largest prepayments were mainly attributable to the delay in supply of raw materials.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 6. PREPAYMENTS *(CONTINUED)*

The following balances are denominated in foreign currencies:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Exchange rate** | **RMB equivalents** | Original currency | Exchange rate | RMB equivalents |
| JPY | **6,160,000** | **0.0813** | **500,562** | 8,800,000 | 0.0738 | 649,282 |
| EUR | **3,023,295** | **8.8065** | **26,624,647** | 986,850 | 9.7971 | 9,668,268 |
| Total | | | **27,125,209** | | | 10,317,550 |

As at 31 December 2010 and 31 December 2009, the balances of prepayment did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in Note VI.6 to the financial statements.

### 7. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

| | **2010** | 2009 |
|---|---|---|
| Within one year | **708,970,916** | 266,052,618 |
| One to two years | **1,991,324** | 1,680,431 |
| Two to three years | **1,934,364** | 1,182,956 |
| Over three years | **5,986,756** | 6,319,107 |
| | **718,883,360** | 275,235,112 |
| Less: Provisions for bad debts | **7,070,497** | 7,070,497 |
| Total | **711,812,863** | 268,164,615 |

The movement of provision for bad debts against other receivables for the year is disclosed in Note 16.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 7. OTHER RECEIVABLES *(CONTINUED)*

Other receivables balance is analysed as follows:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value | Provision for bad debts | | | Book value | Provision for bad debts | |
| | Balance | Ratio (%) | Amount | Ratio (%) | Balance | Ratio (%) | Amount | Ratio (%) |
| Individually significant and assessed impairment individually | 690,407,240 | 96 | (2,400,000) | - | 256,451,581 | 93 | (2,400,000) | 1 |
| Other insignificant but assessed impairment individually | 28,476,120 | 4 | (4,670,497) | 16 | 18,783,531 | 7 | (4,670,497) | 25 |
| Total | 718,883,360 | 100 | (7,070,497) | | 275,235,112 | 100 | (7,070,497) | |

As at 31 December 2010, the top five largest other receivables were as follows:

| | Relationship with the Group | Balance | Payment date | Ratio in other receivable (%) |
|---|---|---|---|---|
| Company 1 | Independent third party | 561,766,501 | Within one year | 79 |
| Company 2 | Independent third party | 66,688,481 | Within one year | 9 |
| Company 3 | Independent third party | 31,535,253 | Within one year | 4 |
| Company 4 | Independent third party | 3,503,840 | One to two years | 0.5 |
| Company 5 | Independent third party | 2,400,000 | Over three years | 0.5 |
| | | 665,894,075 | | 93 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 7. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2009, the top five largest other receivables were as follows:

| | Relationship with the Group | Balance | Payment date | Ratio in other receivable (%) |
|---|---|---|---|---|
| Company 1 | Independent third party | 219,847,841 | Within one year | 80 |
| Company 2 | Independent third party | 8,404,252 | Within one year | 3 |
| Company 3 | Independent third party | 6,071,521 | Within one year | 2 |
| Company 4 | Independent third party | 5,636,119 | Within one year | 2 |
| Company 5 | Independent third party | 2,581,529 | Within one year | 1 |
| | | 242,541,262 | | 88 |

As at 31 December 2010 and 31 December 2009, the Group's other receivables does not have any derecognition of other receivables due to transfer of financial assets.

As at 31 December 2010 and 31 December 2009, the balance of other receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

### 8. INVENTORIES

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Provision for impairment** | **Carrying Amount** | Balance | Provision for impairment | Carrying Amount |
| Raw materials | **8,193,400,601** | **–** | **8,193,400,601** | 4,535,369,959 | (33,417,210) | 4,501,952,749 |
| Spare parts | **1,712,853,023** | **(61,875,468)** | **1,650,977,555** | 2,002,627,223 | (48,626,768) | 1,954,000,455 |
| Finished goods | **921,345,723** | **–** | **921,345,723** | 1,130,115,655 | – | 1,130,115,655 |
| Work in progress | **1,554,840,839** | **–** | **1,554,840,839** | 1,249,926,633 | – | 1,249,926,633 |
| Construction contract | **131,230,300** | **–** | **131,230,300** | 152,798,559 | – | 152,798,559 |
| Total | **12,513,670,486** | **(61,875,468)** | **12,451,795,018** | 9,070,838,029 | (82,043,978) | 8,988,794,051 |

The movement of impairment provision against inventories for the year is disclosed in Note 16.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 8. INVENTORIES *(CONTINUED)*

At each balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2010 and 2009, there was no reversal of impairment provision against inventories.

At 31 December 2010, the carrying amount of the Group's inventories, which were pledged as securities for subsidiaries' trading facilities for the issuance of bank bills, amounted to RMB309,831,082 (31 December 2009: RMB223,882,564).

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

**2010**

| | Business Type | Place of incorporation and registration | Legal representative | Business nature | Registered capital | Organisation Code |
|---|---|---|---|---|---|---|
| **Jointly-controlled entities** | | | | | | |
| Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") | Sino-foreign joint venture | Anhui, PRC | Ding Yi | Manufacturing | RMB468,000,000 | 771128774 |
| Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI") | Sino-foreign joint venture | Anhui, PRC | Qian Haifan | Servicing | RMB1,000,000 | 67890875X |
| Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration") | Sino-foreign joint venture | Anhui, PRC | Fang Zhengfang | Manufacturing | RMB10,000,000 | 553276621 |
| **Associates** | | | | | | |
| Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke") | Limited liability | Henan, PRC | Wang Tianshang | Manufacturing | RMB222,220,000 | 750738573 |
| Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke") | Limited liability | Shandong, PRC | Jiang Wei | Manufacturing | RMB208,800,000 | 751773434 |
| Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic") | Limited liability | Shanghai, PRC | Dong Mingsheng | Manufacturing | RMB20,000,000 | 761625515 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

**2010**

| | Business Type | Place of incorporation and registration | Legal representative | Business nature | Registered capital | Organisation Code |
|---|---|---|---|---|---|---|
| **Associates (Continued)** | | | | | | |
| Maanshan Harbour Group Co., Ltd ("Maanshan Harbour") | Limited liability | Anhui, PRC | Hui zhigang | Transportation | RMB250,000,000 | 150502057 |
| Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System") | Taiwan, HK, Macau and PRC joint venture | Anhui, PRC | Zhang Guosheng | Manufacturing | RMB50,000,000 | 786503901 |
| Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour") | Limited liability | Anhui, PRC | Li Jiajun | Transportation | RMB200,000,000 | 564958863 |

| | Assets closing balance | Liabilities closing balance | Net assets closing balance | Revenue during the year | Net profit during the year |
|---|---|---|---|---|---|
| **Jointly-controlled entities** | | | | | |
| BOC-Ma Steel | 677,087,600 | 25,473,037 | 651,614,563 | 507,124,470 | 168,206,951 |
| MASTEEL-CMI | 1,177,272 | 6,293 | 1,170,979 | 1,142,160 | 129,024 |
| Sino-Japan Resource Regeneration | 8,067,124 | 16,243 | 8,050,881 | - | (1,949,119) |
| **Associates** | | | | | |
| Jiyuan JinMa Coke | 1,726,380,465 | 1,370,895,841 | 355,484,624 | 2,907,745,257 | 201,107,547 |
| Tengzhou Shenglong Coke | 1,312,550,898 | 669,230,538 | 643,320,360 | 1,711,897,956 | 85,806,080 |
| Shanghai Iron and Steel Electronic | 1,775,795,863 | 1,599,387,375 | 176,408,488 | 186,972,205 | 101,979,997 |
| Maanshans Harbour | 907,661,846 | 495,041,454 | 412,620,392 | 231,385,804 | 32,053,019 |
| All-monitor Transmission System | 34,184,909 | (207,788) | 34,392,697 | 1,837,694 | (6,477,882) |
| Zhengpu Harbour | 101,578,339 | 1,591,243 | 99,987,096 | - | (12,904) |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 9. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

2009

| | Business Type | Place of incorporation and registration | Legal representative | Business nature | Registered capital | Organisation Code |
|---|---|---|---|---|---|---|
| **Jointly-controlled entities** | | | | | | |
| Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel") | Sino-foreign joint venture | Anhui, PRC | Ding Yi | Manufacturing | RMB468,000,000 | 771128774 |
| Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI") | Sino-foreign joint venture | Anhui, PRC | Qian Haifan | Servicing | RMB1,000,000 | 67890875X |
| **Associates** | | | | | | |
| Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke") | Limited liability | Henan, PRC | Wang Tianshang | Manufacturing | RMB222,220,000 | 750738573 |
| Tengzhou Shenglong Coke Co., Ltd ("Tengzhou Shenglong Coke") | Limited liability | Shandong, PRC | Jiang Wei | Manufacturing | RMB208,800,000 | 751773434 |
| Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic") | Limited liability | Shanghai, PRC | Dong Mingsheng | Manufacturing | RMB20,000,000 | 761625515 |
| Maanshan Harbour Group Co., Ltd ("Maanshan Harbour") | Limited liability | Anhui, PRC | Hui zhigang | Transportation | RMB250,000,000 | 150502057 |
| Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System") | Taiwan, HK, Macau and PRC joint venture | Anhui, PRC | Zhang Guosheng | Manufacturing | RMB50,000,000 | 786503901 |

| | Assets closing balance | Liabilities closing balance | Net assets closing balance | Revenue during the year | Net profit during the year |
|---|---|---|---|---|---|
| **Jointly-controlled entities** | | | | | |
| BOC-Ma Steel | 696,781,884 | 79,136,116 | 617,645,768 | 463,502,280 | 135,790,292 |
| MASTEEL-CMI | 4,283,022 | 2,572,037 | 1,710,985 | 3,300,000 | 699,240 |
| **Associates** | | | | | |
| Jiyuan JinMa Coke | 1,565,809,475 | 1,031,421,308 | 534,388,167 | 2,474,501,752 | 140,902,284 |
| Tengzhou Shenglong Coke | 1,074,538,973 | 517,024,691 | 557,514,282 | 1,455,591,252 | 100,761,965 |
| Shanghai Iron and Steel Electronic | 1,941,794,680 | 1,882,024,067 | 59,770,613 | 161,053,086 | 91,961,652 |
| Maanshan Harbour | 891,883,115 | 507,278,200 | 384,604,915 | 221,631,405 | 33,146,857 |
| All-monitor Transmission System | 41,102,228 | 231,648 | 40,870,580 | 194,250 | 236,289 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 10. LONG TERM INVESTMENTS

**2010**

| | Initial investment Cost | Opening balance | Increase during the year | Decrease during the year | Closing balance | Percentage of equity (%) | Percentage of voting right (%) | Provision for impairment | Impairment loss during the year | Cash dividend received during the year |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity method:** | | | | | | | | | | |
| Jointly-controlled entities | | | | | | | | | | |
| BOC-Ma Steel | 234,000,000 | 308,822,884 | 84,103,476 | (67,119,078) | 325,807,282 | 50 | 50 | - | - | (67,119,078) |
| MASTEEL-CMI | 500,000 | 849,620 | 64,512 | (328,643) | 585,489 | 50 | 50 | - | - | (328,643) |
| Sino-Japan Resource Regeneration | 4,900,000 | - | 4,900,000 | (955,068) | 3,944,932 | 49 | (note) | - | - | - |
| Associates | | | | | | | | | | |
| Jiyuan JinMa Coke | 80,000,000 | 202,370,092 | 59,521,839 | (136,800,000) | 125,091,931 | 36 | 36 | - | - | (136,800,000) |
| Tengzhou Shenglong Coke | 66,776,000 | 180,697,941 | 25,154,230 | - | 205,852,171 | 32 | 32 | - | - | - |
| Shanghai Iron and Steel Electronic | 4,000,000 | 8,878,969 | 26,402,728 | - | 35,281,697 | 20 | 20 | - | - | - |
| Maanshan Harbour | 112,500,000 | 170,620,165 | 13,372,286 | (1,575,000) | 182,417,451 | 45 | 45 | - | - | (1,575,000) |
| All-monitor Transmission System | 13,500,000 | 18,391,761 | - | (6,653,861) | 11,737,900 | 45 | 45 | (3,738,814) | (3,738,814) | - |
| Zhengpu Harbour | 35,000,000 | - | 35,000,000 | - | 35,000,000 | 35 | 35 | - | - | - |
| **Cost method:** | | | | | | | | | | |
| Henan Longyu Energy Co., Ltd. | 1,000,000 | 10,000,000 | - | - | 10,000,000 | 0.66 | 0.66 | - | - | (8,839,983) |
| China the 17th Metallurgy Construction Co., Ltd. | 2,700,000 | 8,554,800 | - | - | 8,554,800 | 1.56 | 1.56 | - | - | (160,000) |
| Shanghai Luojing Mineral Dock Co., Ltd. | 88,767,360 | 88,767,360 | - | - | 88,767,360 | 12 | 12 | - | - | (605,021) |
| Others | 1,450,000 | 1,450,000 | - | - | 1,450,000 | N/A | N/A | - | - | (4,793,785) |
| Total | 654,093,360 | 999,403,592 | 248,519,071 | (213,431,650) | 1,034,491,013 | | | (3,738,814) | (3,738,814) | (220,221,510) |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 10. LONG TERM INVESTMENTS *(CONTINUED)*

2009

| | Initial investment Cost | Opening balance | Increase during the year | Decrease during the year | Closing balance | Percentage of equity (%) | Percentage of voting right (%) | Provision for impairment | Impairment loss during the year | Cash dividend received during the year |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity method:** | | | | | | | | | | |
| Jointly-controlled entities | | | | | | | | | | |
| BOC-Ma Steel | 234,000,000 | 304,278,936 | 67,895,146 | (63,351,198) | 308,822,884 | 50 | 50 | - | - | (63,351,198) |
| MASTEEL-CMI | 500,000 | - | 849,620 | - | 849,620 | 50 | 50 | - | - | - |
| Associates | | | | | | | | | | |
| Jiyuan JinMa Coke | 80,000,000 | 169,782,128 | 50,587,964 | (18,000,000) | 202,370,092 | 36 | 36 | - | - | (18,000,000) |
| Tengzhou Shenglong Coke | 66,776,000 | 148,454,112 | 32,243,829 | - | 180,697,941 | 32 | 32 | - | - | - |
| Shanghai Iron and Steel Electronic | 4,000,000 | 15,665,292 | 18,413,677 | (25,200,000) | 8,878,969 | 20 | 20 | - | - | (25,200,000) |
| Maanshan Harbour | 112,500,000 | 158,776,802 | 13,643,363 | (1,800,000) | 170,620,165 | 45 | 45 | - | - | (1,800,000) |
| All-monitor Transmission System | 13,500,000 | 9,285,431 | 9,106,330 | - | 18,391,761 | 45 | 45 | - | - | - |
| **Cost method:** | | | | | | | | | | |
| Henan Longyu Energy Co., Ltd. | 10,000,000 | 10,000,000 | - | - | 10,000,000 | 0.66 | 0.66 | - | - | - |
| China the 17th Metallurgy Construction Co., Ltd. | 2,700,000 | 2,700,000 | 5,854,800 | - | 8,554,800 | 1.56 | 1.56 | - | - | - |
| Shanghai Luojing Mineral Dock Co., Ltd. | 88,767,360 | 88,767,360 | - | - | 88,767,360 | 12 | 12 | - | - | - |
| Others | 1,450,000 | 1,450,000 | - | - | 1,450,000 | N/A | N/A | - | - | - |
| Total | 614,193,360 | 909,160,061 | 198,594,729 | (108,351,198) | 999,403,592 | | | - | - | (108,351,198) |

(note) As at the end of the reporting period, the Group holds a 49% equity interest of Sino-Japan Resource Regeneration. The chairman of the board of directors was appointed by the Group. Among the board of directors, two of the directors were appointed by the Group and three of the directors were appointed by Nippon Steel Engineering Co., Ltd. According to the articles of association of Sino-Japan Resource Regeneration, the resolution of the financial and operating policies require more than half of the votes of the directors and the approval from the chairman of the board of directors. Thus, the Group accounted for Sino-Japan Resource Regeneration as an investment in jointly-controlled entity under the equity method.

According to the directors' opinion, there was no material restriction on realisation of long term investments as at the balance sheet date.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 11. INVESTMENT PROPERTIES

Cost method for subsequent measurement:

**2010**

| | **Buildings and Land use rights** |
|---|---|
| Cost: | |
| At 1 January 2010 | **5,638,945** |
| Additions | **90,551** |
| Transfer from intangible assets (note 14) | **2,422,651** |
| At 31 December 2010 | **8,152,147** |
| Accumulated depreciation: | |
| At 1 January 2010 | **911,770** |
| Provided during the year | **157,673** |
| Transfer from intangible assets (note 14) | **311,361** |
| At 31 December 2010 | **1,380,804** |
| Impairment: | |
| At 1 January 2010 and 31 December 2010 | **–** |
| Net carrying amount: | |
| At 31 December 2010 | **6,771,343** |
| At 1 January 2010 | **4,727,175** |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 11. INVESTMENT PROPERTIES *(CONTINUED)*

2009

| | Buildings and Land use rights |
|---|---|
| Cost: | |
| At 1 January 2009 | 1,722,642 |
| Transfer from fixed assets (note 12) | 3,916,303 |
| At 31 December 2009 | 5,638,945 |
| Accumulated depreciation: | |
| At 1 January 2009 | 516,792 |
| Provided during the year | 85,786 |
| Transfer from fixed assets (note 12) | 309,192 |
| At 31 December 2009 | 911,770 |
| Impairment: | |
| At 1 January 2009 and 31 December 2009 | – |
| Net carrying amount: | |
| At 31 December 2009 | 4,727,175 |
| At 1 January 2009 | 1,205,850 |

The movement of impairment provision for investment properties for the year is disclosed in Note 16.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 12. FIXED ASSETS

**2010**

| | Buildings and structures | Plant, machinery and equipment | Transportation vehicles and equipment | Total |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2010 | 20,723,321,211 | 40,896,760,968 | 436,313,529 | 62,056,395,708 |
| Additions | 4,572,542 | 13,391,518 | 1,873,714 | 19,837,774 |
| Transfer from construction in progress (Note 13) | 453,468,974 | 1,030,635,327 | 11,384,775 | 1,495,489,076 |
| Reclassifications | 813,749,762 | (824,278,762) | 10,529,000 | – |
| Disposal | (21,368,324) | (82,423,477) | (16,170,721) | (119,962,522) |
| Other decrease | (556,001,390) | – | – | (556,001,390) |
| At 31 December 2010 | 21,417,742,775 | 41,034,085,574 | 443,930,297 | 62,895,758,646 |
| Accumulated depreciation: | | | | |
| At 1 January 2010 | 6,391,562,457 | 16,952,699,117 | 348,559,669 | 23,692,821,243 |
| Provided during the year | 1,143,964,056 | 3,633,952,894 | 32,729,209 | 4,810,646,159 |
| Reclassifications | 345,005,820 | (347,585,780) | 2,579,960 | – |
| Disposal | (12,353,212) | (73,462,393) | (15,351,113) | (101,166,718) |
| At 31 December 2010 | 7,868,179,121 | 20,165,603,838 | 368,517,725 | 28,402,300,684 |
| Impairment: | | | | |
| At 1 January 2010 | 5,252,400 | 85,423,244 | – | 90,675,644 |
| Disposal | – | (2,820,908) | – | (2,820,908) |
| 31 December 2010 | 5,252,400 | 82,602,336 | – | 87,854,736 |
| Net carrying amount: | | | | |
| At 31 December 2010 | 13,544,311,254 | 20,785,879,400 | 75,412,572 | 34,405,603,226 |
| At 1 January 2010 | 14,326,506,354 | 23,858,638,607 | 87,753,860 | 38,272,898,821 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 12. FIXED ASSETS *(CONTINUED)*

2009

| | Buildings and structures | Plant, machinery and equipment | Transportation vehicles and equipment | Total |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2009 | 20,263,272,551 | 39,137,340,152 | 428,963,337 | 59,829,576,040 |
| Additions | 2,530,141 | 12,796,419 | 491,929 | 15,818,489 |
| Transfer from construction in progress (Note 13) | 524,661,436 | 1,789,416,777 | 14,284,278 | 2,328,362,491 |
| Reclassifications | (47,777,265) | 47,796,305 | (19,040) | – |
| Disposal | (15,449,349) | (90,588,685) | (7,406,975) | (113,445,009) |
| Transfer to investment properties (Note 11) | (3,916,303) | – | – | (3,916,303) |
| At 31 December 2009 | 20,723,321,211 | 40,896,760,968 | 436,313,529 | 62,056,395,708 |
| Accumulated depreciation: | | | | |
| At 1 January 2009 | 5,231,060,132 | 13,429,330,873 | 309,013,569 | 18,969,404,574 |
| Provided during the year | 1,165,425,087 | 3,609,651,360 | 45,596,177 | 4,820,672,624 |
| Reclassifications | 2,799,298 | (2,780,829) | (18,469) | – |
| Disposal | (7,412,868) | (83,502,287) | (6,031,608) | (96,946,763) |
| Transfer to investment properties (Note 11) | (309,192) | – | – | (309,192) |
| At 31 December 2009 | 6,391,562,457 | 16,952,699,117 | 348,559,669 | 23,692,821,243 |
| Impairment: | | | | |
| At 1 January 2009 and 31 December 2009 | 5,252,400 | 85,423,244 | – | 90,675,644 |
| Net carrying amount: | | | | |
| At 31 December 2009 | 14,326,506,354 | 23,858,638,607 | 87,753,860 | 38,272,898,821 |
| At 1 January 2009 | 15,026,960,019 | 25,622,586,035 | 119,949,768 | 40,769,495,822 |

As at 31 December 2010, the Group has no intention to dispose any fixed assets or held any fixed assets that were being temporarily idle.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 12. FIXED ASSETS *(CONTINUED)*

As at 31 December 2010, certificates of ownership in respect of 141 of the Group's buildings in PRC, with an aggregate cost of RMB2,611.69 million (31 December 2009: approximately RMB2,410.82 million), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and it will not have significant adverse impact on the Group's operations.

At 31 December 2010, certain of the Group's production equipment with a net carrying amount of RMB37,986,953 were pledged as security to acquire bank loans amounting to RMB15,000,000. The detail is disclosed in Note V.17.

The movement of impairment provision for fixed assets for the year is disclosed in Note 16.

### 13. CONSTRUCTION IN PROGRESS

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Provision for impairment** | **Carrying amount** | Balance | Provision for impairment | Carrying amount |
| Products quality project | **364,069,851** | **–** | **364,069,851** | 194,613,507 | – | 194,613,507 |
| Energy-saving and environment protection project | **154,180,398** | **–** | **154,180,398** | 67,883,027 | – | 67,883,027 |
| Equipment advancement and other modification projects | **902,103,098** | **–** | **902,103,098** | 1,242,630,024 | – | 1,242,630,024 |
| Other projects | **83,975,397** | **–** | **83,975,397** | 292,828,084 | – | 292,828,084 |
| Total | **1,504,328,744** | **–** | **1,504,328,744** | 1,797,954,642 | – | 1,797,954,642 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 13. CONSTRUCTION IN PROGRESS *(CONTINUED)*

**2010**

| Name of projects | Budget cost RMB'000 | Opening balance RMB | Additions during the year RMB | Transferred to fixed assets (Note 12) RMB | Closing balance RMB | Source of fund | Average percentage of completion % |
|---|---|---|---|---|---|---|---|
| 1. Products quality project | 389,120 | 194,613,507 | 283,879,429 | (114,423,085) | 364,069,851 | Internally generated funds | 94 |
| 2. Energy-saving and environment protection project | 475,892 | 67,883,027 | 128,540,990 | (42,243,619) | 154,180,398 | Internally generated funds | 32 |
| 3. Equipment advancement and other modification projects | 1,119,580 | 1,242,630,024 | 451,900,253 | (792,427,179) | 902,103,098 | Internally generated funds | 81 |
| 4. Other projects | N/A | 292,828,084 | 337,542,506 | (546,395,193) | 83,975,397 | Internally generated funds | N/A |
| | | 1,797,954,642 | 1,201,863,178 | (1,495,489,076) | 1,504,328,744 | | |
| Less: Impairment | | - | - | - | - | | |
| Total | | 1,797,954,642 | 1,201,863,178 | (1,495,489,076) | 1504,328,744 | | |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 13. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2009

| Name of projects | Budget cost RMB'000 | Opening balance RMB | Additions during the year RMB | Transferred to fixed assets (Note 12) RMB | Closing balance RMB | Source of fund | Average percentage of completion % |
|---|---|---|---|---|---|---|---|
| 1. Products quality project | 3,978,597 | 174,130,135 | 65,803,853 | (45,320,481) | 194,613,507 | Internally generated funds | 91 |
| 2. Energy-saving and environment protection project | 1,629,916 | 501,302,328 | 542,821,194 | (976,240,495) | 67,883,027 | Internally generated funds | 81 |
| 3. Equipment advancement and other modification projects | 26,184,263 | 1,463,299,218 | 806,319,348 | (1,026,988,542) | 1,242,630,024 | Internally generated funds | 96 |
| 4. Other projects | N/A | 139,186,907 | 433,454,150 | (279,812,973) | 292,828,084 | Internally generated funds | N/A |
| | | 2,277,918,588 | 1,848,398,545 | (2,328,362,491) | 1,797,954,642 | | |
| Less: Impairment | | - | - | - | - | | |
| Total | | 2,277,918,588 | 1,848,398,545 | (2,328,362,491) | 1,797,954,642 | | |

The Group has no capitalised borrowing costs used in construction in progress in the year 2010 and 2009.

The movement of impairment provision for construction in progress for the year is disclosed in Note 16.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 14. INTANGIBLE ASSETS

**2010**

| | Back-up roll technology | Land use rights | Mining right | Total |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2010 | – | 2,126,951,213 | 128,553,274 | 2,255,504,487 |
| Additions | 45,082,836 | 8,818,815 | 9,255,082 | 63,156,733 |
| Transfer into investment property (note 11) | – | (2,422,651) | – | (2,422,651) |
| Disposal | – | (17,827,048) | – | (17,827,048) |
| Exchange realignment | – | – | 12,612,713 | 12,612,713 |
| At 31 December 2010 | 45,082,836 | 2,115,520,329 | 150,421,069 | 2,311,024,234 |
| Accumulated depreciation: | | | | |
| At 1 January 2010 | – | 380,261,096 | 19,463,641 | 399,724,737 |
| Provided during the year | 751,381 | 41,551,232 | 4,841,342 | 47,143,955 |
| Transfer into investment property (note 11) | – | (311,361) | – | (311,361) |
| Disposal | – | (927,892) | – | (927,892) |
| Exchange realignment | – | – | 2,041,159 | 2,041,159 |
| At 31 December 2010 | 751,381 | 420,573,075 | 26,346,142 | 447,670,598 |
| Impairment: | | | | |
| At 1 January 2010 and at 31 December 2010 | – | – | – | – |
| Net carrying amount | | | | |
| At 31 December 2010 | 44,331,455 | 1,694,947,254 | 124,074,927 | 1,863,353,636 |
| At 1 January 2010 | – | 1,746,690,117 | 109,089,633 | 1,855,779,750 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 14. INTANGIBLE ASSETS *(CONTINUED)*

2009

| | Land use rights | Mining right | Total |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2009 | 2,104,023,435 | 96,603,075 | 2,200,626,510 |
| Additions | 23,063,112 | 2,592,787 | 25,655,899 |
| Disposal | (135,334) | – | (135,334) |
| Exchange realignment | – | 29,357,412 | 29,357,412 |
| At 31 December 2009 | 2,126,951,213 | 128,553,274 | 2,255,504,487 |
| Accumulated depreciation: | | | |
| At 1 January 2009 | 338,675,148 | 11,412,085 | 350,087,233 |
| Provided during the year | 41,585,948 | 4,089,440 | 45,675,388 |
| Exchange realignment | – | 3,962,116 | 3,962,116 |
| At 31 December 2009 | 380,261,096 | 19,463,641 | 399,724,737 |
| Impairment: | | | |
| At 1 January 2009 and 31 December 2009 | – | – | – |
| Net carrying amount: | | | |
| At 31 December 2009 | 1,746,690,117 | 109,089,633 | 1,855,779,750 |
| At 1 January 2009 | 1,765,348,287 | 85,190,990 | 1,850,539,277 |

The movement of impairment provision for intangible assets for the year is disclosed in Note 16.

At 31 December 2010, certain of the Group's land use rights with a net carrying amount of RMB26,041,109 (31 December 2009: RMB26,541,899) were pledged as security to acquire bank loans amounting to RMB14,000,000 (31 December 2009: RMB20,000,000). The detail is disclosed in Notes V.25 and V.26.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 15. DEFERRED TAX ASSETS/LIABILITIES

Recognised deferred tax assets:

| | **2010** | 2009 |
|---|---|---|
| Opening balance | **779,581,081** | 618,928,724 |
| Recognised in the income statement during the year | **(285,712,986)** | 160,652,357 |
| Closing balance | **493,868,095** | 779,581,081 |

| **Breakdown** | **2010** | 2009 |
|---|---|---|
| Impairment provisions of assets | **32,296,327** | 38,043,681 |
| Sales incentive | **102,464,659** | 86,339,659 |
| Repair and maintenance expenses | **8,367,709** | 9,688,385 |
| Pre-operation expenses | **–** | 4,452,647 |
| Salary payable | **44,607,770** | 27,799,027 |
| Unrealised profit | **9,805,084** | 11,323,276 |
| Deductible tax losses | **273,182,494** | 592,628,311 |
| Others | **23,144,052** | 9,306,095 |
| Total | **493,868,095** | 779,581,081 |

As at 31 December 2010, the Group had unrecognised deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB52.26 million (2009: RMB36.23 million) which will be expired in 2015 and tax credit arising from the purchase of certain manufacturing plant, machinery and equipment in the PRC and other unused tax credit amounting to RMB158.14 million which will be expired in 2011 (2009: RMB158.14 million) and RMB5.08 million (2009: RMB6.24 million), respectively, which have not been recognised.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 15. DEFERRED TAX ASSETS/LIABILITIES *(CONTINUED)*

Unrecognised deferred tax assets arising from deductible tax losses will be expired in the following years:

| | **2010** | 2009 |
|---|---|---|
| Expired in 2015 | **64,092,572** | – |
| Expired in 2014 | **9,650,928** | 9,650,928 |
| Expired in 2013 | **134,947,513** | 134,947,513 |
| Expired in 2012 and the year before | **333,707** | 333,707 |

The Group has not recognised the deferred tax assets related to the above deductible temporary differences and unused tax losses, because it is not highly probable that future taxable profit will be available to be utilised.

Recognised deferred tax liabilities:

| | **2010** | 2009 |
|---|---|---|
| Opening balance | **–** | 6,678,903 |
| Recognised in the income statement during the year | **–** | (6,678,903) |
| Closing balance | **–** | – |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 16. ASSETS IMPAIRMENT PROVISIONS

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Opening Balance | Increase during the year | Decrease during the year | | | Closing balance |
| | | | Reversal | Write-back | Write-off | |
| Provisions for bad debts | 27,611,159 | – | (112,552) | – | (4,638,129) | 22,860,478 |
| Including: Trade receivables | 20,540,662 | – | (112,552) | – | (4,638,129) | 15,789,981 |
| Other receivables | 7,070,497 | – | – | – | – | 7,070,497 |
| Provisions for inventories | 82,043,978 | 13,906,462 | – | (34,074,972) | – | 61,875,468 |
| Including: Raw Materials | 33,417,210 | – | – | (33,417,210) | – | – |
| Spare parts | 48,626,768 | 13,906,462 | – | (657,762) | – | 61,875,468 |
| Impairment of held-to-maturity investments | – | – | – | – | – | – |
| Impairment of long term equity investments | – | 3,738,814 | – | – | – | 3,738,814 |
| Impairment of investment properties | – | – | – | – | – | – |
| Impairment of fixed assets | 90,675,644 | – | – | – | (2,820,908) | 87,854,736 |
| Including: Buildings and structures | 5,252,400 | – | – | – | – | 5,252,400 |
| Plant, machinery and equipment | 85,423,244 | – | – | – | (2,820,908) | 82,602,336 |
| Impairment of construction in progress | – | – | – | – | – | – |
| Impairment of intangible assets | – | – | – | – | – | – |
| Total | 200,330,781 | 17,645,276 | (112,552) | (34,074,972) | (7,459,037) | 176,329,496 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 16. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Opening Balance | Increase during the year | Decrease during the year | | | Closing balance |
| | | | Reversal | Write-back | Write-off | |
| Provisions for bad debts | 26,885,988 | 322,170 | (535,000) | – | 938,001 | 27,611,159 |
| Including: Trade receivables | 19,815,491 | 322,170 | (535,000) | – | 938,001 | 20,540,662 |
| Other receivables | 7,070,497 | – | – | – | – | 7,070,497 |
| Provisions for inventories | 1,795,894,286 | 57,810,860 | – | (1,771,661,168) | – | 82,043,978 |
| Including: Raw Materials | 1,389,919,170 | 33,417,210 | – | (1,389,919,170) | – | 33,417,210 |
| Work in Process | 143,476,078 | – | – | (143,476,078) | – | – |
| Finished goods | 237,995,235 | – | – | (237,995,235) | – | – |
| Spare parts | 24,503,803 | 24,393,650 | – | (270,685) | – | 48,626,768 |
| Impairment of held-to-maturity investments | – | – | – | – | – | – |
| Impairment of long term equity investments | – | – | – | – | – | – |
| Impairment of investment properties | – | – | – | – | – | – |
| Impairment of fixed assets | 90,675,644 | – | – | – | – | 90,675,644 |
| Including: Buildings and structures | 5,252,400 | – | – | – | – | 5,252,400 |
| Plant, machinery and equipment | 85,423,244 | – | – | – | – | 85,423,244 |
| Impairment of construction in progress | – | – | – | – | – | – |
| Impairment of intangible assets | – | – | – | – | – | – |
| Total | 1,913,455,918 | 58,133,030 | (535,000) | (1,771,661,168) | 938,001 | 200,330,781 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 17. SHORT TERM LOANS

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| Types of loans | **Original currency** | **Year end exchange rate** | **RMB equivalents** | Original currency | Year end exchange rate | RMB equivalents |
| Entrusted loans | | | | | | |
| – RMB (i) | **-** | **-** | **10,000,000** | – | – | 40,000,000 |
| Unsecured loans | | | | | | |
| – RMB | **-** | **-** | **480,582,299** | – | – | 517,000,000 |
| – USD | **40,000,000** | **6.6227** | **264,908,000** | – | – | – |
| Secured loans | | | | | | |
| – RMB(ii) | **-** | **-** | **15,000,000** | – | – | – |
| Trust receipt loans | | | | | | |
| – USD | **31,196,186** | **6.6227** | **206,602,979** | 90,250,111 | 6.8282 | 616,245,805 |
| Total | | | **977,093,278** | | | 1,173,245,805 |

(i) As at 31 December 2010, certain bank loans of RMB10,000,000 (2009: RMB40,000,000) in aggregate were lent by Holding through entrust loan arrangement with the Industrial and Commercial Bank of China, with terms of 1 year and annual interest rates at 4.779% (2009: The interest rates of the above short term loans ranged from 4.789% per annum).

(ii) As at 31 December 2010, certain of the Group's short-term loans amounting to RMB15,000,000 were pledged by manufacturing equipments. The detail is disclosed in Note V.12.

As at 31 December 2010, the interest rates of the above short-term loans were ranged from1.1%—5.6% (31 December 2009: 4.78%—4.799%).

As at 31 December 2010, the Group had no expired outstanding short term loans.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 18. BILLS PAYABLE

| | **2010** | 2009 |
|---|---|---|
| Bank acceptance bills | **5,269,342,225** | 3,988,275,537 |
| Commercial acceptance bills | **–** | 1,412,012,063 |
| Total | **5,269,342,225** | 5,400,287,600 |

The bills payable amounting to RMB5,269,342,225 (2009: RMB5,400,287,000) are due in the next accounting year.

As at balance sheet date, certain amount of the Group's bills payable were secured by certain amount of the other balances with financial institutions and pledged by certain amount of inventories. Please refer to Note V. 1 and Note V. 8.

As at 31 December 2010 and 31 December 2009, the balance of bills payable does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or related parties.

### 19. ACCOUNTS PAYABLE

The following balances were denominated in foreign currencies:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Year end rate** | **RMB equivalents** | Original currency | Year end rate | RMB equivalents |
| USD | **4,657,494** | **6.6227** | **30,845,187** | 17,774,537 | 6.8282 | 121,368,096 |
| EUR | **2,347,048** | **8.8065** | **20,669,277** | 4,291,046 | 9.7971 | 42,039,811 |
| AUD | **27,899** | **6.7139** | **187,308** | 26,906 | 6.1294 | 164,919 |
| JPY | **71,930,000** | **0.0813** | **5,845,032** | 26,460,000 | 0.0738 | 1,952,272 |
| Total | | | **57,546,804** | | | 165,525,098 |

The accounts payable are interest free and are normally settled within three months.

As at 31 December 2010 and 31 December 2009, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in Note VI.6 to the financial statements.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 19. ACCOUNTS PAYABLE *(CONTINUED)*

At 31December 2010, the accounts payable with material amounts aged more than 1 year (over RMB 2 millions) are as follows:

| Name of the company | Amount due | Unpaid reason |
|---|---|---|
| Company 1 | **12,320,382** | (i) |
| Company 2 | **7,917,184** | (i) |
| Company 3 | **7,033,344** | (i) |
| Company 4 | **6,648,000** | (i) |
| Company 5 | **6,032,957** | (i) |
| Others | **44,083,260** | (i) |

The above accounts payable with material amounts aged over 1 year had been repaid by RMB24,323,887 after balance sheet date.

(i) The Group's accounts payable aged over 1 year are mainly attributable to the balances of purchasing equipment and construction projects whose settlement periods were beyond 1 year.

### 20. DEPOSITS RECEIVED

The following balances were denominated in foreign currencies:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Year end rate** | **RMB equivalents** | Original currency | Year end rate | RMB equivalents |
| USD | **22,933,576** | **6.6227** | **151,882,194** | 14,849,166 | 6.8282 | 103,160,986 |
| EUR | **170,600** | **8.8065** | **1,502,389** | – | 9.7971 | – |
| | | | **153,384,583** | | | 103,160,986 |

The ageing of deposits received is within one year.

As at 31 December 2010 and 31 December 2009, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of deposits received are stated in Note VI.6 to the financial statements.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 21. PAYROLL AND BENEFITS PAYABLE

| **2010** | **Opening balance** | **Increase during the year** | **Payment during the year** | **Closing balance** |
|---|---|---|---|---|
| Salaries, bonus and subsidies | **113,715,751** | **2,596,579,151** | **(2,526,139,018)** | **184,155,884** |
| Welfare (including: employee bonus and welfare fund) | **34,207,065** | **159,741,055** | **(173,236,057)** | **20,712,063** |
| Social insurance | **104,556,404** | **960,497,571** | **(1,017,821,553)** | **47,232,422** |
| *Include: Pension insurance* | ***55,776,661*** | ***542,246,966*** | ***(586,017,992)*** | ***12,005,635*** |
| *Medical insurance* | ***26,889,148*** | ***210,433,744*** | ***(221,421,189)*** | ***15,901,703*** |
| *Unemployment insurance* | ***4,685,333*** | ***42,871,010*** | ***(47,556,343)*** | **–** |
| *Work-related injury insurance* | ***4,445,949*** | ***56,124,851*** | ***(55,622,027)*** | ***4,948,773*** |
| *Maternity insurance* | ***1,048,719*** | ***10,774,227*** | ***(11,242,074)*** | ***580,872*** |
| *Supplementary pension scheme* | ***11,710,594*** | ***98,046,773*** | ***(95,961,928)*** | ***13,795,439*** |
| Housing fund | **16,818,384** | **248,524,971** | **(242,082,188)** | **23,261,167** |
| Labour union fee and employee education fee | **6,192,169** | **82,042,586** | **(79,074,834)** | **9,159,921** |
| Total | **275,489,773** | **4,047,385,334** | **(4,038,353,650)** | **284,521,457** |

| 2009 | Opening balance | Increase during the year | Payment during the year | Closing balance |
|---|---|---|---|---|
| Salaries, bonus and subsidies | 96,414,186 | 2,235,793,204 | (2,218,491,639) | 113,715,751 |
| Welfare (including: employee bonus and welfare fund) | 26,470,740 | 124,923,440 | (117,187,115) | 34,207,065 |
| Social insurance | 43,690,460 | 915,189,059 | (854,323,115) | 104,556,404 |
| *Include: Pension insurance* | *7,378,942* | *541,162,991* | *(492,765,272)* | *55,776,661* |
| *Medical insurance* | *16,187,967* | *182,931,451* | *(172,230,270)* | *26,889,148* |
| *Unemployment insurance* | *4,642,365* | *51,004,202* | *(50,961,234)* | *4,685,333* |
| *Work-related injury insurance* | *2,370,087* | *53,058,623* | *(50,982,761)* | *4,445,949* |
| *Maternity insurance* | *3,638,714* | *9,569,268* | *(12,159,263)* | *1,048,719* |
| *Supplementary pension scheme* | *9,472,385* | *77,462,524* | *(75,224,315)* | *11,710,594* |
| Housing fund | 20,024,555 | 188,535,578 | (191,741,749) | 16,818,384 |
| Labour union fee and employee education fee | 10,784,388 | 63,109,102 | (67,701,321) | 6,192,169 |
| Total | 197,384,329 | 3,527,550,383 | (3,449,444,939) | 275,489,773 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 21. PAYROLL AND BENEFITS PAYABLE *(CONTINUED)*

As at 31 December 2010 and 31 December 2009, the balance of payroll and benefits payable had not included performance-based wages.

As at 31 December 2010 and 31 December 2009, the Group had no defaulted payroll and benefits payable.

As at 31 December 2010, the balance of labour union fee and employee education fee was RMB9,159,921 (31 December 2009: RMB6,192,169). In 2010 and 2009, the Group had no payment for non-currency welfare or compensation for terminating the labour relationship.

### 22. TAXES PAYABLE

| | **2010** | 2009 |
|---|---|---|
| Value added tax | **(214,827,743)** | (40,608,908) |
| Corporate income tax | **(247,822,255)** | (107,811,680) |
| City construction and maintenance tax | **9,693,285** | 23,156,705 |
| Other taxes | **41,776,112** | 39,456,366 |
| Total | **(411,180,601)** | (85,807,517) |

The basis of calculation and the applicable tax rates are disclosed in Note III to the financial statements.

### 23. DIVIDENDS PAYABLE

| | **2010** | 2009 | **Unpaid reason for over 1 year** |
|---|---|---|---|
| Holding | **501,402,557** | 695,945,600 | Unpaid dividend |
| Other shareholders | **5,593,163** | 5,593,163 | Unpaid dividend |
| Total | **506,995,720** | 701,538,763 | |

As at 31 December 2010 and 31 December 2009, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of dividends payable are stated in Note VI.6 to the financial statements.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 24. OTHER PAYABLES

| | **2010** | 2009 |
|---|---|---|
| Sales incentive | **409,858,637** | 345,358,086 |
| Payable to construction, maintenance and inspection fee | **171,071,179** | 125,771,617 |
| Service fees payable | **44,288,229** | 37,028,480 |
| Technology project fees received | **47,683,429** | 59,003,456 |
| Relocation compensation | **42,546,153** | 47,347,944 |
| Others | **230,818,734** | 139,077,728 |
| Total | **946,266,361** | 753,587,311 |

As at 31 December 2010 and 31 December 2009, the balance of other payables does not contain any amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

As at 31 December 2010, certain of the Group's other payables amounting to RMB241,247,756 (31 December 2009: RMB23,498,775) were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amount which aged over 1 year, there was no payment made after the balance sheet date.

### 25. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

| | **2010** | 2009 |
|---|---|---|
| Non-current liabilities due within one year | **2,511,135,000** | 816,000,000 |
| Bonds payable (note 27) | **5,346,476,313** | – |
| | **7,857,611,313** | 816,000,000 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 25. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(CONTINUED)*

| | **2010** | 2009 |
|---|---|---|
| Non-current liabilities due within one year: | | |
| Secured loans (i) | **14,000,000** | – |
| Guaranteed loans (ii) | **1,316,000,000** | 666,000,000 |
| Unsecured loans | **1,181,135,000** | 150,000,000 |
| | **2,511,135,000** | 816,000,000 |

(i) As at 31 December 2010, non-current liabilities due within one year amounting to RMB14,000,000 had been pledged by land use rights. Please refer to Note V. 14.

(ii) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by Holding.

As at 31 December 2010, the Group had no expired outstanding long term loans.

As at 31 December 2010, the top five non-current liabilities due within one year are the following:

| | **Starting date yy/mm/dd** | **Termination date yy/mm/dd** | **Currency** | **Rate (%)** | **2010 Balance RMB equivalent** | 2009 Balance RMB equivalent |
|---|---|---|---|---|---|---|
| Agricultural Bank of China | 2006/1/17 | 2011/1/16 | RMB | Note | **500,000,000** | 500,000,000 |
| Agricultural Bank of China | 2008/12/17 | 2011/12/16 | RMB | Note | **200,000,000** | 200,000,000 |
| Agricultural Bank of China | 2008/12/17 | 2011/12/16 | RMB | Note | **200,000,000** | 200,000,000 |
| Agricultural Bank of China | 2008/12/17 | 2011/12/16 | RMB | Note | **200,000,000** | 200,000,000 |
| Agricultural Bank of China | 2006/6/13 | 2011/6/12 | RMB | Note | **200,000,000** | 200,000,000 |
| | | | | | **1,300,000,000** | 1,300,000,000 |

Note: The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 26. LONG TERM LOANS

| | **2010** | 2009 |
|---|---|---|
| Secured loans (i) | **–** | 20,000,000 |
| Pledged loans (ii) | **–** | 680,000,000 |
| Guaranteed loans (iii) | **3,021,675,000** | 3,119,666,000 |
| Unsecured loans (iv) | **8,347,056,100** | 9,784,294,000 |
| | **11,368,731,100** | 13,603,960,000 |

(i) As at 31 December 2009, certain of the Group's long term loans of RMB20,000,000 was secured by the pledge of certain of the Group's land use right. For details please refer to Note V. 14.

(ii) As at 31 December 2009, certain of the Group's long term loans of RMB680,000,000 was secured by the pledge of all of the Company's trade receivables and certain of the Group's other monetary assets of USD100,000,000. For details please refer to Notes V.1 and V.4.

(iii) As at balance sheet date, guaranteed loans were all guaranteed by the Holding.

(iv) As at 31 December 2009, certain of the Group's unsecured loans of RMB1,366,112,000 was secured by the pledge of certain of the Group's other monetary assets of USD200,000,000. For details please refer to Note V. 1.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 26. LONG TERM LOANS *(CONTINUED)*

As at 31 December 2010, the top five long term loans:

| | Starting date yy/mm/dd | Termination date yy/mm/dd | Currency (%) | Rate | 2010 Balance RMB equivalent | 2009 Balance RMB equivalent |
|---|---|---|---|---|---|---|
| Export-Import Bank of China | 2010/2/25 | 2012/2/25 | USD | Note1 | **662,270,000** | – |
| Export-Import Bank of China | 2010/2/24 | 2012/2/24 | USD | Note2 | **662,270,000** | – |
| Export-Import Bank of China | 2010/3/23 | 2012/3/23 | RMB | Note3 | **350,000,000** | – |
| Agricultural Bank of China | 2010/12/7 | 2012/6/6 | RMB | Note3 | **200,000,000** | – |
| Agricultural Bank of China | 2010/12/8 | 2012/6/7 | RMB | Note3 | **200,000,000** | – |
| | | | | | **2,074,540,000** | – |

Note 1: The above borrowing rates of long term loans due within one year were 0.5% over London Interbank Offered Rate.

Note 2: The above borrowing rates of long term loans due within one year were 2.0% over London Interbank Offered Rate.

Note 3: The above borrowing rates of long term loans due within one year were 10% bellow the central bank benchmark rate.

As at 31 December 2010, the Group has no expired outstanding long term loans.

### 27. BONDS PAYABLE

| | Opening balance | Increase | Decrease | Closing balance |
|---|---|---|---|---|
| Bonds with warrants | **5,165,409,845** | **258,066,468** | **(77,000,000)** | **5,346,476,313** |
| Medium-term note payable | **–** | **997,833,200** | **–** | **997,833,200** |
| Total | **5,165,409,845** | **1,255,899,668** | **(77,000,000)** | **6,344,309,513** |
| Less: Transfer into non-current liabilities due within one year (Note 25) | | | | **5,346,476,313** |
| | | | | **997,833,200** |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 27. BONDS PAYABLE *(CONTINUED)*

#### Bonds with warrants

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

During the first exercise period of the warrants from 15 November 2007 to 28 November 2007, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33. During the second exercise period of the warrants from 17 November 2008 to 28 November 2008, a total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.26. Since then, the exercise of these warrants was entirely completed.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable of RMB77 million in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants.

#### Medium-term note payable

In November 2009, the Company obtained the approval of National Association of Financial Market Institutional Investors, regarding the issuance of medium-term note with a registration amount of RMB3.8 billion, which will be expired within 2 years. The medium-term note is allowed to be issued by stages in its registration period of validity.

As at 4 February 2010, the Company issued the first stage medium-term note of RMB 1 billion (abbreviated as 10马钢MTN1). The issuance price is RMB100/note, and has a fixed rate of interest at 4.45% per annum.

The RMB1 billion is circulating in the Chinese Inter-bank Bond Market. Such medium-term note commenced at 5 February 2010 and repayable in 3 years.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 28. OTHER NON-CURRENT LIABILITIES

| | **2010** | 2009 |
|---|---|---|
| Deferred income (i) | **573,288,652** | 579,926,538 |
| | **573,288,652** | 579,926,538 |

(i) The deferred income represents the government subsidies received for specific projects, its movement is as follows:

| **Deferred income** | **2010** | 2009 |
|---|---|---|
| Opening balance | **579,926,538** | 563,549,396 |
| Increase during the year | **74,889,566** | 95,880,000 |
| Amortisation during the year (Note 40) | **(79,527,452)** | (79,502,858) |
| Other decrease | **(2,000,000)** | – |
| Closing balance | **573,288,652** | 579,926,538 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 29. SHARE CAPITAL

| 2010 | At 1 January 2010 | | Increase/(decrease) during the year | | | At 31 December 2010 | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Percentage (%) | Issue of shares | Others | Sub-total | Number of shares | Percentage (%) |
| A. Shares with selling restriction | | | | | | | |
| 1. State-owned shares | - | - | - | - | - | - | - |
| 2. State-owned legal person shares | - | - | - | - | - | - | - |
| 3. Other domestically owned shares | - | - | - | - | - | - | - |
| Including: | | | | | | | |
| Shares owned by domestic natural persons | - | - | - | - | - | - | - |
| Sub-total | - | - | - | - | - | - | - |
| B. Shares without selling restriction | | | | | | | |
| 1. A shares | 5,967,751,186 | 77.50 | - | - | - | 5,967,751,186 | 77.50 |
| 2. H shares | 1,732,930,000 | 22.50 | - | - | - | 1,732,930,000 | 22.50 |
| Sub-total | 7,700,681,186 | 100.00 | - | - | - | 7,700,681,186 | 100.00 |
| C. Total | 7,700,681,186 | 100.00 | - | - | - | 7,700,681,186 | 100.00 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 29. SHARE CAPITAL

| 2009 | At 1 January 2009 | | Increase/(decrease) during the year | | | At 31 December 2009 | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Percentage (%) | Issue of shares | Others | Sub-total | Number of shares | Percentage (%) |
| A. Shares with selling restriction | | | | | | | |
| 1. State-owned shares | 3,830,560,000 | 49.74 | – | (3,830,560,000) | (3,830,560,000) | – | – |
| 2. State-owned legal person shares | 55,857,927 | 0.73 | – | (55,857,927) | (55,857,927) | – | – |
| 3. Other domestically owned shares | 11,658 | – | – | (11,658) | (11,658) | – | – |
| Including: | | | | | | | |
| Shares owned by domestic natural persons | 11,658 | – | – | (11,658) | (11,658) | – | – |
| Sub-total | 3,886,429,585 | 50.47 | – | (3,886,429,585) | (3,886,429,585) | – | – |
| B. Shares without selling restriction | | | | | | | |
| 1. A shares | 2,081,321,601 | 27.03 | – | 3,886,429,585 | 3,886,429,585 | 5,967,751,186 | 77.50 |
| 2. H shares | 1,732,930,000 | 22.50 | – | – | – | 1,732,930,000 | 22.50 |
| Sub-total | 3,814,251,601 | 49.53 | – | 3,886,429,585 | 3,886,429,585 | 7,700,681,186 | 100.00 |
| C. Total | 7,700,681,186 | 100.00 | – | – | – | 7,700,681,186 | 100.00 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 30. CAPITAL RESERVE

| **2010** | **Opening balance** | **Increase during the year** | **Decrease during the year** | **Closing balance** |
|---|---|---|---|---|
| Share premium | **8,338,358,399** | **–** | **–** | **8,338,358,399** |

| 2009 | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|---|---|---|---|---|
| Share premium | 8,338,358,399 | – | – | 8,338,358,399 |

### 31. SURPLUS RESERVES

| **2010** | **Opening balance** | **Increase during the year** | **Decrease during the year** | **Closing balance** |
|---|---|---|---|---|
| Statutory reserve (i) | **2,956,281,977** | **122,625,536** | **–** | **3,078,907,513** |
| Reserve fund (ii) | **58,836,380** | **14,708,763** | **–** | **73,545,143** |
| Enterprise expansion fund (ii) | **42,802,292** | **10,945,866** | **–** | **53,748,158** |
| Total | **3,057,920,649** | **148,280,165** | **–** | **3,206,200,814** |

| 2009 | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|---|---|---|---|---|
| Statutory reserve (i) | 2,928,527,244 | 27,754,733 | – | 2,956,281,977 |
| Reserve fund (ii) | 45,729,199 | 13,107,181 | – | 58,836,380 |
| Enterprise expansion fund (ii) | 34,267,057 | 8,535,235 | – | 42,802,292 |
| Total | 3,008,523,500 | 49,397,149 | – | 3,057,920,649 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 31. SURPLUS RESERVES *(CONTINUED)*

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

In 2010, the board of directors of Holly Industrial approved to transfer employee pension and benefits which were accrued in prior years of RMB17,377,180 to surplus reserves. The amount attributable to the Group was RMB12,337,798.

(ii) Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and their respective articles of associations, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Subsequent to the balance sheet date, the directors determined that the Company should transfer RMB90,571,657 (2009: RMB9,075,640) to the SR.

During the year, the share of subsidiaries' current year appropriations to each of the SR, the reserve fund and the enterprise expansion fund, in accordance with percentage of investment held by the Group, were RMB19,716,081 (2009: RMB18,679,092), RMB14,708,763 (2009: RMB13,107,181) and RMB10,945,866 (2009: 8,535,236), respectively.

### 32. RETAINED PROFITS

| | **2010** | 2009 |
|---|---|---|
| Retained profits at beginning of year | **7,350,273,452** | 7,007,195,285 |
| Add: Net profit attributable to equity holders of the parent | **1,101,838,516** | 392,475,316 |
| Less: Transfer to surplus reserves | **110,287,738** | 27,754,733 |
| Transfer to reserve fund | **14,708,763** | 13,107,181 |
| Transfer to enterprise expansion fund | **10,945,866** | 8,535,235 |
| Ordinary share dividend payable (i) | **308,027,247** | – |
| Retained profits at end of year | **8,008,142,354** | 7,350,273,452 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 32. RETAINED PROFITS *(CONTINUED)*

Pursuant to the articles of association, the retained profits of the Company for the purpose of profit distribution are deemed to be the lower of the amount determined in accordance with CAS, and the amount determined in accordance with HKFRS.

(i) Final dividend in respect of 2009 was approved by the Company's shareholders at the annual general meeting held on 8 June 2010. Based on the number of shares of 7,700,681,186 in issue as at 31 December 2009, a final dividend of RMB0.04 (including tax) per share and in aggregate, a total of RMB308,027,247 payable to shareholders was recognised as a liability.

### 33. REVENUE AND COST OF SALES

Revenue is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Principal operating income | **63,040,969,770** | 50,411,554,480 |
| Other operating income | **1,940,142,724** | 1,448,415,034 |
| Total | **64,981,112,494** | 51,859,969,514 |

Cost of sales is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Principal cost of sales | **59,662,062,798** | 47,616,767,681 |
| Other cost of sales | **1,511,024,528** | 1,489,890,699 |
| Total | **61,173,087,326** | 49,106,658,380 |

Principal operating income is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Sale of steel products | **60,566,803,980** | 47,816,746,896 |
| Sale of steel billets and pig iron | **473,444,596** | 393,350,530 |
| Sale of coke by-products | **923,140,461** | 659,626,673 |
| Others | **1,077,580,733** | 1,541,830,381 |
| Total | **63,040,969,770** | 50,411,554,480 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 33. REVENUE AND COST OF SALES *(CONTINUED)*

During 2010, the revenue from the top five largest customers are as follows:

| | **Amount** | **Rate in total revenue(%)** |
|---|---|---|
| Company 1 | **4,912,443,602** | 7 |
| Company 2 | **1,312,390,210** | 2 |
| Company 3 | **1,209,375,700** | 2 |
| Company 4 | **1,163,988,677** | 2 |
| Company 5 | **670,905,718** | 1 |
| Total | **9,269,103,907** | 14 |

During 2009, the revenue from the top five largest customers are as follows:

| | Amount | Rate in total revenue(%) |
|---|---|---|
| Company 1 | 2,377,980,786 | 5 |
| Company 2 | 2,061,397,672 | 4 |
| Company 3 | 1,200,886,928 | 2 |
| Company 4 | 1,090,168,412 | 2 |
| Company 5 | 572,748,253 | 1 |
| Total | 7,303,182,051 | 14 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 34. BUSINESS TAXES AND SURCHARGES

| | **2010** | 2009 |
|---|---|---|
| City construction and maintenance tax | **161,886,249** | 133,261,028 |
| Education surcharges | **69,332,094** | 57,101,683 |
| Local education surcharges | **22,989,381** | 19,648,519 |
| Other taxes | **11,744,797** | 9,391,820 |
| Total | **265,952,521** | 219,403,050 |

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in Note III to the financial statements.

### 35. SELLING EXPENSES

| | **2010** | 2009 |
|---|---|---|
| Employee benefits | **28,411,989** | 22,659,710 |
| Transportation fees | **142,257,860** | 139,060,133 |
| Insurance premium | **19,605,610** | 16,470,409 |
| Others | **48,165,301** | 51,042,665 |
| Total | **238,440,760** | 229,232,917 |

### 36. ADMINISTRATIVE EXPENSES

| | **2010** | 2009 |
|---|---|---|
| Depreciation | **38,054,812** | 40,117,071 |
| Employee benefits | **399,582,372** | 330,630,326 |
| Office expenses | **347,098,771** | 349,874,517 |
| Other taxes | **130,867,169** | 132,548,394 |
| Others | **291,986,865** | 285,168,992 |
| Total | **1,207,589,989** | 1,138,339,300 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 37. FINANCIAL EXPENSES

| | **2010** | 2009 |
|---|---|---|
| Interest expenses | **913,552,574** | 1,004,154,657 |
| Less: Interest income | **72,045,467** | 94,569,022 |
| Exchange gain or loss, net | **(134,173,840)** | 15,146,104 |
| Others | **25,067,490** | 14,314,431 |
| Total | **732,400,757** | 939,046,170 |

### 38. ASSETS IMPAIRMENT LOSS

| | **2010** | 2009 |
|---|---|---|
| Provision/(reversal of provision) for bad debts | **(112,552)** | (212,830) |
| Including: Trade receivables | **(112,552)** | (212,830) |
| Other receivables | **–** | – |
| Provision for inventories | **13,906,462** | 57,810,860 |
| Provision of long term equity investments | **3,738,814** | – |
| Provision of investment properties | **–** | – |
| Provision of fixed assets | **–** | – |
| Provision of construction in progress | **–** | – |
| Provision of intangible assets | **–** | – |
| Total | **17,532,724** | 57,598,030 |

### 39. INVESTMENT INCOME

| | **2010** | 2009 |
|---|---|---|
| Long term equity investments income under equity method | **204,748,955** | 183,239,930 |
| Long term equity investments income under cost method | **14,398,789** | 20,862,979 |
| Other investment income | **403,033** | 197,352 |
| Total | **219,550,777** | 204,300,261 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 39. INVESTMENT INCOME *(CONTINUED)*

Among the long term equity investments income under equity method, the top 5 largest items are as follows:

| | **2010** | 2009 | **Variation reason** |
|---|---|---|---|
| BOC-Ma Steel | **84,103,476** | 67,895,146 | (i) |
| Jiyuan Jinma Coke Making | **59,521,839** | 50,587,964 | (i) |
| Shanghai DaZhong Steel | **26,402,728** | 18,413,677 | (i) |
| Tengzhou Shenglong Coke Making | **25,154,230** | 32,243,829 | (ii) |
| Maanshan Harbour | **13,372,286** | 13,643,363 | (ii) |

(i) In this year, the increase of investment income from the above entities under equity method is mainly due to the increase in net profits of the above invested entities.

(ii) In this year, the decrease of investment income from the above entities under equity method is mainly due to the decrease in net profits of the above invested entities.

As at 31 December 2010, there was no significant restriction imposed upon the realisation of the Group's investment income.

### 40. NON-OPERATING INCOME

| | **2010** | 2009 |
|---|---|---|
| Amortisation of deferred income (note 28) | **79,527,452** | 79,502,858 |
| Subsidies income (note) | **78,449,439** | 95,218,143 |
| Gain on the disposal of non-current assets | **–** | 16,899,399 |
| Others | **1,071,039** | 82,827 |
| Total | **159,047,930** | 191,703,227 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 40. NON-OPERATING INCOME *(CONTINUED)*

Note: Details of subsidies income are stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Subsidies granted by government (i) | **40,906,100** | 90,243,000 |
| Others | **37,543,339** | 4,975,143 |
| Total | **78,449,439** | 95,218,143 |

(i) Specific subsidies granted by government refers to the local government encourages the Group in business development, importing products and abroad technical cooperation.

### 41. NON-OPERATING EXPENSES

| | **2010** | 2009 |
|---|---|---|
| Loss on the disposal of non-current assets | **6,513,280** | – |
| Public relief donation | **1,500,000** | – |
| Government subsidies returned | **3,404,202** | – |
| Others | **1,967,202** | 3,043,520 |
| Total | **13,384,684** | 3,043,520 |

### 42. INCOME TAX

| | **2010** | 2009 |
|---|---|---|
| Current income tax expense | **153,703,111** | 112,730,534 |
| Adjustments in respect of current tax of previous periods | **80,086,310** | 83,610,326 |
| Deferred tax income | **285,712,986** | (167,331,260) |
| Total | **519,502,407** | 29,009,600 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 42. INCOME TAX *(CONTINUED)*

Relationship between income tax and profit before tax:

| | **2010** | 2009 |
|---|---|---|
| Profit before tax | **1,711,111,720** | 562,875,745 |
| Tax at the applicable tax rate of 25% (i) | **427,777,930** | 140,718,936 |
| Effect of different tax rates of subsidiaries | **(12,507,536)** | 5,028,461 |
| Expenses not deductible for tax | **122,980,853** | 26,063,718 |
| Adjustments in respect of current tax of previous periods | **80,086,310** | 83,610,326 |
| Other tax concessions | **(53,146,368)** | (78,333,161) |
| Income not subject to tax | **(6,736,090)** | (17,460,636) |
| Tax losses not recognised | **14,285,337** | 2,078,856 |
| Tax losses utilised | **(2,146,331)** | (86,886,917) |
| Profits and losses attributable to jointly-controlled entities and associates | **(51,187,239)** | (45,809,983) |
| Withholding income tax of dividends received from associate in the mainland of the PRC | **95,541** | – |
| Tax charge at the Group's effective rate | **519,502,407** | 29,009,600 |

(i) The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

### 43. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing income statement attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

For the purpose of calculating diluted earnings per share, an entity shall adjust the net income attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 43. EARNINGS PER SHARE *(CONTINUED)*

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

| | **2010** | 2009 |
|---|---|---|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation | **1,101,838,516** | 392,475,316 |
| | **Number of shares** | Number of shares |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation | **7,700,681,186** | 7,700,681,186 |
| Effect of dilution – weighted average number of ordinary shares: Warrants attached to bonds | **N/A** | N/A |
| Weighted average number of ordinary shares in issue after adjustment | **N/A** | N/A |

During 2010 and 2009, there was no diluted item to adjust the Group's basic earnings per share.

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 44. OTHER COMPREHENSIVE INCOME

| | **2010** | 2009 |
|---|---|---|
| Exchange fluctuation reserve | **23,284,819** | 65,195,156 |

### 45. NOTES TO CASH FLOW STATEMENT

| | **2010** | 2009 |
|---|---|---|
| Cash received relating to other operating activities | | |
| Specific subsidies granted by government | **40,906,100** | 90,243,000 |
| Others | **37,686,486** | 5,057,970 |
| Total | **78,592,586** | 95,300,970 |
| Cash paid relating to other operating activities | | |
| Supporting services | **308,016,548** | 282,015,659 |
| Security expenses | **73,852,634** | 68,763,455 |
| Packing fee | **17,284,879** | 12,054,566 |
| Flood prevention fund | **30,877,135** | 28,218,967 |
| Environmental improvement fee | **41,380,553** | 25,562,703 |
| Research and development fee | **42,300,843** | 32,173,500 |
| Others | **42,339,975** | 50,317,840 |
| Total | **556,052,567** | 499,106,690 |
| Cash received relating to other investing activities | | |
| Government subsidies granted for specific projects | **74,889,566** | 95,880,000 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 46. SUPPLEMENTS TO CASH FLOW

Cash flows from operating activities:

| | **2010** | 2009 |
|---|---|---|
| Net profit | **1,191,609,313** | 533,866,145 |
| Add: Provision/(reversal of provision) for bad debts | **(112,552)** | (212,830) |
| Provision for inventories | **13,906,462** | 57,810,860 |
| Provision for long-term equity investment | **3,738,814** | – |
| Depreciation of fixed assets | **4,810,646,159** | 4,820,672,624 |
| Amortisation of investment properties | **157,673** | 85,786 |
| Amortisation of intangible assets | **47,143,955** | 45,675,388 |
| Amortisation of deferred income | **(79,527,452)** | (79,502,858) |
| (Gain)/loss on disposal of non-current assets | **6,513,280** | (16,899,399) |
| Gain on disposal of land user right | **(927,892)** | – |
| Financial expenses | **707,333,267** | 924,731,739 |
| Investment income | **(219,550,777)** | (204,116,337) |
| (Gain)/loss on fair value changes | **210,720** | (224,110) |
| Decrease/(increase) in deferred tax assets | **285,712,986** | (160,652,357) |
| Decrease in deferred tax liabilities | **–** | (6,678,903) |
| Decrease/(increase) in inventories | **(3,476,907,429)** | 801,453,430 |
| Increase in receivables from operating activities | **(5,260,548,816)** | (2,421,286,189) |
| Increase in payables from operating activities | **2,370,609,660** | 2,373,977,530 |
| Net cash flows from operating activities | **400,007,371** | 6,668,700,519 |

## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

### 47. CASH AND CASH EQUIVALENTS

Net movement of cash and cash equivalents:

| | **2010** | 2009 |
|---|---|---|
| Cash closing balance | **5,385,065,613** | 5,502,947,835 |
| Less: Cash opening balance | **5,502,947,835** | 5,437,367,246 |
| Add: Closing balance of cash equivalents | **–** | – |
| Less: Opening balance of cash equivalents | **–** | – |
| Net increase of cash and cash equivalents | **(117,882,222)** | 65,580,589 |

| | **2010** | 2009 |
|---|---|---|
| Cash | | |
| Including: Cash on hand | **155,208** | 160,559 |
| Balances with financial institutions without restriction | **5,384,910,405** | 5,502,787,276 |
| Other balances without restriction | **–** | – |
| Cash equivalents | **5,385,065,613** | 5,502,947,835 |

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. PARENT COMPANY

| Name of Parent Name | Business type | Registered place | Legal Representative | Business nature | Registered Capital RMB | Share of equity interests (%) | Share of voting rights (%) | Organization Code |
|---|---|---|---|---|---|---|---|---|
| Holding | limited liability | Anhui, PRC | Gu Jianguo | Manufacturing | 6,298,290,000 | 50.47 | 50.47 | 150509144 |

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

### 2. SUBSIDIARIES

The details of the subsidiaries of the Group are stated in Note IV to the financial statements.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 3. ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES OF THE GROUP

Further details on balances with associates and jointly-controlled entities of the Group are set out in note V.9 to the financial statement.

### 4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP

| Name | Relationship with the Company | Organization code |
|---|---|---|
| Masteel Group Construction Co., Ltd | Controlled by Holding | 733002281 |
| Masteel Group Road and Bridge Construction Co., Ltd | Controlled by Holding | 733002273 |
| Masteel Group Li Sheng Co., Ltd | Controlled by Holding | 711703722 |
| Masteel Group Industry Development Co., Ltd | Controlled by Holding | 70492034x |
| Masteel Group Design and Research Institute Co., Ltd | Controlled by Holding | 72850552x |
| Masteel Group Kang Tei Land Development Co., Ltd | Controlled by Holding | 850512838 |
| Masteel Group Kang Tei Property Co., Ltd | Controlled by Holding | 777366319 |
| Masteel Group Kang Tei Building and Installing Industry Co., Ltd | Controlled by Holding | 750993301 |
| Masteel Shen Ma Metal Co., Ltd | Controlled by Holding | 150509160 |
| Anhui BRC & Masteel Weldmesh Co., Ltd | Controlled by Holding | 754875970 |
| Maanshan Jia Hua Commodity Concrete Co., Ltd | Controlled by Holding | 750960780 |
| Masteel Group Steel Scrap Integrated Utilization Co., Ltd | Controlled by Holding | 733020252 |
| Maanshan Shi Fa Metal Industry and Trading CO., Ltd | Controlled by Holding | 713957507 |
| Masteel Industry Sheng Xing Raw Material Processing Co., Ltd | Controlled by Holding | 728509803 |
| Maanshan Bo Li Construction Supervising Co., Ltd | Controlled by Holding | 711716304 |
| Masteel Group Power and Machinery Installation Co., Ltd | Controlled by Holding | 150510858 |
| Masteel Group Mapping Co., Ltd | Controlled by Holding | 677570144 |
| Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd | Controlled by Holding | 150518286 |
| Masteel Group Chu Jiang Holiday Tour Co., Ltd | Controlled by Holding | 734975296 |
| Huang Shan Tai Bai Shan | Controlled by Holding | 704953862 |
| Anhui Masteel Advanced Technician Institute | Controlled by Holding | 485409479 |
| Anhui Metal Technology Institute | Controlled by Holding | F10441773 |
| Anhui Masteel Luo He Mining Co., Ltd | Controlled by Holding | 783071808 |
| Shenzhen Yue Hai Masteel Industry Co., Ltd | Controlled by Holding | 192443796 |
| Masteel (Group) Holding Co., Ltd Communication Technology Service Center | Note 1 | |
| Masteel (Group) Holding Co., Ltd An Ye Machine | Note 1 | |

Note 1: In 2010, Masteel (Group) Holding Co., Ltd Communication Technology Service Center and Masteel (Group) Holding Co., Ltd An Ye Machine were deregistered. So, those two were no longer related parties.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR

#### (1) Purchases of iron ore from related party

| | Note | 2010 Amount RMB | 2010 Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (i) | **2,144,494,650** | **14** | 2,337,035,162 | 25 |
| Anhui Masteel Luo He Mining Co., Ltd | (i) | **57,877,977** | **–** | – | – |
| Total | | **2,202,372,627** | **14** | 2,337,035,162 | 25 |

(i) The terms for the purchases of iron ore from Holding were conducted in accordance with an agreement dated 15 October 2009 entered into between the Company and Holding.

#### (2) Fees paid for welfare, support services and other services

| | Note | 2010 Amount RMB | 2010 Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (ii) | **118,672,004** | **52** | 91,954,149 | 47 |
| Masteel Group Li Sheng Co., Ltd | (ii) | **29,300,042** | **13** | 27,076,983 | 14 |
| Masteel Group Industry Development Co., Ltd | (ii) | **27,159,946** | **12** | 17,682,870 | 9 |
| Masteel Group Construction Co., Ltd | (ii) | **26,065,883** | **11** | 29,615,902 | 15 |
| Masteel Group Steel Scrap Intergrated Utilization Co., Ltd | (ii) | **7,884,959** | **3** | 18,122,720 | 9 |
| Others | (ii) | **18,558,806** | **9** | 12,190,223 | 6 |
| Total | | **227,641,640** | **100** | 196,642,847 | 100 |

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (2) Fees paid for welfare, support services and other services *(Continued)*

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

#### (3) Agency fee paid to related party

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | | | **Similar** | | Similar |
| | | **Amount** | **transaction** | Amount | transaction |
| | Note | **RMB** | **%** | RMB | % |
| Holding | (iii) | **4,965,670** | **62** | 2,464,200 | 67 |
| Masteel Shen Ma Metal Co., Ltd | (iii) | **1,411,885** | **18** | 185,250 | 5 |
| Masteel Group Industry Development Co., Ltd | (iii) | **1,647,703** | **20** | 1,058,480 | 28 |
| Total | | **8,025,258** | **100** | 3,707,930 | 100 |

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (4) Rental expenses

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | | | **Similar** | | Similar |
| | | **Amount** | **transaction** | Amount | transaction |
| | Note | **RMB** | **%** | RMB | % |
| Holding | (iii) | **48,540,000** | **100** | 44,440,000 | 100 |

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (5) Purchases of fixed assets and construction services

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (iii) | **–** | **–** | 37,090,998 | 2 |
| Masteel Group Power and Machinery Installation Co., Ltd | (iii) | **2,405,642** | **–** | 542,744 | – |
| Masteel Group Industry Development Co., Ltd | (iii) | **8,202,717** | **1** | 6,529,986 | – |
| Masteel Group Li Sheng Co., Ltd | (iii) | **1,983,498** | **–** | 2,579,755 | – |
| Masteel Group Kang Tei Building and Installing Industry Co., Ltd | (iii) | **–** | **–** | 2,184,615 | – |
| Masteel Group Road and Bridge Construction Co., Ltd | (iii) | **10,017,167** | **1** | 19,463,669 | 1 |
| Masteel Group Construction Co., Ltd | (iii) | **87,540,935** | **10** | 70,868,208 | 3 |
| Maanshan Jia Hua Commodity Concrete Co., Ltd | (iii) | **813,301** | **–** | 22,369,608 | 1 |
| Others | (iii) | **257,050** | **–** | 748,687 | – |
| Total | | **111,220,310** | **12** | 162,378,270 | 7 |

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (6) Fees received for the supply of utilities, services and other consumable goods

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (iii) | **57,297,439** | **6** | 63,947,426 | 8 |
| Masteel Group Construction Co., Ltd | (iii) | **304,112** | **–** | 57,030,867 | 7 |
| Maanshan Jia Hua Commodity Concrete Co., Ltd | (iii) | **1,559,306** | **–** | 444,782 | – |
| Others | (iii) | **5,302,253** | **1** | 8,319,284 | 1 |
| Total | (iii) | **64,463,110** | **7** | 129,742,359 | 16 |

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

#### (7) Sale of steel products and related by products

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (iii) | **–** | **–** | 1,008,051 | – |
| Maanshan Jia Hua Commodity Concrete Co., Ltd | (iii) | **990,641** | **–** | 3,810,977 | – |
| Masteel Group Construction Co., Ltd | (iii) | **1,404,553** | **–** | – | – |
| Total | | **2,395,194** | **–** | 4,819,028 | – |

(iii) These transactions with Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (8) Interest expense

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Holding | (iv) | **1,148,270** | **0.1** | 2,988,949 | 0.3 |

(iv) Certain bank loans of RMB10,000,000 in aggregate (2009: RMB46,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China, with the credit term being one year and annual interest rates was 4.778%.

#### (9) Purchases of coke from associates

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Jiyuan Shi Jin Ma Coke | (v) | **40,012,535** | **1** | 221,440,185 | 10 |
| Tengzhou Sheng Long Coke | (v) | **331,997,201** | **11** | 223,490,459 | 11 |
| Total | | **372,009,736** | **12** | 444,930,644 | 21 |

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (10) Loading expenses paid to associates

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| Maanshan Harbour Co., Ltd | (v) | **154,483,720** | **14** | 140,748,478 | 14 |

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

#### (11) Rental income from a jointly-controlled entity

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| BOC-Ma Steel | (vi) | **1,250,000** | **100** | 1,250,000 | 100 |

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (12) Fee received for the supply of electricity from a jointly-controlled entity

| | Note | **2010** Amount RMB | **2010** Similar transaction % | 2009 Amount RMB | 2009 Similar transaction % |
|---|---|---|---|---|---|
| BOC-Ma Steel | (vi) | **257,836,037** | **73** | 239,756,694 | 56 |

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (13) Fee received for utilities and facilities from a jointly-controlled entity

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | | | **Similar** | | Similar |
| | | **Amount** | **transaction** | Amount | transaction |
| | Note | **RMB** | **%** | RMB | % |
| BOC-Ma Steel | (vi) | **4,635,023** | **100** | 4,678,139 | 100 |

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

#### (14) Purchase of gas products from a jointly-controlled entity

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | | | **Similar** | | Similar |
| | | **Amount** | **transaction** | Amount | transaction |
| | Note | **RMB** | **%** | RMB | % |
| BOC-Ma Steel | (vi) | **489,190,513** | **100** | 463,502,280 | 100 |

(vi) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

The transactions (i), (ii), (iii), (v) and (vi) above are the significant transactions carried out between the Group and its related parties during the period.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 5. THE SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES DURING THE YEAR *(CONTINUED)*

#### (15) Guarantee for related party

| 2010 | Note | Guarantee name | Guarantee amount | Started date | End date | Is guarantee mature |
|---|---|---|---|---|---|---|
| Holding | (vii) | the Company | 2.106 billion | 2010.2 | 2012.3 | Not yet as at the signing date of the report |

| 2009 | Note | Guarantee name | Guarantee amount | Started date | End date | Is guarantee mature |
|---|---|---|---|---|---|---|
| Holding | (vii) | the Company | 0.888 billion | 2009.2 | 2010.2 | Yes as at the signing date of the report |

(vii) Holding has guaranteed certain bank loans of the Group amounting approximately to RMB2.106 billion (2009: approximately RMB0.888 billion) in 2010 at nil consideration. Holding has guaranteed bonds with warrants amounting approximately to RMB9.838 billion (2009: approximately RMB9.286 billion) as at 31 December 2010 at nil consideration.

#### (16) Salary paid to key managements of related party

The total amount of the Group paid to the company's key management salary (including in the form of monetary, practicality and other form) was RMB6,402,020 during the current year (2009: RMB5,652,593).

(17) Further details on balances with Holding and its subsidiaries, and the Group's associates are set out in Note VI.6 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

| | **2010** | 2009 |
|---|---|---|
| **Prepayments:** | | |
| Holding and its subsidiaries | | |
| Masteel Group Road and Bridge Construction Co., Ltd | **–** | 1,196,610 |
| Others entities controlled by Holding | **81,500** | 286,100 |
| Total | **81,500** | 1,482,710 |
| Associates and jointly-controlled entities of the Group | | |
| Tengzhou Shenglong Coke | **–** | 7,670,646 |
| **Accounts payable:** | | |
| Holding and its subsidiaries | | |
| Masteel Group Construction Co., Ltd | **12,903,085** | 57,443,759 |
| Masteel Group Road and Bridge Construction Co., Ltd | **2,736,282** | 14,819,317 |
| Holding | **19,340,667** | 19,052,891 |
| Others entities controlled by Holding | **41,579,953** | 18,708,229 |
| Total | **76,559,987** | 110,024,196 |
| Associates and jointly-controlled entities of the Group | | |
| BOC-Ma Steel | **18,889,363** | 13,002,377 |
| Jiyuan JinMa Coke | **223,791** | 435,037 |
| Maanshan Harbour | **13,892,441** | 20,915,943 |
| Tengzhou Shenglong Coke | **3,505,120** | – |
| Total | **36,510,715** | 34,353,357 |

## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

### 6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

| | 2010 | 2009 |
|---|---|---|
| **Trade receivables:** | | |
| Holding and its subsidiaries | | |
| Holding | **53,391,979** | 12,864,891 |
| Maanshan Jia Hua Commodity Concrete Co., Ltd | **–** | 2,172,501 |
| Masteel Group Construction Co., Ltd | **25,437,535** | 12,244,346 |
| Others entities controlled by Holding | **–** | 87,229 |
| Total | **78,829,514** | 27,368,967 |
| Associates and jointly-controlled entities of the Group | | |
| Maanshan Harbour | **435,502** | 1,149,140 |
| **Deposits received:** | | |
| Holding and its subsidiaries | | |
| Anhui BRC & Masteel Weldmesh Co., Ltd | **19,481,523** | 18,049,860 |
| Holding | **29,168,967** | 79,230,540 |
| Masteel Group Industry Development Co., Ltd | **72,181,444** | – |
| Others entities controlled by Holding | **4,745,147** | 3,791,840 |
| Total | **125,577,081** | 101,072,240 |
| Associates and jointly-controlled entities of the Group | | |
| Jiyuan JinMa Coke | **–** | 366,568 |
| Tengzhou Shenglong Coke | **145,600** | – |
| **Dividends receivable:** | | |
| Associates and jointly-controlled entities of the Group | | |
| BOC-Ma Steel | **–** | 6,751,198 |
| Jiyuan JinMa Coke | **118,800,000** | 18,000,000 |
| Total | **118,800,000** | 24,751,198 |
| **Dividends payable:** | | |
| Holding | **501,402,557** | 695,945,600 |

These balances are unsecured, interest-free and have no fixed terms of repayment. As at 31 December 2010 and 31 December 2009, no provision of impairment was made against the amounts due from related parties.

## VII. CONTINGENT LIABILITIES

### 1. GUARANTEE

As at 31 December 2010, the Company had provided guarantees amounting to approximately RMB374 millions (31 December 2009: approximately RMB3,857 millions) to banks for trading facilities granted to certain subsidiaries.

### 2. DIFFERENCE OF CORPORATE INCOME TAX

As detailed in Note III. 3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

## VIII. COMMITMENTS

### 1. THE COMMITMENTS OF THE GROUP AS AT THE BALANCE SHEET DATE WERE AS FOLLOWS:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Capital commitments | | |
| Authorised, but not contracted for | **5,206,758** | 4,872,181 |
| Contracted, but not provided for | **454,463** | 1,860,432 |
| Total | **5,661,221** | 6,732,613 |
| Investment commitments | | |
| Contracted, but not fully contributed | **35,000** | – |

### 2. SHARE OF THE COMMITMENTS OF THE JOINTLY-CONTROLLED ENTITY BY THE GROUP (NOT INCLUDED IN NOTE 1 ABOVE) WERE AS FOLLOWS:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Capital commitments | | |
| Authorised, but not contracted for | **111** | 797 |

## IX. POST BALANCE SHEET EVENTS

(i) At 22 March 2011, the board of directors proposed a final dividend of RMB5 cents per share, totaling RMB385,034,059, to all equity shareholders of the Company. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

(ii) On 24 December 2010, the Board resolved to invest RMB490 million (inclusive of US$5 million) in relation to the formation of Finance Company with Holding and the Group entered into Agreement for Capital Contribution in relation to the formation of Finance Company with Holding. The Group will contribute RMB490 million (inclusive of US$5 million) as capital injection to Finance Company and will hold a total of 49% equity interest in the Finance Company. Holding will contribute RMB510 million as capital injection to Finance Company and will hold a total of 51% equity interest in Finance Company. On 28 February 2011, the formation of Finance Company has been approved by the relevant department of the China Banking Regulatory Commission.

## X. OTHER SIGNIFICANT EVENTS

### 1. LEASES

#### As lessor

The Group has leased certain of its investment properties under operating lease arrangement ranging from 2 to18 years. The periodic rent is fixed during the operating lease periods.

| | **2010** | 2009 |
|---|---|---|
| Remaining lease period | | |
| Within 1 year, inclusive | **1,900,000** | 1,750,000 |
| 1 to 2 years, inclusive | **1,750,000** | 1,750,000 |
| 2 to 3 years, inclusive | **1,750,000** | 1,750,000 |
| Over 3 years | **11,407,534** | 13,407,534 |
| Total | **16,807,534** | 18,657,534 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 2. ASSETS MEASURED AT FAIR VALUE

**2010**

| | **Opening balance** | **Fair value gains or loss through profit or loss** | **Accumulated fair value through equity** | **Provision for the year** | **Closing balance** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets at fair value through profit or loss | **1,037,360** | **(210,720)** | **–** | **–** | **826,640** |

2009

| | Opening balance | Fair value Fair value gains or loss through profit or loss | Accumulated fair value through equity | Provision for the year | Closing balance |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Financial assets at fair value through profit or loss | 813,250 | 224,110 | – | – | 1,037,360 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 3. FINANCIAL ASSETS AND LIABILITIES AT FOREIGN CURRENCY

**2010**

| | Opening balance | Fair value gains or loss through profit or loss | Accumulated fair value through equity | Provision for the year | closing balance |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and bank balances | **2,451,586,939** | **–** | **–** | **–** | **707,636,029** |
| Loans and trade receivables | **126,848,334** | **–** | **–** | **–** | **340,383,976** |
| **Financial liabilities** | | | | | |
| Borrowings | **5,735,688,000** | **–** | **–** | **–** | **5,392,177,078** |
| Trade payables | **165,525,098** | **–** | **–** | **–** | **57,546,804** |

2009

| | Opening balance | Fair value gains or loss through profit or loss | Accumulated fair value through equity | Provision for the year | closing balance |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash and bank balances | 856,913,939 | – | – | – | 2,451,586,939 |
| Loans and trade receivables | 311,197,065 | – | – | – | 126,848,334 |
| Financial liabilities | | | | | |
| Borrowings | 1,227,855,340 | – | – | – | 5,735,688,000 |
| Trade payables | 57,900,298 | – | – | – | 165,525,098 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 4. OPERATING SEGMENT INFORMATION

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

#### The Group's information

*Products and service information*

**External principle operation income**

| | **2010** | 2009 |
|---|---|---|
| Sale of steel products | **60,566,803,980** | 47,816,746,896 |
| Sale of steel billets and pig iron | **473,444,596** | 393,350,530 |
| Sale of coke by-products | **923,140,461** | 659,626,673 |
| Others | **1,077,580,733** | 1,541,830,381 |
| Total | **63,040,969,770** | 50,411,554,480 |

*Geographical information*

**External principle operation income**

| | **2010** | 2009 |
|---|---|---|
| The PRC | **61,492,459,698** | 49,661,673,870 |
| Overseas | **1,548,510,072** | 749,880,610 |
| Total | **63,040,969,770** | 50,411,554,480 |

**Non-current assets**

| | **2010** | 2009 |
|---|---|---|
| The PRC | **38,893,484,379** | 43,039,681,892 |
| Overseas | **202,121,717** | 114,320,358 |
| Total | **39,095,606,096** | 43,154,002,250 |

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

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

#### The Group's information *(Continued)*

*Major customer information*

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

### 5. FINANCIAL INSTRUMENTS AND RISKS

The Group's principal financial instruments comprise interest-bearing bank, bonds with warrants, other borrowing and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as trade receivables and accounts payable etc., which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk.

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (1) Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

**2010**

**Financial Assets**

| | Financial assets at at fair value through profit or loss | Held-to maturity investments | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|---|
| Cash and bank balances | – | – | 6,382,691,015 | – | 6,382,691,015 |
| Financial assets held for trading | 826,640 | – | – | – | 826,640 |
| Bill receivables | – | – | 8,374,602,622 | – | 8,374,602,622 |
| Trade receivables | – | – | 1,097,779,220 | – | 1,097,779,220 |
| Other receivables | – | – | 711,812,863 | – | 711,812,863 |
| Dividends receivable | – | – | 118,800,000 | – | 118,800,000 |
| Total | 826,640 | – | 16,685,685,720 | – | 16,686,512,360 |

**Financial Liabilities**

| | Financial liabilities at fair value through profit or loss | Other financial liabilities | Total |
|---|---|---|---|
| Short-term loans | – | 977,093,278 | 977,093,278 |
| Bills payable | – | 5,269,342,225 | 5,269,342,225 |
| Accounts payable | – | 5,550,236,792 | 5,550,236,792 |
| Interests payable | – | 58,185,998 | 58,185,998 |
| Dividends payable | – | 506,995,720 | 506,995,720 |
| Other payables | – | 946,266,361 | 946,266,361 |
| Non-current liabilities due within one year | | 7,857,611,313 | 7,857,611,313 |
| Long term loans | – | 11,368,731,100 | 11,368,731,100 |
| Bonds payable | – | 997,833,200 | 997,833,200 |
| Total | – | 33,532,295,987 | 33,532,295,987 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (1) Classification of financial instruments *(Continued)*

2009

Financial Assets

| | Financial assets at fair value through profit or loss | Held-to maturity investments | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|---|
| Cash and bank balances | – | – | 8,700,317,608 | – | 8,700,317,608 |
| Financial assets held for trading | 1,037,360 | – | – | – | 1,037,360 |
| Bill receivables | – | – | 4,421,189,686 | – | 4,421,189,686 |
| Trade receivables | – | – | 822,930,091 | – | 822,930,091 |
| Other receivables | – | – | 268,164,615 | – | 268,164,615 |
| Dividends receivable | – | – | 24,751,198 | – | 24,751,198 |
| Total | 1,037,360 | – | 14,237,353,198 | – | 14,238,390,558 |

Financial Liabilities

| | Financial liabilities at fair value through profit or loss | Other financial liabilities | Total |
|---|---|---|---|
| Short-term loans | – | 1,173,245,805 | 1,173,245,805 |
| Bills payable | – | 5,400,287,600 | 5,400,287,600 |
| Accounts payable | – | 6,315,104,235 | 6,315,104,235 |
| Interests payable | – | 8,138,718 | 8,138,718 |
| Dividends payable | – | 701,538,763 | 701,538,763 |
| Other payables | – | 753,587,311 | 753,587,311 |
| Non-current liabilities due within one year | – | 816,000,000 | 816,000,000 |
| Long term loans | – | 13,603,960,000 | 13,603,960,000 |
| Bonds payable | – | 5,165,409,845 | 5,165,409,845 |
| Total | – | 33,937,272,277 | 33,937,272,277 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (2) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk mainly arises from default or delinquency in principal payment trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivables and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other major financial assets of the Group, which comprise cash and bank balances and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through granting financial guarantees to its subsidiaries, further details of which are disclosed in Note VII to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 16% (2009: 28%) and 44% (2009: 47%) of the Group's trade receivables were due from the Group's largest customer and five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in Notes V.4 and V.7 to the financial statement.

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (2) Credit risk *(Continued)*

As at 31 December, the aged analysis of the Group's financial assets that are not considered to be impaired is as follows:

**2010**

| | | | Overdue | |
|---|---|---|---|---|
| | **Total** | **Not overdue** | **Less than six months** | **Over six months** |
| Trade receivables | **1,097,779,220** | **1,036,151,858** | **40,132,657** | **21,494,705** |
| Bills receivable | **8,374,602,622** | **8,374,602,622** | **–** | **–** |
| Dividends receivable | **118,800,000** | **118,800,000** | **–** | **–** |
| Other receivables | **711,812,863** | **708,503,516** | **2,266,071** | **1,043,276** |

2009

| | | | Overdue | |
|---|---|---|---|---|
| | Total | Not overdue | Less than six months | Over six months |
| Trade receivables | 822,930,091 | 778,700,080 | 18,623,639 | 25,606,372 |
| Bills receivable | 4,421,189,686 | 4,421,189,686 | – | – |
| Dividends receivable | 24,751,198 | 24,751,198 | – | – |
| Other receivables | 268,164,615 | 262,700,971 | 3,677,710 | 1,785,934 |

As at 31 December 2010, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group applies a planning tool of liquidity circulation to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flow of the Group into consideration.

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

**2010**

**Financial Assets**

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and bank balances | 6,382,691,015 | - | - | - | - | 6,382,691,015 |
| Financial assets held for trading | 826,640 | - | - | - | - | 826,640 |
| Bills receivable | 8,374,602,622 | - | - | - | - | 8,374,602,622 |
| Trade receivables | 1,097,779,220 | - | - | - | - | 1,097,779,220 |
| Dividend receivables | 118,800,000 | - | - | - | - | 118,800,000 |
| Other receivables | 711,812,863 | - | - | - | - | 711,812,863 |

**Financial Liabilities**

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Short term loans | 993,170,550 | - | - | - | - | 993,170,550 |
| Bills payables | 5,269,342,225 | - | - | - | - | 5,269,342,225 |
| Trade payables | 5,550,236,792 | - | - | - | - | 5,550,236,792 |
| Interests payable | 58,185,998 | - | - | - | - | 58,185,998 |
| Dividends payable | 506,995,720 | - | - | - | - | 506,995,720 |
| Other payables | 946,266,361 | - | - | - | - | 946,266,361 |
| Non-current liabilities due within one year | 8,162,053,122 | - | - | - | - | 8,162,053,122 |
| Long term loans | 206,000,636 | 10,490,538,044 | 1,093,268,685 | - | - | 11,789,807,365 |
| Bonds payable | 4,267,123 | 44,500,000 | 1,044,500,000 | - | - | 1,093,267,123 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (3) Liquidity risk *(CONTINUED)*

2009

Financial Assets

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and bank balances | 8,700,317,608 | – | – | – | – | 8,700,317,608 |
| Financial assets held for trading | 1,037,360 | – | – | – | – | 1,037,360 |
| Bills receivable | 4,421,189,686 | – | – | – | – | 4,421,189,686 |
| Trade receivables | 843,470,753 | – | – | – | – | 843,470,753 |
| Dividend receivables | 24,751,198 | – | – | – | – | 24,751,198 |
| Other receivables | 275,235,112 | – | – | – | – | 275,235,112 |

Financial Liabilities

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Short term loans | 1,191,926,384 | – | – | – | – | 1,191,926,384 |
| Bills payables | 5,400,287,600 | – | – | – | – | 5,400,287,600 |
| Trade payables | 6,315,104,235 | – | – | – | – | 6,315,104,235 |
| Interests payable | 8,138,718 | – | – | – | – | 8,138,718 |
| Dividends payable | 701,538,763 | – | – | – | – | 701,538,763 |
| Other payables | 753,587,311 | – | – | – | – | 753,587,311 |
| Non-current liabilities due within one year | 833,271,900 | – | – | – | – | 833,271,900 |
| Long term loans | 446,043,445 | 11,464,352,251 | 2,483,290,528 | – | – | 14,393,686,224 |
| Bonds payable | 77,000,000 | 5,577,000,000 | – | – | – | 5,654,000,000 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (4) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The market risk mainly included interest rate risk and foreign currency risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's long term debt obligations with a floating interest rate.

Change in market interest rates could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

| | Increase/ (decrease) in basis points | Increase/ (decrease) in net profit |
|---|---|---|
| **2010** | | |
| RMB | **50** | **(34,895,000)** |
| USD | **50** | **(20,960,846)** |
| RMB | **(50)** | **34,895,000** |
| USD | **(50)** | **20,960,846** |
| 2009 | | |
| RMB | 50 | (29,725,000) |
| USD | 50 | (18,436,000) |
| RMB | (50) | 29,725,000 |
| USD | (50) | 18,436,000 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (4) Market Risk *(Continued)*

*Foreign currency risk*

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency) and its net investment arising from overseas subsidiaries.

The Group was facing transactional foreign currency risk. Such risk was derived from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies. The Group has 1% (2009: 1%) of the sales amount were generated from sale of the operating units which transacted in currencies other than their functional currencies.

The businesses of the Group are principally located in PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings were denominated in United Stated dollar, Euro and Japanese Yen. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

The carrying amount and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in note V.1, 4, 17, 19 and 26 to the financial statements respectively.

The aforesaid foreign currencies could have insignificant impact on the Group's total equity apart from the retained earnings. The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities).

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

#### (4) Market Risk *(Continued)*

*Foreign currency risk (Continued)*

| | **Increase/ (decrease) in exchange rate** | **Increase/ (decrease) in net profit** |
|---|---|---|
| **2010** | | |
| Depreciation of RMB to USD | **1%** | **(50,360,772)** |
| Depreciation of RMB to Euro | **1%** | **310,279** |
| Depreciation of RMB to Japanese Yen | **1%** | **(58,082)** |
| Appreciation of RMB to USD | **(1%)** | **50,360,772** |
| Appreciation of RMB to Euro | **(1%)** | **(310,279)** |
| Appreciation of RMB to Japanese Yen | **(1%)** | **58,082** |
| 2009 | | |
| Depreciation of RMB to USD | 5% | (30,845,413) |
| Depreciation of RMB to Euro | 5% | (113,342) |
| Depreciation of RMB to Japanese Yen | 5% | (877,899) |
| Appreciation of RMB to USD | (5%) | 30,845,413 |
| Appreciation of RMB to Euro | (5%) | 113,342 |
| Appreciation of RMB to Japanese Yen | (5%) | 877,899 |

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 6. FAIR VALUE

The carrying amount and fair values of the Group's financial instruments are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Financial assets** | | | | |
| Cash and bank balances | **6,382,691,015** | 8,700,317,608 | **6,382,691,015** | 8,700,317,608 |
| Financial assets held for trading | **826,640** | 1,037,360 | **826,640** | 1,037,360 |
| Bills receivable | **8,374,602,622** | 4,421,189,686 | **8,374,602,622** | 4,421,189,686 |
| Trade receivables | **1,097,779,220** | 822,930,091 | **1,097,779,220** | 822,930,091 |
| Dividends receivable | **118,800,000** | 24,751,198 | **118,800,000** | 24,751,198 |
| Other receivables | **711,812,863** | 268,164,615 | **711,812,863** | 268,164,615 |
| **Financial liabilities** | | | | |
| Short term loans | **977,093,278** | 1,173,245,805 | **977,093,278** | 1,173,245,805 |
| Bills payable | **5,269,342,225** | 5,400,287,600 | **5,269,342,225** | 5,400,287,600 |
| Accounts payable | **5,550,236,792** | 6,315,104,235 | **5,550,236,792** | 6,315,104,235 |
| Interests payable | **58,185,998** | 8,138,718 | **58,185,998** | 8,138,718 |
| Dividends payable | **506,995,720** | 701,538,763 | **506,995,720** | 701,538,763 |
| Other payables | **946,266,361** | 753,587,311 | **946,266,361** | 753,587,311 |
| Non-current liabilities due within one year | **7,857,611,313** | 816,000,000 | **7,857,611,313** | 816,000,000 |
| Long term loans | **11,368,731,100** | 13,603,960,000 | **11,368,731,100** | 13,603,960,000 |
| Bonds payable | **997,833,200** | 5,165,409,845 | **997,833,200** | 5,165,409,845 |

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following method and assumption are used in estimating fair value.

The fair value of cash and bank balances, bills receivables, trade receivables, dividends receivable, other receivables, bills payable, accounts payable, interests payable, dividends payable and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the long term and short term loans, medium-term notes payable, non-current liabilities due within one year and bonds payable have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

## X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

### 6. FAIR VALUE *(CONTINUED)*

The fair values of listed equity investments are based on quoted market prices.

The Group uses the following hierarchy for determining the fair value of financial instruments:

Level 1 refers to the use of quoted prices for identical assets and liabilities existing on active markets available to entities that have access on the measurement date. The fair value is determined based on these quoted prices. Level 2 refers to the use of quoted prices for similar assets and liabilities existing on active markets, or quoted prices for identical or similar assets and liabilities existing on non-active markets, available to entities that have access on the measurement date. The fair value is determined based on these quoted prices with necessary adjustment. Level 3 refers to the determination of fair value based on other parameters which reflects the parameters adopted by the market participants in respect of pricing the asset or liability, when the enterprise is unable to have access to the comparable market price of identical or similar asset.

Financial instruments measured at fair value:

**2010**

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets held for trading | **826,640** | **–** | **–** | **826,640** |

During the year ended 31 December 2010, there was no significant transfer into or out of level 3.

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

### 1. TRADE RECEIVABLES

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days.

An aged analysis of trade receivables is as follows:

| | **2010** | 2009 |
|---|---|---|
| Within one year | **2,274,689,449** | 1,003,647,048 |
| One to two years | **40,161,435** | 62,300,156 |
| Two to three years | **40,367,325** | 7,532,611 |
| Over three years | **8,999,801** | 15,912,041 |
| | **2,364,218,010** | 1,089,391,856 |
| Less: Provisions for bad debts | **13,382,203** | 18,020,332 |
| Total | **2,350,835,807** | 1,071,371,524 |

As at 31 December 2009, the Company's trade receivables were pledged to acquire bank loans amounting to RMB680,000,000, further details are stated in Note V. 26 to the financial statements.

Trade receivables balance is analysed as follows:

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Book Value** | **Provision for bad debts** | | | Book Value | Provision for bad debts | |
| | **Balance** | **Ratio (%)** | **Amount** | **Ratio (%)** | Balance | Ratio (%) | Amount | Ratio (%) |
| Individually significant and assessed impairment individually | **856,832,212** | **36** | **(6,927,040)** | **1** | 667,700,187 | 61 | (14,184,569) | 2 |
| Other insignificant but assessed impairment individually | **1,507,385,798** | **64** | **(6,455,163)** | **-** | 421,691,669 | 39 | (3,835,763) | 1 |
| Total | **2,364,218,010** | **100** | **(13,382,203)** | | 1,089,391,856 | 100 | (18,020,332) | |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 1. TRADE RECEIVABLES *(CONTINUED)*

The movement of provision for bad debts against trade receivables for the year is disclosed in Note 5.

The following balances are denominated in foreign currencies:

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Original currency** | **Exchange rate** | **RMB equivalents** | Original currency | Exchange rate | RMB equivalents |
| USD | **47,603,264** | **6.6227** | **315,262,136** | 14,803,550 | 6.8282 | 101,081,600 |
| EUR | **80,318** | **8.8065** | **707,321** | – | – | – |
| | | | **315,969,457** | | | 101,081,600 |

An analysis of the amount of provision for bad debts being written off in the current year:

| Reason | **2010** | 2009 |
|---|---|---|
| Bankrupt or liquidated debtors | **4,638,129** | – |
| Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable | **–** | – |
| Less: Reversal of bad debts provisions written-off in prior year | **–** | 938,001 |
| Total | **4,638,129** | (938,001) |

As at 31 December 2010, the top five largest customers were as follows:

| | **Relation with the Group** | **Balance** | **Aging** | **Ratio (%)** |
|---|---|---|---|---|
| Company 1 | **Subsidiary** | **1,046,963,539** | **Within one year** | **44** |
| Company 2 | **Independent third party** | **176,221,549** | **Within one year** | **7** |
| Company 3 | **Independent third party** | **174,252,178** | **Within one year** | **7** |
| Company 4 | **Independent third party** | **100,964,605** | **Within one year** | **4** |
| Company 5 | **Independent third party** | **99,402,907** | **Within one year** | **4** |
| | | **1,597,804,778** | | **66** |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 1. TRADE RECEIVABLES *(CONTINUED)*

As at 31 December 2009, the top five largest customers were as follows:

| | Relation with the Group | Balance | Aging | Ratio (%) |
|---|---|---|---|---|
| Company 1 | Subsidiary | 247,050,549 | Within one year | 23 |
| Company 2 | Independent third party | 235,794,221 | Within one year | 22 |
| Company 3 | Independent third party | 117,618,163 | Within one year | 10 |
| Company 4 | Subsidiary | 76,945,027 | Within one year | 7 |
| Company 5 | Subsidiary | 32,035,868 | One to two years | 3 |
| | | 709,443,828 | | 65 |

### 2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

| | **2010** | 2009 |
|---|---|---|
| Within one year | **70,384,692** | 15,907,119 |
| One to two years | **1,611,993** | 1,568,803 |
| Two to three years | **3,317,229** | 12,772,383 |
| Over three years | **5,403,133** | 6,027,500 |
| | **80,717,047** | 36,275,805 |
| Less: Provisions for bad debts | **6,930,913** | 6,930,913 |
| Total | **73,786,134** | 29,344,892 |

The movement of provision for bad debts against other receivables for the year is disclosed in Note 5.

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 2. OTHER RECEIVABLES *(CONTINUED)*

Other receivables balance is analysed as follows:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value | Provision for bad debts | | | Book value | Provision for bad debts | |
| | Balance | rate (%) | Amount | rate (%) | Balance | rate (%) | Amount | rate (%) |
| Individually significant and assessed impairment Individually | **37,441,143** | **46** | **(2,400,000)** | **6** | 25,713,768 | 71 | (2,400,000) | 9 |
| Other insignificant but assessed impairment Individually | **43,275,904** | **54** | **(4,530,913)** | **10** | 10,562,037 | 29 | (4,530,913) | 43 |
| Total | **80,717,047** | **100** | **(6,930,913)** | | 36,275,805 | 100 | (6,930,913) | |

During the year, there was no provision for bad debts against other receivables being written off.

As at 31 December 2010, the top five largest other receivables were as follows:

| | Relation with the Group | Balance | Aging | Ratio (%) |
|---|---|---|---|---|
| Company 1 | **Independent third party** | **31,535,253** | **Within one year** | **39** |
| Company 2 | **Independent third party** | **3,503,840** | **One to two years** | **4** |
| Company 3 | **Independent third party** | **2,400,000** | **Over three years** | **3** |
| Company 4 | **Independent third party** | **1,790,200** | **Within one year** | **2** |
| Company 5 | **Subsidiary** | **1,489,877** | **Two to three years** | **2** |
| | | **40,719,170** | | **50** |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 2. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2009, the top five largest other receivables were as follows:

| | Relation with the Group | Balance | Aging | Ratio (%) |
|---|---|---|---|---|
| Company 1 | Subsidiary | 12,294,876 | Two to three years | 34 |
| Company 2 | Independent third party | 6,071,521 | Within one year | 17 |
| Company 3 | Independent third party | 2,581,529 | Within one year | 7 |
| Company 4 | Independent third party | 2,400,000 | Over three years | 7 |
| Company 5 | Independent third party | 2,363,792 | Within one year | 6 |
| | | 25,711,718 | | 71 |

### 3. INVENTORIES

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Balance** | **Provision for impairment** | **Carrying Amount** | Balance | Provision for impairment | Carrying Amount |
| Raw materials | **6,970,398,323** | **–** | **6,970,398,323** | 4,113,383,909 | (33,417,210) | 4,079,966,699 |
| Spare parts | **1,712,853,023** | **(61,875,468)** | **1,650,977,555** | 1,938,036,537 | (48,626,768) | 1,889,409,769 |
| Finished goods | **420,467,782** | **–** | **420,467,782** | 366,398,702 | – | 366,398,702 |
| Work in progress | **1,428,625,947** | **–** | **1,428,625,947** | 1,240,866,893 | – | 1,240,866,893 |
| Construction contract | **131,230,300** | **–** | **131,230,300** | 152,798,558 | – | 152,798,558 |
| Total | **10,663,575,375** | **(61,875,468)** | **10,601,699,907** | 7,811,484,599 | (82,043,978) | 7,729,440,621 |

The movement of impairment provision against inventories for the year is disclosed in note 5.

At each balance sheet date, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the years 2010 and 2009, there was no reversal of impairment provision against inventories.

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS

| | **2010** | 2009 |
|---|---|---|
| Long term investments under equity method | | |
| Jointly controlled entities (i) | **326,392,771** | 309,672,504 |
| Associates (ii) | **583,643,250** | 562,567,167 |
| Long term investments under cost method | | |
| Subsidiaries (iii) | **1,200,552,795** | 1,200,552,795 |
| Other equity investments (iv) | **108,772,160** | 108,772,160 |
| | **2,219,360,976** | 2,181,564,626 |
| Less: Provision for impairment | **–** | – |
| Total | **2,219,360,976** | 2,181,564,626 |

According to the directors' opinion, there was no material restriction on realisation of investments as at the balance sheet date.

The movement of impairment provision for long term investment for the year is disclosed in note 5.

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (i) Jointly-controlled entities

**2010**

| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | *Including: Cash dividend received during the year* | Closing balance |
|---|---|---|---|---|---|---|
| BOC-Ma Steel | **234,000,000** | **308,822,884** | **84,103,476** | **(67,119,078)** | ***(67,119,078)*** | **325,807,282** |
| MASTEEL-CMI | **500,000** | **849,620** | **64,512** | **(328,643)** | ***(328,643)*** | **585,489** |
| | | **309,672,504** | **84,167,988** | **(67,447,721)** | | **326,392,771** |
| Less: Impairment | | **–** | **–** | **–** | | **–** |
| | | **309,672,504** | **84,167,988** | **(67,447,721)** | | **326,392,771** |

2009

| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | *Including: Cash dividend received during the year* | Closing balance |
|---|---|---|---|---|---|---|
| BOC-Ma Steel | 234,000,000 | 304,278,936 | 67,895,146 | (63,351,198) | *(63,351,198)* | 308,822,884 |
| MASTEEL-CMI | 500,000 | – | 849,620 | – | – | 849,620 |
| | | 304,278,936 | 68,744,766 | (63,351,198) | | 309,672,504 |
| Less: Impairment | | – | – | – | | – |
| | | 304,278,936 | 68,744,766 | (63,351,198) | | 309,672,504 |

Major financial information of the jointly-controlled entities:

**2010**

| Name of investee | Total assets Balance | Total liabilities Balance | Net assets Balance | Revenue Amount | Net profit Amount |
|---|---|---|---|---|---|
| BOC-Ma Steel | **677,087,600** | **25,473,037** | **651,614,563** | **507,124,470** | **168,206,951** |
| MASTEEL-CMI | **1,177,272** | **6,293** | **1,170,979** | **1,142,160** | **129,024** |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (ii) Associates

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | *Including: Cash dividend received during the year* | Closing balance |
| Jiyuan Jinma Coke Making | 80,000,000 | 202,370,092 | 59,521,839 | (136,800,000) | *(136,800,000)* | 125,091,931 |
| Tengzhou Shenglong Coke Making | 66,776,000 | 180,697,941 | 25,154,230 | – | – | 205,852,171 |
| Shanghai DaZhong Steel Exchange Center | 4,000,000 | 8,878,969 | 26,402,728 | – | – | 35,281,697 |
| Maanshan City Harbour | 112,500,000 | 170,620,165 | 13,372,286 | (1,575,000) | *(1,575,000)* | 182,417,451 |
| Zheng pu Harbour | 35,000,000 | – | 35,000,000 | – | – | 35,000,000 |
| | | 562,567,167 | 159,451,083 | (138,375,000) | | 583,643,250 |
| Less: Impairment | | – | – | – | – | – |
| | | 562,567,167 | 159,451,083 | (138,375,000) | | 583,643,250 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (ii) Associates *(Continued)*

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | *Including: Cash dividend received during the year* | Closing balance |
| Jiyuan Jinma Coke Making | 80,000,000 | 169,782,128 | 50,587,964 | (18,000,000) | *(18,000,000)* | 202,370,092 |
| Tengzhou Shenglong Coke Making | 66,776,000 | 148,454,112 | 32,243,829 | – | – | 180,697,941 |
| Shanghai DaZhong Steel Exchange Center | 4,000,000 | 15,665,292 | 18,413,677 | (25,200,000) | *(25,200,000)* | 8,878,969 |
| Maanshan City Harbour | 112,500,000 | 158,776,802 | 13,643,363 | (1,800,000) | *(1,800,000)* | 170,620,165 |
| | | 492,678,334 | 114,888,833 | (45,000,000) | | 562,567,167 |
| Less: Impairment | | – | – | – | | – |
| | | 492,678,334 | 114,888,833 | (45,000,000) | | 562,567,167 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (ii) Associates *(Continued)*

*Major financial information of associates:*

**2010**

| Name of investee | Total assets balance | Total liabilities balance | Net assets balance | Revenue amount | Net profit amount |
|---|---|---|---|---|---|
| Jiyuan Jinma Coke Making | 1,726,380,465 | 1,370,895,841 | 355,484,624 | 2,907,745,257 | 201,107,547 |
| Tengzhou Shenglong Coke Making | 1,312,550,898 | 669,230,538 | 643,320,360 | 1,711,897,956 | 85,806,080 |
| Shanghai DaZhong Steel Exchange Center | 1,775,795,863 | 1,599,387,375 | 176,408,488 | 186,972,205 | 101,979,997 |
| Maanshan City harbour | 907,661,846 | 495,041,454 | 412,620,392 | 231,385,804 | 32,053,019 |
| Zheng pu Harbour | 101,578,339 | 1,591,243 | 99,987,096 | – | (12,904) |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (iii) Subsidiaries

| | 2010 | | | | |
|---|---|---|---|---|---|
| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | Closing balance |
| Ma Steel I&E | 50,000,000 | 50,000,000 | – | – | 50,000,000 |
| Design & Research Institute | 7,500,000 | 7,500,000 | – | – | 7,500,000 |
| MG Control Technique | 7,500,000 | 7,500,000 | – | – | 7,500,000 |
| Anhui Masteel K. Wah | 24,854,930 | 44,443,067 | – | – | 44,443,067 |
| Ma Steel (Wuhu) | 8,225,885 | 8,225,885 | – | – | 8,225,885 |
| Ma Steel (Guangzhou) | 80,000,000 | 80,000,000 | – | – | 80,000,000 |
| Ma Steel (HK) | 4,101,688 | 4,101,688 | – | – | 4,101,688 |
| MG Trading | 1,573,766 | 1,573,766 | – | – | 1,573,766 |
| Holly Industrial | 21,478,316 | 21,478,316 | – | – | 21,478,316 |
| Huayang Equipment | 900,000 | 900,000 | – | – | 900,000 |
| Ma Steel (Jinhua) | 90,000,000 | 90,000,000 | – | – | 90,000,000 |
| Ma Steel (Australia) | 126,312,415 | 126,312,415 | – | – | 126,312,415 |
| Ma Steel (Hefei) | 355,000,000 | 355,000,000 | – | – | 355,000,000 |
| Ma Steel (Hefei) Processing | 73,200,000 | 73,200,000 | – | – | 73,200,000 |
| Ma Steel (Yangzhou) Processing | 61,651,010 | 116,462,300 | – | – | 116,462,300 |
| Ma Steel Roller | 22,720,806 | 106,855,358 | – | – | 106,855,358 |
| Used Vehicle Trading | 500,000 | 500,000 | – | – | 500,000 |
| Wuhu Technique | 26,625,000 | 106,500,000 | – | – | 106,500,000 |
| | | 1,200,552,795 | – | – | 1,200,552,795 |
| Less: Impairment | | – | – | – | – |
| Total | | 1,200,552,795 | – | – | 1,200,552,795 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (iii) Subsidiaries *(Continued)*

| | 2009 | | | | |
|---|---|---|---|---|---|
| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | Closing balance |
| Ma Steel I&E | 50,000,000 | 50,000,000 | – | – | 50,000,000 |
| Design & Research Institute | 7,500,000 | 7,500,000 | – | – | 7,500,000 |
| MG Control Technique | 7,500,000 | 7,500,000 | – | – | 7,500,000 |
| Anhui Masteel K. Wah | 24,854,930 | 24,854,930 | 19,588,137 | – | 44,443,067 |
| Ma Steel (Wuhu) | 8,225,885 | 8,225,885 | – | – | 8,225,885 |
| Ma Steel (Guangzhou) | 80,000,000 | 80,000,000 | – | – | 80,000,000 |
| Ma Steel (HK) | 4,101,688 | 4,101,688 | – | – | 4,101,688 |
| MG Trading | 1,573,766 | 1,573,766 | – | – | 1,573,766 |
| Holly Industrial | 21,478,316 | 21,478,316 | – | – | 21,478,316 |
| Huayang Equipment | 900,000 | 900,000 | – | – | 900,000 |
| Ma Steel (Jinhua) | 90,000,000 | 90,000,000 | – | – | 90,000,000 |
| Ma Steel (Australia) | 126,312,415 | 126,312,415 | – | – | 126,312,415 |
| Ma Steel (Hefei) | 355,000,000 | 355,000,000 | – | – | 355,000,000 |
| Ma Steel (Hefei) Processing | 73,200,000 | 73,200,000 | – | – | 73,200,000 |
| Ma Steel (Yangzhou) Processing | 61,651,010 | 116,462,300 | – | – | 116,462,300 |
| Ma Steel Roller | 22,720,806 | 44,134,686 | 62,720,672 | – | 106,855,358 |
| Used Vehicle Trading | 500,000 | 500,000 | – | – | 500,000 |
| Wuhu Technique | 26,625,000 | 106,500,000 | – | – | 106,500,000 |
| | | 1,118,243,986 | 82,308,809 | – | 1,200,552,795 |
| Less: Impairment | | – | – | – | – |
| Total | | 1,118,243,986 | 82,308,809 | – | 1,200,552,795 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

#### (iv) Other equity investments

| | 2010 | | | | |
|---|---|---|---|---|---|
| **Name of investee** | **Initial investment cost** | **Opening balance** | **Increase during the year** | **Decrease during the year** | **Closing balance** |
| Henan Longyu Energy Co.,Ltd | **10,000,000** | **10,000,000** | **–** | **–** | **10,000,000** |
| China the 17th Metallurgy Construction Co.,Ltd | **2,700,000** | **8,554,800** | **–** | **–** | **8,554,800** |
| Shanghai Luojing Mineral Dock Co.,Ltd | **88,767,360** | **88,767,360** | **–** | **–** | **88,767,360** |
| Others | **1,450,000** | **1,450,000** | **–** | **–** | **1,450,000** |
| | | **108,772,160** | **–** | **–** | **108,772,160** |
| Less: Impairment | | **–** | **–** | **–** | **–** |
| Total | | **108,772,160** | **–** | **–** | **108,772,160** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| Name of investee | Initial investment cost | Opening balance | Increase during the year | Decrease during the year | Closing balance |
| Henan Longyu Energy Co.,Ltd | 10,000,000 | 10,000,000 | – | – | 10,000,000 |
| China the 17th Metallurgy Construction Co.,Ltd | 2,700,000 | 2,700,000 | 5,854,800 | – | 8,554,800 |
| Shanghai Luojing Mineral Dock Co.,Ltd | 88,767,360 | 88,767,360 | – | – | 88,767,360 |
| Others | 1,450,000 | 1,450,000 | – | – | 1,450,000 |
| | | 102,917,360 | 5,854,800 | – | 108,772,160 |
| Less: Impairment | | – | – | – | – |
| Total | | 102,917,360 | 5,854,800 | – | 108,772,160 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 5. ASSETS IMPAIRMENT PROVISIONS

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Opening Balance | Increase during the year | Decrease during the year | | | Closing balance |
| | | | Reversal | Write-back | Write-off | |
| Provisions for bad debts | 24,951,245 | - | - | - | (4,638,129) | 20,313,116 |
| Including: Trade receivables | 18,020,332 | - | - | - | (4,638,129) | 13,382,203 |
| Other receivables | 6,930,913 | - | - | - | - | 6,930,913 |
| Provisions for inventories | 82,043,978 | 13,906,462 | - | (34,074,972) | - | 61,875,468 |
| Including: Raw Materials | 33,417,210 | - | - | (33,417,210) | - | - |
| Spare parts | 48,626,768 | 13,906,462 | - | (657,762) | - | 61,875,468 |
| Impairment of held-to-maturity investments | - | - | - | - | - | - |
| Impairment of long term equity investments | - | - | - | - | - | - |
| Impairment of investment properties | - | - | - | - | - | - |
| Impairment of fixed assets | 90,675,644 | - | - | - | (2,820,908) | 87,854,736 |
| Including: Buildings and structures | 5,252,400 | - | - | - | - | 5,252,400 |
| Plant, machinery and equipment | 85,423,244 | - | - | - | (2,820,908) | 82,602,336 |
| Impairment of construction in progress | - | - | - | - | - | - |
| Impairment of intangible assets | - | - | - | - | - | - |
| Total | 197,670,867 | 13,906,462 | - | (34,074,972) | (7,459,037) | 170,043,320 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 5. ASSETS IMPAIRMENT PROVISIONS *(CONTINUED)*

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Opening Balance | Increase during the year | Decrease during the year | | | Closing balance |
| | | | Reversal | Write-back | Write-off | |
| Provisions for bad debts | 24,013,244 | – | – | – | 938,001 | 24,951,245 |
| Including: Trade receivables | 17,082,331 | – | – | – | 938,001 | 18,020,332 |
| Other receivables | 6,930,913 | – | – | – | – | 6,930,913 |
| Provisions for inventories | 1,664,503,803 | 57,810,860 | – | (1,640,270,685) | – | 82,043,978 |
| Including: Raw Materials | 1,386,327,171 | 33,417,210 | – | (1,386,327,171) | – | 33,417,210 |
| Work in Process | 143,476,078 | – | – | (143,476,078) | – | – |
| Finished goods | 110,196,751 | – | – | (110,196,751) | – | – |
| Spare parts | 24,503,803 | 24,393,650 | – | (270,685) | – | 48,626,768 |
| Impairment of held-to-maturity investments | – | – | – | – | – | – |
| Impairment of long term equity investments | – | – | – | – | – | – |
| Impairment of investment properties | – | – | – | – | – | – |
| Impairment of fixed assets | 90,675,644 | – | – | – | – | 90,675,644 |
| Including: Buildings and structures | 5,252,400 | – | – | – | – | 5,252,400 |
| Plant, machinery and equipment | 85,423,244 | – | – | – | – | 85,423,244 |
| Impairment of construction in progress | – | – | – | – | – | – |
| Impairment of intangible assets | – | – | – | – | – | – |
| Total | 1,779,192,691 | 57,810,860 | – | (1,640,270,685) | 938,001 | 197,670,867 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 6. REVENUE AND COST OF SALES

Revenue is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Principal operating income | **60,102,222,139** | 49,011,851,059 |
| Other operating income | **5,271,739,336** | 3,565,952,934 |
| Total | **65,373,961,475** | 52,577,803,993 |

Cost of sales is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Principal cost of sales | **57,744,021,527** | 47,055,725,575 |
| Other cost of sales | **4,911,146,151** | 3,626,447,264 |
| Total | **62,655,167,678** | 50,682,172,839 |

Principal operating income is stated as follows:

| | **2010** | 2009 |
|---|---|---|
| Sale of steel products | **57,941,244,287** | 46,598,790,033 |
| Sale of steel billets and pig iron | **473,336,336** | 393,350,530 |
| Sale of coke by-products | **861,552,652** | 659,626,673 |
| Others | **826,088,864** | 1,360,083,823 |
| Total | **60,102,222,139** | 49,011,851,059 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 6. REVENUE AND COST OF SALES *(CONTINUED)*

In 2010, the revenue from the top five largest customers are as follows:

| | **Amount** | **Rate in total revenue (%)** |
|---|---|---|
| Company 1 | **4,912,443,602** | **8** |
| Company 2 | **3,011,059,382** | **5** |
| Company 3 | **2,938,812,064** | **4** |
| Company 4 | **2,096,276,110** | **3** |
| Company 5 | **1,872,832,051** | **3** |
| Total | **14,831,423,209** | **23** |

In 2009, the revenue from the top five largest customers are as follows:

| | Amount | Rate in total revenue (%) |
|---|---|---|
| Company 1 | 2,377,980,786 | 5 |
| Company 2 | 2,373,481,571 | 5 |
| Company 3 | 2,061,397,672 | 4 |
| Company 4 | 1,913,087,102 | 3 |
| Company 5 | 1,751,322,952 | 3 |
| Total | 10,477,270,083 | 20 |

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 7. ASSETS IMPAIRMENT LOSS

| | **2010** | 2009 |
|---|---|---|
| Reversal of provision for bad debts | **–** | – |
| Including: Trade receivables | **–** | – |
| Other receivables | **–** | – |
| Provision for inventories | **13,906,462** | 57,810,860 |
| Provision of held-to-maturity investments | **–** | – |
| Provision of long term equity investments | **–** | – |
| Provision of investment properties | **–** | – |
| Provision of fixed assets | **–** | – |
| Provision of construction in progress | **–** | – |
| Provision of intangible assets | **–** | – |
| Total | **13,906,462** | 57,810,860 |

### 8. INVESTMENT INCOME

| | **2010** | 2009 |
|---|---|---|
| Long term equity investments income under equity method | **208,619,071** | 183,133,600 |
| Long term equity investments income under cost method | **192,768,726** | 38,719,008 |
| Gain on disposal of financial assets held for trading | | – |
| Other investment income | **375,837** | 197,352 |
| Total | **401,763,634** | 222,049,960 |

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

### 9. CASH FLOWS FROM OPERATING ACTIVITIES

| | **2010** | 2009 |
|---|---|---|
| Net profit | **905,716,559** | 90,756,402 |
| Add: Provision for inventories | **13,906,462** | 57,810,860 |
| Depreciation of fixed assets | **4,596,267,526** | 4,623,401,330 |
| Amortisation of investment properties | **405,049** | 405,049 |
| Amortisation of intangible assets | **31,864,512** | 31,846,367 |
| Amortisation of deferred income | **(77,399,981)** | (77,884,859) |
| (Gain)/loss on disposal of non-current assets | **5,987,267** | (309,564) |
| Financial expenses | **502,642,126** | 859,243,268 |
| Investment income | **(401,763,634)** | (221,866,037) |
| (Gain)/loss on fair value changes of financial assets held for trading | **210,720** | (224,110) |
| (Increase)/decrease in deferred tax assets | **288,270,297** | (164,722,213) |
| (Increase)/decrease in inventories | **(2,886,165,748)** | 1,203,763,712 |
| Increase in receivables from operating activities | **(5,327,606,805)** | (1,840,798,786) |
| Increase in payables from operating activities | **1,336,433,670** | 1,151,684,042 |
| Net cash flows from operating activities | **(1,011,231,980)** | 5,713,105,461 |

## 1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

| | 2010 | 2009 |
|---|---|---|
| **Non-recurring gains or losses items** | | |
| Loss on disposal of non-current assets | **(6,513,280)** | – |
| Subsidies income | **78,449,439** | 95,218,143 |
| Amortisation of deferred income | **79,527,452** | 79,502,858 |
| Other non-operating income and expense items | **(5,800,365)** | 13,938,706 |
| Gain/(loss) on fair value changes of financial assets held for trading | **(210,720)** | 224,110 |
| Other investment income | **403,033** | 197,352 |
| | **145,855,559** | 189,081,169 |
| Less: Income tax effect of non-recurring gains or losses | **34,163,178** | 29,494,356 |
| Non-recurring gains or losses attributable to minority shareholders | **9,531,220** | 9,205,680 |
| Net effect of non-recurring gains or losses | **102,161,161** | 150,381,133 |
| **Net profit attributable to equity holders of the parent excluding non-recurring gains or losses** | | |
| Net profit attributable to equity holders of the parent | **1,101,838,516** | 392,475,316 |
| Less: Net effect of non-recurring gains or losses | **102,161,161** | 150,381,133 |
| Net profit attributable to equity holders of the parent excluding non-recurring gains or losses | **999,677,355** | 242,094,183 |

The calculation of non-recurring gains or losses is in accordance with "Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)" (No.43 [2008]) issued by CSRC.

## 2. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER THE CAS AND HKFRS

No difference exists on shareholders' equity and net profit recorded in the consolidated financial statements prepared under the CAS and HKFRS.

## 3. RETURN ON NET ASSETS AND EARNINGS PER SHARE

**2010**

| | **Return on net assets** | **Earnings per share (RMB)** | |
|---|---|---|---|
| | **(%)** | **Basic** | **Diluted** |
| Net profit attributable to equity holders of the parent | **4.08** | **0.143** | **N/A** |
| Net profit attributable to equity holders of the parent excluding non-recurring gains or losses | **3.70** | **0.130** | **N/A** |

2009

| | Return on net assets | Earnings per share (RMB) | |
|---|---|---|---|
| | (%) | Basic | Diluted |
| Net profit attributable to equity holders of the parent | 1.50 | 0.051 | N/A |
| Net profit attributable to equity holders of the parent excluding non-recurring gains or losses | 0.92 | 0.031 | N/A |

Return on net assets and earnings per share are calculated based on the formula stipulated in the "Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by CSRC.

## 4. VARIANCE ANALYSIS

According to the requirement of *Information Disclosure Rules of Companies which Publicly Issue Securities No. 15-General Rules on Financial Statements (amended in 2010),* an analysis for the financial statement items either with fluctuation over 30% compared with the comparative period, or with the amount over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

(1) Cash and bank balances amounted to RMB6,382,691,015, a decrease of 27% over the previous year, which was mainly attributable to the increase in investment in non-current assets and the increase in raw material purchases.

(2) Bills receivable amounted to RMB8,374,602,622, an increase of 89% over the previous year, which was mainly attributable to the increase of bank acceptance bills resulting from the increased sales revenue.

(3) Trade receivables amounted to RMB1,097,779,220, an increase of 33% over the previous year, which was mainly attributable to the fact that sales revenue generated in 2010 is higher than that of 2009.

(4) Dividends receivable amounted to RMB118,800,000, an increase of 380% over the previous year, which was mainly attributable to the increase in the dividends from associates not yet received.

(5) Prepayment amounted to RMB1,377,143,617, an increase of 67% over the previous year, which was mainly attributable to the increased estimation for raw material consumption and the rising raw material prices.

(6) Other receivables amounted to RMB711,812,863, an increase of 165% over the previous year, which was mainly attributable to the increase in prepayments for import customs and taxes.

(7) Inventories amounted to RMB12,451,795,018, an increase of 39% over the previous year, which was mainly attributable to the increase of raw material at the year end and rising raw material prices.

(8) Investment property amounted to RMB6,771,343, an increase of 43% over the previous year, which was mainly attributable to the increase of certain land use right rented to external parties by certain of the subsidiaries.

(9) Fixed assets amounted to RMB34,405,603,226, a decrease of 10% over the previous year, which was mainly attributable to the depreciation provided during the year, leading to a decrease in the carrying amount of fixed assets.

4. VARIANCE ANALYSIS *(CONTINUED)*

(10) Deferred tax asset amounted to RMB493,868,095, a decrease of 37% over the previous year, which was mainly attributable to 1) the impairment provision provided in 2009 was written back in the current period; 2) the reversal of certain deductable tax losses in the current period.

(11) Bills payables amounted to RMB5,269,342,225, a decrease of 2% over the previous year, which was mainly attributable to the giving up of business acceptance bills for the purpose of reducing financial cost.

(12) Account payables amounted to RMB5,550,236,792, a decrease of 12% over the previous year, which was mainly attributable to the decrease in the estimated account payables for construction projects as certain projects completed in prior years were settled in 2010.

(13) Deposits received amounted to RMB8,127,236,452, an increase of 33% over the previous year, which was mainly attributable to the increase in market demand for steel and the rising steel market price.

(14) Taxes payable amounted to RMB(411,180,601), a decrease of 379% over the previous year, which was mainly attributable to the increase in the amount of input value added taxes and the increase in prepayment for corporate income taxes.

(15) Interests payable amounted to RMB58,185,998, an increase of 615% over the previous year, which was mainly attributable to the increase in medium-term note interests which had been accrued but not yet paid.

(16) Non-current liabilities due within one year amounted to RMB7,857,611,313, an increase of 863% over the previous year, which was mainly attributable to the transfer of bonds with warrants in total from bonds payable to non-current liabilities due within one year.

(17) Long term loan amounted to RMB11,368,731,100, a decrease of 16% over the previous year, which was mainly attributable to the reduction of bank loans for the purpose of reducing financial cost.

(18) Bonds payable amounted to RMB997,833,200, a decrease of 81% over the previous year, which was mainly attributable to the transfer of bonds with warrants in total from bonds payable to non-current liabilities due within one year.

(19) Exchange fluctuation reserve amounted to RMB40,704,768, an increase of 134% which was mainly attributable to the appreciation of certain subsidiaries' functional currency against Renminbi.

## 4. VARIANCE ANALYSIS *(CONTINUED)*

(20) Revenue amounted to RMB64,981,112,494, an increase of 25% over previous year which was mainly attributable to the increase in steel sales volume and steel prices.

(21) Cost of sales amounted to RMB61,173,087,326, an increase of 25% over previous year which was mainly attributable to the rising demand for steel and rising price of raw materials.

(22) Business taxes and surcharges amounted to RMB265,952,521, an increase of 21% over previous year, which was mainly attributable to the increase in sales compared to 2009.

(23) Selling expenses amounted to RMB238,440,760, an increase of 4% over previous year, which was mainly attributable to the increase in transportation and insurance expenses resulting from the increased sales.

(24) Administrative expenses amounted to RMB1,207,589,989, an increase of 6% over previous year, which was mainly attributable to increase of payroll and office expenses.

(25) Financial expenses amounted to RMB732,400,757, a decrease of 22% over previous year, which was mainly attributable to the increase in exchange gains generated from bank loans denominated in foreign currencies resulting from the appreciation of Renminbi.

(26) Asset impairment losses amounted to RMB17,532,724, a decrease of 70% over previous year which was mainly attributable to the decrease in the amount of impairment provision for inventories provided in 2010.

(27) Investment income amounted to RMB219,550,777, an increase of 7% over previous year, which was mainly attributable to the increase in share of profits from associates.

(28) Non-operating expenses amounted to RMB13,384,684, an increase of 340% over previous year which was mainly attributable to the increase in non-current assets disposal losses.

(29) Income tax amounted to RMB519,502,407, an increase of 1,691% over previous year, which was mainly attributable to the increase in profit in the current year.

(30) Share of profit or loss of minority interests amounted to RMB89,770,797, a decrease of 37% over the previous year, which was mainly attributable to the acquisition of certain minority interests.

# XV. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.

2. Original copy of the audited accounts prepared under the China Accounting Standards, sealed by Ernst & Young Hua Ming and signed by Ms. Zhong Li and Ms. Zhao Ning, certified public accountants in the PRC; original copy of the audited accounts prepared under Hong Kong Accounting Standards signed by Ernst & Young.

3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.

4. Annual report announced on the website of the Hong Kong Stock Exchange.

5. The Articles of Association of the Company.