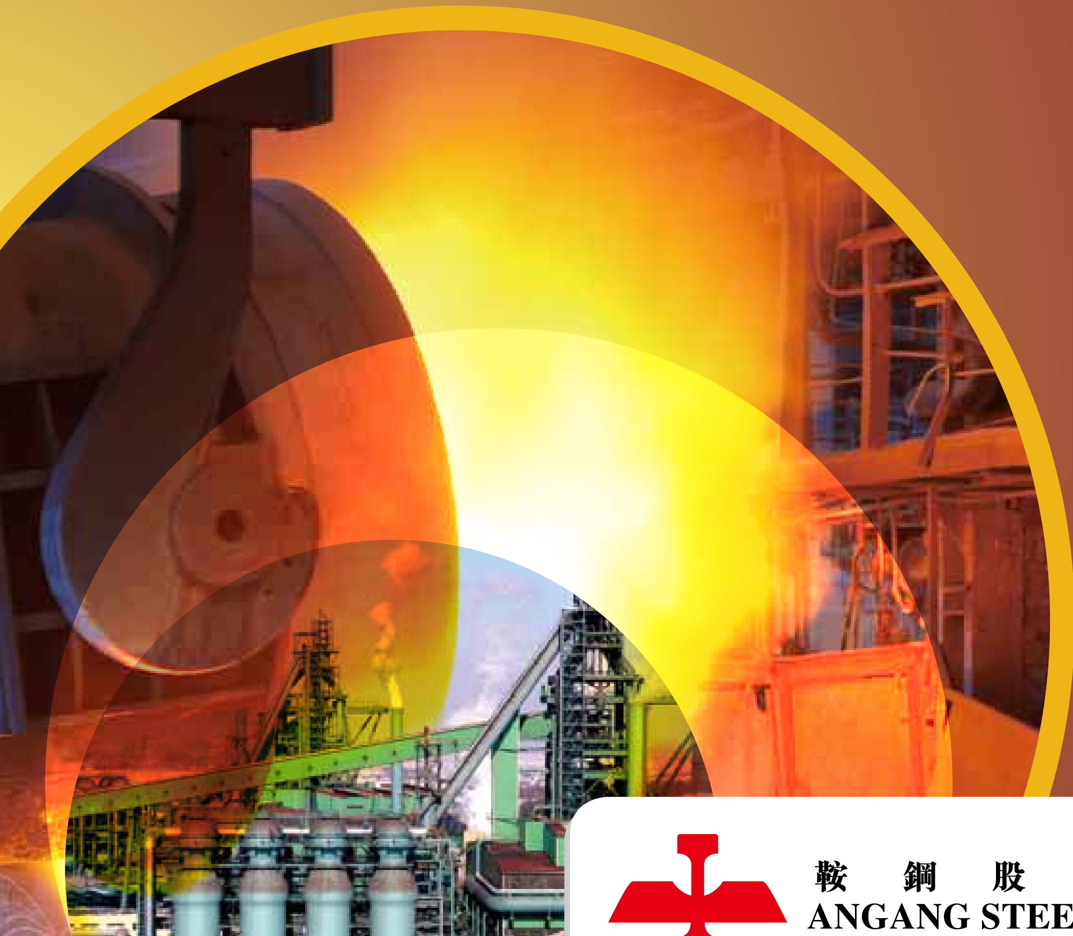


鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*

（Stock Code：0347）

2011 Annual Report

* For identification purposes only

Contents

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

Zhang Xiaogang, the Company's Chairman, Ma Lianyong, Chief Accountant and Controller of Accounts Department (會計機構負責人) confirm that the financial statements in this report are true and complete.

The Board of the Company is pleased to announce the annual results of the Company for the year ended 31 December 2011.

CORPORATE PROFILE

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

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

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

CORPORATE PROFILE *(continued)*

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

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

CORPORATE PROFILE *(continued)*

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

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

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

CORPORATE PROFILE *(continued)*

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

Financial and Business Highlights of the Group

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

Unit: RMB' million

	2011	2010	2009 Before adjustment	2009 After adjustment
Turnover	**90,207**	92,212	70,057	70,057
(Loss)/profit before tax	**-3,304**	2,378	877	872
Income tax (credit)/expense	**-955**	413	166	165
(Loss)/profit for the year attributable to owners of the Company	**-2,163**	2,054	752	748
Total assets	**104,915**	107,119	103,126	103,254
Total liabilities	**52,622**	51,790	49,469	49,469
Equity attributable to owners of the Company	**50,739**	54,052	52,291	52,419
Net assets per share *(RMB)*	**7.01**	7.47	7.23	7.24
(Loss)/earnings per share (basic) *(RMB)*	**-0.299**	0.284	0.104	0.103
Return on net assets *(%)*	**-4.26**	3.80	1.44	1.43

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

1. Major accounting data of the Group for the year:

For the year ended 31 December 2011

Unit: RMB' million

Items	**Amount**
Operating profit:	-3,446
Total profit:	-3,281
Net profit:	-2,332
Net profit attributable to shareholders of the Company:	-2,146
Net profit less extraordinary items attributable to shareholders of the Company:	-2,270
Net cash flow generated from operating activities:	4,663
Investment income:	402
Net non-operating income and expenses:	165
Net increase in cash and cash equivalents:	-1,310

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

1. Major accounting data of the Group for the year: *(continued)*

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

Unit: RMB' million

Extraordinary items		**2011**	2010	2009
1.	Gains or losses from disposal of non-current assets	**7**	4	—
2.	Government subsidies (except for government subsidies which are closely related to the Company's normal operations, in compliance with requirements of the national policies and entitled continuously in a fixed amount or quantity in conformity with the standards of the State) attributable to gains or losses for the period	**190**	117	15
3.	Other non-operating income and expenses apart from those stated above	**-32**	-16	39
4.	Effect of minority interest	**—**	—	-1
5.	Effect of income tax	**-41**	-26	-14
Total		**124**	79	39

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

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

2. Differences between the financial statements prepared under the PRC Accounting Standards and IFRSs:

Unit: RMB' million

	The Group				Attributable to shareholders of the Company			
	Net (loss)/profit Year ended 31 December		Net assets At 31 December		Net (loss)/profit Year ended 31 December		Net assets At 31 December	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Under IFRSs	**-2,349**	1,965	**52,293**	55,329	**-2,163**	2,054	**50,739**	54,052
Under PRC Accounting Standards	**-2,332**	1,950	**52,305**	55,345	**-2,146**	2,039	**50,751**	54,068

Items and total amounts as adjusted under the IFRSs:

	The Group				Attributable to shareholders of the Company			
Production safety expenses	**-23**	20	**—**	—	**-23**	20	**—**	—
Deferred income tax assets	**6**	-5	**-12**	-18	**6**	-5	**-12**	-18
Interests in jointly controlled entities	**—**	—	**—**	2	**—**	—	**—**	2
Total adjustments	**-17**	15	**-12**	-16	**-17**	15	**-12**	-16

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

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

Unit: RMB' million

Item	2011	2010	Increase/decrease compared with the previous year *(%)*	2009
Total operating revenue	**90,423**	92,431	-2.17	70,126
Operating profit	**-3,446**	2,253	-252.95	789
Total profit	**-3,281**	2,358	-239.14	843
Net profit attributable to shareholders of the Company	**-2,146**	2,039	-205.25	727
Net profit less extraordinary items attributable to shareholders of the Company	**-2,270**	1,960	-215.82	688
Net cash flows from operating activities	**4,663**	9,026	-48.34	4,549
Basic earnings per share *(RMB)*	**-0.297**	0.282	-205.32	0.100
Diluted earnings per share *(RMB)*	**-0.297**	0.282	-205.32	0.100
Basic earnings per share less extraordinary items *(RMB)*	**-0.314**	0.271	-215.87	0.095
Return on net assets (fully diluted) *(%)*	**-4.23**	3.77	Decreased by 8 percentage points	1.39
Return on net assets (weighted average) *(%)*	**-4.09**	3.83	Decreased by 7.92 percentage points	1.38
Return on net assets (fully diluted) less extraordinary items *(%)*	**-4.47**	3.63	Decreased by 8.1 percentage points	1.31
Return on net assets (weighted average) less extraordinary items *(%)*	**-4.33**	3.68	Decreased by 8.01 percentage points	1.30
Net cash flows per share from operating activities *(RMB)*	**0.645**	1.248	-48.32	0.629

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

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

Item	At the end of 2011	At the end of 2010	Increase/decrease as compared with the previous year (%)	At the end of 2009
Total assets	**102,988**	105,114	-2.02	100,987
Total liabilities	**50,683**	49,769	1.84	47,189
Equity attributable to owners of the Company	**50,751**	54,068	-6.13	52,432
Net assets per share attributable to owners of the Company *(RMB)*	**7.01**	7.47	-6.16	7.25
Assets-liability ratio *(%)*	**49.21**	47.35	Increased by 1.86 percentage points	46.73
Total share capital	**7,235**	7,235	—	7,235

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

	Return on net assets *(%)*		Earnings per share *(RMB)*	
Profit for the reporting period	**Fully diluted**	**Weighted average**	**Basic**	**Diluted**
Net profit attributable to holders of ordinary shares of the Company	-4.23	-4.09	-0.297	-0.297
Net profit less extraordinary items attributable to holders of ordinary shares of the Company	-4.47	-4.33	-0.314	-0.314

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

5. Changes in shareholders' equity during the reporting period

Unit: RMB' million

	Equity attributable to the shareholders of the Company							
Items	Share capital	Capital reserve	Surplus reserves	Special reserves	Undistributed profit	Sub-total	Minority interest	Total shareholders' equity
At the beginning of the period	7,235	31,521	3,570	70	11,672	54,068	1,277	55,345
Increase for the period	—	2	—	33	—	35	463	498
Decrease for the period	—	65	—	56	3,231	3,352	186	3,538
At the end of the period	7,235	31,458	3,570	47	8,441	50,751	1,554	52,305

Reasons for changes

1. The increase in capital reserve was due to an increase of RMB2 million in other equity of joint ventures. The decrease was due to a decrease of RMB65 million in the fair value of available-for-sale financial assets.

2. The increase in special reserves was due to the provision of RMB33 million of production safety expenses and the decrease was due to RMB56 million in production safety expenses.

3. The decrease in undistributed profit was due to (i) the loss of the Company incurred for the year as a result of a loss of RMB2,146 million attributable to shareholders of the Company; (ii) the payment of RMB1,085 million as dividend for 2010.

4. The increase in minority interests was attributable to the investment of RMB463 million from minority shareholders. The decrease was due to a loss of RMB186 million attributable to minority interests of Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited (天津鞍鋼天鐵冷軋薄板有限公司) (''Angang Tiantie''), a subsidiary of the Company.

"On behalf of the Board of Angang Steel Company Limited, I am pleased to present the annual report of the Company for the year ended 31 December 2011 and hereby extend my regards to all the shareholders."

OPERATING RESULTS FOR 2011

Based on the IFRSs, the Group recorded an annual loss attributable to owners of the Company of RMB2,163 million for the year ended 31 December 2011 (an annual profit attributable to owners of the Company of RMB2,054 million for the year ended 31 December 2010) and its basic loss per share was RMB0.299.

Based on the PRC Accounting Standards, the Group recorded a net loss attributable to the owners of the Company of RMB2,146 million for the year ended 31 December 2011 (a net profit attributable to the owners of the Company of RMB2,039 million for the year ended 31 December 2010) and its basic loss per share was RMB0.297.

OPERATING RESULTS FOR 2011 *(Continued)*

Profit Distribution

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership), the Company recorded a net loss of RMB2,146 million attributable to the shareholders of the Company for the year 2011 in accordance with the PRC Accounting Standards. As the Company recorded a loss, pursuant to the PRC laws and regulations and the articles of association of the Company, the Company would not make allocation to surplus reserve nor recommend any profit distribution or transfer of reserve to share capital for year 2011. This proposal shall be subject to the consideration at the annual general meeting of 2011 ("2011 AGM").

Distribution for the last three years

Year	Net profit attributable to shareholders of the Company *(RMB' million)*	Distribution proposal	Amount of cash dividend *(RMB' million)*	Proportion of the amount of cash dividend in realized net profits
2010	2,039	RMB0.15 per share	1,085	53.22%
2009	727	RMB0.06 per share	434	59.70%
2008	2,981	RMB0.21 per share	1,519	50.96%
Total	5,747	—	3,038	—

Note: The realized net profits of the Group have been adjusted by the Company in accordance with the most recent requirements under the PRC Accounting Standards.

BUSINESS REVIEW

1. Breakthrough in production, operation and contingency control capabilities

During the reporting period, the Group produced 20,442,600 tonnes of iron, 19,782,800 tonnes of steel and 19,169,600 tonnes of steel products, representing a decrease of 7.60%, 8.66% and 8.16%, respectively, as compared with the previous year. Sale of steel products amounted to 18,838,300 tonnes, representing a decrease of 8.96% as compared with the previous year. The Group also realized a 98.27% production to sale ratio for steel products.

Taking into consideration of the condition of its equipment, plans for inspection and maintenance as well as the market dynamics of steel products, the Company strengthened its efforts in repairing its equipment, thus improved the equipment condition significantly in 2011. However, such repair had also led to a slight year-on-year decrease in the production volume of steel, iron and steel products.

BUSINESS REVIEW *(continued)*

2. New achievements in technological innovation and research and development of new products

The "instant cooling + laminar cooling" equipment and automatic control system for 4,300mm thick plate line (4,300mm厚板綫「超快速冷卻+層流冷卻」裝備與自動控制系統) developed by the Group independently was put into use, becoming the first instant cooling system of medium and thick plates with its own intellectual property rights and the highest cooling capacity in operation in China. The achievement marked a breakthrough of the new generation TMCP know-how technology. The successful invention of the flexible hot-rolled steel strip production technology (熱軋帶鋼柔性生產技術) also marked a breakthrough in Angang's history of hot-rolled production. The successful development of Ø5.0mm high-carbon wire (Ø5.0mm 高碳拉絲鋼線材) was the first product of the same kind. The successful invention of 0.50mm series of high-grade electrical steel products (高牌號電工鋼0.50mm規格系列產品) made the Company a role model of independent research and development of high-end electrical steel products. As the first of its peers to formulate national standards of hot-rolled steel plates for nuclear power purpose, it also became the only iron and steel enterprise to be equipped with 18MND5 steel for production of key equipment of nuclear island. Angang 5Ni steel has successively been certified by three classification societies, namely DNV, LR and CCS, which indicates that Angang is capable of supplying products with comprehensive specifications and marks the end of the history of 100% imported 5Ni steel. The successful development of Q550J high-strength steel for container use (集裝箱用高強度鋼Q550J) signals Angang's continuous leadership in terms of all-inclusive specifications and high-performance products with respect to such technology.

BUSINESS REVIEW *(continued)*

2. New achievements in technological innovation and research and development of new products *(continued)*

Four scientific results were awarded the provincial and industrial technology advancement awards (省、行業科技進步獎), while the "self-research and development as well as industrial application of core technology for controlling the shape of cold-rolled plates" (冷軋板形控制核心技術自主研發與工業應用) was awarded the National Science & Technology Second Class Advancement Award (國家科技進步二等獎). Its "steel plates for hull structure" (船體用結構鋼板) was awarded the Award of Highest Quality in Kind (首屆實物質量最高獎) in the first session by the Steel Association (鋼鐵協會). Its cold-rolled and low-carbon steel plates and steel strips produced by ultra deep drawing (超深沖冷軋低碳鋼板及鋼帶) was awarded the first-granted most honorable award in terms of quality in kind (實物質量最高獎) — "Superb Quality Award". Its "ultra-low carbon bainite steel and the production methods thereof" (超低碳貝氏體鋼及其生產方法), an invention patent approved by the State, was awarded the twelve-session "China Patent Excellence Award" (第十二屆中國專利優秀獎).

3. New Progress in Energy Saving and Emission Reduction

The 4×900kw transducer and transformation units used for combustion fans of blast furnace in Bayuquan (高爐助燃風機變頻改造機組), being the first project put into production under the energy management contract, was preliminary estimated to have saved 47% electricity, while the project of 2×1,120kw transducer and transformation for combustion fans of blast furnace for newly established No. 4 blast furnace (新4號高爐 2×1,120kw 高爐助燃風機變頻改造項目) was preliminary estimated to have saved 30% electricity. The Company also completed more than 10 independent pollution treatment projects such as flue gas desulphurization and recycling of salt extracted from waste water during desulphurization (脫硫廢液提鹽回用) for No. 3 furnace. Some of the above renovation projects have thus far been put into operation.

The pollutant emission reduction initiatives have made significant progress with steady improvement in environmental protection indicators. The Company's environment and air quality indicators had all reached national standards while its rate of meeting atmospheric pollutant emission standard had reached 100%.

BUSINESS REVIEW *(continued)*

4. New Achievements in Market Development and Marketing Services

Giving play to the function of production-marketing-research integration (PMR integration) and carrying out "new key product promotion activities", the Company has steadily increased the sales proportion of strategic varieties and leading products. Actively participating in bidding key projects in 2011, it won the bids in pipeline projects, such as Hong Kong-Zhuhai-Macau Bridge roundabout project, CNOOC subsea pipelines, Sinopec Rizhao-Yizheng, Datang International Fuxin and national key projects, including Sanmen, Haiyang and other nuclear projects as well as Sinopec Huangdao Oil Reserve Base.

The Company has vigorously expanded overseas market, promoted international operation and realized a settlement amount of export steel products of 1.63 million tonnes.

5. New Progress in Technical Transformation and Innovation Projects as well as in Overseas Investment Cooperation

The Company has accomplished fixed-assets investment of RMB5.943 billion throughout the year. A total of ninety-five production facilities renovation projects have been put into operation, including the west zone sintering heat power generation technology renovation project and the project to renovate and add edge heater shield to 1,780mm production line.

The high-performance silicon steel production line has attended to full designed capacity. The hot-rolled pickled sheet production line has been put into production, and the output of new wire production line has increased steadily month by month. Phase IV coke oven renovation project and its supporting CDQ (coke dry quenching) are about to be put into production. The combined unit of Angang Cold Rolling (Putian) Project has accomplished fine adjustment and acceptance testing, and is ready for production.

DEVELOPMENT PLANS FOR 2012

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

Year 2012 is an important year for implementing the "12th five-year" strategic development plan of Angang, and also a crucial year for the Company to cope with crisis and realize development in predicament.

Favorable factors: ore prices are expected to fall from a high level and the high-cost operation pattern of the steel industry will improve to some extent. As seen from the Company internally, upon maintenance and adjustment last year, the device status of blast furnace has improved significantly, and a series of measures for removing bottlenecks restricting production and operation will be implemented successively and bring about the desired effects in succession. On the whole, the Company's internal operating conditions is expected to improve significantly in 2012. Multiple bases such as Anshan headquarters and Bayuquan interact with each other in production, and the function of multi-point layout and complementary advantages will be exerted in a more remarkable way.

Unfavorable factors: From an international perspective, the deep-rooted conflicts in the European and American debt crisis will continue to spread and aggravate, making it difficult for the global economy to recover in the short term. From a domestic perspective, the slackened economy and inflation exist side by side, and excess capacity and imbalance between supply and demand in the steel industry remain significant. Influenced by the macroeconomic situation, the growth in the downstream industry slows down, and the demand for steel products will also tend to go down. Competition among steel enterprises will be more intensive.

DEVELOPMENT PLANS FOR 2012 *(continued)*

2. Business Plan of the Company for 2012

With realizing profits as the target of 2012, and cost reduction and efficiency improvement as the main line, the Company will give prominence to improving quality, vigorously develop markets and optimize competitive factors in a comprehensive way, thereby making new contributions in creating a steel enterprise with strongest international competitiveness and making Angang grow stronger and better.

(1) Strengthen overall control ability to realize new promotion at the production and operation levels.

(2) Step up efforts in technology R&D to realize new promotion in variety, quality and efficiency.

(3) Strengthen marketing management in a comprehensive way to realize new promotion in marketing performance and service effectiveness.

(4) Step up efforts in energy conservation and emission reduction to realize new promotion in energy-efficiency management and green production.

(5) Promote the construction of capital projects to realize new promotion in investment proceeds.

(6) Conduct system-wide multi-level benchmarking to realize new promotion in the core competitiveness of enterprise.

(7) Deepen the performance excellence model to realize new promotion in the integrated management of enterprise.

3. Capital Needs, Utilisation Plan and Funding Sources of the Group for 2012

In 2012, the Group intends to invest RMB3,636 million in major construction projects such as Putian project, the phase IV renovation plant, tar capacity expansion, construction of additional heat treatment lines as well as auxiliary facilities for 4300 mm thick plates production line and Tian Tie Project, and overseas investment.

In 2012, the Group's capital needs will be mainly financed by proceeds raised from the short-term financial bonds, medium-term notes, cash generated from operating activities and bank loans.

Chairman
Zhang Xiaogang

Anshan City, the PRC
27 March 2012

MOVEMENT IN SHARE CAPITAL

As at 31 December 2011, the shareholding structure of the Company was as follows:

Unit: Share

	Before the change during the period		Increase/decrease during the period(+/-)			After the change during the period	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	4,340,902,643	60.00	—	-4,340,880,866	-4,340,880,866	21,777	0.00
1. State-owned shares	4,340,884,709	60.00	—	-4,340,884,709	-4,340,884,709	0	0.00
2. State-owned legal person shares	—	—	—	—	—	—	—
3. Other domestic shares	17,934	0.00	—	3,843	3,843	21,777	0.00
Including: shares held by domestic legal persons	—	—	—	—	—	—	—
shares held by domestic natural persons	17,934	0.00	—	3,843	3,843	21,777	0.00
4. Foreign shares	—	—	—	—	—	—	—
Including: shares held by overseas legal persons	—	—	—	—	—	—	—
shares held by overseas natural persons	—	—	—	—	—	—	—
II. Shares not subject to trading moratorium	2,893,905,204	40.00	—	4,340,880,866	4,340,880,866	7,234,786,070	100.00
1. Renminbi ordinary shares	1,808,105,204	24.99	—	4,340,880,866	4,340,880,866	6,148,986,070	84.99
2. Domestically listed foreign shares	—	—	—	—	—	—	—
3. Overseas listed foreign shares	1,085,800,000	15.01	—	—	—	1,085,800,000	15.01
4. Others	—	—	—	—	—	—	—
III. Total shares	7,234,807,847	100.00	—	0	0	7,234,807,847	100.00

Note: 4,340,884,709 shares of the Company held by Anshan Iron and Steel Group Complex* that were subject to trading moratorium were released from trading moratorium on 7 January 2011. Shares of Mr. Fu Wei, original Deputy General Manager of the Company, had been subject to a lock-up period of six months since his resignation during the reporting period as required by the Shenzhen Stock Exchange, resulting in an increase of 3,843 shares which are subject to trading moratorium. The above two factors had caused the Company's shares not subject to trading moratorium to increase by 4,340,880,866 shares.

TABLE OF CHANGES IN SHARES SUBJECT TO TRADING MORATORIUM

Unit: Share

Name of shareholder	Number of shares subject to trading moratorium at the beginning of the year	Number of shares released from trading moratorium this year	Increase in the number of shares subject to trading moratorium this year	Number of shares subject to trading moratorium at the end of the year	Reasons for being subject to trading moratorium	Date of release from trading moratorium
Anshan Iron and Steel Group Complex*	4,340,884,709	4,340,884,709	—	0	—	7 January 2011
Fu Wei	11,529	—	3,843	15,372	All shares held no more than six months upon resignation were subject to trading moratorium	—
Fu Jihui	6,405	—	—	6,405	—	—
Total	4,340,902,643	4,340,884,709	3,843	21,777	—	—

DETAILS OF SHAREHOLDERS

1. **As at the end of the reporting period, the Company had a total of 207,207 shareholders, of which 604 were holders of H shares. As at 29 February 2012, there were a total of 201,942 shareholders, 605 of which were H shareholders.**

2. **As at 31 December 2011, the shareholdings of the top 10 shareholders and the top 10 shareholders not subject to trading moratorium were as follows:**

Details of shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Percentage of shareholdings *(%)*	Total number of shares held *(share)*	Number of shares held subject to trading moratorium *(share)*	Number of shares pledged/ frozen
Anshan Iron and Steel Group Complex*	State-owned legal person	67.29	4,868,547,330	—	—
HKSCC (Nominees) Limited	Overseas legal person	14.73	1,065,798,169	—	Unknown
Bank of China — Efunds Shenzhen Stock Exchange 100 Open-Ended Index Securities Investment Fund (中國銀行 — 易方達深證100交易型開放式指數證券投資基金)	Others	0.30	21,867,988	—	Unknown
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Securities Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	Others	0.21	14,876,703	—	Unknown
Li Yulan (李玉蘭)	Domestic natural person	0.18	12,996,771	—	Unknown
Client Credit Trading Guarantee Securities Account of Industrial Securities Co., Ltd. (興業證券股份有限公司客戶信用)	Others	0.18	12,912,725	—	Unknown

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2011, the shareholdings of the top 10 shareholders and the top 10 shareholders not subject to trading moratorium were as follows: *(continued)*

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

Name of shareholder	Nature of shareholder	Percentage of shareholdings *(%)*	Total number of shares held *(share)*	Number of shares held subject to trading moratorium *(share)*	Number of shares pledged/ frozen
AB Property & Casualty Insurance — traditional insurance products	Others	0.15	10,962,000	—	Unknown
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd.	Others	0.14	10,326,364	—	Unknown
Bank of China — Jia Shi Hu Shen 300 Index Securities Investment Fund (中國銀行 — 嘉實滬深300指數證券投資基金)	Others	0.14	10,094,028	—	Unknown
ICBC— Efunds Value Selective Stock Securities Investment Fund (中國工商銀行 — 易方達價值精選股票型證券投資基金)	Others	0.14	10,009,964	—	Unknown

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2011, the shareholdings of the top 10 shareholders and the top 10 shareholders not subject to trading moratorium were as follows: *(continued)*

Shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholder	**Number of shares held not subject to trading moratorium** *(share)*	**Class of shares**
Anshan Iron and Steel Group Complex*	4,868,547,330	Renminbi ordinary shares
HKSCC (Nominees) Limited	1,065,798,169	Overseas listed foreign shares
Bank of China — Efunds Shenzhen Stock Exchange 100 Open-ended Index Securities Investment Fund (中國銀行 — 易方達深證100交易型開放式指數證券投資基金)	21,867,988	Renminbi ordinary shares
Industrial and Commercial Bank of China — Rong Tong Shenzhen Stock Exchange 100 Index Securities Investment Fund (中國工商銀行 — 融通深證100指數證券投資基金)	14,876,703	Renminbi ordinary shares
Li Yulan (李玉蘭)	12,996,771	Renminbi ordinary shares
Client Credit Trading Guarantee Securities Account of Industrial Securities Co., Ltd. (興業證券股份有限公司客戶信用)	12,912,725	Renminbi ordinary shares
AB Property & Casualty Insurance — traditional insurance products	10,962,000	Renminbi ordinary shares
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd.	10,326,364	Renminbi ordinary shares
Bank of China — Jia Shi Hu Shen 300 Index Securities Investment Fund (中國銀行 — 嘉實滬深300指數證券投資基金)	10,094,028	Renminbi ordinary shares
ICBC-Efunds Value Selective Stock Securities Investment Fund (中國工商銀行 — 易方達價值精選股票型證券投資基金)	10,009,964	Renminbi ordinary shares

DETAILS OF SHAREHOLDERS *(continued)*

2. As at 31 December 2011, the shareholdings of the top 10 shareholders and the top 10 shareholders not subject to trading moratorium were as follows: *(continued)*

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

Explanations on the connected relationship or concerted action among the shareholders mentioned above	Anshan Iron and Steel Group Complex*, the largest shareholder of the Company, has no connected relationship with any of the other top 10 shareholders of the Company or any of the top 10 shareholders not subject to trading moratorium. Nor is Anshan Iron and Steel Group Complex* a party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Changes in Shareholdings of the Shareholders of Listed Companies. Bank of China - Efunds Shenzhen Stock Exchange 100 Open-Ended Index Securities Investment Fund and ICBC-Efunds Value Selective Stock Securities Investment Fund are both under the administration of E Fund Management Co., Ltd. Except the above, the Company is not aware of any connected relationship among other shareholders of the Company or any party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Changes in Shareholdings of the Shareholders of Listed Companies.

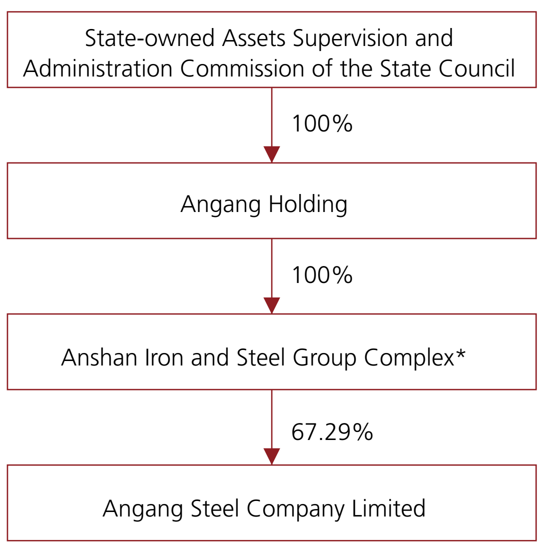
DETAILS OF SHAREHOLDERS *(continued)*

3. Details of the controlling shareholder of the Company

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

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

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



DETAILS OF SHAREHOLDERS *(continued)*

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

Save for disclosed below, as at 31 December 2011, no other person (other than the Company's Directors, Supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance ("SFO") (Chapter 571, the Laws of Hong Kong):

Interest in ordinary shares of the Company

Name of shareholder	Number and class of shares held	Percentage in total share capital	Percentage in total issued H shares	Percentage in total issued domestic shares	Capacity
Anshan Iron and Steel Group Complex*	4,868,547,330 State-owned shares	67.29%	—	79.18%	Beneficial owner
HKSCC (Nominees) Limited	1,065,798,169 H shares	14.73%	98.16%	—	Nominee

Summary of General Meeting

The Company convened the 2010 annual general meeting on 30 May 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 31 May 2011.

The Company convened the 2011 first extraordinary general meeting on 19 December 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 20 December 2011.

1. MEMBERS OF THE BOARD

Executive Directors

Mr. Zhang Xiaogang, aged 58, a professor-level senior engineer holding a PhD degree in engineering, is the Chairman of the Company and General Manager of Anshan Iron and Steel Group Complex*. Mr. Zhang has obtained a bachelor's degree from Wuhan University, a master's degree from Northeastern University and a PhD degree from the Central Iron & Steel Research Institute. He has been working for Angang Holding over 30 years and has held various senior management positions in Angang Holding, including the Head of the Technology Department and the Deputy Chief Engineer of Anshan Iron and Steel Group Complex*, the General Manager of ANSI and the Standing Deputy General Manager of Anshan Iron and Steel Group Complex*. He is an alternate member of the Seventeenth Central Committee of the Communist Party of China and a representative of the Eleventh National People's Congress. Mr. Zhang is an expert in metallurgical industry with extensive knowledge in the development and innovation of metallurgical technology. He was a member of the expert panel in the "State 863 and 973 Projects", Chairman of China Iron and Steel Association, and was awarded the First Prize for Scientific and Technological Progress by the State. Mr. Zhang is currently the Chairman of World Steel Association (世界鋼鐵協會), a member of the expert panel of the Standardization Administration of China, the Director of the Steel Rolling Academic Committee, the Chairman of International Organization for Standardization ISO/PC17/SC17 and the Director of Low Alloy Steel Academic Committee of The Chinese Society for Metals.

Mr. Yang Hua, aged 50, is the Vice Chairman and the Secretary to the Party Committee of the Company and an associate professor. Mr. Yang graduated from the Faculty of Philosophy of Peking University with a master's degree in 1990. He joined Anshan Iron and Steel Group Complex* in the same year and has been a Deputy Head of the Education Division of Angang Party School, a Deputy Secretary to the Party Committee of Iron Smelting Plant and Half Continuous Rolling Plant of Anshan Iron and Steel Group Complex*, the Secretary to the Party Committee of Iron Smelting Plant of Angang Holding, the Head of Anshan Iron and Steel Group Complex* Office, the Assistant to General Manager of Anshan Iron and Steel Group Complex*, the Secretary to the Party Committee of the Company, a Deputy Secretary to the Party Committee of Anshan Iron and Steel Group Complex* and the Secretary to the Party Committee of ANSI.

Mr. Chen Ming, aged 51, is the Vice Chairman and General Manager of the Company and a professor-level senior engineer. Mr. Chen graduated from Anshan Institute of Iron and Steel Technology with a master's degree in iron and steel metallurgy. He has been working for Angang Holding over 20 years and has held various senior management positions within his term of office, including the General Engineer of No. 3 Steel Plant of Angang, the Vice Director and Director of No. 2 Steel Plant of Angang, a Deputy General Manager and the Head of Production Department of ANSI, the Head of the Planning and Development Department of Angang, the Head of Strategic Development Department of Angang and the Deputy General Manager and Acting General Manager of the Company.

1. MEMBERS OF THE BOARD *(continued)*

Executive Directors *(continued)*

Mr. Yu Wanyuan, aged 51 is a Director of the Company, the Deputy General Manager of Anshan Iron and Steel Group Complex* and a professor-level senior accountant. Mr. Yu joined Anshan Iron and Steel Group Complex* in 1998. Mr. Yu graduated from Northeastern University with a bachelor's degree in mechanical engineering. He studied at School of Economics of Xiamen University in 1984. He obtained his second bachelor's degree in management engineering from Northeastern University in 1990. Mr. Yu has held positions as Deputy Director of Financial Department of Northeastern University, the Accounting Director of Shenyang Xinji Real Estate Development Company, Deputy Chief Accountant of Northeastern University, the Assistant to General Manager, Deputy Chief Accountant, Chief Accountant and the Head of the Department of Finance and Accounting of Anshan Iron and Steel Group Complex*.

Mr. Fu Jihui, aged 60 is a Director, Secretary to the Board of the Company and a senior accountant. Mr. Fu graduated from Dongbei University of Finance and Economics with a master's degree in accounting. He joined Anshan Iron and Steel Group Complex* in 1969 and has held various positions including the Deputy Manager of the Finance Department.

Independent Non-executive Directors

Mr. Li Shijun, aged 68, is an Independent Non-executive Director of the Company. Mr. Li currently serves as a principal analyst of China Iron and Steel Association, Deputy Secretary-General of the Chinese Society for Metals. Mr. Li is a professor-level Senior Engineer. He graduated from Beijing Iron and Steel College with a bachelor's degree. Mr. Li had been, among others, Deputy Director of the Technology Division of Ministry of Metallurgical Industry, Deputy Director of the Planning and Development Division of the State Bureau of Metallurgical Industry and Executive Deputy Secretary General of China Iron and Steel Association.

Mr. Ma Guoqiang, aged 58, is an Independent Non-executive Director of the Company. Mr. Ma is currently Vice President of Dongbei University of Finance and Economics, a professor and tutor of doctorate candidates. He has obtained a master's degree from Dongbei University of Finance and Economics and a Ph.D degree from Chinese Academy of Social Sciences. He is concurrently an evaluation expert of the National Planning Office of Philosophy and Social Sciences, and Vice Chairman of the Chinese Taxation Institute. Mr. Ma has served a number of positions in Dongbei University of Finance and Economy including lecturer, the Deputy Head and Head of Taxation Department, the Dean of the Finance and Taxation School and the Assistant to the President of Dongbei University Finance and Economics.

1. MEMBERS OF THE BOARD *(continued)*

Independent Non-executive Directors *(continued)*

Mr. Kwong Chi Kit, Victor, aged 45, is an Independent Non-executive Director of the Company. He is currently the financial controller of Anwell Technologies Limited, a company listed on the main board of the Singapore Exchange Limited. He has over 16 years of experience in the auditing, accounting and financial management in the commerce, manufacturing and public administration areas. Mr. Kwong is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwong has obtained a bachelor's degree in Commerce from Curtin University of Technology in Australia. Mr. Kwong is also an independent director of Shandong Xinhua Pharmaceutical Company Limited, a company listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, and Get Nice Holdings Limited, a company also listed on the Hong Kong Stock Exchange.

2. MEMBERS OF THE SUPERVISORY COMMITTEE

Mr. Wen Baoman, aged 61, is the Chairman of the Supervisory Committee of the Company. Mr. Wen is also the President of the Angang Communist Party School, a member of the Standing Commission of Anshan Municipal Committee of the Communist Party of China and a senior politician. Mr. Wen graduated with a bachelor's degree from Liaoning Provincial Party School. Mr. Wen has been with Angang Holding for over 30 years and held various senior positions of Angang Holding, including the Secretary to the Committee of the Communist Youth League of Anshan Iron and Steel Group Complex*, the Head of the Office of the Communist Party Committee of Angang Holding, the Vice Chairman of the Labour Union of Anshan Iron and Steel Group Complex*, the Head of Propaganda Department of the Communist Party Committee of Angang Holding, a member of the Standing Committee of the Communist Party of Angang Holding, the Secretary to the Communist Party Committee of Angang Construction Company*, the Chairman of the Labour Union of Anshan Iron and Steel Group Complex* and the Deputy Secretary to the Communist Party Committee of Anshan Iron and Steel Group Complex*.

Mr. Shan Mingyi, aged 59, is a Supervisor of the Company and the Chairman of the Labour Union of the Company and a senior politician. Mr. Shan graduated from the correspondence education of Central Party's School majoring in economics and management. He joined Anshan Iron and Steel Group Complex* in 1969, and had been the Deputy Head and Head of the Organization Department, Director of Human Resources Department, Deputy Secretary to the Party Committee of Angang Machinery Manufacturing Co., Ltd., Vice Chairman of the Labour Union of Anshan Iron and Steel Group Complex*, and Chairman of the Labour Union of ANSI.

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

Supervisors from staff representatives:

Mr. Bai Hai, aged 37, is a Supervisor, currently the deputy foreman of Team C of the Steel Smelting Area in No. 1 Work Area of the Main Steel Making Plant (煉鋼總廠) of the Company and a technician, with a qualification equivalent to a university degree. Mr. Bai graduated from the Angang Technical Complex (鞍鋼技工學校), and joined Anshan Iron and Steel Group Complex* in 1994. Mr. Bai has been recognised as "Top Model Worker (特等勞動模範) of Anshan City", "Top Ten Outstanding Youth (十大傑出青年) of Anshan City", "Skilled Youth in Enterprise under the Control of the Central Government (中央企業青年崗位能手)" in 2008, "Model Worker of Liaoning Province (遼寧省勞動模範)" and "Model Member of the Communist Party in Liaoning Province (遼寧省優秀共產黨員)" in 2009, and "National Model Worker (全國勞動模範)" in 2010. He was also awarded the May 4th Youth Medal of State-owned Enterprises (中央企業青年五四獎章) in 2011.

3. OTHER SENIOR MANAGEMENT MEMBERS

Mr. Ma Lianyong, aged 50, is the Chief Accountant of the Company and a professor level senior accountant. Mr. Ma received a master's degree in industrial foreign trade and industrial accounting from Beihang University and a master's degree in management engineering from Northeastern University. Mr. Ma joined Anshan Iron and Steel Group Complex* in 1984, and served as the Chief Accountant of Angang Construction's Complex Construction and Installation Corporation and Anshan Yinzuo Group Company Limited, the Deputy Head of Fund Division of Finance Department of Angang Holding and the Deputy Head of Finance Department of ANSI.

Mr. Ren Ziping, aged 48, is the Chief Engineer of the Company and a professor level senior engineer. Mr. Ren graduated from Northeastern University with a doctoral degree majoring in iron and steel metallurgy. Mr. Ren joined Angang in 1990 and held various positions, including the manager of the Third Steelmaking Plant and manager of the Second Steelmaking Plant of Anshan Iron and Steel Group Complex*, Executive Deputy Director of the Technology Center of the Company, Director of the Science Development Department of Anshan Iron and Steel Group Complex* and Director of the Scientific Quality Department of Anshan Iron and Steel Group Complex*.

3. OTHER SENIOR MANAGEMENT MEMBERS *(continued)*

Mr. Liu Baoshan, aged 50, is the deputy general manager and senior mechanical engineer of the Company. Mr. Liu granted from Anshan Institute of Iron and Steel with a bachelor degree. Mr. Liu worked for Angang since 1988 and was successively the Deputy Factory Director for equipment of Medium-board Factory, Deputy Factory Director of Equipment section, Secretary of Party Committee and Secretary of Committee for Discipline Inspection of Measuring Instrument Factory, Deputy Supervisor of Equipment Department of Angang New Steel Group Limited (鞍鋼新鋼鐵公司), Deputy Supervisor of Equipment Department of Angang New Steel Company Limited (鞍鋼新軋鋼公司), Deputy Supervisor of Equipment Maintenance Department, Head of equipment section of the Company, Deputy Supervisor of Angang Supplies Procurement Department, Supervisor of Angang Supplies Procurement Department of Anshan Iron and Steel Group Complex*. Mr. Liu is concurrently the Vice-chairman of Shanxi Wuchan Group Import & Export Limited and a director of China Ordins Group Company Limited.

Ms. Zhang Lifen, aged 47, is the Deputy General Manager of the Company and a senior engineer. Ms. Zhang graduated from University of Science and Technology Beijing with a Master's degree in metallurgical material engineering. Ms. Zhang joined Anshan Iron and Steel Group Complex* in 1986 and has been the Plant Manager of Wire Rod Plant of Anshan Iron and Steel Group Complex* as well as the Deputy General Manager and the Assistant to the General Manager of the Company.

The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL BUSINESS

The Company is a major steel manufacturer in the PRC. Its principal business includes production and sale of products including hot rolled products, cold rolled products, medium and thick plates and other steel products. The domestic market share of the Company's hot rolled sheets, cold rolled sheets, galvanized sheets, silicon steel, medium and heavy plates, wire rods, heavy rails and seamless steel pipes are 4.5%, 5.89%, 3.61%, 12.58%, 6.26%, 0.83%, 14.87% and 1.6%, respectively.

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

Unit: RMB' million

	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease of operating revenue compared with the previous year *(%)*	Increase/ decrease in operating cost compared with previous year *(%)*	Increase/ decrease in gross profit margin compared with the previous year *(percentage points)*
Principal business by industries						
Steel pressing and processing	90,207	86,192	4.45	-2.17	4.49	-6.10
Principal business by products						
Hot rolled products	27,421	26,337	3.95	0.70	6.29	-5.05
Cold rolled products	36,472	33,446	8.30	-5.82	4.89	-9.36
Medium and thick plates	14,233	14,182	0.36	-5.16	-4.54	-0.65
Other steel products	8,129	8,018	1.37	4.63	13.86	-7.99

PRINCIPAL BUSINESS *(continued)*

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

Notes:

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

2) The decrease in operating revenue of cold rolled products was primarily owing to the drop of sales volume of products; the increase in operating cost was mainly due to the rise in prices of raw materials and fuels; the decrease in gross profit margin was mainly due to the fact that the increase in raw materials and fuel prices had outpaced the increase in product prices.

3) The decrease in operating revenue from, and operating cost of medium and thick plates was mainly due to the decrease in sales volume of products.

4) The increase in operating revenue of other steel products was primarily owing to the rise in product prices; the increase in operating cost was primarily owing to the increase in prices of raw materials; the decrease in gross profit margin was mainly due to the fact that the increase in raw materials and fuel prices had outpaced the increase in product prices.

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

Unit: RMB' million

	Operating Revenue	Increase/decrease in operating revenue compared with the previous year
Northeast China	34,264	1.83%
North China	10,685	-11.85%
East China	20,361	-3.85%
South China	14,547	-1.13%
Central south China	1,265	-18.70%
Northwest China	549	-44.88%
Southwest China	243	-37.69%
Export sales	8,509	8.67%
Total	90,423	-2.17%

PRINCIPAL BUSINESS *(continued)*

Explanation on the reasons for substantial changes in the profit composition, principal business and its structure as well as the profitability of principal operations during the reporting period as compared with the pervious reporting period

During the reporting period, there were no substantial changes in the profit composition, principal business and its structure as compared with the previous year.

Profitability of principal operations sharply decreased as compared with the previous reporting period, mainly due to the fact that the increase in raw materials and fuel prices outpaced the increase in steel product prices as well as the drop of both production and sales volumes and such other factors.

PROFIT DISTRIBUTION FOR THE REPORTING PERIOD

On 30 May 2011, the Company convened its 2010 annual general meeting in Anshan, at which the 2010 profit distribution plan was considered and approved. It was resolved to distribute a cash dividend of RMB1.5 per 10 shares based on the total share capital of 7,234,807,847 shares for year 2010. On 21 June 2011, the Company distributed cash dividends amounting to HK$195 million to holders of H shares. The applicable exchange rate was the average of the basic exchange rate of Renminbi and Hong Kong dollar announced by the Bank of China one calendar week prior to the holding of the general meeting, being HK$100 to RMB83.506. On 21 June 2011, the Company distributed cash dividends to holders of A shares, totaling RMB922 million. The cash dividends for 2010 distributed by the Company were RMB1,085 million in total.

SHARES HELD BY DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

As at 31 December 2011, effective interests in the Company's issued share capital held by Directors, Supervisors and senior management were as follows:

Name	Position	Gender	Age	Terms of appointment	Number of shares held as at 1 January 2011 *(Share)*	Number of shares held as at 31 December 2011 *(Share)*	Reason of Change
Zhang Xiaogang	Chairman	Male	58	From June 2009 to present	0	0	—
Yang Hua	Vice Chairman	Male	50	From June 2009 to present	0	0	—
Chen Ming	Vice Chairman General Manager	Male	51	From June 2009 to present From December 2010 to present	610	610	—
Yu Wanyuan	Director	Male	51	From June 2009 to present	16,317	16,317	—
Fu Jihui	Director, Secretary to the Board	Male	60	From June 2009 to present	8,540	8,540	—
Li Shijun	Independent Non-executive Director	Male	68	From June 2009 to present	0	0	—
Ma Guoqiang	Independent Non-executive Director	Male	58	From June 2009 to present	0	0	—
Kwong Chi Kit, Victor	Independent Non-executive Director	Male	45	From September 2009 to present	0	0	—
Wen Baoman	Chairman of the Supervisory Committee	Male	61	From June 2009 to present	0	0	—
Shan Mingyi	Supervisor	Male	59	From June 2009 to present	5,124	5,124	—
Bai Hai	Supervisor	Male	37	From May 2011 to present	0	0	—
Ma Lianyong	Chief Accountant	Male	50	From March 2002 to present	0	0	—
Ren Ziping	Chief Engineer	Male	48	From August 2001 to present	0	0	—
Liu Baoshan	Deputy General Manager	Male	50	From December 2011 to present	0	0	—
Zhang Lifen	Deputy General Manager	Female	47	From November 2009 to present	0	0	—

Notes: All the shares mentioned above are A shares of the Company. Such shares were held by the persons mentioned above in the capacity of family interest (held by his/her spouse), except for Mr. Fu Jihui (in the capacity of individual beneficial owner).

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

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were required to notify the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

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

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

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

3. Mr. Wen Baoman, Chairman of the Supervisory Committee of the Company, has served as the Deputy Secretary of Party Committee of Anshan Iron and Steel Group Complex* from May 2005 to December 2011.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Total remuneration received from the Company during the reporting period (Inclusive of tax) *(RMB0'000)*	Whether receiving remuneration from the shareholders of the Company or other associated entities
Zhang Xiaogang	Chairman	0	Yes
Yang Hua	Vice Chairman	49.0	No
Chen Ming	Vice Chairman, General Manager	43.9	No
Yu Wanyuan	Director	0	Yes
Fu Jihui	Director, Secretary to the Board	36.3	No
Li Shijun	Independent Non-executive Director	9.0	No
Ma Guoqiang	Independent Non-executive Director	9.0	No
Kwong Chi Kit, Victor	Independent Non-executive Director	9.0	No
Wen Baoman	Chairman of the Supervisory Committee	0	Yes
Shan Mingyi	Supervisor	36.9	No
Bai Hai	Supervisor	5.2	No. Served as Supervisor of the Company since 16 May 2011.
Ma Lianyong	Chief Accountant	36.6	No
Ren Ziping	Chief Engineer	8.1	Did not receive remuneration from shareholders of the Company during his tenure as Chief Engineer of the Company since 12 August 2011.
Liu Baoshan	Deputy General Manager	0	Did not receive remuneration from shareholders of the Company during his tenure as Deputy General Manager of the Company since 20 December 2011.
Zhang Lifen	Deputy General Manager	37.1	No
Total	—	280.1	—

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

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

On 16 May 2011, Mr. Xing Guibin, employee representative supervisor of the Company, resigned from the position of employee representative supervisor of the Company due to other job engagement.

On 16 May 2011, the labour union of the Company democratically elected Mr. Bai Hai as the employee representative supervisor of the fifth session of the Supervisory Committee of the Company.

On 12 August 2011, the 24th meeting of the fifth session of the Board of the Company approved to appoint Mr. Ren Ziping as the Chief Engineer of the Company.

On 20 December 2011, the 30th meeting of the fifth session of the Board of the Company approved to terminate Mr. Fu Wei's engagement as deputy general manager.

On 20 December 2011, the 30th meeting of the fifth session of the Board of the Company approved to appoint Mr. Liu Baoshan as the deputy general manager.

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLED COMPANIES AND COMPANIES WITH A PARTICIPATING INTEREST (PREPARED UNDER THE PRC ACCOUNTING STANDARDS)

No.	Name of controlled company or joint venture	Shareholding	Major products or services	Registered capital	Total assets as at 31 December 2011 *(RMB' million)*	Net profit for year 2011 *(RMB' million)*
1	Angang Steel Logistics (Wuhan) Company Limited ("Angang Wuhan")	100%	Production, processing, wholesale and retail business of steel and relevant products	RMB108 million	110	-1
2	Angang Cold Rolled Sheets (Putian) Co., Ltd. ("Angang Putian")	100%	Ferrous metal rolling process, production of steel rolling co-products and metallurgical parts, sales and processing of steel products and related services	RMB1,200 million	2,782	-14
3	Angang Steel Logistics (Hefei) Company Limited (鞍鋼鋼材配送(合肥)有限公司) (''Angang Hefei'')	100%	Production, processing, wholesale and retail sale of steel products and relevant products	RMB97.5 million	98	0.3
4	Guangzhou Angang Steel Product Processing Company Limited (廣州鞍鋼鋼材加工有限公司) (''Guangzhou Angang'')	51%	Production, processing, wholesale and retail sale of steel products and relevant products	RMB80 million	40	—
5	Angang Tiantie	50%	Steel rolling and processing; production, processing and sales of cold rollled sheets, galvanized sheets and colour coated sheets; metallurgy equipment technology advisory service, technological service (excluding intermediaries); import and export business	RMB3,700 million	8,334	-373
6	ANSC-TKS Galvanizing Co., Ltd. ("ANSC-TKS")	50%	Production of rolled hot dip galvanised steel products and alloyed steel plate and strip products, sale of self-produced products and provision of after-sale services	USD132 million	3,185	528

OPERATIONS AND RESULTS OF THE MAJOR CONTROLLED COMPANIES AND COMPANIES WITH A PARTICIPATING INTEREST (PREPARED UNDER THE PRC ACCOUNTING STANDARDS) *(continued)*

No.	Name of controlled company or joint venture	Shareholding	Major products or services	Registered capital	Total assets as at 31 December 2011 *(RMB' million)*	Net profit for year 2011 *(RMB' million)*
7	ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Co., Ltd. (''ANSC-Dachuan'')	50%	Processing of steel products, and manufacturing, distribution and sale of structural steel	RMB380 million	1,634	18
8	Changchun FAM Steel Processing and Distribution Co., Ltd. ("Changchun FAM")	50%	Processing and production of steel products and related services	RMB90 million	246	29
9	ANSC-TKS Changchun Steel Logistics Co., Ltd. .("TKAS-SSC")	50%	Production, processing, sale services of steel products, steel service products and other related commercial activities	USD12 million	419	25

In particular, the operation status of companies which affected the net profit of the Company by more than 10% for 2011 are as follows:

Name or abbreviation of the company	Operating revenue for 2011 *(RMB' million)*	Operating profit for 2011 *(RMB' million)*
ANSC-TKS	5,002	582
ANSC-Dachuan	2,504	25
Changchun FAM	600	33
TKAS-SSC	1,171	28

MAJOR SUPPLIERS AND CUSTOMERS

The total amount of purchase from the Company's five largest suppliers was RMB43,404 million, representing 55.80% of the Company's total purchase for the year, 24.27% of which was attributable to the Company's largest supplier. The sales to the Company's five largest customers aggregated to RMB20,511 million, representing 22.74% of the Company's total turnover for the year, of which the largest customer accounted for 8.24%.

Except for those disclosed in this annual report, none of the Directors, Supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold 5% or more of the shares of the Company) had any interest in any of the aforementioned suppliers or customers of the Company during 2011.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Mr. Kwong Chi Kit, Victor, an Independent Non-executive Director of the Company who has been a Director since 18 September 2009, entered into a service contract with the Company starting from 18 September 2009. Mr. Bai Hai, an employee representative supervisor of the Company, served as Supervisor of the Company since 16 May 2011 and entered into a service contract with the Company, effective from 16 May 2011. Other Directors and Supervisors have entered into service contracts with a term of three years starting from 12 June 2009. All Directors and Supervisors' contracts of the Company shall expire upon the election of Directors of the sixth session of the Board at the general meeting of the Company. No Director or Supervisor has entered into any service contract with the Company which may be terminated by the Company within one year and compensation shall be paid other than statutory compensation.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

In 2011, none of the Directors or Supervisors of the Company had any material interests in any contracts in which the Company, or the holding companies or any of its subsidiaries were involved.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Hong Kong Listing Rules) has an interest in any business which competes or may compete with the business in which the Company; or the holding companies or any of its Subsidiaries are engaged.

FIXED ASSETS

Changes in the fixed assets during the year are set out in note 12 to financial statements prepared in accordance with IFRSs on pages 246 to 247 of this annual report.

OPERATING RESULTS

The results of the Company for the year ended 31 December 2011 and its financial position as at that date are set out in the financial statements prepared in accordance with IFRSs included in this annual report.

SHARE CAPITAL

Changes in share capital during the year are set out in note 26 to the financial statements prepared in accordance with IFRSs on pages 258 to 259 of this annual report.

RESERVES

Changes in the reserves during the year are set out in note 28 to financial statements prepared in accordance with IFRSs on pages 260 to 261 of this annual report.

EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 34 to financial statements prepared in accordance with IFRSs on page 270 of this annual report.

CONTINUING CONNECTED TRANSACTIONS

Details of continuing connected transactions for the year are set out on pages 75 to 82 of this annual report.

FIVE YEARS SUMMARY

A summary of the results and consolidated statement of financial position of the Company for five years are set out on page 278 of this annual report.

CHAPTER 13 DISCLOSURE

The Directors confirmed that there was no matter occurring in 2011 which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor did the Company sign loan agreements imposing specific performance obligations on the controlling shareholders.

SUFFICIENT PUBLIC SHAREHOLDINGS

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

AUDITORS

RSM Nelson Wheeler (Certified Public Accountants in Hong Kong) and RSM China Certified Public Accountants (Special General Partnership) (Registered Accountants in the PRC) were appointed as the Company's international and domestic auditors respectively in 2011.

The appointment of RSM China Certified Public Accountants (Special General Partnership) as the Company's auditor for 2012 will be proposed at the annual general meeting of 2011 to be held on 29 May 2012.

WORKING REPORT OF THE BOARD

The Board meetings during the reporting period

1. The fifth session of the Board of the Company convened the 18th meeting on 23 February 2011, at which the following proposals were considered and approved:

   Proposal 1: the proposal approving the Company's investment in the Phase 2 construction of Angang Shenyang Steel Product Processing and Distribution Company Limited.

   Proposal 2: the proposal approving the incorporation of 48 MD land parcel owned by the Company in Wuhan Economic Technological Development Zone into Angang Steel Logistics (Wuhan) Company Limited at the valuation price.

2. The fifth session of the Board of the Company convened the 19th meeting on 3 March 2011, at which the proposal relating to the Company's investment in Anshan Falan Package Material Co., Ltd. was considered and approved.

WORKING REPORT OF THE BOARD *(continued)*

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

3. The fifth session of the Board of the Company convened the 20th meeting on 29 March 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 30 March 2011.

4. The fifth session of the Board of the Company convened the 21st meeting on 27 April 2011, at which the first quarterly report of the Company for 2011 and its summary were considered and approved.

5. The fifth session of the Board of the Company convened the 22nd meeting on 6 May 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 7 May 2011.

6. The fifth session of the Board of the Company convened the 23rd meeting on 10 May 2011, at which the proposal relating to the Company's participating interests in China Shipbuilding Industry Material Trade Group Bayuquan Co., Ltd. was considered and approved.

7. The fifth session of the Board of the Company convened the 24th meeting on 12 August 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 13 August 2011.

8. The fifth session of the Board of the Company convened the 25th meeting on 22 August 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 23 August 2011.

9. The fifth session of the Board of the Company convened the 26th meeting on 26 September 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 27 September 2011.

10. The fifth session of the Board of the Company convened the 27th meeting on 11 October 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 12 October 2011.

11. The fifth session of the Board of the Company convened the 28th meeting on 20 October 2011, at which the proposal relating to the Company's joint investment in Angang Steel Product Processing and Distribution (Guangzhou) Company Limited (鞍鋼鋼材加工配送(廣州)有限公司) with Guangzhou Haige Automobile Processing Parts Co., Ltd (廣州海歌汽車加工部件有限公司) was considered and approved.

12. The fifth session of the Board of the Company convened the 29th meeting on 28 October 2011, at which the third quarterly report of the Company for 2011 and its summary were considered and approved.

WORKING REPORT OF THE BOARD *(continued)*

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

13. The fifth session of the Board of the Company convened the 30th meeting on 20 December 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 21 December 2011.

14. The fifth session of the Board of the Company convened the 31st meeting on 30 December 2011, announcement of resolutions in respect of which was published in China Securities Journal and Securities Times on 31 December 2011.

PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE UNDER THE BOARD

For performance of duties by the audit committee, please refer to the content concerning the audit committee in Corporate Governance Report as set out in pages 69 to 71 of this report.

PERFORMANCE OF DUTIES OF REMUNERATION AND EVALUATION COMMITTEE UNDER THE BOARD

Please refer to the contents concerning Remuneration and Evaluation Committee in Corporate Governance Report as set out in page 67 of this report for the fulfillment of duties by the Remuneration and Evaluation Committee.

IMPLEMENTATION OF THE MANAGEMENT SYSTEM ON INSIDER INFORMATION HOLDERS (“內幕信息知情人管理制度”)

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

By order of the Board
Zhang Xiaogang
Chairman

27 March 2012

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

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

1. The fifth Supervisory Committee of the Company convened the 8th meeting on 29 March 2011, at which the following resolutions were considered and approved:

   (1) To approve the Company's 2010 Annual Report and its summary;

   (2) To approve the Work Report of the Supervisory Committee of the Company for 2010;

   (3) To approve the Proposed Remuneration for Supervisors of the Company for 2010;

   (4) To approve the Self-evaluation Report on Internal Control of the Company for 2010.

2. The fifth Supervisory Committee of the Company convened the 9th meeting on 27 April 2011, at which the 2011 First Quarterly Report of the Company and its summary were considered and approved.

3. The fifth Supervisory Committee of the Company convened the 10th meeting on 22 August 2011, at which the 2011 Interim Report of the Company and its summary were considered and approved.

4. The fifth Supervisory Committee of the Company convened the 11th meeting on 26 September 2011, at which the proposal relating to the adjustments to the term of depreciation of fixed assets of the Company was considered and approved.

5. The fifth Supervisory Committee of the Company convened the 12th meeting on 28 October 2011, at which the 2011 Third Quarterly Report of the Company and its summary were considered and approved.

6. The fifth Supervisory Committee of the Company convened the 13th meeting on 23 December 2011, at which the following resolutions were considered and approved:

   (1) to approve Mr. Wen Baoman's resignation from the positions of Supervisor and the Chairman of the Supervisory Committee of the Company;

   This proposal shall become effective upon election of a new supervisor of the Company at the general meeting of the Company.

   (2) to elect Mr. Su Wensheng as a candidate for the supervisor of the Company.

(II) In 2011, the Supervisory Committee of the Company also monitored the Company's operations to ensure compliance with the relevant laws and regulations, such as the Company Law, and the articles of association of the Company. It examined the connected transactions entered into between the Company and Anshan Iron and Steel Group Complex* and reviewed the relevant information in order to ensure the fairness of such transactions.

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

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

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

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

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

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

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

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

27 March 2012

1. BUSINESS REVIEW

In 2011, affected by the ever-rising raw materials prices and the continuous drop of prices for steel products, the Company recorded loss in performance. Facing various adversities, all staff acted in concert to put the principle of "ensuring economical operation, rationalizing production capacity, improving all-round indicators as well as reducing the costs and increasing the efficiency" into practice, and overcame various adverse factors with the best endeavours, striving to minimize loss.

(1) Operating results

Based on the IFRSs, the Group recorded the annual loss attributable to owners of the Company of RMB2,163 million for the year ended 31 December 2011 (an annual profit attributable to owners of the Company of RMB2,054 million for the year ended 31 December 2010), and its basic loss per share was RMB0.299.

Based on the PRC Accounting Standards, the Group recorded a net loss attributable to the owners of the Company of RMB2,146 million for the year ended 31 December 2011 (a net profit attributable to the owners of the Company of RMB2,039 million for the year ended 31 December 2010), and its basic loss per share was RMB0.297.

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

Prepared under IFRSs *Unit: RMB' million*

Item	**2011**	2010	Change *(%)*	Reasons for changes
Total assets	**104,915**	107,119	-2.06	A
Non-current liabilities	**13,821**	13,308	3.85	B
Equity attributable to owners of the Company	**50,739**	54,052	-6.13	C
Turnover	**90,207**	92,212	-2.17	D
Gross profit	**880**	6,518	-86.50	D
Profit for the year attributable to owners of the Company	**-2,163**	2,054	-205.31	D
Net increase in cash and cash equivalents	**-1,310**	1,409	-192.97	E

1. BUSINESS REVIEW *(CONTINUED)*

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

Notes:

A. The decrease of RMB2,204 million in total assets as compared with the end of the previous year was mainly attributable to (1) the Company's loss for the year; and (2) the payment of dividends for 2010.

B. The increase of RMB513 million in non-current liabilities as compared with the end of the previous year was mainly attributable to (1) the increase of the Company's long-term borrowings; and (2) the increase in assets-related government subsidies for the year received by the Company.

C. The decrease of RMB3,313 million in equity attributable to owners of the Company as compared with the end of the previous year was attributable to (1) the decrease of RMB3,225 million in retained profits (in which, the loss attributable to owners of the Company was RMB2,163 million for the year; the payment of the dividends for 2010 was RMB1,085 million, and the transfer of reserve was RMB23 million); and (2) the decrease of RMB88 million in reserves (in which, the change in fair value of available-for-sale financial assets has decreased by RMB65 million and the utilized safety production expense has decreased by RMB23 million).

D. The decrease of turnover, gross profit and profit for the year attributable to owners of the Company was mainly attributable to a number of factors, including the increase in raw materials and fuel prices has substantially outpaced the increase in the price of steel products, and a drop in capacity and sales, especially when the price of steel products continued to fall in the fourth quarter. Besides, major raw materials and fuel prices remain high, resulting in an annual loss of the Company.

E. The net increase in deposits with banks, cash and cash equivalents has dropped by RMB2,719 million as compared with the previous year, which was mainly attributable to (1) a decrease of RMB4,432 million in net cash inflow from operating activities as compared with the previous year arising from the decrease in cash received from sale of goods or rendering of services for the year; (2) an increase of RMB794 million in net cash outflow from investing activities as compared with the previous year due to an increase in the acquisition of fixed assets and expenditures of construction in progress; and (3) the increase of RMB2,507 million in net cash inflow from financing activities as compared with the previous year due to the lesser cash repayments on borrowings in the year.

1. BUSINESS REVIEW *(CONTINUED)*

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

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

Item of Balance Sheet	31 December 2011 Amount	31 December 2011 As a percentage in total assets %	31 December 2010 Amount	31 December 2010 As a percentage in total assets %	Increase/ decrease of percentage in total assets as at the end of the year as compared with the end of the previous year *(percentage points)*
Cash at banks and on hand	**2,341**	**2.27**	3,651	3.47	-1.20
Bills receivable	**5,914**	**5.74**	3,703	3.52	2.22
Prepayments	**3,860**	**3.75**	8,380	7.97	-4.22
Fixed assets	**53,566**	**52.01**	57,267	54.47	-2.46
Construction in progress	**9,136**	**8.87**	5,277	5.02	3.85
Advances from customers	**4,396**	**4.27**	6,157	5.86	-1.59
Non-current liabilities due within 1 year	**4,201**	**4.08**	5,961	5.67	-1.59
Other current liabilities	**6,005**	**5.83**	3,023	2.88	2.95
Undistributed profit	**8,441**	**8.20**	11,672	11.10	-2.90

1. BUSINESS REVIEW *(CONTINUED)*

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

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

1) The decrease of RMB1,310 million in cash at banks and on hand as compared with the end of the previous year was mainly attributable to (1) the net cash inflow of RMB4,663 million from the Company's operating activities; (2) the net cash outflow of RMB5,546 million from investing activities such as the acquisition of fixed assets, intangible assets and other long-term assets; and (3) the net cash outflow of RMB427 million from financing activities such as repayment of debts.

2) The increase of RMB2,211 million in bills receivable as compared with the end of the previous year was mainly attributable to the increase in the Company's efforts in the issuance of acceptance bills during the year and the decrease in endorsement of bills.

3) The decrease of RMB4,520 million in prepayments as compared with the end of the previous year was mainly attributable to (1) the fact that payment for imported equipment was written off upon delivery and the decrease in prepayment for imported equipment; (2) the decrease in prepayment for procurement of raw materials and fuel; (3) the decrease in construction prepayment as the construction proceeded.

4) The decrease of RMB3,701 million in fixed assets as compared with the end of the previous year was mainly attributable to (1) the decrease of RMB6,887 million in fixed assets as a result of the provisions made for depreciation this year; (2) the increase of RMB3,222 million in fixed assets as a result of the transfer of construction in progress into fixed assets.

5) The increase of RMB3,859 million in construction in progress as compared with the end of the previous year was mainly attributable to the increase in expenses from projects such as the phase IV renovation plant and construction of auxiliary facilities, chemical tar renovation, Putian project and Tian Tie Project.

1. BUSINESS REVIEW *(CONTINUED)*

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

Notes: (Continued)

6) The decrease of RMB1,761 million in advances from customers as compared with the end of the previous year was mainly attributable to the decrease in sales volume of steel products given the sluggish steel product market, which in turn led to the decrease in payment from customers and the decrease in advances from customers during settlement of sales.

7) The decrease of RMB1,760 million in non-current liabilities due within 1 year as compared with the end of the previous year was mainly attributable to the Company's repayment of long-term borrowings that are due within one year.

8) The increase of RMB2,982 million in other current liabilities as compared with the end of the previous year was mainly attributable to an increase of RMB3,000 million in the issuance of short-term debentures as compared with previous year to RMB6,000 million during the year by the Company.

9) The decrease of RMB3,231 million in undistributed profit as compared with the end of the previous year was mainly attributable to (1) the loss of RMB2,146 million in loss attributable to shareholders of the Company for the year; and (2) the payment of RMB1,085 million as dividends for 2010.

1. BUSINESS REVIEW *(CONTINUED)*

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

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

Items of Income Statement	2011	2010	Increase (+)/ decrease (-) from the previous year %
Selling expenses	**1,549**	1,622	-4.50
Administrative expenses	**3,339**	3,441	-2.96
Financial expenses	**1,470**	1,249	17.69
Income tax expense	**-949**	408	-332.60

Notes:

1) The decrease of RMB73 million in selling expenses as compared with the previous year was mainly attributable to (1) the decrease in sales volume of products; and (2) the decrease in consigned sale handling charge.

2) The decrease of RMB102 million in administrative expenses as compared with the previous year was primarily attributable to the decrease in employee benefits, assistance fees, costs for greenery purposes and warehouse operation fees.

3) The increase of RMB221 million in financial expenses as compared with the previous year was primarily attributable to (1) the increase in the amount of discounted bills and discounted interest; (2) the increase in interest expenses due to the increase in the total financing amount and interest rate in spite of the modest decrease in balance of bank borrowings, due to the fact that an additional RMB3,000 million short-term debentures were issued; (3) the increase in underwriting fees arising from the issuance of short-term debentures.

4) The decrease of RMB1,357 million in income tax expense as compared with the previous year was primarily attributable to the provisions made for deferred tax for losses incurred.

1. BUSINESS REVIEW *(CONTINUED)*

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

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

Item	2011	2010	Main reason for change
Net cash flows from operating activities	**4,663**	9,026	The decrease in net cash inflow from operating activities as compared with the previous year was mainly attributable to the decrease in cash from sales of products and provision of labour during the year.
Net cash flows from investing activities	**-5,546**	-4,750	The increase in net cash outflow from investing activities as compared with the previous year was mainly due to the increased acquisitions of fixed assets and expenses of construction in progress.
Net cash flows from financing activities	**-427**	-2,867	The decrease in net cash outflow from financing activities was mainly due to the lesser cash repayment on borrowings during the year.

1. BUSINESS REVIEW *(CONTINUED)*

(5) Items related to fair value measurement

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

Item	Balance at the beginning of the period	Gains or losses arising from changes in fair value for the period	Gains or losses arising from changes in fair value reported in equity	Impairment made for the period	Balance at the end of the period
Financial assets					
Including: 1. Financial assets at fair value through profit or loss					
2. Available-for-sale financial assets	179	0	-65	0	92
Subtotal of financial assets	179	0	-65	0	92
Financial liabilities					
Total	179	0	-65	0	92

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

The Company has no financial asset in foreign currency.

1. BUSINESS REVIEW *(CONTINUED)*

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

As of 31 December 2011, the Company had 28,816 employees, of which 20,671 were production staff, 279 were sales staff, 3,194 were technicians, 271 were accounting staff and 1,855 were administration personnel. Of the Company's employees, 6,540 held bachelor or higher degrees, representing 22.7% of the total number of the employees; 6,905 held diplomas, representing 24% of the total number of the employees and 12,014 held the certificate of secondary education, representing 41.7% of the total number of the employees.

In 2011, 30,068 employees attended and completed centralized training course. 148 member counts of senior management attended training for, among others, political theory knowledge, strategy management, and 8,098 member counts of management and professional technology staff attended trainings for management knowledge, computer, English, expertise and courses in institutes and colleges. 464 high-skilled talent counts attended training for innovation ability. 4,367 production staff counts attended training for areas such as technical grades, computer and equipment inspection. 8,823 employee counts attended training for specialized operation security qualifications, 3,948 employee counts attended training for team and group security management knowledge and 4,220 employee counts attended other trainings. 23,647 employees completed training for on-the-job knowledge and operation techniques. 62 employees attended entrusted training for on-the-job studying for master's degree. 58 management and expertise counts attended training courses in colleges. As a result of the trainings, the overall quality of employees had been improved, which equipped the Company with competent human resources for the achievement of production and operation targets.

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

2. INVESTMENT OF THE COMPANY

(1) External investment:

The Company's external investment for 2011 aggregated to RMB1,122.55 million, representing an increase of 36.07% over the total external investment of RMB825 million last year.

Actual breakdown of investment is as follows: RMB400 million for Angang Putian, RMB443 million for Angang Tiantie, RMB97.5 million for Angang Hefei, RMB48 million for Angang Wuhan, RMB20 million for Angang Guangzhou, RMB11.55 million for Angang Shenyang Steel Product Processing and Distribution Company Limited, RMB21 million for Anshan Falan Package Material Co., Ltd., RMB62.5 million for Dalian Shipbuilding Industry Group Shipping Process Co., Ltd., RMB10 million for China Shipbuilding Industry Material Trade Group Bayuquan Co., Ltd. and RMB9 million for Dalian Shipbuilding Industry Group and Steel Industry Company Limited (大連船舶重工集團鋼業有限公司).

(2) Major investment not funded by proceeds and the progress thereof:

Unit: RMB' million

Project name	Project budget amount	Project progress	Project proceeds
High performance cold rolling silicon steel production line	**3,400**	99%	-237
Wire production line renovation	**634**	94%	-116
Total	**4,034**	—	-353

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

As of 31 December 2011, the Group had long-term loans of RMB13,135 million (exclusive of loans due within one year) with interest rates ranging from 5.13% to 7.87% per annum. Under the terms of 3 to 25 years, the loans will expire during the period from 2013 to 2030. The loans are mainly used for replenishing working capital and project capital. The Group's long-term loans due within one year amounted to RMB4,201 million. With good credibility, the Group was reviewed and rated by the rating committee of China Chengxin International Credit Rating Co., Ltd. with a long-term credit rating of "AAA" and with its rating outlook credited as "stable". In 2011, nine financial institutes which had strategic cooperation with the Company had given credits to the Company, so had the several financial institutes which had entered into Anshan region recently. Therefore, the Group is capable of repaying the debts when they become due.

As of 31 December 2011, the Group's cash and cash equivalents decreased by RMB1,310 million to RMB2,341 million from RMB3,651 million in the previous year, which was mainly attributable to (1) net cash inflow from operating activities of RMB3,030 million; (2) net cash outflow from investing activities of RMB5,589 million; (3) net cash inflow from financing activities of RMB1,249 million.

At the end of 2011, the Group's total assets less current liabilities amounted to RMB66,114 million, compared with RMB68,637 million at the end of 2010.

The shareholders' equity of the Group amounted to RMB52,293 million at the end of 2011, compared with RMB55,329 million at the end of 2010.

4. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2011, the Group had capital commitments of RMB3,654 million, which was primarily attributable to the construction and renovation contracts entered into but not performed or performed partially and the external investment contracts entered into but not performed or performed partially.

As at 31 December 2011, the Group did not have any contingent liabilities.

5. FOREIGN EXCHANGE RISK

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

6. GEARING RATIO

Under the IFRSs, the ratio of the Group's shareholders' equity to liabilities in 2011 was 0.99 times (2010: 1.07 times).

7. CHANGES IN THE COMPANY'S ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OR RECTIFICATION OF MATERIAL ACCOUNTING ERRORS FOR 2011

Relevant department of the Group has re-audited the actual useful lives of each class of fixed assets based on the actual condition thereof, and decided to adjust the depreciation period of its fixed assets since 1 October 2011 upon the approval obtained at the 2011 first EGM of the Company, details of which are as follows:

Class of Fixed Assets	Before Change		After Change	
	Estimated useful life *(years)*	Depreciation rate per year *(%)*	Estimated useful life *(years)*	Depreciation rate per year *(%)*
Property	20	4.75	30	3.17
Buildings	20	4.75	30	3.17
Conductor facilities	15	6.33	15	6.33
Machinery facilities	10	9.50	15	6.33
Power equipment	11	8.64	10	9.50
Transportation facilities	10	9.50	10	9.50
Tools and apparatus	7	13.57	5	19.00
Management tools	5	19.00	5	19.00

This change of accounting estimates posed no effect on the business scope of the Group, but led to a decrease of RMB491 million in the depreciation of fixed assets and an increase of RMB368 million in the owner's interest and net profit of the Company in the fourth quarter of 2011.

1. STRUCTURE OF CORPORATE GOVERNANCE OF THE COMPANY

In strict compliance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Company has regulated its operations and established a sound corporate governance system. Four special committees have been set up by the Board of the Company with independent non-executive directors acting as conveners of the Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee, and accounting for the majority of such committees' members.

2. DISCHARGE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Attendance of the independent non-executive Directors at the Board meetings of the Company in 2011 are set out as follows:

Name of independent non-executive Director	**Required attendance at the Board meetings** *(number of times)*	**Attendance in person** *(number of times)*	**Attendance by proxy** *(number of times)*	**Absence** *(number of times)*	**Remark**
Li Shijun	14	14	0	0	—
Ma Guoqiang	14	14	0	0	—
Kwong Chi Kit, Victor	14	14	0	0	—

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

4. APPRAISAL AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT

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

5. CORPORATE GOVERNANCE REPORT

(1) Corporate Governance Practice

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

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

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

(2) Securities Transactions of Directors

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

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

(3) Independent Non-executive Directors

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

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

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

(4) The Board and its Special Committees

① Composition of the Board

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

The Board of the Company establishes 4 special committees, which are all comprised of directors. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Evaluation Committee are independent non-executive directors who are also the conveners. There is at least one independent non-executive director in the Audit Committee who possesses professional qualifications in accounting. Each of the special committees reports to the Board and submits proposals to the Board for consideration and approval. Members of the Board of the Company and their attendance in 2011 are as follows:

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

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

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

② Duties and Operation of the Board

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

i. to convene and report at the general meetings;

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

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

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

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

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

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

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

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

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

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

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

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

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

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

In 2011, the Board of the Company held a total of 14 Board meetings.

③ Remuneration and Evaluation Committee

The members of the Remuneration and Evaluation Committee of the Company and their attendance in 2011 are as follows:

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

Main duties of the Remuneration and Evaluation Committee are:

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

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

In 2011, the Remuneration and Evaluation Committee of the Company held 1 meeting which mainly assessed the performance of the directors and senior management personnel of the Company during 2010 and reviewed their remunerations during 2010, and submitted the same to the Board for consideration.

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

④ Nomination Committee *(Continued)*

The members of the Nomination Committee of the Company and their attendance in 2011 are as follows:

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

Main duties of the Nomination Committee are:

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

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

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

In 2011, the Nomination Committee of the Company held 2 meetings to nominate the Chief Engineer and Deputy General Manager of the Company in accordance with the qualification requirements and the relevant laws and regulations and the articles of association of the Company and submitted the same for the consideration by the Board.

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

⑤ Audit Committee

The members of the Audit Committee of the Company and their attendance in 2011 are as follows:

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

Main duties of the Audit Committee are:

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

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

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

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

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

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

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

⑤ Audit Committee *(Continued)*

In 2011, the Audit Committee of the Company held a total of 5 meetings. During the meetings, the Audit Committee mainly reviewed the quarterly, interim and annual financial statements and financial information set out in the quarterly, interim and annual reports of the Company, reviewed matters relating to adjustments to the term for depreciation of fixed assets of the Company as well as the internal control system of the Company, and made recommendations in relation to the engagement of external auditors.

The Audit Committee and the management of the Company have jointly inspected the Company's accounting policy and have discussed on the issues in relation to the auditing, internal control and financial statements of the Company, including a review of the audited financial statements for the year ended 31 December 2011.

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

- Opinions after reviewing the Financial Report for 2011

  The Company's financial report for 2011 was prepared based on the requirements of the Accounting Standard for Business Enterprises; expenditures were reasonable; revenues, expenses and profits were recognized truly and accurately; relevant provisions were made as specified by the laws, regulations and relevant systems, reflecting the Company's financial positions, operating results and cash flow in a true, accurate and complete manner; it was approved to be submitted to the Board of the Company for consideration.

- Opinions on the Audit Work by Accountants for 2011

  RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler Certified Public Accountants performed their duties during the auditing of the Company's financial statements for 2011 in accordance with relevant laws and regulations of the PRC and Hong Kong and in compliance with professional ethics of accountants, and expressed their opinion on the Company's financial statements, enabling the Company to satisfy the requirements from the domestic and overseas regulatory institutions.

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

⑤ Audit Committee *(Continued)*

- Opinions on the Appointment of RSM China Certified Public Accountants (Special General Partnership) as Auditor of the Company for 2012

  The Board is proposed to appoint RSM China Certified Public Accountants (Special General Partnership) as auditor of the Company for 2012 for a term from the close of 2011 AGM to the time of convening of annual general meeting for 2012.

(5) Chairman and General Manager

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

Duties of the Chairman:

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

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

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

iv. to exercise other powers conferred by the Board.

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

(5) Chairman and General Manager *(Continued)*

Duties of the General Manager:

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

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

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

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

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

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

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

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

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

(6) Auditors' Remuneration

RSM Nelson Wheeler Certified Public Accountants and RSM China Certified Public Accountants (Special General Partnership) were appointed at the 2010 annual general meeting of the Company as the international and domestic auditors of the Company, respectively, for the year 2011. The remuneration of the Company's auditors for 2011 amounted to RMB6.1 million. The Company reimbursed the auditors out of pocket expenses arising from auditing. RSM China Certified Public Accountants (Special General Partnership) and RSM Nelson Wheeler Certified Public Accountants had provided auditing services to the Company for four consecutive years.

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

(7) Internal control

In strict compliance with the requirements under relevant laws, regulations and internal rules such as the Company Law and the Securities Law, and with reference to regulatory documents including the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Rules for Corporate Governance of Listed Companies, the Guidance for Internal Control of Listed Companies of the Shenzhen Stock Exchange and the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》) (the "Basic Standards"), the Board of the Company and the Audit Committee under it have gradually established and optimized various internal control systems through strengthening and regulating its corporate internal control with its own features incorporated whilst putting them into practice consistently.

The Board of the Company shall commit itself to establishing a comprehensive and effective internal control system; the Supervisory Committee shall supervise the performance of the Board in respect the establishment and implementation of internal control, and the managers shall organize and be in charge of the daily operation of the Company's internal control.

The objectives of the internal control of the Company are to reasonably ensure the legal compliance of its operation and management, asset security, completeness and truthfulness of financial report and relevant information of the Company, and to step up the efficiency and performance of its operation and management as well as facilitating the strategic development of the Company. As internal control is subject to inherent limitation, the above objectives could only be reasonably assured.

During the reporting period, having adhered to the Basic Standards and the Assessment Guidelines for Enterprise Internal Control jointly promulgated by the five ministries and committees including the Ministry of Finance of the People's Republic of China, while integrating its own internal control system and administrative measures on assessment, the Audit Committee under the Board of the Company conducted an assessment on the constitution of internal control of the Company and the operational efficiency thereof as of 31 December 2011, based on the daily supervision and designated supervision of internal control. The resources for accounting and financial reporting of the Company, the qualifications and experiences of employees are sufficient, and the Company had provided adequate training budget for the employees to receive post-trainings each year according to the Administrative Procedures for Education and Training (《教育培訓管理辦法》).

5. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

(7) Internal control *(Continued)*

The Board is of the view that, during the reporting period, the Company has set up and effectively implement internal control on business and matters which are subject to assessment, and found no material defects thereof, thus achieving its objectives of internal control. During the period from the record date of the assessment report on internal control to the date of issue of such report, there were no significant change in internal control that would cause material effect on the conclusion of the assessment. We are aware of the fact that internal control shall be complementary to, among others, the operating scale, business scope, competitiveness and risk level of the Company and shall be adjusted timely in line with the changing conditions. In 2012, through pressing ahead with continuous optimization of the internal control system, regulating the implementation thereof, and strengthening supervision and inspection on internal control, the Company will be poised for a healthy and sustainable development.

RSM China Certified Public Accountants (Special General Partnership) has audited the internal control of the financial report of the Company in respect of its effectiveness, and is of the opinion that Angang Steel Company Limited has maintained effective internal control on the financial report in all material aspects in accordance with the Basic Standards and the relevant regulations.

(8) Connected Transactions and Peer Competitions

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

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

1. MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration in 2011.

2. EQUITY IN OTHER LISTED COMPANIES HELD BY THE COMPANY

Unit: RMB' million

Stock Code	Abbreviation	Initial investment amount	Percentage in the company's equity	Book value at the end of the reporting period	Loss or gain during the reporting period	Change in owner's interest during the reporting period	Available	Source of shares
600961	Zhuzhou Group (株冶集團)	81	1.9%	92	0	-65	Available-for-sale financial assets	Subscription of shares
Total	—	81	—	92	0	-65	—	—

3. ACQUISITION AND DISPOSAL OF ASSETS

The Company had no material acquisition and disposal of assets in 2011.

4. MATERIAL CONNECTED TRANSACTIONS

(1) Continuing connected transactions

In 2011, the Group purchased a portion of its raw materials, energy and services necessary for production from Anshan Iron & Steel Group Complex* and its subsidiaries, and sold some of its products to Anshan Iron & Steel Group Complex* and its subsidiaries. The transactions and prices were implemented in accordance with the supply of raw materials and service agreements entered into between the parties.

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

Item	Pricing principle	Price *(RMB)*	Amount *(RMB' million)*	As a percentage of the contractual value of similar transactions *(%)*
Iron concentrate	Not higher than the average import price of domestic iron concentrate reported to the PRC customs in the preceding half-year period and the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the preceding half year. For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/ tonne. Anshan Iron & Steel Group Complex* has undertaken to give a discount equal to 5% of the average import price of domestic iron concentrate reported to the PRC customs in the preceding half-year period on the maximum price determined.	RMB1,067/tonne	7,848	31.27
Pellets	Based on the average price of pellets purchased by the Company from independent third parties in the preceding half-year period. For every 1 percentage point of increase or decrease in the grade of pellets, the price will be increased or decreased by RMB10/tonne.	RMB1,132/tonne	6,877	100.00
Sinter ore	The price of iron concentrate plus processing cost in the preceding half-year period and 10% gross profit margin. (The processing cost of which is not higher than that of similar products produced by the Company)	RMB1,126/tonne	2,932	100.00

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

Item	Pricing principle	Price *(RMB)*	Amount *(RMB' million)*	As a percentage of the contractual value of similar transactions *(%)*
Scrap steel	Market prices	—	311	32.42
Billets		—	184	99.59
Sub-total	—	—	18,152	50.35
Electricity	State price	RMB0.52//kW	1,656	29.97
Water		RMB3.25/tonne	86	36.38
Steam	Market prices	RMB44.36/GJ	30	100.00
Sub-total	—	—	1,772	30.60
Lime stone	Not higher than the selling prices offered by relevant members of Anshan Iron & Steel Group Complex* to independent third parties	RMB53.07/tonne	142	73.06
Lime powder		RMB384.90/tonne	808	86.24
Refractory materials		—	36	2.20
Other ancillary materials		—	201	3.70
Spare parts and tools		—	408	12.82
Sub-total	—	—	1,595	14.02
Total	—	—	21,519	—

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

Item	Pricing principle	Amount *(RMB' million)*	As a percentage of the contractual value of similar transactions *(%)*
Railway transportation	State price	646	53.35
Road transportation	Market prices	515	85.24
Agency services: Import of raw materials, equipment, components and ancillary materials Product export Domestic sales of products	1.5% as commission (not more than the commissions levied by the major State import and export companies of China) or free of charge	188	100.00
Repair and maintenance of equipment	Market prices	1,355	71.35
Design and engineering services		1,992	34.41
Construction project agency and management services	Free of charge	0	—
Education facilities, vocational education, on-the-job training, translation services	Market prices	6	36.92
Company vehicle services		1	100.00
Charges for arrangement of business and meeting expenses		3	48.89
Greening services	Expenses of labour, materials and management were paid based on market prices	54	100.00
Security service		49	79.27

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

Item	Pricing principle	Amount	As a percentage of the contractual value of similar transactions
		(RMB' million)	*(%)*
Newspaper and other publications	State price	2	31.19
Telecommunication business and services, information system	State price or depreciation cost plus maintenance costs	73	83.26
Environmental protection and security inspection services	State price	7	82.88
Supply of heat	State price	2	2.78
Production coordination and maintenance	Expenses of labour, materials and management were paid based on market prices	1,207	74.75
Life assistance and maintenance		190	74.4
Processing with supplied materials	Processing cost plus gross profit margin of no more than 5%	—	—
Total	—	6,290	52.94
Interest on fund for settlement	State price	12	42.69
Loans and discounted interest	State price	280	17.19
Entrusted loan interest	Not higher than the interest provided to the Group for borrowings from commercial banks during the same period	21	100.00

Note: In which, for the twelve months ended 31 December 2011, steel products provided by Angang Trade as a domestic and overseas agent amounted to 6,040,000 tonnes and 1,630,000 tonnes respectively.

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

2) Sale of products and provision of labour service to related parties

Item	Pricing principle	Price *(RMB)*	Amount *(RMB' million)*	As a percentage of the contractual value of similar transactions *(%)*
Cold rolled sheets	The selling price offered by the Company to the independent third parties; for provision new products developed for the other party, the price is based on the market price if the market price exists; if the market price does not exist, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of relevant company members providing related products.	RMB4,671/tonne	2,612	9.15
Heavy plates		RMB3,967/tonne	836	7.25
Wire rods		RMB4,100/tonne	161	3.67
Heavy section		RMB4,750/tonne	10	0.54
Small section (小型材)		RMB4,180/ tonne	4	10.50
Hot rolled sheets		RMB3,907/tonne	4,163	15.18
Medium plates		RMB4,020/tonne	93	3.46
Galvanized sheets		RMB4,627/tonne	367	5.47
Colour coated sheets		RMB5,747/tonne	20	1.62
Seamless pipes		RMB4,489/tonne	51	2.86
Molten iron		RMB2,460/tonne	7	100.00
Billets		RMB4,016/tonne	9	11.55
Coke		RMB894/tonne	63	100.00
Chemical by-products		—	56	2.69
Sub-total	—	—	8,452	9.55
Steel scrap	Market prices	—	199	100.00
Abandoned materials		—	9	46.47
Minus sieve powder	The difference from the basic price of sinter ore for the period minus the cost of sintering process of Angang Holding Group	—	—	—
Retired assets or idle assets	Market price or appraised price	—	3	86.96
Sub-total	—	—	211	95.18
Total	—	—	8,663	—

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

Item	Pricing principle	Price	Amount	As a percentage of the contractual value of similar transactions
		(RMB)	*(RMB' million)*	*(%)*
New water	State price	RMB2.94 /tonne	42	99.05
Clean recycled water	Production cost plus a gross profit margin of 5%	RMB0.74 /tonne	20	99.98
Soft water		RMB4.90 /tonne	0.5	100.00
Gas		RMB60.57/GJ	382	77.24
Blast furnace gas		RMB4.00/GJ	29	99.97
Steam		RMB47.50/GJ	34	95.96
Nitrogen		RMB233.89/KM3	3	19.35
Oxygen		RMB449.84/KM3	5	12.02
Argon		RMB1,058/KM3	2	7.79
Compressed air		RMB106.10 /KM3	0.4	98.59
Unused hot water		RMB19.08/GJ	51	91.94
Product testing service	Market prices	—	4	85.35
Transportation service	—	—	0.5	100.00
Total	—	—	573.4	37.24

4. MATERIAL CONNECTED TRANSACTIONS *(CONTINUED)*

(1) Continuing connected transactions *(Continued)*

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

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

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

The above connected transactions, as confirmed by the Independent Board Committee who are independent of the controlling shareholder, were entered into 1) in the ordinary course of business of the Company; 2) on normal commercial terms or on terms not less favourable to the terms offered by independent third parties; or on the terms which were fair and reasonable as far as the shareholders of the Company were concerned if no comparable reference was available; 3) in accordance with the terms of Supply of Materials and Services Agreement which were fair and reasonable and in the interest of the Company and its shareholders as a whole; and 4) in 2011, the total amount of continuing connected transactions of the Company did not exceed the relevant caps as set out in Supply of Materials and Services Agreement.

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

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

There were no claims or obligations between the Company and related parties for non-operating purpose as at 31 December 2011.

As at 31 December 2011, RMB1.1 billion of Angang Putian's bank loan was guaranteed by Anshan Iron & Steel Group Complex*.

4. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

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

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

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

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

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

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

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

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

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

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

5. UNDERTAKINGS OF CONTROLLING SHAREHOLDER

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

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

Annual General Meeting

The annual general meeting of the Company will be held on 29 May 2012, details of which and the proposed resolutions are set out in the accompanying notice of annual general meeting of the Company.

Zhongrui Yuehua shenzi[2012]No. 2389

All Shareholders of Angang Steel Company Limited:

We have audited the attached financial statements of Angang Steel Company Limited (the Company) and subsidiaries (the Group), including the company's and consolidated balance sheets as at 31 December 2011, the company's and consolidated income statements, the company's and consolidated cash flow statements, the company's and consolidated statements of changes in shareholders' equity of the year 2011 and the Notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of the financial statements which give a true and fair view. This responsibility includes: (1) preparing financial statements according to Enterprise Accounting Standards which give a true and fair view, (2) designing, implementing and maintaining internal control to ensure the financial statements are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements comply with the requirements of Enterprise Accounting Standards and give a true and fair view, in all material aspects, on the consolidated financial position of Angang Steel Company Limited and its subsidiaries as at 31 December 2011, the consolidated financial performance and consolidated cash flow of Angang Steel Company Limited and its subsidiaries for the year 2011, the financial position of Angang Steel Company Limited as at 31 December 2011 and the financial performance and cash flow of Angang Steel Company Limited for the year 2011.

Zhongrui Yuehua Certified Public Accountants
(special general partnership)

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

China Beijing

Li Zhushan
Cao Bin

27 March 2012

Consolidated Balance Sheet

Prepared by: Angang Steel Company Limited
As at 31 December 2011
Monetary unit: RMB million

Assets	Note	31 Dec. 2011	31 Dec. 2010
Current assets:			
Cash at banks and on hand	7(1)	**2,341**	3,651
Trading financial assets			
Notes receivable	7(2)	**5,914**	3,703
Account receivables	7(3)	**1,879**	2,061
Prepayments	7(5)	**3,860**	8,380
Interests receivable			
Other receivables	7(4)	**34**	15
Inventories	7(6)	**14,242**	13,134
Non-current assets due within 1 year			
Other current assets	7(7)	**94**	
Total current assets		**28,364**	30,944
Non-current assets:			
Available-for-sale financial assets	7(8)	**92**	179
Long-term equity investments	7(9)	**2,483**	1,986
Investment properties			
Fixed assets	7(10)	**53,566**	57,267
Construction in progress	7(11)	**9,136**	5,277
Construction material	7(12)	**132**	1,047
Intangible assets	7(13)	**6,824**	6,967
Deferred income tax assets	7(14)	**2,391**	1,447
Other non-current assets			
Total non-current assets		**74,624**	74,170
Total assets		**102,988**	105,114

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

Monetary unit: RMB million

Consolidated Balance Sheet *(continued)*

Liabilities and shareholders' equity	Note	31 Dec. 2011	31 Dec. 2010
Current liabilities:			
Short-term loans	7(17)	**10,630**	10,395
Notes payable	7(18)	**5,565**	4,879
Account payables	7(19)	**4,687**	4,683
Advances from customers	7(20)	**4,396**	6,157
Employee benefits payable	7(21)	**318**	322
Tax and surcharges payable	7(22)	**(1,914)**	(1,836)
Interest payables	7(23)	**232**	79
Other payables	7(24)	**2,703**	2,737
Non-current liabilities due within 1 year	7(25)	**4,201**	5,961
Other current liabilities	7(26)	**6,005**	3,023
Total current liabilities		**36,823**	36,400
Non-current liabilities:			
Long-term loans	7(27)	**13,135**	12,717
Deferred income tax liabilities	7(14)	**39**	61
Other non-current liabilities	7(28)	**686**	591
Total non-current liabilities		**13,860**	13,369
Total liabilities		**50,683**	49,769
Shareholders' equity:			
Share capital	7(29)	**7,235**	7,235
Capital reserve	7(30)	**31,458**	31,521
Special reserve	7(31)	**47**	70
Surplus reserves	7(32)	**3,570**	3,570
Undistributed profits	7(33)	**8,441**	11,672
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to shareholders of parent company		**50,751**	54,068
Minority interests		**1,554**	1,277
Total shareholders' equity		**52,305**	55,345
Total liabilities and shareholders' equity		**102,988**	105,114

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

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2011
Monetary unit: RMB million

Items	Note	2011	2010
1. Operating income		**90,423**	92,431
Including: Operating income from main business	7(34)	**90,423**	92,431
2. Operating costs		**94,271**	90,589
Including: Operating costs for main business	7(34)	**86,406**	82,694
Business tax and surcharges	7(35)	**169**	285
Marketing expenses	7(36)	**1,549**	1,622
Administrative expenses	7(37)	**3,339**	3,441
Financial expenses	7(38)	**1,470**	1,249
Impairment losses on assets	7(40)	**1,338**	1,298
Add: gains/losses from fair value variation			
Investment income	7(39)	**402**	411
Including: Income from investment in joint ventures and associates	7(39)	**391**	393
3. Operating profit		**(3,446)**	2,253
Add: Non-operating income	7(41)	**217**	142
Less: Non-operating expenses	7(42)	**52**	37
Including: Losses on non-current assets disposal	7(42)	**49**	35
4. Profit before income tax		**(3,281)**	2,358
Less: Income tax expenses	7(43)	**(949)**	408
5. Net profit for the year		**(2,332)**	1,950
Net profit attributable to shareholders of parent company		**(2,146)**	2,039
Gains/losses attributable to minority shareholders		**(186)**	(89)
6. Earning per share			
(1) Basic earnings per share	7(44)	**(0.297)**	0.282
(2) Diluted earnings per share	7(44)	**(0.297)**	0.282
7. Other comprehensive income	7(45)	**(63)**	11
8. Total comprehensive income		**(2,395)**	1,961
Share of total comprehensive income attributable to shareholders of parent company		**(2,209)**	2,050
Share of total comprehensive income attributable to minority interest		**(186)**	(89)

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

Monetary unit: RMB million

Consolidated Cash Flow Statement

Items	Note	2011	2010
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		**90,385**	95,169
Refund of tax and fare		**132**	
Other cash received from operating activities	7(46)	**338**	672
Sub-total of cash inflows		**90,855**	95,841
Cash paid for goods and services		**80,737**	80,121
Cash paid to and for the employees		**2,557**	2,698
Cash paid for all types of taxes		**1,398**	2,720
Other cash paid for operating activities	7(46)	**1,500**	1,276
Sub-total of cash outflows		**86,192**	86,815
Net cash flow from operating activities	7(47)	**4,663**	9,026
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		**28**	93
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**3**	5
Net cash received from disposal of subsidiaries and other operating units			
Other cash received from investment activities	7(46)	**43**	87
Sub-total of cash inflows		**74**	185
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**5,506**	4,910
Cash paid for acquisition of investments		**114**	25
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities			
Sub-total of cash outflows		**5,620**	4,935
Net cash flow from investing activities		**(5,546)**	(4,750)

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

Items	Note	2011	2010
3. Cash flows from financing activities			
Cash received from absorbing investments		**463**	
Including: received of subsidiary from minority shareholders		**463**	
Cash received from borrowings		**24,421**	25,265
Other cash received from financing activities			
Sub-total of cash inflows		**24,884**	25,265
Cash paid for settling of debts		**22,550**	26,077
Cash paid for distribution of dividends or profit and repayment of interests		**2,649**	1,985
Including: dividends or profit paid to minority shareholders			
Other cash paid for financing activities	7(46)	**112**	70
Sub-total of cash outflows		**25,311**	28,132
Net cash inflow from financing activities		**(427)**	(2,867)
4. Effect of changes in foreign exchange rate on cash and cash equivalents			
5. Net increase in cash and cash equivalents	7(47)	**(1,310)**	1,409
Add: Cash and cash equivalents brought forward	7(47)	**3,651**	2,242
6. Cash and cash equivalents carried forward	7(47)	**2,341**	3,651

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

Prepared by: Angang Steel Company Limited
As at 31 December 2011
Monetary unit: RMB million

	2011									
	Shareholders' equity attributable to shareholders of the parent company									
Items	**Share capital**	**Capital reserve**	**Less: treasury stock**	**Special reserve**	**Surplus reserve**	**General risk reserve**	**Undistributed profit**	**Others**	**Minority interests**	**Total of shareholders' equity**
1. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,672		1,277	55,345
Add: Changes of accounting policy										
Correction of prior year errors										
Others										
2. Balance as at 1 Jan. 2011	7,235	31,521		70	3,570		11,672		1,277	55,345
3. Increase/decrease in 2011 ("—" represents loss)		(63)		(23)			(3,231)		277	(3,040)
(1) Net profit							(2,146)		(186)	(2,332)
(2) Other comprehensive income		(63)								(63)
Subtotal of (1) and (2)		(63)					(2,146)		(186)	(2,395)
(3) Capital introduced or withdrawn by owners									463	463
i. Capital introduced by owners									463	463
ii. Amount of shares-based payment recorded in owner's equity										
iii. Others										
(4) Profit distribution							(1,085)			(1,085)
i. Transfer to surplus reserve										
ii. Transfer to general risk reserve										
iii. Distribution to shareholders							(1,085)			(1,085)
iv. Others										
(5) Transfer within shareholder's equity										
i. Transfer from capital reserve to share capital										
ii. Transfer from surplus reserve to share capital										
iii. Making up losses with surplus reserve										
iv. Others										
(6) Special reserve				(23)						(23)
i. Extracts of this year				33						33
ii. Usage of this year				(56)						(56)
(7) Others										
4. Balance as at 31 Dec. 2011	7,235	31,458		47	3,570		8,441		1,554	52,305

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

Monetary unit: RMB million

	2010									
	Shareholders' equity attributable to shareholders of the parent company									
Items	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	Total of shareholders' equity
1. Balance as at 31 Dec. 2009	7,235	31,510		50	3,357		10,280		1,366	53,798
Add: Changes of accounting policy										
Correction of prior year errors										
Others										
2. Balance as at 1 Jan. 2010	7,235	31,510		50	3,357		10,280		1,366	53,798
3. Increase/decrease in 2010("—" represents loss)		11		20	213		1,392		(89)	1,547
(1) Net profit							2,039		(89)	1,950
(2) Other comprehensive income		11								11
Subtotal of (1) and (2)		11					2,039		(89)	1,961
(3) Capital introduced or withdrawn by owners										
i. Capital introduced by owners										
ii. Amount of shares-based payment recorded in owner's equity										
iii. Others										
(4) Profit distribution					213		(647)			(434)
i. Transfer to surplus reserve					213		(213)			
ii. Transfer to general risk reserve										
iii. Distribution to shareholders							(434)			(434)
iv. Others										
(5) Transfer within shareholder's equity										
i. Transfer from capital reserve to share capital										
ii. Transfer from surplus reserve to share capital										
iii. Making up losses with surplus reserve										
iv. Others										
(6) Special reserve				20						20
i. Extracts of this year				32						32
ii. Usage of this year				(12)						(12)
(7) Others										
4. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,672		1,277	55,345

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Monetary unit: RMB million

Balance Sheet

Assets	Note	31 Dec. 2011	31 Dec. 2010
Current assets:			
Cash at banks and on hand		**1,183**	2,542
Trading financial assets			
Notes receivable		**5,719**	3,167
Account receivables	15(1)	**1,924**	2,061
Prepayments		**3,176**	7,285
Interests receivable			
Dividends receivable			
Other receivables	15(2)	**34**	15
Inventories		**13,120**	12,378
Non-current assets due within 1 year			
Other current assets		**94**	
Total current assets		**25,250**	27,448
Non-current assets:			
Available-for-sale financial assets		**92**	179
Long-term equity investments	15(3)	**5,754**	4,248
Fixed assets		**50,337**	53,744
Construction in progress		**5,037**	3,559
Construction materials		**116**	205
Intangible assets		**6,305**	6,469
Deferred income tax assets		**2,014**	1,189
Other non-current assets			
Total non-current assets		**69,655**	69,593
Total assets		**94,905**	97,041

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

Prepared by: Angang Steel Company Limited
As at 31 December 2011
Monetary unit: RMB million

Liabilities and shareholders' equity	Note	31 Dec. 2011	31 Dec. 2010
Current liabilities:			
Short-term loans		**9,250**	8,300
Notes payable		**4,810**	3,794
Account payables		**3,900**	4,467
Advances from customers		**3,755**	5,846
Employee benefits payable		**318**	322
Tax and surcharges payable		**(1,496)**	(1,508)
Interests payables		**232**	79
Other payables		**2,271**	2,310
Non-current liabilities due within 1 year		**3,481**	5,541
Other current liabilities		**6,005**	3,023
Total current liabilities		**32,526**	32,174
Non-current liabilities:			
Long-term loans		**10,645**	10,057
Deferred income tax liabilities		**29**	59
Other non-current liabilities		**647**	554
Total non-current liabilities		**11,321**	10,670
Total liabilities		**43,847**	42,844
Shareholders' equity:			
Share capital		**7,235**	7,235
Capital reserve		**31,458**	31,521
Special reserve		**47**	70
Surplus reserves		**3,570**	3,570
Undistributed profits		**8,748**	11,801
Total shareholders' equity		**51,058**	54,197
Total liabilities and shareholders' equity		**94,905**	97,041

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

Monetary unit: RMB million

Income Statement

Items		Note	2011	2010
1. Operating income		15(4)	**88,649**	90,033
Less:	Operating costs for main business	15(4)	**84,480**	80,287
	Business tax and surcharges		**169**	285
	Marketing expenses		**1,498**	1,569
	Administrative expenses		**3,259**	3,378
	Financial expenses		**1,293**	1,150
	Impairment losses on assets		**1,331**	1,298
Add:	gains/losses from fair value variation			
	Investment income	15(5)	**402**	408
	Including: Income from investment in jointly ventures and associates		**391**	390
2. Operating profit			**(2,979)**	2,474
Add:	Non-operating income		**217**	141
Less:	Non-operating expenses		**52**	36
	Including: Losses on non-current assets disposal		**49**	35
3. Profit before income tax			**(2,814)**	2,579
Less:	Income tax expenses		**(846)**	456
4. Net profit for the year			**(1,968)**	2,123
5. Other comprehensive income			**(63)**	11
6. Total comprehensive income			**(2,031)**	2,134

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

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2011
Monetary unit: RMB million

Items	Note	2011	2010
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		**88,112**	92,578
Refund of tax and fare		**132**	
Other cash received from operating activities		**334**	635
Sub-total of cash inflows		**88,578**	93,213
Cash paid for goods and services		**79,451**	77,901
Cash paid to and for employees		**2,490**	2,640
Cash paid for all types of taxes		**1,382**	2,712
Other cash paid for operating activities		**1,480**	1,257
Sub-total of cash outflows		**84,803**	84,510
Net cash flow from operating activities	15(6)	**3,775**	8,703
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		**28**	93
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		**3**	5
Net cash received from the disposal of subsidiaries and other operating units			
Other cash received from investment activities		**24**	70
Sub-total of cash inflows		**55**	168
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		**4,112**	2,347
Cash paid for acquisition of investments		**1,105**	825
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities			
Sub-total of cash outflows		**5,217**	3,172
Net cash flow from investing activities		**(5,162)**	(3,004)

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

Monetary unit: RMB million

Cash Flow Statement *(continued)*

Items	Note	2011	2010
3. Cash flows from financing activities			
Cash received from absorbing investments			
Cash received from borrowings		**22,196**	21,670
Other cash received from financing activities			
Sub-total of cash inflows		**22,196**	21,670
Cash paid for settling of debts		**19,740**	24,152
Cash paid for distribution of dividends or profit and repayment of interests		**2,341**	1,743
Other cash paid for financing activities		**87**	70
Sub-total of cash outflows		**22,168**	25,965
Net cash inflow from financing activities		**28**	(4,295)
4. Effect of changes in foreign exchange rate on cash and cash equivalents			
5. Net increase in cash and cash equivalents	15(6)	**(1,359)**	1,404
Add: Cash and cash equivalents brought forward	15(6)	**2,542**	1,138
6. Cash and cash equivalents carried forward	15(6)	**1,183**	2,542

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

Statement of changes in shareholders’ equity

Prepared by: Angang Steel Company Limited
As at 31 December 2011
Monetary unit: RMB million

	2011							
Items	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total of shareholders’ equity
1. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,801	54,197
Add: Changes of accounting policy								
Correction of prior year errors								
Others								
2. Balance as at 1 Jan. 2011	7,235	31,521		70	3,570		11,801	54,197
3. Increase/decrease in 2011 (“—” represents loss)		(63)		(23)			(3,053)	(3,139)
(1) Net profit							(1,968)	(1,968)
(2) Other comprehensive income		(63)						(63)
Subtotal of (1) and (2)		(63)					(1,968)	(2,031)
(3) Capital introduced or withdrawn by owners								
i. Capital introduced by owners								
ii. Amount of shares-based payment recorded in owner’s equity								
iii. Others								
(4) Profit distribution							(1,085)	(1,085)
i. Transfer to surplus reserve								
ii. Transfer to general risk reserve								
iii. Distribution to shareholders							(1,085)	(1,085)
iv. Others								
(5) Transfer within shareholder’s equity								
i. Transfer from capital reserve to share capital								
ii. Transfer from surplus reserve to share capital								
iii. Making up losses with surplus reserve								
iv. Others								
(6) Special reserve				(23)				(23)
i. Extracts of this year				33				33
ii. Usage of this year				(56)				(56)
(7) Others								
4. Balance as at 31 Dec. 2011	7,235	31,458		47	3,570		8,748	51,058

Legal representative: **Zhang Xiaogang**

Chief Accountant: **Ma Lianyong**

Controller: **Ma Lianyong**

Monetary unit: RMB million

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

	2010							
Items	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total of shareholders' equity
1. Balance as at 31 Dec. 2009	7,235	31,510		50	3,357		10,325	52,477
Add: Changes of accounting policy								
Correction of prior year errors								
Others								
2. Balance as at 1 Jan. 2010	7,235	31,510		50	3,357		10,325	52,477
3. Increase/decrease in 2010 ("—" represents loss)		11		20	213		1,476	1,720
(1) Net profit							2,123	2,123
(2) Other comprehensive income		11						11
Subtotal of (1) and (2)		11					2,123	2,134
(3) Capital introduced or withdrawn by owners								
i. Capital introduced by owners								
ii. Amount of shares-based payment recorded in owner's equity								
iii. Others								
(4) Profit distribution					213		(647)	(434)
i. Transfer to surplus reserve					213		(213)	
ii. Transfer to general risk reserve								
iii. Distribution to shareholders							(434)	(434)
iv. Others								
(5) Transfer within shareholder's equity								
i. Transfer from capital reserve to share capital								
ii. Transfer from surplus reserve to share capital								
iii. Making up losses with surplus reserve								
iv. Others								
(6) Special reserve				20				20
i. Extracts of this year				32				32
ii. Usage of this year				(12)				(12)
(7) Others								
4. Balance as at 31 Dec. 2010	7,235	31,521		70	3,570		11,801	54,197

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

1. COMPANY'S PROFILE

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

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

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

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

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

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

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

1. COMPANY'S PROFILE *(Continued)*

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

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

The financial statements has been approved by the Board of Directors on the 27th March, 2011

2. BASIS OF PREPARATION

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

According to the relevant provisions of Accounting Standards, the Group adopted an accrual accounting basis. Except for certain financial instruments, the financial statements are reported at historical cost. If assets are impaired, relevant provisions are made in accordance with relevant standards.

3. STATEMENT ON COMPLIANCE WITH THE ENTERPRISE ACCOUNTING STANDARDS

The Group declares that the Financial Report prepared by the Group is in line with requirements of the Enterprise Accounting Standards, These financial statements present truly, accurately and completely the financial position of the Group as at the 31st December 2010, the results of operation, the cash flow of the Group for the year. In addition, these financial statements also comply with, in all material respects, the disclosure requirements of "Regulation on disclosure of information of public listed companies, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission ("CSRC") in 2010.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting year

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

(2) Functional currency

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

The Group chooses RMB as functional currency to prepare financial statements.

(3) Business combinations

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

(a) The business combinations under the same control

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

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

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

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

(3) Business combinations *(Continued)*

(b) The business combinations not under the same control

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

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

If the adjustment of the combination cost is likely to occur and can be reliably measured contingent consideration shall be recognized and its subsequent measurements effect goodwill. The relevant contingent consideration shall be recorded into the combination costs at its fair values at the purchase date, The goodwill shall be adjusted if the new or further evidences of the existing situation at the purchase date arises resulting adjustment to contingent considerations within 12 months from the purchase date.

The combination of acquirer and the identifiable net assets shall be measured at their fair values on the purchase date. If the combination costs exceeds the fair value of the identifiable net assets obtained, the acquirer shall recognized the difference as goodwill; if the combination costs are less than the fair value of the identifiable net assets obtained, the acquirer shall firstly review the measurement of the fair values of the identifiable assets obtained, liabilities incurred and contingent liabilities incurred, as well as the combination costs. After that, if the combination costs are still less than the fair value of the identifiable net assets obtained, the acquirer shall recognized the difference as profit of the current period.

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

(4) Preparation methods for consolidated financial statements

(a) Recognition principle of the scope of consolidation

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

(b) Preparation of consolidated financial statements

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

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

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

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

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

(b) Preparation of consolidated financial statements *(Continued)*

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

(5) Recognition standard for cash and cash equivalents

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

(6) Foreign currency transactions and the translation of foreign currency financial statement

(a) Foreign currency transactions

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

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

(6) Foreign currency transactions and the translation of foreign currency financial statement *(Continued)*

(b) Translation of financial statements listed in foreign currency

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

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

(2) The profit and loss arising from the change in the carrying amount other than amortized cost of an available-for-sale monetary item shall be recognized directly in the other comprehensive income.

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

(7) Financial instruments

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

The fair value refers to the amount, at which assets could be exchanged or liabilities could be settled between knowledgeable and willing parties in current situation. For those there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refer to the prices, which are easily available from the stock exchanges, brokers, industry associations, pricing service institutions and etc., and represent the actual dealing prices under fair conditions.

Where there is no active market for a financial instrument, the Group shall adopt value appraisal techniques to determine its fair value. The result obtained by adopting value appraisal techniques shall be able to reflect the dealing prices that may be adopted in fair transaction on that day. These techniques mainly include referring to prices that are adopted by knowledgeable and willing parties in current transaction, referring to fair value of other instruments with the same substantive nature, the cash flow discounting method and the option pricing model, etc.

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

(7) Financial instruments *(Continued)*

(b) Classification of financial assets, recognition and measurement

Conventionally traded financial assets, shall be recognized and de-recognized at the trading date. Financial assets shall be classified into the following four categories for initial recognition: the financial assets at fair value through profit or loss, hold-to-maturity financial assets, loans and the account receivables, and financial assets available for sale. Financial assets shall be initially measured at their fair values. For the financial assets at fair value through profit or loss, the transaction expenses thereof shall be directly recorded into the profit and loss of the current period; for other categories of financial assets, the transaction expenses thereof shall be included into the initially recognized amount.

(i) Financial assets measured at fair value through profit and loss

Including trading financial assets and those designated into this category.

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

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

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

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

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

(7) Financial instruments *(Continued)*

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

(i) Financial assets measured at fair value through profit and loss *(Continued)*

The financial assets meeting any of the following requirements can be designated, when they are initially recognized, as financial assets or financial liabilities at its fair value through profit or loss:

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

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

The financial assets measured at fair values through profit or loss shall be subsequently measured at their fair values, with the gains or losses from variations of such financial assets, related dividends and interest income shall be included in the current profit and loss.

(ii) Hold-to-maturity investments

This refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount to be received , which the enterprise has the purpose and the ability to hold until its maturity.

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

The effective interest rate method refers to the method to calculate the amortized costs and the interest incomes or interest expenses at each end of period using effective interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities).

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

(7) Financial instruments *(Continued)*

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

(ii) Hold-to-maturity investments *(Continued)*

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

To determine the effective interest rate, the future cash flow shall be predicted, taking all the contractual provisions concerning the financial asset or financial liability into account, excluding the future credit losses. The various fee charged, trading expenses, premiums or discounts, etc., paid or received by the parties to a financial asset or financial liability contract, which form a part of the effective interest rate, shall be taken into account in the determination of the effective interest rate.

(iii) Loans and the account receivables

Loans and account receivables refer to the non-derivative financial assets without quoted price in the active market, of which the amount receivable is fixed or determinable. The Group's financial assets classified as loans and receivables include notes receivable, account receivables, interest receivable, dividends receivable and other receivables.

Loans and account receivables shall be measured at amortized costs using effective interest rate method. The gains or losses arising from de-recognition, impairment or amortization shall be included in the current profit or loss.

(iv) Financial assets available for sale

This refers to the non-derivative financial assets which are designated as available-for-sale at initial recognition as well as the financial assets other than loans and account receivables; hold-to-maturity investments and financial assets at fair values through profit or loss.

Financial assets available for sale shall be measured at fair value. The profit and loss arising from the changes in the fair value shall be included directly in the owner's equity with the exception of impairment losses and the foreign exchange gain or loss arising from amortized cost of monetary financial assets being recognized in profit or loss. The amount accumulated in the equity shall be transferred to profit or loss at de-recognition.

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

(7) Financial instruments *(Continued)*

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

(iv) Financial assets available for sale *(Continued)*

The interests and the cash dividends announced by the investee shall be recorded into the profit and loss of the current period

(c) Impairment of financial assets

For those not measured at fair value through profit or loss, the Group would perform a review on the carrying amount of each. Where there is any objective evidence of impairment, an impairment provision shall be made.

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

(i) Impairment of held to maturity investments, loans and receivables

Where a financial asset measured at amortized costs is impaired, the carrying amount of the said financial asset shall be written down to the present value of the predicted future cash flow. The amount written down shall be recognized as impairment loss and be recognized in the profit and loss of the current period.

For impaired financial assets, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment losses originally recognized shall be reversed and be recorded into the profit and loss of the current period. However, the reversed carrying amount shall not exceed the amortized costs of the said financial asset at the date of reversal if no impairment is made.

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

(7) Financial instruments *(Continued)*

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

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

Where such financial asset is impaired, the accumulative losses arising from the decrease of the fair value in the capital reserve shall be transferred to the profit and loss of the current period. The accumulative losses that are transferred out shall be the balance of initial acquisition costs of the said financial asset after deducting the principals withdrawn, the current fair value and the remaining value after deducting impairment loss originally recognized in the profit and loss.

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

As for the available-for-sale debt instruments, the originally recognized impairment losses shall be restored into the profit and loss of the current period. As for the available-for-sale equity instruments the originally recognized impairment losses shall be restored into the other comprehensive income. The impairment loss of equity instrument without quoted price in the active market, and whose fair value cannot be reliably measured, or that of a derivative financial asset derived from the said equity instrument, which shall be settled by delivering the said equity instrument, may not be reversed.

(d) Recognition and measurement for transfer of financial assets

If financial assets meet any following conditions, financial assets shall be derecognized:

(1) The right of receiving the cash flow of the financial asset is eliminated;

(2) The financial asset as well as nearly all of the risks and rewards related to the ownership of it has been transferred to another party;

(3) The financial asset has been transferred to another party, although the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of it, the Group has given up its control over it.

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

(7) Financial instruments *(Continued)*

(d) Recognition and measurement for transfer of financial assets *(Continued)*

Where the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, nor give up its control over it, it shall, to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and the relevant liability accordingly. The extent of continuous involvement in the transferred financial asset refers to the risk level that the Group faces resulting from the changes of the value of the financial asset.

If the transfer of an entire financial asset meets the conditions for de-recognition, the difference between the following 2 items shall be recorded into current profit and loss:

i. The carrying value of the transferred financial asset;

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

If the partially transfer of financial asset satisfies the conditions for de-recognition, the entire carrying value of the transferred financial asset shall be apportioned to the derecognized part and the retained part according to their respective relative fair value. The difference between the following 2 items shall be recorded into the profit and loss of the current period:

i. The carrying value of derecognized part;

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

(e) Classification and Measurement of financial liabilities

Financial liabilities shall be classified into the financial liabilities measured at their fair value through profit or loss and other financial liabilities for initial recognition:

The financial liabilities shall be initially measured at their fair values. For financial liabilities measured at their fair values through profit or loss, the transaction expenses thereof shall be directly recorded into the profit and loss of the current period. For other financial liabilities, the transaction expenses thereof shall be included into the initially recognized amount.

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

(7) Financial instruments *(Continued)*

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

(i) The financial liabilities measured at their fair value through profit or loss.

The classification conditions of transactional financial liabilities and the designated financial liabilities at their fair values through profit or loss is the same as that of transactional financial asset and the designated financial asset at their fair values through profit or loss.

The financial liability at fair value through profit or loss shall be subsequently measured at fair value. The changes in the fair value, the interest or cash dividend received in the period are recognized into the profit and loss of the current period.

(ii) Other financial liabilities

The derivative financial liabilities, derived from equity instrument without quoted price in an active market and whose fair value could not be reliably measured, which shall be settled by delivering such equity instrument, shall be measured at costs. Other financial liability shall be subsequently measured at amortized cost by using effective rate method. The profit or loss that arises at de-recognition and amortization shall be recorded into the profit and loss of the current period.

(f) De-recognition of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the financial liability be derecognized entirely or partly. When the Group (debtor) enters into an agreement with a creditor so as to substitute the existing financial liabilities with a new financial liability, which is substantially different from the existing financial liability, the existing financial liability shall be derecognized, and the new financial liability shall be recognized.

When a financial liability is entirely or partially derecognized, the difference between the carrying amount derecognized and the considerations paid (including the non-monetary assets transferred out and the new financial liabilities engaged) shall be recorded in the profit and loss of the current period.

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

(8) Account receivables

Account receivables include trade receivables and other trade receivables.

(a) Recognition of bad debt allowance

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

(i) A serious financial difficulty occurs to the debtor; (ii) The debtor breaches any of the contract terms, for example, failing to pay or delaying the payment of interests or the principal, etc. (iii) The debtor will probably go bankruptcy or carry out debt restructure; (iv) Other objective evidences show that the account receivables have suffered impairment.

(b) Measurement of bad debt allowance

Where there is any objective evidence that the Group can hardly recover any of the account receivables under the original terms, the account receivables shall be subject to impairment test. The difference between the present value of the expected future cash flow of the assets and the carrying value shall be made as bad debt allowance. The reduced amount shall be recognized as impairment loss and recorded into current profits or losses.

(c) The Group categorizes account receivables above 30 million into account receivable with single significant amount; categorizes other receivables above 10 million into other receivables with single significant amount.

(d) Reversal of bad debt allowance

If evidences show that the value of receivables is recovered which is related to the event subsequent to the recognition of impairment loss, previously recognized impairment loss shall be reversed and recorded into current profit and loss. However, the carrying value after reversal shall not exceed the amortized cost as if no impairment losses have been made previously.

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

(9) Inventories

(a) Classification of inventory

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

(b) Measurement of inventory received and dispatched

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

(c) Measurement of net realizable value of inventory and measurement of provision for impairment of inventories

The net realizable value refers to the selling price deducting the estimated cost of completion, estimated selling expense and relevant taxes in the daily business activities. The net realizable value of inventories shall be based on reliable evidence obtained, taking into consideration of the purpose of holding the inventories and the events after balance sheet date. At balance sheet date, the inventories shall be measured at the lower of cost and net realizable value. At the balance sheet date, if the cost of inventories is higher than the net realizable value, a provision for impairment shall be made and recorded into the current profit and loss. Except the spare parts, impairment of inventories is calculated by individual item. The impairment of spare parts is calculated according to the actual situation and the management's estimation.

If the factors causing any write-down of the inventories disappeared, leading the net realizable value exceeds the carrying value, the amount write-down shall be reversed from the provision to the extent of provision previously made. The reversed amount shall be recorded into the current profit and loss.

(d) The Group maintains a perpetual inventory system.

(e) Amortization of consumables

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

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

(10) Long-term equity investments

(a) Initial Measurement

For the long-term equity investment formed by business combination under the same control, the initial cost shall, on the date of acquisition, be measured by the share of carrying value of the owner's equity of the acquired entity. For the long-term equity investment obtained by business combination not under the same control, on the date of combination, the initial cost shall be the sum of the assets transferred, the liabilities incurred or engaged and the equity securities issued by the acquirer in exchange for the control over the acquiree. The direct cost for the business combination incurred by the acquirer, including the expenses for audit, valuation, legal services and other administrative expenses, shall be recorded into the profit and loss at the current period. The transactional expenses of issued equity securities or liability securities as the consideration for the combination, shall be recorded into the amount of initial amount of the equity securities or liability securities.

Except for long-term equity investment formed by business combination, the initial cost of other long-term equity investment shall be measured at the amount of actual cash paid, the fair value of the equity securities issued, the conventional value stipulated in the investment contract or agreement ,etc. The initial cost consists of the expenses directly related to the acquisition of the long-term equity investment, taxes and other necessary expenses.

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

A long-term equity investment , where there is no joint control or significant influence, and which has no quoted price in the active market and whose fair value cannot be reliably measured, shall be measured at cost. A long-term equity investment where there is joint control or significant influence o shall be accounted by applying equity method. A long-term equity investment where there is no control, joint control or significant influence, which has quoted price in the active market or whose fair value can be reliably measured, shall be accounted for as available-for-sale financial assets.

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

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

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

In addition, a long-term equity investment is accounted by using cost method if the Group is able to control the invested entity.

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

The long-term equity investment stated by applying cost method shall be measured at initial investment cost. Except those included in the consideration, the dividends or profits declared enjoyed by the investor shall be recognized as the current investment income.

ii. The long-term equity investment stated by applying equity method

In equity method, if the initial cost of a long-term equity investment exceeds the proportion of the fair value of the invested entity's identifiable net assets attributable to the investor, the initial cost of the long-term equity investment may not be adjusted. Otherwise, the difference shall be recorded into the current profit and loss and the cost of the long-term equity investment shall be adjusted simultaneously.

In equity method, the investment profits or losses is recognized in accordance with the proportion of the net profits or losses of the invested entity attributable to the Group. The invested entity's profit or loss shall be adjusted on the ground of the fair value of all identifiable assets of the invested entity at acquisition date and adjusted to comply with the accounting policies and accounting periods adopted by the investor. All inter-Group unrealized profits with the join controlled entities and associates which attributable to the Group shall be eliminated to arrive the investment income. However if the unrealized inter-Group loss constitutes impairment of the transferred assets under Accounting Standards for Enterprises No.6-Impairment of Assets, the losses shall not be adjusted. For other comprehensive income of the invested enterprise, the carrying value of the long-term equity investment shall be adjusted accordingly and be recorded into capital reserves

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

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

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

ii. The long-term equity investment stated by applying equity method *(Continued)*

The investor shall recognize the net losses of the invested entity to the extent that the carrying value of the long-term equity investment and other long-term rights and interests which substantially constitute the net investment made to the invested entity are reduced to zero. Furthermore, if the investor has the obligation to reimburse extra losses, the extra obligation shall be recognized as provision and be recognized in investment loss. If the invested entity realizes any net profits in the subsequent periods, the investor shall not resume to recognize its attributable share of profits unless the unrecognized attributable share of loss has been restored.

iii. The acquisition of minority interest

For the preparation of the consolidated financial statements, the capital reserve shall be adjusted for the difference between the additional long-term equity investment due to acquiring minority interest and the increased percentage of the invested entity's net assets enjoyed by the investor, which are measured in a continuous manner since the acquisition date. If the capital reserve is not sufficient to be offset, the retained earnings shall be adjusted.

iv. Disposal of a long-term equity investment

In the consolidated financial statements, when the parent Group disposes part of the investment in subsidiary without losing control, the difference between the disposal proceed and the net asset disposed shall be recognized in equity. When the parent Group loses the control of subsidiary due to disposal, the relevant terms in Note. 4 (b) shall apply.

The disposal of long-term equity investment by other means, the difference between the book value of disposed investment and the proceeds shall be included in the current profit and loss. 'For investment under equity method, the other comprehensive income originally recognized in the equity shall be transferred into profit and loss by the percentage disposed. The remaining investment shall be recognized as long-term equity investment or financial assets at its carrying value and be subsequently measured according to relevant accounting policy. If the accounting method for the remaining investment has been changed from the cost to equity method, financial statement shall be adjusted retrospectively according to relevant standards.

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

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

(c) Measurement standard of joint control and significant influence

The term "control" refers to the power to determine the financial and operational polices of an entity and to obtain benefits from its operating activities. The term "joint control" refers to the control shared with other investors in accordance with the contracts or agreements over an economic activity, which shall not have existed unless all of the investors consent on the important financial and operational decisions related to the economic activity. The term "significant influences" refers to the ability to participate in making decisions on the financial and operational policies of an entity, however lacking the power to control or joint control with other parties over the formation of such policies. To conclude whether the investor is able to control or have significant influences on an invested entity, it shall be taken into account the influence of convertible corporate bonds and current executable share options held by the investors, as well as other potential factors affecting voting rights.

(d) Method of impairment test and recognition of impairment

At the balance sheet date, the Group shall examine whether any factor exists that indicates the long-term equity investment has been impaired. If there is sign of impairment, the estimated recoverable amount shall be calculated. If the recoverable amount of the assets is lower than its carrying value, the difference shall be recognized as impairment loss in the profit and loss.

Once impairment is recognized, it could not be written back in the future accounting periods.

(11) Fixed assets

(a) Recognition

Fixed assets represent the tangible assets held by the Group for producing goods, rendering service, renting and administrative purpose with useful lives over 1 year.

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

(11) Fixed assets *(Continued)*

(b) Depreciation method of fixed assets

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

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

Class of fixed assets	Useful life	Scrap value rate (%)
Plants and buildings	10-30 years	3-5
Machinery and equipment	3-15 years	3-5
Other fixed assets	2-10 years	3-5

The "scrap value" refers to the expected disposal proceeds of an asset less selling expense at the point the asset reaches its useful life.

(c) Method for impairment test and recognition of impairment

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

(d) The recognition criteria and measurement of fixed assets through financial leases

The "finance lease" refers to a lease where, in substance, all the risks and rewards related to the ownership of an asset have been transfer to the lessee, the ownership of which may or may not be eventually transferred. A leased asset shall be depreciated in the same way as that of the comparative asset owned by the lessee. If it is reasonably certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. Otherwise, the leased asset shall be fully depreciated over the shorter of the lease term or its useful life.

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

(11) Fixed assets *(Continued)*

(e) Other explanations

The subsequent expenditure relating to a fixed asset shall be capitalized if the economic benefits related to the fixed asset are likely to flow into the Group and the cost could be measured reliably. The carrying value of the replaced parts shall be derecognized; otherwise, they shall be included in the current profit and loss.

If a fixed asset is disposed, transferred, discarded or destroyed, the Group shall recognize the disposal proceeds less carrying value and relevant taxes in the current profit and loss.

The Group reviews the useful life, scrap value and depreciation method of the fixed assets periodically. The changes are treated as changes in accounting estimates if necessary.

(12) Construction in progress

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

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

(13) Borrowing costs

The borrowing costs include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange gain or loss on foreign currency borrowings. The borrowing costs directly attributable to the acquisition, construction or production of assets eligible for capitalization, shall start to be capitalized at the point of the latest of: the capital expenditure has already incurred, the borrowing costs has already incurred and The acquisition, construction or production activities necessary to bring the asset to its intended use or sale have already started. When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall cease. Other borrowing costs shall be recognized in the current profit and loss.

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

(13) Borrowing costs *(Continued)*

The interests of the special borrowings shall be capitalized after deducting the interests or investment income earned on the unused borrowings by depositing in the bank or making short term investment. The amount of interests on general borrowings to be capitalized shall be calculated by multiplying the weighted average of the accumulative capital expenditure exceeding the special borrowings by the capitalization rate of the general borrowings. The capitalization rate is the average rate of interest of general borrowings.

During the period of capitalization, the exchange gain or loss on foreign currency special borrowings shall be capitalized. The exchange gain or loss on foreign currency general borrowings shall be recorded into the current profit and loss.

The term "assets eligible for capitalization" refers to the fixed assets, investment properties, inventories and other assets, acquisition, construction or production of which may take quite a long time to bring to their intended use or sale.

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

(14) Intangible assets

(a) Intangible assets

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

The intangible assets shall be initially measured at its cost. The subsequent expenditure relating to an intangible asset shall be included in the cost, if the economic benefits related to intangible assets are likely to flow into the Group and the cost can be reliably measured. Other expenditures for an intangible item shall be recorded into the profit or loss for the current period.

Land license is usually stated as intangible asset. For self-constructed plants and buildings, the expenditure on land license and the cost of constructions shall be stated as intangible assets and fixed assets respectively. For purchased plants and buildings , the relevant cost shall be allocated between the land license and plants; if it is impossible to be allocated, all the relevant cost shall be stated as fixed assets.

The original cost of an intangible asset with definite useful life shall be amortized from the point it is available for use in a straight line basis over its useful life after deducting expected scrap value and impairment provision. Intangible assets with indefinite useful life may not be amortized.

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

(14) Intangible assets *(Continued)*

(a) Intangible assets *(Continued)*

The Group shall, at least at the end of each financial year, review the useful life and the amortization method of intangible assets with definite useful life. Changes would be treated as changes in accounting estimates if necessary. In addition, the Group shall review the useful life of intangible assets with indefinite useful life. If there are evidences proving the period during which the intangible asset can bring economic benefits to the entity can be expected, the useful life shall be estimated, and the intangible assets shall be amortized accordingly.

(b) Expenditure on research and development

Expenditure on an internal research and development project are divided into expenditure on research phase and expenditure on development phase. Research expenditure shall be recorded into current profits and loses while development expenditure may be capitalized as intangible assets if the Group can demonstrate the followings, otherwise it shall be recorded into current profits and loses:

(i) The technical feasibility to complete the intangible asset and use or sale it;

(ii) he intention to complete the intangible asset and use or sell it;

(iii) How the intangible asset will generate probable future economic benefit. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(iv) The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset;

(v) Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

If it is difficult to separate into research phase and development phase, the expenditure shall be recorded into current profits and loses.

(c) Method of impairment testing and measurement of impairment provision

Method of impairment testing and measurement of impairment provision of intangible assets, refer Note 15.

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

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

Non-financial non-current assets such as fixed assets, construction in progress, intangible assets with definite useful life, investment properties at cost model, long-term equity investments in subsidiaries, joint ventures and associations shall be examined, on the balance sheet date, to ensure whether there is any evidence of possible impairment of the assets. If there is evidence shows that the assets have been impaired, the recoverable amount of the assets shall be estimated and an impairment test shall be carried out. Even if there is no sign of impairment of asset, goodwill formed by business combination and intangible assets with indefinite useful life shall be subject to impairment test every year.

'If the recoverable amount of an asset is lower than its carrying value, the deference shall be recognized as impairment loss and a provision shall be made accordingly. The recoverable amount is the higher of fair value of the asset less disposal expense and the present value of expected future cash flow of the asset. The fair value of an asset is determined according to the price stipulated in a selling contract in a fair transaction. If there is no selling contract but an active market exists, the fair value of an asset shall be determined according to the price the buyer of the asset would pay. If there is no selling contract or active market, the fair value of an asset shall be estimated based on best information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, transport expense as well as the direct expenses to bring the assets into a sellable state. The present value of expected future cash flow of an asset shall be determined by discounting cash flow generated by continuous use and final disposal of the asset with an appropriate discount rate. Provision for impairment shall be determined on the basis of single asset. If it is difficult to estimate the recoverable amount of a single asset, the recoverable amount of an asset Group to which the asset belongs shall be estimated. The term "asset Group" refers to the smallest of Group of assets that can generate cash flow independently.

Once impairment loss is recognized, it shall not be written back in future accounting periods.

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

(16) Provisions

Obligations arising from contingent events shall be recognized as provisions provided that:

(i) The Group has a present obligation as a result of past event; (ii) It is probable that an outflow of resource embodying economic benefit will be required to settle the obligation and; (iii) A reliable estimation can be made on the amount of the obligation.

Provision shall be initially measured at the best estimate of necessary expenditure for the settlement of the current obligation at the balance sheet date, taking into account the risk, uncertainty, time value of money, and other factors related to the contingencies.

If all or some of the expenditure necessary for the settlement of a provision is expected to be reimbursed by a third party, the reimbursement shall be separately recognized as an asset when and only when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision.

(17) Revenue

(a) Revenue from sale of goods

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

(i) The significant risks and rewards of ownership of the goods have been transferred to the buyer; (ii) The Group retains neither continuing managerial involvement to the degree that usually associated with the ownership nor effective control over the goods sold; (iii) The amount of revenue can be measured reliably; (iv) It is probable that economic benefit will flow into the Group; (v) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

(17) Revenue *(Continued)*

(b) Revenue from rendering of services

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

The outcome of a transaction of rendering services can be measured reliable provided:

(i) The amount of revenue can be measured reliably;

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

(iii) The percentage of completion can be measured reliably;

(iv) The costs incurred or to be incurred in the transaction can be measured reliably.

If the outcome of a transaction of rendering services cannot be estimated reliably, revenue is recognized to the extent that the costs incurred can be recovered in the current profit and loss; and the costs incurred shall be recognized as current expenses. If the costs incurred are not expected to be recoverable, no service revenue is recognized.

A contract or agreement signed between entities concerns selling goods and rendering services shall be separated and accounted respectively, provided that the part of selling goods and the part of rendering services can be distinguished from each other and measured respectively. Otherwise, both parts shall be accounted for as sale of goods.

(c) Royalty revenue

The amount of royalty revenue shall be measured on an accrual basis under relevant contract or agreement.

(d) Interest revenue

The amount of interest revenue shall be measured in accordance with the period of time during which the Group's cash is occupied by others and the effective interest rate.

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

(18) Government grant

Government grant consists of the government grant on assets and government grant on revenue.

If government grant is in the form of transferring of monetary asset, it is measured at the amount received or to be received. If a government grant is in the form of transferring of non-monetary asset, it is measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount. The government grant measured at nominal amount shall be recognized directly in the current profit and loss.

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

If recognized government grant is to be repaid, the repayment of government grant shall be applied first against the unamortized deferred income. The excess shall be recognized immediately in profit and loss If no deferred income exists, it shall be recognized immediately in the current profit and loss.

(19) Deferred income tax asset and liability

(a) Income tax

On the balance sheet day, the current income tax liability (or asset) incurred in the current period or prior periods shall be measured at expected payable (refundable) amount of income tax according to the tax law. Current income tax shall be calculated based on the taxable income of the Group, which is arrived by adjusting accounting profit before tax for the year under tax law.

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

(19) Deferred income tax asset and liability *(Continued)*

(b) Deferred income tax asset and liability

When there is difference (temporary difference) between the carrying value of the assets or liabilities and the tax base, or temporary difference of items that is not recognized as assets or liabilities but have a tax base according to tax law, deferred income tax asset or liability shall be calculated by using balance sheet approach.

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

i. The initial recognition of goodwill;

ii. The initial recognition of assets or liabilities arising from the following transactions:

(i) The transaction is not a business combination and;

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

In addition, deferred tax liabilities shall not be recognized on the taxable temporary differences related to the investments of subsidiaries, associates and joint ventures provided that:

(i) The investing entity can control the time of the reversal of temporary differences;

(ii) The temporary differences are unlikely to be reversed in the excepted future. The Group shall recognize the deferred tax assets arising from deductible temporary differences to the extent that the deductible temporary differences can be utilized against future taxable income. However, the deferred tax assets arising from the initial recognition of assets or liabilities during the following transaction shall not be recognized:

(i) This transaction is not a business combination and;

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

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

(19) Deferred income tax asset and liability *(Continued)*

(b) Deferred income tax asset and liability *(Continued)*

ii. The initial recognition of assets or liabilities arising from the following transactions: *(Continued)*

Deferred tax assets shall not be recognized on the deductible temporary differences related to the investments of subsidiaries, associates and joint ventures, provided that:

(i) The temporary differences are not probable to be reversed in the expected future;

(ii) It is not probable to acquire sufficient taxable income against which the deductible temporary differences can be offset.

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

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

The carrying value of deferred tax assets shall be reviewed on the balance sheet day. If it is unlikely that the Group can obtain sufficient taxable income taxes to offset the benefit of the deferred tax assets, the carrying value of the deferred tax assets shall be written down. When it is probable that the Group can obtain sufficient taxable income, the amount written down previously shall be subsequently reversed.

(c) Income tax expenses

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

The current income tax and deferred income tax, associated with the transaction reported in other comprehensive income or shareholder's equity, shall be recognized in other comprehensive income or shareholder's equity. The deferred tax arising from business combination shall adjust goodwill. Other income taxes and deferred taxes are recorded into current profit and loss.

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

(20) Leases

The "financial lease" shall refer to a lease where in substance all the risks and rewards related to the ownership of an asset have been transferred, the ownership of which may or may not eventually be transferred. The term "operating lease" shall refer to a lease other than a financial lease.

(a) Operating leases as a lessee

The rental for operating leases shall be recorded by the lessee in the relevant asset costs or the profit and loss of the current period in a straight-line approach over the period of the lease term. The initial direct costs incurred by the lessee shall be recognized in the profit and loss of the current period. The contingent rentals shall be recorded into the profit and loss in the period when they actually occur.

(b) Operating leases as a lessor

The rental received from operating leases shall be recorded in the profit and loss of the current period in a straight-line approach over the period of the lease term. The initial direct costs incurred to the lessor shall be recorded into the profit and loss of the current period. The contingent rentals shall be recorded into the profit and loss in the period when they actually occur.

(c) Financial leases as a lessee

At the start date of the lease, the lessee shall recognize the leased asset at the lower of the fair value and the present value of the minimum lease payments, recognize a long term liability at the amount of the minimum lease payments. The balance between the carrying value of the leased asset and the long term liability shall be recognized as unrecognized financing cost. In addition, the direct attributable costs associated with the negotiation and signing of the lease contract are also included in the initial costs of the leased asset. Minimum lease payments net of unrecognized financing costs shall be disclosed separately between liability due within one year and liability due in more than one year.

The lessee shall adopt the effective interest rate method to calculate and recognize the financing costs in the current period. The contingent rentals shall be recorded into the profit and loss in the periods when they actually occur.

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

(20) Leases *(Continued)*

(d) Financial leasing as a lessor

At the start date of the lease, the lessor shall recognize the sum of the minimum lease receipts plus the initial direct costs in the financing lease receivables, as well as the unguaranteed residual value. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present value shall be recognized as unrecognized financing income. Financial lease receivables net of unrecognized financing income shall be disclosed separately between the receivables due within one year and receivable due in more than one year.

The lessor shall calculate the financing income at the current period by adopting the effective interest rate method. The contingent rentals shall be recorded into the profit and loss in the period when they actually occur.

(21) Employee benefits

The Group shall recognize the employee benefit payable as liabilities in the accounting period for the service provided by employees.

The Group is required to participate in the workers social security system set up by the government, including pensions, medical insurance, housing fund and other social security systems. The corresponding expenditures are included in the cost of related assets or the profit and loss when they occur.

The Group shall recognize the termination benefits as a liability and reported in the profit and loss accordingly, if the Group is demonstrably committed to terminate the employment of employees before the employment contract expires or provide termination benefits as a result of an offer made to encourage voluntary redundancy. The Group is demonstrably committed to a termination if it has a detail formal termination plan or a voluntary redundancy offer without realistic possibility of withdraw and the plan is about to be implemented.

The early retirement plan shall be accounted for as the above termination benefits. The Group recognizes the salaries and social insurances to be paid to the early retired employees from the date they terminate service to the normal retirement date in the profit and loss if they satisfy the recognition criteria of provisions.

(Expressed in million RMB unless otherwise indicated)

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

(22) Changes of significant accounting policies and estimates

(a) In the financial year of 2011, the Group has no changes in accounting policies.

(b) Explanation of changes in accounting estimates

According to the actual usage of the fixed assets, the useful life of the fixed assets has been reviewed and newly updated useful life has been applied. It became effective from the 1st October, 2011 following a resolution in the first extraordinary general meeting of 2011.

	before		after	
categories of fixed assets	**useful life** *(year)*	**depreciation rate** *(%)*	**useful life** *(year)*	**depreciation rate** *(%)*
properties	20	4.75%	30	3.17%
buildings	20	4.75%	30	3.17%
transmission devices	15	6.33%	15	6.33%
machineries	10	9.50%	15	6.33%
power equipment	11	8.64%	10	9.50%
vehicles	10	9.50%	10	9.50%
tools and instrumentations	7	13.57%	5	19.00%
administrative assets	5	19.00%	5	19.00%

The Adjustments have no effect on the principal business operations of the Company, the depreciation for the 4th quarter of 2011 reduced by RMB491 million, the shareholders' equity and net profit increased by RMB368 million.

(23) Corrections of prior year errors

In the financial year of 2011, the Group has no corrections of prior year errors.

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

(24) Significant accounting judgments and estimates

Considering the inherent uncertainty in business activities, in determining the carrying amounts of certain assets and liabilities, the Group needs to make assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date.

The judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, asserts and liabilities in financial statements are based on historical experience of the management and on other relevant factors. Additionally, the uncertainty of the assumption can lead to material adjustments of the carrying amounts of assets and liabilities within the next financial year.

The above mentioned judgments, estimates and assumptions are periodically reviewed on an ongoing basis. Influence of revisions to accounting estimates is accounted for in the current period if it only affects one period, or in the current period and future periods if it affects both current and future periods.

At the balance sheet date, the areas that involve significant judgments, estimates and assumptions are as follows:

(a) Provision for doubtful debts

An allowance for doubtful debts is made for any account considered to be doubtful of collection. Impairment losses for receivables are assessed based on the probability of default. The assessment of the impairment losses requires the judgments and estimates of the management. Hence, the differences between actual outcomes and the previous estimated outcomes can impact the carrying values of receivables and the recognition or the reversal of doubtful debts over the periods involved.

(b) Write-down of inventories

Inventories are stated at the lower of cost and net realizable value. The Group will make allowance for excess or obsolete inventories and write down to the net realizable value. Write-down of inventories to net realizable value is assessed based on the salability of inventories and the net realizable value. The assessment of write-down of inventories requires reliable evidence from the management. Moreover, the purpose of inventories and the effect of future events shall be taken into account when making judgments and estimates. Hence, the differences between actual outcomes and the previous estimated outcomes can impact the carrying value of inventories and the recognition or the reversal of provisions over the periods involved.

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

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

(c) Impairment of available-for-sale financial assets

The evaluation of the impairment of available-for-sale financial assets ultimately depends on the judgments and assumptions of the management. The Group thereby determines whether the impairment will be recognized in the income statement. In making the judgments and assumptions, the Group need to assess the gap between the fair value of the investment and the cost, the duration of it, the financial condition of the invested entity and the short-term prospective, including industry conditions, technological advances, the credit ratings, probability of default, and counterparty's risks.

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

The carrying values of non-financial non-current assets are reviewed at each reporting date to determine whether there is any indication of impairment. The intangible assets with indefinite useful life must be tested for impairment at least annually as well as when there is any indication of impairment. Other non-financial non-current assets shall be tested for impairment when there is indication that the carrying value is not recoverable.

Impairment occurs when the carrying value of an asset or asset Group is higher than its recoverable amount, which is the higher of fair value less disposal cost and the present value of expected future cash flows. The fair value is assessed by reference of contract price for similar asset in a fair trade or observable market price. The disposal cost is the attributable incremental cost associated with the disposal.

In estimating the present value of the future cash flows, the Group needs to make significant judgments on the production yield, pricing, related operating costs of the assets (or assets Group) and on the discount rate used to calculate the present value. The Group estimates the recoverable amount by using all accessible relevant information, including forecasts on production yield, pricing, and related operating costs based on reasonable and supportive assumptions.

(e) Depreciation and amortization

Fixed and intangible assets are depreciated and amortized in a straight-line approach over their estimated useful lives, taking into account of the scrap values. The Group regularly reviews the useful lives to determine the depreciation and amortization costs for each reporting period. The Group determines the useful lives of assets based on experience on similar assets as well as expected technological advances, changes to which are accounted for prospectively.

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

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

(f) Deferred tax assets

The deferred tax assets are recognized to the extent that the future taxable profits will be generated against which tax losses will be offset. In order to determine the amount of deferred tax assets, the Group's management needs to estimate the timing and the amount of taxable profits in the future by taking the influence of tax planning into account.

(g) Income tax

There are many uncertainties that influence the final tax treatment and calculation of tax liability in the normal course of business. Certain tax issues require the permission of tax authorities. When the actual results differ from what is initially estimated, such differences will impact the income tax expense in the income statement and the deferred tax assets or deferred tax liabilities in the period when they occur.

(h) Early retirement benefits and supplementary retirement benefits

The amount of early retirement benefits and supplementary retirement benefits expenses and liabilities is determined on a variety of assumptions. These assumptions include the discount rate, the growth rate of average medical cost, the growth rate of the retired employees' subsidies and other factors. Differences between actual and estimated results will be recognized immediately as an expense. Although management believes that the assumptions are reasonable, the experience and changes in the assumptions will affect the Group's expense of early retirement benefits and supplementary retirement benefits and the carrying value of liabilities.

(i) Provisions

The Group recognizes the provision for product quality guarantee, onerous contracts, and late delivery penalties in accordance with the terms of contract, current knowledge and historical experience. If such contingent events give raise to present obligations which will lead to an outflow of economic benefits from the Group, the Group recognizes the provisions on best estimate of the expenditures needed to settle the relevant current obligations. Recognition and measurement of the liabilities are expected to mainly rely on the management's judgment, which is based on related risks, uncertainties, time value of money and other factors.

(Expressed in million RMB unless otherwise indicated)

5. TAXATION

Main taxes and tax rates

Type of tax	Taxation rates and base
VAT	17% of output VAT and output VAT less input VAT
Business tax	Taxable income: 3%-5%
City construction and maintenance tax, Education surcharge and local education surcharge	Paid circulating tax: 7%, 3% , 1%
Corporate income tax	Taxable income: 25%
Custom duty	FOB: 5%-15%

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENT

(1) Subsidiary

(a) Subsidiaries acquired by set up method

Full name	Type of subsidiary	Regist -ration place	Nature of the business	Registered capital	Business scope	Company type	Legal representative	Organization code	Actual investment at the end of the year	Other essential investment
Angang Steel Distribution (Wuhan) Co., Ltd. ("Angang Wuhan")	Wholly-owned subsidiary	Wuhan	Steel Processing and distribution	108	Steel and related products production, processing, wholesale and retail	Limited liability company.	Li Baojie	67583176-9	108	
Angang Cold Rolled Steel(Putian) Co., Ltd. ("Angang Putian")	Wholly-owned subsidiary	Putian	Steel processing distribution	1,200	Processing of ferrous metal rolling, rolled steel products, metallurgy parts manufacturing, sales of steel products, processing of steel products and related services	Limited liability company	Cao Pizhi	55097071-4	1,200	
Angang Steel Distribution (Hefei) Co., Ltd. ("Angang Hefei")	Wholly-owned subsidiary	Hefei	Steel Processing and distribution	97.5	Steel and related products production, processing, wholesale and retail	Limited liability company	Dong Haoran	57302266-1	97.5	
Guangzhou Angang Steel Processing Co., Ltd. ("Angang Guangzhou")	Controlling subsidiary	Guangzhou	Steel Processing and distribution	80	Steel and related products production, processing, wholesale and retail	Limited liability company	Zhang Lifen	58950506-X	20	

(Expressed in million RMB
unless otherwise indicated)

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

(1) Subsidiary *(Continued)*

(a) Subsidiaries acquired by set up method *(Continued)*

Full name	The proportion of shareholding *(%)*	The Proportion of voting-right *(%)*	Included in consolidated statements	Minority interest	Deductible minority interest	Balance of parent Group's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
Angang Steel Distribution (Wuhan) Co., Ltd.	100	100	Yes			
Angang Cold Rolled Steel(Putian) Co., Ltd.	100	100	Yes			
Angang Steel Distribution (Hefei) Co., Ltd.	100	100	Yes			
Guangzhou Angang Steel Processing Co., Ltd.	51	51	Yes	20		

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

Full name	Type of subsidiary	Registration place	Nature of the business	Registered capital	Business scope	Company type	Legal representative	Organization code	Actual investment at the end of the year	Other essential investment
Tianjin Angang Tiantie Cold Rolled Sheets Group Limited("Tianjin Tiantie")	Controlling subsidiary	Tianjin	Steel processing distribution	3,700	Steel processing and sale	Limited liability company.	Chen Ming	75224243-2	1,850	

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

(1) Subsidiary *(Continued)*

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

Full name	Percentage of shareholding (%)	Percentage of voting-rights (%)	Included in consolidated statements	Minority interest	Deductible minority interest	Balance of parent Group's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
Tianjin Angang Tiantie Cold Rolled Sheets Group Limited	50	50	Yes	1,534		

Tianjin Tiantie was established jointly by the Group and Tianjin metallurgical holding ("Tiantie group").The proportion of shareholding of two parts is 50% respectively. According to the Articles of Tianjin Tiantie:

(a) Tiantie's financial and operational policy is in conformance with that of the Group.

(b) Chairman of the board is recommended by the Group.

(c) The board consists of nine directors of which five are recommended by the Group and four are recommended by the Tiantie Group (Resolution of the board passed by agreed over half of the directors of board).

(d) Financial controller is recommended by the Group.

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

(2) The change of the consolidation scope

Angang Hefei and Angang Guangzhou are newly established subsidiaries and are included in consolidation.

(Expressed in million RMB
unless otherwise indicated)

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

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

Name	Net assets at the end of the year	Net profits of the year
Angang Hefei	**98**	
Angang Guangzhou	**40**	

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the notes below(including notes to parent financial statements), unless otherwise special indicated, the ending of the year is 31 Dec. 2011, the beginning of the year is 1 Jan. 2011, "this year" is twelve months ended at 31 Dec. 2011, "last year" is twelve months ended at 31 Dec. 2010.

(1) CASH AT BANKS AND ON HAND

Items	Closing balance	Opening balance
Cash on hand	**1**	1
Cash at banks	**1,697**	2,975
Cash in other forms	**643**	675
Total	**2,341**	3,651

Note: Cash at banks and on hand this year decrease by 36% comparing with last year, was mainly because of the decrease of net cash inflow from operating activities.

(2) NOTES RECEIVABLE

(a) Classification of notes receivable

Items	Closing balance	Opening balance
Bank acceptance notes	**5,914**	3,703
Total	**5,914**	3,703

Note: Notes receivable at this year increases 60% comparing with last year, mainly due to more notes issued, less endorsement this year.

(Expressed in million RMB
unless otherwise indicated)

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

(2) NOTES RECEIVABLE *(Continued)*

(b) As at the ending of the year, notes receivable are used for mortgage

Issuer	Date of Issued	Issuing Date	Balance
Shanghai Gangyu Trading Company	Oct to Nov 2011	Mar. to Apr.,2012	65
Hubei Huitong Industry and Trading Co.	Oct to Dec 2011	Apr. to May.,2012	51
BYD Company Ltd	Oct.,2011	Apr.,2012	51
Dongguan Dongpu Trading Co Ltd	Oct to Nov 2011	Mar. to Apr.,2012	45
Eastern Branch of China Material Group Co.Ltd	Sep. to Oct., 2011	Mar. to Apr.,2012	39
Total			251

Note: The Group mortgaged notes receivable of book which valued 520 million in total for notes payable which valued at 507 million from China Merchant Bank. The mortgage deadline is November, 2011 to June, 2012;

The group mortgaged notes receivable of book which valued 10 million in total for letter of credit which valued at 10 million from Agricultural Bank of China. The mortgage deadline is October, 2011 to January, 2012.

(c) For this year, there was no notes receivable transferred to account receivables due to that the issuer is unable to honor its commitment.

(d) Outstanding undue endorsed notes (the top five by significant amount)

Issuer	Issuing date	Issuing date	Balance	Whether de-recognition	Notes
Daziran Steel Co.Ltd.	Jul to Nov., 2011	Jan. to May, 2012	267	Yes	
China CNR Co.Ltd	Jul to Aug., 2011	Jan. to Feb. 2012	160	Yes	
China Ordins Corporation Anshan Branch	Oct. to Dec., 2011	Apr. to Jun., 2012	111	Yes	
Yangfan Group Co.,Ltd	Jul. to Sep., 2011	Jan to Mar., 2012	108	Yes	
Dalian Shipbuilding Industry Co., Ltd.	Nov.,2011	May,2012	100	Yes	
Total			746		

(Expressed in million RMB
unless otherwise indicated)

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

(3) ACCOUNT RECEIVABLES

(a) Classified by nature

Items	Closing balance			
	Book balance		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually	**1,646**	**88**		
Other account receivables with insignificant single accounts on which bad debt provision made individually	**233**	**12**		
Total	**1,879**	**100**		

Type	Opening balance			
	Book balance		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually	1,836	89		
Other account receivables with insignificant single accounts on which bad debt provision made individually	225	11		
Total	2,061	100		

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

(3) ACCOUNT RECEIVABLES *(Continued)*

(b) The aging analysis of account receivables

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	**1,876**	**100**	2,054	100
1 to 2 years	**1**		3	
2 to 3 years	**1**		1	
Over 3 years	**1**		3	
Total	**1,879**	**100**	2,061	100

(c) Bad debt provision accrued at the end of the year

The management considered that significant account receivables could be recovered and the debtors are able to honor their commitment, so bad debt provision rate is relatively low.

(d) The total amount of account receivables due from shareholders with more than 5% (including 5%) voting rights of the Group at the end of the year is disclosed as follows

Debtor	Closing balance		Opening balance	
	Balance	Bad debt provision	Balance	Bad debt provision
Angang holding	**1**			
Total	**1**			

(Expressed in million RMB
unless otherwise indicated)

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

(3) ACCOUNT RECEIVABLES *(Continued)*

(e) As at 31 Dec. 2011, the total amount of account receivables due from the Group's top five debtors is disclosed as follows

Debtors	Relationship	Amounts	Duration	Percentage (%)
Angang Group International Trade Corporation("Angang Trade")	Fellow subsidiary	1,033	Within 3 month	55
FAM Purchasing Center	Third party	366	Within 4 month	19
ANSC-TKS Changchun Steel Logistics Co., Ltd. (''TKAS-SSC'')	Jointly controlled enterprise	115	Within 3 month	6
Daqing Oilfield Materials Co.	Third party	105	Within 3 month	6
Dalian CIMC Logistics Equipments Co. Ltd	Third party	36	Within 2 month	2
Total		1,655		88

(f) The related parties transactions are disclosed in Note:9 (6).

(4) OTHER RECEIVABLES

(a) Classified by nature

Type	Closing balance			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually	**16**	**47**		
Other account receivables with insignificant single accounts on which bad debt provision made individually	**18**	**53**		
Total	**34**	**100**		

(Expressed in million RMB unless otherwise indicated)

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

(4) OTHER RECEIVABLES *(Continued)*

(a) Classified by nature *(Continued)*

	Opening balance			
	Book balance		Bad debt provision	
Type	Amount	Percentage (%)	Amount	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually				
Other account receivables with insignificant single accounts on which bad debt provision made individually	15	100		
Total	15	100		

Note: Other receivables increases 127% this year comparing with last year, mainly due to the receivable export tax rebate valued 16 million at the end of this year.

(b) The aging analysis of other receivables

	Closing balance		Opening balance	
Aging	**Amount**	**Percentage (%)**	Amount	Percentage (%)
Within 1 year	**20**	**59**	13	87
1 to 2 years	**12**	**35**	2	13
2 to 3 years	**2**	**6**		
Over 3 years				
Total	**34**	**100**	15	100

(c) Bad debt provision accrued at the end of the year:

The management considered that significant account receivables could be recovered and the debtors are able to honor their commitment, so bad debt provision rate is relatively low.

(d) The Group does not have other receivables due from shareholders with more than 5% (including 5%) voting shares of the Group at the end of the year.

(Expressed in million RMB
unless otherwise indicated)

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

(5) PREPAYMENTS

(a) The aging analysis of prepayments

Aging	Closing balance		Opening balance	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Within 1 year	**3,406**	**88**	7,988	95
1 to 2 years	**324**	**8**	144	2
2 to 3 years	**100**	**3**	235	3
Over 3 years	**30**	**1**	13	
Total	**3,860**	**100**	8,380	100

Note: The prepayments aged more than one year were prepaid to Angang Trade for importing equipment and spare parts.

(b) At 31 Dec. 2011, top five debtors were as follows

Debtors	Relationship	Amounts	Aging	Reason for unsettlement
Angang Trade	Fellow subsidiary	3,054	Within 4 years	undue
Angang Engineering Technology Co.,Ltd(Angang Engineering Technology)	Fellow subsidiary	259	Within 1 years	undue
Angang Group Chaoyang Anling Steel Co.,Ltd(Angang Anling)	Fellow subsidiary	115	Within 1 years	undue
Shanghai Hanbao Industry and Business Co., Ltd	Third party	66	Within 1 years	undue
Tianjin Tiantie Metallurgy Trade Group Co., Ltd.	Third party	62	Within 1 years	undue
Total		3,556		

(c) No amount due from shareholders with more than 5% (including 5%) of the voting shares of the Group was included in the above balance of prepayments.

(Expressed in million RMB unless otherwise indicated)

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

(6) INVENTORIES

(a) An analysis of inventories by types

Items	Closing balance		
	Book value	Provision for diminution of inventory value	Carrying value
Raw materials	**4,066**	**64**	**4,002**
Work in progress	**4,380**	**228**	**4,152**
Finished goods	**2,640**	**368**	**2,272**
Consumables	**1,420**		**1,420**
Spare parts	**2,390**		**2,390**
Materials in transit	**1**		**1**
Outsourcing material	**5**		**5**
Total	**14,902**	**660**	**14,242**

Items	Opening balance		
	Book value	Provision for diminution of inventory value	Carrying value
Raw materials	4,206	378	3,828
Work in progress	3,645	114	3,531
Finished goods	2,004	73	1,931
Consumables	1,382		1,382
Spare parts	2,457		2,457
Materials in transit			
Outsourcing material	5		5
Total	13,699	565	13,134

(Expressed in million RMB
unless otherwise indicated)

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

(6) INVENTORIES *(Continued)*

(b) An analysis of provision for written down of inventories:

			Decrease of the year		
Items	**Opening balance**	**Increase of the year**	**Written back**	**Written off**	**Closing balance**
Raw materials	378	245		559	64
Work in progress	114	532		418	228
Finished goods	73	561		266	368
Total	565	1,338		1,243	660

(c) Analysis of provisions for written down of inventories

(i) The market price of steel products dropped this year which resulted in the net realizable value of finished goods and the relevant raw materials lower than the cost; therefore, provision for written down of inventories is made at the end of the year.

(ii) The reason that provision for written down of inventories has decreased was due to corresponding products had been sold, so the relevant provision had been transferred to cost of sale.

(7) OTHER CURRENT ASSETS

Items	Nature	**Closing balance**	Opening balance
Corporate income tax	Overpayment of corporate income tax	**94**	
Total		**94**	

(Expressed in million RMB unless otherwise indicated)

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

(8) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Items	Closing balance	Opening balance
Available-for-sale equity instrument	**92**	179
Total	**92**	179

Note: The Closing balance was decreased by 49% due to the Group subscribed 10 million A share common stock of Zhuzhou Smelter Group Ltd through non-public offering, Market value of the stock was 179 million at the end of the last year (RMB 17.92 per share). Market value of the stock was 92 million at the end of this year. (RMB 9.21 per share)

(9) LONG-TERM EQUITY INVESTMENTS

(a) Analysis of long-term equity investments by types

Type	Opening balance	Increase of the year	Decrease of the year	Closing balance
Investment in joint ventures	1,243	302	1	**1,544**
Investment in associates	488	111	18	**581**
Other equity investments	255	103		**358**
Less: Provision for impairment of long-term equity investments				
Total	1,986	516	19	**2,483**

(Expressed in million RMB
unless otherwise indicated)

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

(9) LONG-TERM EQUITY INVESTMENTS *(Continued)*

(b) Details for long-term equity investments

Name of investee	Accounting method	Initial investment cost	Opening balance	Change of the year	Closing balance
ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	Equity method	533	924	266	**1,190**
ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Group Limited ("ANSC-Dachuan")	Equity method	190	209	9	**218**
Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	Equity method	45	67	14	**81**
ANSC-TKS Changchun Steel Logistics Co., Ltd.("TKAS-SSC")	Equity method	48	43	12	**55**
TKAS Angang Shenyang Steel Product Processing and Distribution Group Limited ("Angang Shenyang")	Equity method	26	13	14	**27**
(Changchun) Tailored Blanks Ltd ("TKAS")	Equity method	37	55	4	**59**
Angang Package Steel Strip Company Limited) ("Angang Steel Strip")	Equity method	11	7	(2)	**5**
Angang Finance	Equity method	315	408	77	**485**
Tianjin Tantie Binhai Metallurgy Enterprise Co., Ltd. ("Binhai Industry")	Equity method	2	5		**5**
WISDRI Engineering and Research Incorporation Limited("WISDRI")	Cost method	35	35		**35**
Heilongjiang Longmay Mining Group Co., Ltd. ("Longmay Group")	Cost method	220	220		**220**
Anshan Falan Packing Material Co.,Ltd (Falan Packing)	Cost method	21		21	**21**
Dalian Shipbuilding Industry Co.,Ltd Shipyard Company(Dalian Shipyard)	Cost method	63		63	**63**
China Shipbuilding Industry Equipment And Materials Bayuquan Co., Ltd (China Shipbuilding)	Cost method	10		10	**10**
Dalian Shipbuilding Industry group Steel Co.,Ltd (Dalian Steel)	Cost method	9		9	**9**
Total			1,986	497	**2,483**

(Expressed in million RMB unless otherwise indicated)

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

(9) LONG-TERM EQUITY INVESTMENTS *(Continued)*

(b) Details for long-term equity investments *(Continued)*

Name Of investee	The proportion of Shareholding *(%)*	The proportion of voting-rights *(%)*	Note for difference between proportions of voting-rights and shareholding	Provision for impairment	Provision for impairment accrued this year	Cash dividends
ANSC-TKS	50	50				
ANSC-Dachuan	50	50				
Changchun FAM	50	50				
TKAS-SSC	50	50				
Angang Shenyang	30	30				1
TKAS	45	45				16
Entity Packing	30	30				
Angang Finance	20	20				
Binhai Industry	30	30				
WISDRI	7	7				9
Longmay Group	1	1				2
Falan Packing	15	15				
Dalian Shipyard	15	15				
China Shipbuilding	10	10				
Dalian Steel	15	15				
Total						28

(Expressed in million RMB unless otherwise indicated)

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

(9) LONG-TERM EQUITY INVESTMENTS *(Continued)*

(c) INVESTMENT IN JOINT VENTURES AND ASSOCIATES

(i) Particulars of joint ventures of the Group.

Name of investee	Type	Registration Place	Legal representative	Nature of business	Registered capital	The proportion of share-holding (%)	The proportion of voting-rights (%)
ANSC-TKS	Sino-Foreign Cooperative Venture	Dalian	Ai Qile	Steel processing	USD132 million	50	50
ANSC-Dachuan	Limited Liability Group	Dalian	Lin Daqing	Steel processing and sale	RMB380 million	50	50
Changchun FAM	Sino-Foreign Cooperative Venture	Changchun	Li Baojie	Steel production processing and service	RMB90.374 million	50	50
TKAS-SSC	Sino-Foreign Cooperative Venture	Changchun	Wang Yanping.	Steel processing and sale	USD12 million	50	50

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total revenue in the this year	Net profit in the this year
ANSC-TKS	3,185	778	2,407	5,002	528
ANSC-Dachuan	1,634	1,197	437	2,504	18
Changchun FAM	246	83	163	560	29
TKAS-SSC	419	299	120	1,171	25

(Expressed in million RMB unless otherwise indicated)

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

(9) LONG-TERM EQUITY INVESTMENTS *(Continued)*

(c) INVESTMENT IN JOINT VENTURES AND ASSOCIATES *(Continued)*

(ii) Particulars of associates of the Group

Name of investee	Type	Registration Place	Legal representative	Nature of business	Registered capital	Proportion of shareholding (%)	Proportion of voting-rights (%)
Angang Shenyang	Limited Liability Group	Shenyang	Zhao Guangjie	Tailored blanks processing	RMB86.50 million	30	30
TKAS	Sino-Foreign Joint Venture	Changchun	Nag Manfred	Steel processing and logistic	USD10 million	45	45
Entity Packing	Limited Liability Group	Anshan	Zhang Leng	Packaging steel belt and steel processing	RMB35.73 million	30	30
Angang Finance Corporation	Limited Liability Group	Anshan	Yu Wanyuan	Deposit finance	RMB1000 million	20	20
Binhai Industry	Limited Liability Group	Tianjin	Jia Deqi	Service	RMB5 million	30	30

(Continued)

Name of investee	Total assets at the end of the year	Total liabilities at the end of the year	Total net assets at the end of the year	Total revenue in the this year	Net profit in the this year
Angang Shenyang	185	97	88	716	1
TKAS	179	48	131	649	44
Entity Packing	22	5	17	21	(4)
Angang Finance	21,031	18,594	2,437	621	392
Binhai Industry	31	14	17	144	

(Expressed in million RMB
unless otherwise indicated)

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

(10) FIXED ASSETS

(a) Analysis of fixed assets

Items	Opening balance	Increase of the year	Decrease of the year	Closing Balance
Cost	87,747	3,239	325	**90,661**
Of which: Buildings and Plants	24,650	749	25	**25,374**
Machineries and equipment	58,798	2,324	274	**60,848**
Others	4,299	166	26	**4,439**
Accumulated depreciation	30,360	6,887	237	**37,010**
Of which: Buildings and Plants	5,456	1,219	15	**6,660**
Machineries and Equipment	22,865	5,186	205	**27,846**
Others	2,039	482	17	**2,504**
Net book value	57,387			**53,651**
Of which: Buildings and Plants	19,194			**18,714**
Machineries and equipment	35,933			**33,002**
Others	2,260			**1,935**
Provision for impairment	120		35	**85**
Of which: Buildings and Plants	14			**14**
Machineries and equipment	103		35	**68**
Others	3			**3**
Book value	57,267			**53,566**
Of which: Buildings and Plants	19,180			**18,700**
Machineries and equipment	35,830			**32,934**
Others	2,257			**1,932**

(Expressed in million RMB unless otherwise indicated)

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

(10) FIXED ASSETS *(Continued)*

(a) Analysis of fixed assets *(Continued)*

Note: i. The depreciation of this year was 6,887 million.

During this year, the cost that the construction in progress transferred into fixed assets was 3,222 million.

ii. According to the expert opinion of the asset management departments, provision for impairment is made for the fixed assets, which could not bring economic benefits to the enterprise, due to technological obsolescence, damage, or other reasons, and the provision amount to the difference between the carrying amount and recoverable amount. The recoverable amount was calculated based on estimated net cash flows arising from the normal usage during the estimated useful life and the asset disposal.

(b) Temporarily idle fixed assets

Items	Cost	Accumulated depreciation	Provision for impairment	Book value	*Notes*
Buildings and Plants	19	8		11	Renovation
Machineries and Equipment	245	142	26	77	Renovation
Others	20	16	3	1	Renovation
Total	284	166	29	89	

(c) The group had no financial leased fixed asset leased from others at 31 Dec. 2011.

(d) Operating leased fixed asset leased to others

Items	**Closing book value**	Opening book value
Buildings and Plants	**69**	34
Machineries and Equipment	**74**	5
Total	**143**	39

(Expressed in million RMB
unless otherwise indicated)

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

(11) CONSTRUCTION IN PROGRESS

(a) Analysis of construction in progress

	Closing balance			Opening balance		
Items	**Book balance**	**Provision for impairment**	**Book value**	Book balance	Provision for impairment	Book value
Tiantie project	**1,871**		**1,871**	1,424		1,424
Bayuquan project	**2,103**		**2,103**	1,466		1,466
Putian cold project	**2,228**		**2,228**	294		294
Chemical 4# plant renovation	**1,441**		**1,441**	185		185
Chemical 3# benzene hydrogenation and substation renovation				4		4
High capability cold rolling silicon steel production line	**38**		**38**	43		43
3# casting machine				611		611
Seamless 177 petroleum pipeline				224		224
Wire production line renovation	**40**		**40**	1		1
Oxygen producer				89		89
Central power station				3		3
Continuous rolling line of western district				11		11
Others	**1,415**		**1,415**	922		922
Total	**9,136**		**9,136**	5,277		5,277

Tote: Construction in progress this year increased by 73% comparing with last year , mainly because of the increase of Bayuquan Project, Putian project and .Technical renovation Project.

(Expressed in million RMB unless otherwise indicated)

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

(11) CONSTRUCTION IN PROGRESS *(Continued)*

(b) Changes in main project of construction in progress

Items	Budget	Opening balance	Increase of the year	Transferred into fixed assets	Other decrease	Closing balance
Tiantie project	6,299	1,424	452	4	1	**1,871**
Bayuquan project	10,850	1,466	1,513	876		**2,103**
Putian cold project	3,770	294	1,934			**2,228**
Chemical 4# plant renovation	1,577	185	1,256			**1,441**
Chemical 3# benzene hydrogenation and substation renovation	385	4	11	15		
High capability cold rolling silicon steel production line	3,400	43	(5)			**38**
3# casting machine	940	611	211	822		
Seamless 177 petroleum pipeline	817	224	6	230		
Wire production line renovation	755	1	39			**40**
Oxygen producer	571	89	17	106		
Central power station	350	3	25	28		
Continuous rolling line of western district	273	11		11		
Others		922	1,626	1,130	3	**1,415**
Total		5,277	7,085	3,222	4	**9,136**

(Expressed in million RMB
unless otherwise indicated)

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

(11) CONSTRUCTION IN PROGRESS *(Continued)*

(b) Changes in main project of construction in progress *(Continued)*

Items	Accumulated capitalized borrowing cost	Of which: capitalized this year	Capitalization rate (%)	Expenditure of budget (%)	Project progress (%)	Resource of capital
Tiantie project	236	84	5.85	81	81	Self-financing,
Bayuquan project	395	97	5.28	67	67	Self-financing, borrowings
Putian cold project	114	81	5.07	73	73	Self-financing
Chemical 4# plant renovation	71	53	5.28	87	87	Self-financing
Chemical 3# benzene hydrogenation and substation renovation	21			100	100	Self-financing
High capability cold rolling silicon steel production line	321			99	99	Self-financing
3# casting machine	58	34	5.28	81	81	Self-financing
Seamless 177 petroleum pipeline	40	5	5.28	100	100	Self-financing
Wire production line renovation	34			94	94	Self-financing
Oxygen producer	45	2	5.28	100	100	Self-financing
Central power station	21			100	100	Self-financing
Continuous rolling line of western district	11			100	100	Self-financing
Others	290	71	5.28			Self-financing, Borrowings
Total	1,657	427				

Note: The self-financing consists of non-special borrowings and gains from operating.

(c) As at 31 Dec 2011, no book value of construction in progress was higher than its realizable value.

(12) CONSTRUCTION MATERIALS

Project	Opening balance	Increase of the year	Decrease of the year	Closing balance
Special materials	2	5	6	**1**
Special equipment	1,045	3,060	3,974	**131**
Total	1,047	3,065	3,980	**132**

Note: The closing balance of construction materials decreased by 87% comparing with the opening balance due to the receipt of production.

(Expressed in million RMB
unless otherwise indicated)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) INTANGIBLE ASSETS

Items	Opening balance	Increased of the year	Decreased of the year	**Closing balance**
Total cost	7,752	25		**7,777**
Land use rights	7,692	21		**7,713**
software	28	4		**32**
Non-patented technology	32			**32**
Accumulative amortization	785	168		**953**
Land use rights	749	156		**905**
software	12	7		**19**
Industrial technology	24	5		**29**
Total net book value	6,967			**6,824**
Land use rights	6,943			**6,808**
software	16			**13**
Non-patented technology	8			**3**
Total provision for impairment				
Land use rights				
software				
Non-patented technology				
Total book value	6,967			**6,824**
Land use rights	6,943			**6,808**
software	16			**13**
Non-patented technology	8			**3**

Note: The amortization amount was 168 million this year

(Expressed in million RMB
unless otherwise indicated)

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

(14) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITIES

(a) Recognized deferred income tax assets and deferred income tax liabilities

(i) Recognized deferred income tax assets

Items	Closing balance: Deferred income tax assets	Closing balance: Temporary difference or deductible loss	Opening balance: Deferred income tax assets	Opening balance: Temporary difference or deductible loss
Provision for diminution in value of inventories	**165**	**660**	141	565
Provision for impairment against fixed assets	**21**	**85**	30	120
Accumulated depreciation of fixed asset	**5**	**21**	5	18
Adjustment for unrealized inter-Group profit	**7**	**27**	20	81
Salaries payable	**42**	**169**	42	169
Termination benefits	**9**	**37**	16	65
Employee training expenses	**15**	**60**	14	55
Deductible losses	**1,948**	**7,791**	1,125	4,501
Government grant	**167**	**667**	36	143
Safety production expense	**12**	**47**	18	70
Total	**2,391**	**9,564**	1,447	5,787

Note: Deferred income tax assets this year increased by 65% comparing with last year, mainly because of the increase of government grants and deductible losses.

(Expressed in million RMB unless otherwise indicated)

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

(14) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITIES *(Continued)*

(a) Recognized deferred income tax assets and deferred income tax liabilities *(Continued)*

(ii) Recognized deferred income tax liabilities

Items	Closing balance: Deferred income tax assets	Closing balance: Temporary difference or deductible loss	Opening balance: Deferred income tax assets	Opening balance: Temporary difference or deductible loss
Fair value variation on available-for-sale financial asset	**3**	**11**	25	99
Capitalized borrowing cost of general purpose loan	**26**	**106**	34	135
Adjustment for unrealized inter-Group profit	**10**	**40**	2	8
Total	**39**	**157**	61	242

Note: Deferred income tax liabilities this year decreased by 36% comparing with last year, mainly because of the decrease of fair value variation on available-for-sale financial asset.

(b) As at 31 Dec. 2011, there was no temporary difference or deductible loss unrecognized as deferred income tax assets.

(15) PROVISIONS FOR IMPAIRMENT

Items	Opening balance	Provision for this year	Decrease: Written back	Decrease: Written off	Closing balance
Provision for diminution in value of inventories	565	1,338		1,243	**660**
Provision for impairment against fixed assets	120			35	**85**
Total	685	1,338		1,278	**745**

(Expressed in million RMB
unless otherwise indicated)

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

(16) ASSETS WHICH OWNERSHIP OR USE RIGHT IS RESTRICTED

Disclosed in Note 7(2).

(17) SHORT-TERM LOANS

Items	**Closing balance**	Opening balance
Mortgage loans		200
Guaranteed loans *(Note)*	**1,380**	1,895
Credit loans	**9,250**	8,300
Total	**10,630**	10,395

Note: The guaranteed loans were used in Tiantie project, and was guaranteed by Tiantie Group and its subsidiaries.

(18) NOTES PAYABLE

Classification of notes	**Closing balance**	Opening balance
Bank acceptance notes	**5,565**	4,879
Total	**5,565**	4,879

Note: The amount that would be due within the next accounting year was 5,565 million.

(Expressed in million RMB
unless otherwise indicated)

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

(19) ACCOUNT PAYABLES

(a) Account payables classified according to nature

Items	Closing balance	Opening balance
Account payables for purchasing	**4,252**	4,372
Construction cost	**286**	210
Operation expenses on supporting production	**76**	54
Freight	**26**	29
Others	**47**	18
Total	**4,687**	4,683

(b) About the related party transactions and shareholders with more than 5% (including 5%) of the voting shares of the Group, refer *Note:* 9 (6).

(c) There was no significant account payables aged over 1 year at the end of the year.

(20) ADVANCES FROM CUSTOMERS

(a) Advances from customers classified according to nature

Items	Closing balance	Opening balance
Sales of products	**4,396**	6,157
Total	**4,396**	6,157

(b) About the related party transaction and shareholders with more than 5% (including 5%) of the voting shares of the Group, refer *Note:* 9 (6).

(c) There were no significant advances from customers aged over 1 year at the end of the year.

(Expressed in million RMB
unless otherwise indicated)

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

(21) EMPLOYEE BENEFITS PAYABLE

Items	Opening balance	Accrued during this year	Paid during this year	**Closing balance**
1. Salaries, bonus and allowance	236	1,550	1,550	**236**
2. Staff welfare		267	267	
3. Social insurance		572	572	
Including: Medical insurance		109	109	
Basic Pension Insurance		311	311	
Annuity payment		64	64	
Unemployment insurance		31	31	
Staff and worker' injury insurance		22	22	
Others		35	35	
4. Housing fund		208	208	
5. Labor union fee and staff training fee	58	53	48	**63**
6. Termination benefits	28	109	118	**19**
7. Non-currency benefits				
8. Others		62	62	
Total	322	2,821	2,825	**318**

(22) TAXES AND SURCHARGES PAYABLE

Items	**Closing balance**	Opening balance
VAT	**(1,934)**	(1,850)
Enterprise income tax	**8**	(24)
Individual income tax	**4**	7
City maintenance and construction tax	**6**	21
Education surcharges	**3**	9
Local education surcharges	**2**	3
Property tax	**13**	8
Land use tax	**18**	
Stamp tax	**9**	6
Taxes to be offset	**(43)**	(16)
Total	**(1,914)**	(1,836)

(Expressed in million RMB unless otherwise indicated)

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

(23) INTERESTS PAYABLE

Items	Closing balance	Opening balance
Interest for short-term financing bonds	**232**	79
Total	**232**	79

Note: The interest payable was increased mainly due to the interest for short-term financing bonds issued by the company and the amount of the short-term financing bonds was 6 billion.

(24) OTHER PAYABLES

(a) Analysis of other payables

Items	Closing balance	Opening balance
Construction costs	**1,126**	1,074
Guarantee -project/spare parts	**858**	863
The Energy-saving and Emission-reducing funds transferred by Angang holding	**319**	278
Performance guarantee	**184**	209
Freight charges	**105**	114
Deposit for steel shelves	**14**	66
Withholding tax payable		1
Others	**97**	132
total	**2,703**	2,737

(b) About the related party transaction and shareholders with more than 5% (including 5%) of the voting shares of the Group, refer *Note:* 9 (6).

(Expressed in million RMB
unless otherwise indicated)

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

(24) OTHER PAYABLES

(c) Large balance of other payables aged over 1 year

Creditor	**Closing balance**	Reason	Whether paid after balance sheet date
Angang Construction Group	**123**	Project quality assurance	No
Third of China Metallurgical Group Co., Ltd.	**57**	Project quality assurance	No
Northeast Geotechnical Investigation Co., L td	**42**	Project quality assurance	No
Angang Engineering Technology	**29**	Project quality assurance	No
Others	**223**	Project quality assurance	No
Total	**474**		

(25) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR

(a) Long-term liabilities due within 1 year

Items	**Closing balance**	Opening balance
Long-term loans due within 1 year *(Note.(27))*	**4,201**	5,961
Total	**4,201**	5,961

(b) Long-term loan liabilities due within 1 year

(i) The analysis of long-term loans due within 1 year

Items	**Closing balance**	Opening balance
Guaranteed loans *(Note.(27))*	**720**	1,420
Credit loans	**3,481**	4,541
Total	**4,201**	5,961

(Expressed in million RMB
unless otherwise indicated)

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

(25) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR

(b) Long-term loan liabilities due within 1 year

(ii) Top five long-term loans due within 1 year

Loaner	Commence date	Expiry date	Interest rate *(%)*	**Closing balance**	Opening balance
Industrial and Commercial Bank of China Anshan Branch	Jul 2008	Dec 2012	6.21	**700**	700
Bank of Agriculture Anshan Branch	May 2009	May 2012	5.99	**400**	400
Bank of Agriculture Anshan Branch	May 2009	May 2012	5.99	**300**	300
Bank of Agriculture Anshan Branch	May 2009	May 2012	5.99	**300**	300
CCB trust Co., Ltd.	Mar., 2010	Mar., 2012	5.13	**300**	300
Total				**2,000**	2,000

(iii) There were no overdue loans in long-term loans due within 1 year.

(26) OTHER CURRENT LIABILITIES

Item	Content	**Closing balance**	Opening balance
Deferred income	Government grants related to assets	**5**	23
Short-term financing bonds		**6,000**	3,000
Total		**6,005**	3,023

Note: The closing balance of other current liabilities increased comparing with the opening balance due to the increase of 6 billion of short-term financing bonds issued by the group.

(Expressed in million RMB
unless otherwise indicated)

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

(27) LONG-TERM LOANS

(a) Classification of Long-term loans

Items	Closing balance	Opening balance
Guaranteed loans (see note)	**2,660**	4,080
Credit loans	**14,676**	14,598
Minus: long-term loans that would due within 1 year *(Note:7(25)*	**4,201**	5,961
Total	**13,135**	12,717

Note: Guaranteed loans were used in Putian cold project and Tiantie project, provided by Angang group and Tiantie group, its subsidiaries.

(b) Top five long-term loans

Loaner	Commence date	Expiry date	Interest rate *(%)*	Closing balance	Opening balance
Angang Finance	Apr.2010	Apr., 2013	5.76	**700**	700
Industrial and Commercial Bank of China Anshan Branch	Jul, 2008	Dec.,2012	6.97	**700**	700
Industrial and Commercial Bank of China Anshan Branch	Jul, 2008	Jul.,2013	6.21	**700**	700
Angang Finance	Jun., 2011	Jun.,2014	5.76	**500**	
China Development Bank of Liaoning Branch	Jul., 2010	Apr.,2030	6.64	**500**	500
Total				**3,100**	2,600

(Expressed in million RMB unless otherwise indicated)

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

(28) OTHER NON-CURRENT LIABILITIES

Item	Content	**Closing balance**	Opening balance
Deferred income	Government grants related to assets	**668**	554
Termination benefits	Termination benefits payable in above 1 year	**18**	37
Total		**686**	591

(29) SHARE CAPITAL

	Opening balance		Changes of the year(+,-)					**Closing balance**	
Items	Amount	Proportion	Issued new shares	Bonus shares	Shares transferred from accumulated fund	Others	Subtotal	**Amount**	**Proportion**
(1) Ordinary A shares with restrictions on sale									
State-owned shares	4,341	60				(4,341)	(4,341)		
(2) Shares with non-restriction on sale									
a. Ordinary A shares	1,808	25				4,341	4,341	**6,149**	**85**
b. Foreign shares listed overseas ("H shares")	1,086	15						**1,086**	**15**
Total	7,235	100						**7,235**	**100**

(Expressed in million RMB
unless otherwise indicated)

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

(30) CAPITAL RESERVE

Items	Opening balance	Increase of the year	Decease of the year	Closing balance
Share premium	31,439			**31,439**
Other capital reserve				
Including: Fair value variation on available-for-sale financial asset	84		65	**19**
Other changes in shareholders' equity of the invested entity	(2)	2		
Total	31,521	2	65	**31,458**

Note: Reduction of other capital reserve was due to fair value change on available-for-sale financial assets disclosed in the *Note:* 7 (8).

(31) SPECIAL RESERVE

Items	Opening balance	Accrued during this year	Paid during this year	Closing balance
Safe production expenses	70	33	56	**47**
Total	70	33	56	**47**

Note: The decrease of special reserve was due to safe production expenses spent in this year.

(32) SURPLUS RESERVE

Items	Opening balance	Increase of the year	Decease of the year	Closing balance
Statutory surplus reserve	3,570			**3,570**
total	3,570			**3,570**

(Expressed in million RMB unless otherwise indicated)

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

(33) UNDISTRIBUTED PROFITS

(a) Changes of undistributed profits

Items	This year	Last year	Appropriation or distribution proportion
Undistributed profits at the end of last year before adjustment	**11,672**	10,280	
Adjustment for undistributed profits at the beginning of year			
Undistributed profits at the end of last year after adjustment	**11,672**	10,280	
Add: Net profits attributable to owners of parent company during this year	**(2,146)**	2,039	
Recovery of losses from surplus reserve			
Other transferred-in			
Less: Appropriation of statutory surplus reserve		213	10%
Appropriation of discretionary surplus reserve			
Dividend to shareholder	**1,085**	434	
Dividend of ordinary shares transferred to share capital			
Undistributed profits at the end of year	**8,441**	11,672	

(b) The analysis of profit distribution

The Annual General Meeting of Shareholders of 2010 reviewed and approved of the profit distribution plan for 2010 on 30 May 2011, based on the total share capital 7,234,807,847 shares as at 31 Dec. 2010. The Company declared cash dividend of RMB 0.15 per share to the ordinary shareholders, and distributed 922 million to ordinary A shareholders and 163 million to H shareholders respectively

(Expressed in million RMB
unless otherwise indicated)

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

(34) OPERATING INCOME AND OPERATING COSTS

(a) Operating income and operating costs

Items	This year	Last year
Operating income from main operation	**90,207**	92,212
Other operating income	**216**	219
Total	**90,423**	92,431
Operating costs for main operation	**86,192**	82,486
Other operating costs	**214**	208
Total	**86,406**	82,694

(b) Main operation according to industry

	This year		Last year	
Name of industry	Operating income from main operation	Operating costs for main operation	Operating income from main operation	Operating costs for main operation
Ferrous metal smelting and steel rolling process	**90,207**	**86,192**	92,212	82,486
Total	**90,207**	**86,192**	92,212	82,486

(c) Main operation according to products

	This year		Last year	
Name of industry	Operating income from main operation	Operating costs for main operation	Operating income from main operation	Operating costs for main operation
Hot rolled products	**27,421**	**26,337**	27,231	24,779
Cold rolled products	**36,472**	**33,446**	38,726	31,886
Medium -thick plate	**14,233**	**14,182**	15,008	14,857
Others	**12,081**	**12,227**	11,247	10,964
Total	**90,207**	**86,192**	92,212	82,486

(Expressed in million RMB unless otherwise indicated)

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

(34) OPERATING INCOME AND OPERATING COSTS

(d) Operating income according to regions

Regions	**This year** Operating income from main operation	**This year** Operating costs for main operation	Last year Operating income from main operation	Last year Operating costs for main operation
China	**81,914**	**78,632**	84,601	76,001
Overseas	**8,509**	**7,774**	7,830	6,693
Total	**90,423**	**86,406**	92,431	82,694

(e) Top five buyers

Period	**Sum of top five buyers**	**Proportion** *(%)*
This year	20,893	23
Last year	21,755	24

(35) BUSINESS TAXES AND SURCHARGES

Items	**This year**	Last year
Resources tax and Business Tax	**3**	4
City maintenance and construction tax	**92**	173
Education surcharge and local education surcharge	**65**	99
Custom duty	**9**	9
Total	**169**	285

Note:

i. Business tax and surcharges paid complying with Note 5.

ii. Business tax and surcharges were decreased by 41% comparing with last year due to decrease of VAT resulted to the decrease of city maintenance and construction tax and education and local education surcharges.

(Expressed in million RMB
unless otherwise indicated)

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

(36) MARKETING EXPENSES

Items	This year	Last year
Packing expense	**687**	725
Delivery expense	**534**	484
Sales and service expense	**125**	108
Agency fee for commissioned sales	**37**	84
Employee benefits fees	**36**	35
Insurance expense	**8**	9
Warehouse storage expense	**5**	6
Others	**117**	171
Total	**1,549**	1,622

(37) ADMINISTRATIVE EXPENSES

Items	This year	Last year
Repairs and maintenance	**1,638**	1,644
Employee benefits fees	**387**	526
Tax	**380**	329
Amortization of intangible assets	**168**	166
Depreciation	**96**	105
Sewage fee	**95**	90
Assistance expenditure of production	**89**	92
Computer maintenance expenditure	**73**	86
Security and firefighting expenses	**62**	69
Warehouse expenditure	**47**	61
Others	**304**	273
Total	**3,339**	3,441

(38) FINANCIAL EXPENSES

Items	This year	Last year
Interest expenses	**1,919**	1,758
Minus: Interest income	**28**	26
Minus: Capitalization of interest	**427**	455
Exchange gain and loss	**(42)**	(58)
Minus: Capitalization of exchange gain and loss		
Others	**48**	30
Total	**1,470**	1,249

(Expressed in million RMB unless otherwise indicated)

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

(39) INVESTMENT INCOME

(a) Statement on investment

Items	This year	Last year
Long-term equity investment income measured by cost method	**11**	16
Long-term equity investment income measured by equity method	**391**	393
Investment income from available-for-sale financial assets		2
Total	**402**	411

Note: There were no severe restrictions on the transfer of investment income to the Group.

(b) Long-term equity investments income measured cost method

Investee	This year	Last year
WISDRI	**9**	15
Longmay Group	**2**	1
Total	**11**	16

(c) Long-term equity investments income measured by equity method

Investee	This year	Last year
ANSC-TKS	**260**	258
Angang Finance	**77**	76
TKAS	**20**	18
Changchun FAM	**14**	17
TKAS-SSC	**12**	11
ANSC-Dachuan	**9**	11
Angang Shenyang	**1**	1
Entity Packing	**(2)**	(2)
Binhai Industry		3
Total	**391**	393

(Expressed in million RMB
unless otherwise indicated)

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

(40) IMPAIRMENT LOSSES

Items	This year	Last year
Provision for diminution in value of inventories	**1,338**	1,294
Provision for impairment of fixed assets		4
Total	**1,338**	1,298

(41) NON-OPERATING INCOME

(a) Particulars about non-operating income

Items	This year	Last year	The amount recorded into extraordinary gains and losses
Total gains from disposal of non-current assets	**24**	21	24
Including: Gains on fixed assets scrapped	**14**	16	14
Other gains on disposal of fixed assets	**10**	5	10
Government grant (Disclosed in the form: Details of government grants)	**190**	117	190
Others	**3**	4	3
Total	**217**	142	217

Note: The non-operating income increased by 53% comparing with last year mainly due to the increase of Government grant.

Including: Details of government grants:

Items	This year	Last year
R & D subsidy	**33**	77
Military project grants	**25**	40
Environment protection	**132**	
Total	**190**	117

(Expressed in million RMB unless otherwise indicated)

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

(42) NON-OPERATING EXPENSES

Items	This year	Last year	The amount recorded into extraordinary gains and losses
Total loss on disposal of non-current assets	**49**	35	49
Including: Loss on fixed assets scrapped	**46**	34	46
Other loss on disposal of fixed assets	**3**	1	3
Others	**3**	2	3
Total	**52**	37	52

Note: The non-operating expenses increased by 41% comparing with last year mainly due to the increase of Loss on fixed assets disposal

(43) INCOME TAX EXPENSES

Items	This year	Last year
Income tax calculated according to the Law of Tax and relevant regulations	**(5)**	748
Adjustments on deferred income tax	**(944)**	(340)
Total	**(949)**	408

Note: The income tax expenses decreases comparing with last year mainly because the occurance of loss during this year.

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

(44) BASIC EPS AND DILUTED EPS

For the company, the basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. In accordance with the specific terms and clauses of the issuance contract, the number of newly issued ordinary shares shall be calculated and decided as from the date of consideration receivable (generally the date of issuance of stocks).

For the company, the diluted earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public. When calculating the diluted earnings per share, the company shall adjust the current net profits belonging to the shareholders of ordinary shares for the items as follows:

(i) The interests of the diluted potential ordinary shares expensed in the current period,

(ii) The gains or lossed resulted from the conversion of the diluted potential ordinary shares and

(iii) The effects of the income tax on the above adjustments.

The weighted average number of the ordinary shares issued to the public in the current period shall be the sum of the weighted average number of ordinary shares in calculating the basic earnings per share and the weighted average number of increased ordinary shares assuming that the diluted potential ordinary shares have already been converted into ordinary shares.

When calculating the increase in the weighted average number of ordinary shares resulting from conversion from the diluted potential ordinary shares into ordinary shares, the diluted potential ordinary shares offered in prior periods shall be assumed to be converted at the beginning of current period. The diluted potential ordinary shares issued in current period shall be assumed to be converted at the date of offer.

(Expressed in million RMB unless otherwise indicated)

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

(44) BASIC EPS AND DILUTED EPS *(Continued)*

(a) Basic EPS and diluted EPS

Profits of the reporting year	**This year**		Last year	
	Basic EPS	**Diluted EPS**	Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	**(0.297)**	**(0.297)**	0.282	0.282
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	**(0.314)**	**(0.314)**	0.271	0.271

(b) Calculation of basic EPS and diluted EPS

(i) Calculation of the current net profits belonging to the shareholders of ordinary shares when calculating the basic earnings per share:

Items	**This year**	Last year
Net profit attributable to ordinary shareholders	**(2,146)**	2,039
Including: Net profit attributable to continuing operations	**(2,146)**	2,039
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	**(2,270)**	1,960
Including: Net profit attributable to continuing operations	**(2,270)**	1,960

(Expressed in million RMB
unless otherwise indicated)

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

(44) BASIC EPS AND DILUTED EPS *(Continued)*

(b) Calculation of basic EPS and diluted EPS *(Continued)*

(ii) Calculation of the weighted average number of ordinary shares issued to the public when calculating the basic earnings per share:

Items	This year	Last year
The number of ordinary shares issued to the public in the beginning of the year	**7,235**	7,235
Plus: the weighted average number of ordinary shares issued this year		
Minus: the weighted average number of ordinary shares repurchase this year		
The number of ordinary shares issued to the public in the end of the year	**7,235**	7,235

(iii) As the Company does not have diluted potential ordinary shares, Basic EPS the diluted EPS equals the basic EPS.

(45) OTHER COMPREHENSIVE INCOME

Items	This year	Last year
1. Gain from the available-for-sale financial assets	**(87)**	18
Minus: Income tax impact resulted from the available-for-sale financial assets	**(22)**	5
Subtotal	**(65)**	13
2. The share of investee' other comprehensive income under equity method	**2**	(2)
Minus: Income tax impact resulted from the share of investee' other comprehensive income under equity method		
Subtotal	**2**	(2)
Total	**(63)**	11

(Expressed in million RMB unless otherwise indicated)

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

(46) NOTES TO THE CASH FLOW STATEMENT

(a) Cash received from other operating activities

Items	This year	Last year
Government grants	326	665
Others	12	7
Total	338	672

(b) Cash paid for other operating activities

Items	This year	Last year
Freight fee payments for others	519	465
Agency fee for commissioned sales	85	107
Sewage fee	94	90
Computer maintenance expenses	66	77
Security and firefighting expenses	65	63
Afforestation fees	43	53
Pipeline transportation expenses	15	16
Agency fee	13	12
Procurement and marketing fees	105	80
Insurance fees	48	14
Others	447	299
Total	1,500	1,276

(c) Cash received from other investing activities

Items	This year	Last year
Income from trail run	11	59
interest revenue	32	28
Total	43	87

(Expressed in million RMB
unless otherwise indicated)

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

(46) NOTES TO THE CASH FLOW STATEMENT *(Continued)*

(d) Cash paid for other financing activities

Items	This year	Last year
Payment to the banks of discount rate on bills payable	**112**	70
Total	**112**	70

(47) SUPPLEMENT TO CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash flows from operating activities

Supplement	This year	Last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(2,332)**	1,950
Add: Provision for impairment	**60**	515
Depreciation of fixed assets	**6,887**	7,010
Amortization of intangible assets	**168**	166
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets("-" for gains)	**(7)**	(4)
Loss on scrap of fixed assets	**32**	18
Loss on the change of fair value		
Financial expenses	**1,422**	1,219
Investment loss	**(402)**	(411)
Decrease in deferred tax assets("-" for increase)	**(944)**	(335)
Increase in deferred tax liabilities("-" for decrease)		(5)
Decrease in inventories ("-" for increase)	**(1,144)**	(2,938)
Decrease in operating receivables ("-" for increase)	**1,628**	(2,788)
Increase in operating payables ("-" for decrease)	**(673)**	4,628
Others	**(32)**	1
Net cash flow from operating activities	**4,663**	9,026
2. Change in cash and cash equivalents		
Cash at the end of the year	**2,341**	3,651
Less: cash at the beginning of the year	**3,651**	2,242
Add: cash equivalents at the end of the year		
Less: cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**(1,310)**	1,409

(Expressed in million RMB
unless otherwise indicated)

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

(47) SUPPLEMENT TO CASH FLOW STATEMENT *(Continued)*

(b) Composition of cash and cash equivalents

Items	This year	Last year
1. Cash at bank and on hand	**2,341**	3,651
Of which: Cash	**1**	1
Bank deposits available	**1,697**	2,975
Other deposits available	**643**	675
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	**2,341**	3,651

8. ACCOUNTING TREATMENT OF ASSET SECURITIZATION

The Group had no operation about asset securitization this year.

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) INFORMATION ON THE PARENT OF THE GROUP

Group name	Related relationship	Group Type	Registration place	Legal representatives	The nature of business
Angang Holding	Parent Company	State owned Company	Tie Xi District Anshan Liaoning Province	Zhang Xiaogang	Production and sale of steel and metal products, steel filament Tubes, and metal structures

Group name	Registered Capital	The Group's shareholding	Proportion of voting-right	Ultimate controlling party	Organization Code
Angang Holding	10,794	67.29	67.29	Angang Group	24142001-4

(2) INFORMATION ON THE SUBSIDIARY OF THE GROUP

Disclosed in Note 6 (1).

(3) INFORMATION ON THE JOINTLY VENTURES AND ASSOCIATES OF THE GROUP

Disclosed in Note 7 (9) (3).

(Expressed in million RMB
unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(4) RELATED PARTIES WITHOUT CONTROL RELATIONSHIP

Name of enterprise	Relation with the Company	Organization code
ANSC-TKS	Jointly controlled enterprise	71093688-2
TKAS-SSC	Jointly controlled enterprise	785926056
Changchun FAM	Jointly controlled enterprise	76717649-0
ANSC-Dachuan	Jointly controlled enterprise	75990387-0
TKAS	Associate	767159789
Angang Finance	Associate	1188857-2
Binhai Industry	Subsidiary's associate	671473722
Angang Trade	Fellow subsidiary	24142372-5
Angang Construction Group	Fellow subsidiary	94129158-3
Angang Heavy machine Co., Ltd	Fellow subsidiary	24150326-6
Angang Fire-resistant material Co	Fellow subsidiary	94126547-3
Angang Steel rope Co., Ltd.	Fellow subsidiary	94126496-4
Angang Anshan Mining Co	Fellow subsidiary	24150404-X
Angang Entity Group	Fellow subsidiary	24142765-4
Angang House Property Co.	Fellow subsidiary	94126840-4
Angang Railway Transport Facilities Construction Co.	Fellow subsidiary	94121854-6
Angang Real Estate Development Co., Ltd	Fellow subsidiary	11886337-0
Angang mechanization loading Co.	Fellow subsidiary	94126489-2
Angang Mining Construction Co.	Fellow subsidiary	664557266
Angang Engineering Technology	Fellow subsidiary	79159132-8
Angang Electric Co., Ltd	Fellow subsidiary	94126485-X
Angang Automatism Co	Fellow subsidiary	94126643-3
Angang Auto Transport Co., Ltd	Fellow subsidiary	94126444-6
Angang Reception Service Co.	Fellow subsidiary	94121967-X
Angang Anling	Fellow subsidiary	664560991

For the year 2011 (Expressed in million RMB unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS

(a) Related party transactions

(i) Chase and services from Angang Holding and its subsidiaries

Contents	Pricing Policy	This Year Amount	This Year Percent of related transactions (%)	Last Year Amount	Last Year Percent of related transactions (%)
Raw materials	Note. I	**18,152**	**50**	14,468	47
Ancillary materials and spare parts	Note. ii	**1,595**	**14**	1,653	12
Energy and power supplies	Note. iii	**1,772**	**31**	1,971	33
Support services	Note. iv	**6,290**	**53**	5,665	66
Total		**27,809**		23,757	

(ii) Sales, Render services to Angang Holding and its subsidiaries

Contents	Pricing Policy	This Year Amount	This Year Percent of related transactions (%)	Last Year Amount	Last Year Percent of related transactions (%)
Products	Note.v	**8,452**	**10**	9,225	10
Scrap materials and Minus sieve powder	Note.v	**211**	**95**	122	84
General services	Note.vi	**573**	**37**	559	39
Total		**9,236**		9,906	

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS *(Continued)*

(a) Related party transactions

Notes:

I. The purchase price, ascertained and modified on a semi-annual basis, is mainly not higher than the average prices quoted to the Group for importing principal raw materials of similar quality plus freight charges in the previous interim year and adjustment for grade, an extra 5% discount on the importing average prices; Or the average prices charged by independent suppliers plus 10% mark up of processing costs (if applicable);

ii. The selling prices are not higher than the average prices charged to independent customers for the preceding month.

iii. Mainly at state prices, operating costs plus 5% of gross profit margin.

iv. At state prices, market prices, not higher than 1.5% of the commissions, depreciation fees and maintenance costs, labour, materials and management fees, and processing costs plus no more than 5% of the gross margin.

v. The steel products and scrap materials are mainly at selling prices based on the average prices charged to independent customers for the preceding month or market prices. The basis of the price of the steel products offered to Angang Holding for development of new products is, if there is market price, at the market price, if there is no market price, at the cost plus a reasonable profit.

The minus sieve powder is at prices for sintered iron ore less the cost of sintering procedures performed by Angang Holding.

Retired assets and idle assets are mainly at market prices or assessed prices.
vi. At the state prices, operating costs plus 5% of gross profit margin, or market prices.

(b) Leases

Lessor	Lessee	Leasing assets	Lease starting date	Lease expiring date	Rental income ascertained basis	Rental income
The Company	Angang Holding and its subsidiaries	Building and machinery	Jan 2011	Dec 2011	Lease agreement	4

(Expressed in million RMB
unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS *(Continued)*

(c) Guarantee of loans

Warrantor	Warrantee	Amount Guaranteed	Starting date	Expiring date	Whether fulfilled
Angang Holding	Angang Putian	1,100	Apr 2010	Jun 2016	No
Tiantie Group	Tianjin Tiantie	2,940	Feb.,2007	Jan 2014	No

(d) Assets transferred

Transferred	Type	Content	Pricing policy	This year Amount	This year Percent of related transactions (%)	Last year Amount	Last year Percent of related transactions (%)
Angang Holding	Purchase	Fixed assets, intangible assets, construction in progress	Market price			65	100
Total						65	

(e) Directors' and supervisors' remunerations

The interval of remunerations	This year	Last year
Total	**4**	4
Including: (number)		
Over 0 .20 million	**7**	8
0.15 to 0.20 million		
0.10 to 0.15 million	**1**	
Within 0.10 million	**4**	4

(Expressed in million RMB
unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS *(Continued)*

(f) Other related party transactions

(i) Received agency service from Angang Trade

The Group received agency services for domestic sales and export of products amount to 6.04 million tons and 1.63 million tons respectively for the year 2011 (6.76 million tons and 1.71 thousand tons for the year 2010).

(ii) Sales of products from The Group to the jointly controlled enterprises and the associates:

A. Sales of products

Name of enterprise	**Sales in this year**	Sales in Last year
ANSC-TKS	**3,315**	3,187
TKAS-SSC	**466**	459
Changchun FAM	**52**	94
Binhai Industry		31
TKAS	**2**	3

B. Agency service received from TKAS-SSC

The Group received agency services for domestic sales of products from TKAS-SSC amount to RMB 4 million for the year 2011 (2010: 5 million).

C. The Group received supporting services from Binhai Industry amount to 5 million for the year 2011 (2010:95 million).

(iii) Loan deposit, interest paid in/to Angang Finance

Items	Annual interest rate	Opening balance	Increased	Decreased	Closing balance	Terms of credit
Loan	5.49-6.318	7,300	6,050	7,200	6,150	Credit and Guarantee Loan
Deposit		2,607			1,128	

The Group's interest income of deposit from Angang finance was RMB 11 million (for the year 2010: RMB 8 million) and the interests for borrowing and bills discounted was RMB 410 million (for the year 2010: RMB 331 million).

(Expressed in million RMB unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS *(Continued)*

(f) Other related party transactions

(iv) Loan, interest paid into/to Angang Holiday

Items	Annual interest rate	Opening balance	Increased	Decreased	Closing balance	Terms of credit
loan	5.49-6.318		550		550	Credit Loan

The loan was released and managed by Angang Finance entrusted by Angang Holding, and interest this year was 21 million.

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES

(a) Account receivables and prepayment with related parties

Items	Closing balance	Opening balance
Account receivables		
Angang Trade	**1,033**	792
TKAS-SSC	**115**	69
Angang Anling	**18**	
Angang House Property Co.	**16**	
Angang Heavy machine Co., Ltd	**14**	26
Angang Holding	**1**	
Angang Electric Co., Ltd		3
Other related parties	**3**	2
Total	**1,200**	892
Prepayment		
Angang Trade	**3,054**	6,245
Angang Engineering Technology	**259**	15
Angang Anling	**115**	
Angang Heavy machine Co., Ltd	**9**	26
Angang Construction Group	**3**	101
Angang Automatism Co		59
Angang Electric Co., Ltd		2
Angang Entity Group		1
Total	**3,440**	6,449

(Expressed in million RMB
unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES *(Continued)*

(b) Accounts payable and advance from customers with related parties

Items	Closing balance	Opening balance
Account payables		
Angang Trade	**137**	38
Angang Entity Group	**34**	34
Angang Construction Group	**27**	27
Angang Mine Construction Co.	**20**	12
Angang Auto Transport Co., Ltd	**12**	12
Angang Holding	**12**	12
Angang Automatism Co	**9**	2
Angang Steel rope Co., Ltd.	**5**	2
Angang Electric Co., Ltd	**4**	2
Angang Railway Transport Facilities Construction Co.	**3**	6
Angang Real Estate Development Co., Ltd	**3**	5
Angang Heavy machine Co., Ltd	**1**	1
Angang Anshan Mining Co.		27
Binhai Industry		10
Other related parties		1
Total	**267**	191
Advance from customers		
Angang Trade	**581**	857
ANSC-TKS	**35**	381
Angang Construction Group	**17**	28
Angang Entity Group	**9**	13
Angang Anshan Mining Co.	**8**	6
Changchun FAM	**4**	21
Angang Steel rope Co., Ltd.	**1**	5
TKAS	**1**	1
Angang Holding	**1**	1
Other related parties	**1**	
Total	**658**	1,313

(Expressed in million RMB unless otherwise indicated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(6) THE BALANCES OF TRANSACTIONS WITH RELATED PARTIES *(Continued)*

(b) Accounts payable and advance from customers with related parties *(Continued)*

Items	Closing balance	Opening balance
Other payables		
Angang Holding	**320**	281
Angang Trade	**197**	181
Angang Construction Group	**183**	206
Angang Engineering Technology	**71**	41
Angang Automatism Co	**40**	25
Angang Entity Group	**36**	36
Angang Mine Construction Co.	**24**	17
Binhai Industry	**20**	19
Angang Heavy machine Co., Ltd	**17**	43
Angang Electric Co., Ltd	**13**	8
Angang Real Estate Development Co., Ltd	**9**	7
Angang Auto Transport Co., Ltd	**3**	9
Total	**933**	873

10. SHARE-BASED PAYMENT

As at the 31st December 2011, the Group had no share-based payment.

11. CONTINGENCIES

As at the 31st December 2011, there were no contingencies to be disclosed.

(Expressed in million RMB
unless otherwise indicated)

12. CAPITAL COMMITMENT

(1) SIGNIFICANT CAPITAL COMMITMENT

Terms	This year	Last year
Investment contracts entered into but not performed or performed partially	**456**	318
Construction and renovation contracts entered into but not performed or performed partially	**3,198**	3,985
Total	**3,654**	4,303

(2) PERFORMANCE OF THE CAPITAL COMMITMENT OF LAST YEAR

The Group's capital commitment has been performed according to commitment of prior years up to the 31st December 2011.

13. EVENTS AFTER THE BALANCE SHEET DATE

On the 24th February 2012, the Board has approved the Company to enter into the Capital Increase Agreement with Sansteel MinGuang Co., Ltd., Fujian ("Sansteel MinGuang") and Putian City State-owned Assets Investment Co., Ltd ("Putian Investment"). On the 27th Feb 2012, the Company has signed the agreement with Sansteel MinGuang and Putian Investment. The Parties have agreed to set the consideration for the capital increase base on the asset valuation of Angang Putian. Pursuant to the Capital Increase Agreement, each of Sansteel MinGuang and Putian Investment shall contribute RMB150,080,100 in cash to the capital of Angang Putian, each acquires 10% of the share capital.

14. OTHER SIGNIFICANT TRANSACTION

The following financing resolutions have been approved in the first extraordinary general meeting for the year 2011 held on the 19th Dec, 2011:

(1) Issuance of short term financing bonds in the inter-bank bonds market

The company is going to issue short term financing bonds in the inter-bank bonds market for not more than RMB 6 billion. The interest rate shall be determined by book building approach. The bonds are issued to the major industry investors in the market. The fund raised is mainly for repayment of bank loans or restructuring of capital structure to reduce capital cost.

(2) Issuance of medium term notes in the inter-bank bonds market

The company is going to issue medium term notes in the inter-bank bonds market at registered amount of RMB 8 billion. The notes are issued to the major industry investors in the market in two phases with equal amount, which matures in 3 or 5 years. The fund raised is mainly for supplementing short term capital, repayment of bank loans or company renovation projects.

(Expressed in million RMB
unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT

(1) ACCOUNT RECEIVABLES

(a) Classified by account nature

Items	Closing balance			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually	**1,691**	**88**		
Other account receivables with insignificant single accounts on which bad debt provision made individually	**233**	**12**		
Total	**1,924**	**100**		

Items	Opening balance			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Account receivables with significant single amount on which bad debt provision made individually	1,836	89		
Other account receivables with insignificant single accounts on which bad debt provision made individually	225	11		
Total	2,061	100		

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(1) ACCOUNT RECEIVABLES *(Continued)*

(b) The aging analysis of account receivables

Aging	Closing balance Amount	Closing balance Percentage (%)	Opening balance Amount	Opening balance Percentage (%)
Within 1 year	**1,921**	**100**	2,054	100
1 to 2 years	**1**		3	
2 to 3 years	**1**		1	
Over 3 years	**1**		3	
Total	**1,924**	**100**	2,061	100

(c) Bad debt provision accrued at the end of the year:

The management considered that significant account receivables could be recovered and the debtors are able to honor their commitment, so bad debt provision rate is relatively low.

(d) The total amounts of account receivables due from shareholders with more than 5% (including 5%) voting shares of the Group at the end of the year is disclosed as follows:

Debtor	Closing balance Balance	Closing balance Bad debt provision (%)	Opening balance Balance	Opening balance Bad debt provision (%)
Angang Holding	**1**			
Total	**1**			

(Expressed in million RMB unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(1) ACCOUNT RECEIVABLES *(Continued)*

(e) As at 31 Dec. 2011, the total amounts of account receivables due from the Group's top five debtors is disclosed as follows:

Debtors	Relationship	Amounts	Duration	Percentage (%)
Angang Trade	Subsidiary	1,033	Within 3 month	54
FAM Purchasing Center	Third party	366	Within 4 month	19
Angang Changchun	Joint venture	115	Within 3 month	6
Daqing Oilfield Materials Co.	Third party	105	Within 3 month	5
Tianjin Tiantie	Subsidiary	45	Within 1 month	2
Total		1,664		86

(e) The related parties transactions disclosed in *Note:* 9 (6).

(2) OTHER RECEIVABLES

See Note: 7 (4).

(3) LONG-TERM EQUITY INVESTMENT

(a) An analysis of long-term equity investments by types

Type	Opening balance	Increase of the year	Decrease of the year	**Closing balance**
Investment in subsidiaries	2,267	1,009		**3,276**
Investment in joint ventures	1,243	302	1	**1,544**
Investment in associates	483	111	18	**576**
Other equity investments	255	103		**358**
Less: Provision for impairment of long-term equity investment				
Total	4,248	1,525	19	**5,754**

Note: Long-term equity investments increased by 35% mainly due to the increase of investments.

(Expressed in million RMB unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(3) LONG-TERM EQUITY INVESTMENT *(Continued)*

(b) Details for long-term equity investments

Investee	Accounting method	Initial investment cost	Opening balance	Changes of the year	Closing balance
Angang Wuhan	Cost method	108	60	48	**108**
Tianjin Tiantie	Cost method	1,850	1,407	443	**1,850**
Angang PuTian	Cost method	1,200	800	400	**1,200**
Angang Hefei	Cost method	98		98	**98**
Angang Guangzhou	Cost method	20		20	**20**
ANSC-TKS	Equity method	533	924	266	**1,190**
ANSC-Dachuan	Equity method	190	209	9	**218**
Changchun FAM	Equity method	45	67	14	**81**
TKAS-SSC	Equity method	48	43	12	**55**
Angang Shenyang	Equity method	26	13	14	**27**
TKAS	Equity method	37	55	4	**59**
Entity Packing	Equity method	11	7	(2)	**5**
Angang Finance	Equity method	315	408	77	**485**
WISDRI	Equity method	35	35		**35**
Longmay Group	Cost method	220	220		**220**
Falan Packing	Cost method	21		21	**21**
Dalian Shipyard	Cost method	63		63	**63**
China Shipbuilding	Cost method	10		10	**10**
Dalian Steel	Cost method	9		9	**9**
Total			4,248	1,506	**5,754**

(Expressed in million RMB
unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(3) LONG-TERM EQUITY INVESTMENT *(Continued)*

(b) Details for long-term equity investments *(Continued)*

Investee	Proportion of Shareholding (%)	Proportion of voting-rights (%)	Note for difference between proportions of voting-rights and shareholding	Provision for impairment	Provision for impairment accrued in the this year	Cash dividends
Angang Wuhan	100	100				
Tianjin Tiantie	50	50				
Angang Putian	100	100				
Angang Hefei	100	100				
Angang Guangzhou	51	51				
ANSC-TKS	50	50				
ANSC-Dachuan	50	50				
Changchun FAM	50	50				
TKAS-SSC	50	50				
Angang Shenyang	30	30				1
TKAS	45	45				16
Entity Packing	30	30				
Angang Finance	20	20				
WISDRI	7	7				9
Longmay Group	1	1				2
Falan Packing	15	15				
Dalian Shipyard	15	15				
China Shipbuilding	10	10				
Dalian Steel	15	15				
Total						28

(Expressed in million RMB unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(4) OPERATING INCOME AND OPERATING COSTS

(a) Operating income and operating cost

Items	This year	Last year
Operating income from main operation	**88,601**	89,995
Other operating income	**48**	38
Total	**88,649**	90,033
Operating costs for main operation	**84,445**	80,230
Other operating costs	**35**	57
Total	**84,480**	80,287

(b) Main operation according to industry

	This year		Last year	
Industry nature	Operating income from main operation	Operating costs for main operation	Operating income from main operation	Operating costs for main operation
Ferrous metal smelting and steel rolling process	**88,601**	**84,445**	89,995	80,230
Total	**88,601**	**84,445**	89,995	80,230

(Expressed in million RMB unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(4) OPERATING INCOME AND OPERATING COSTS *(Continued)*

(c) Main operation according to product

	This year		Last year	
Product types	**Operating income from main operation**	**Operating costs for main operation**	Operating income from main operation	Operating costs for main operation
Hot-rolled products	**28,636**	**27,534**	29,687	27,249
Cold-rolled products	**33,651**	**30,502**	34,053	27,160
Medium-thick plates	**14,233**	**14,182**	15,008	14,857
Others	**12,081**	**12,227**	11,247	10,964
Total	**88,601**	**84,445**	89,995	80,230

(d) Operating income according to regions

	This year		Last year	
Regions	**Operating income from operation**	**Operating costs for operation**	Operating income from operation	Operating costs for operation
China	**80,140**	**76,706**	82,203	73,594
overseas	**8,509**	**7,774**	7,830	6,693
Total	**88,649**	**84,480**	90,033	80,287

(e) Top five buyers

Period	**Sum of top five buyers**	**Proportion** *(%)*
This year	20,511	23
Last year	21,710	24

(Expressed in million RMB
unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(5) INVESTMENT INCOME

(a) Statement on investment

Items	This year	Last year
Long-term equity investment income measured by cost method	**11**	16
Long-term equity investment income measured by equity method	**391**	390
Investment income from keeping available-for-sale financial assets		2
Total	**402**	408

Note: There were no severe restrictions on the transfer of investment income to the Group.

(b) Long-term equity investment income measured by cost method

Investee	This year	Last year
WISDRI	**9**	15
Longmay Group	**2**	1
Total	**11**	16

(c) Long-term equity investment income measured by equity method

Investee	This year	Last year
ANSC-TKS	**260**	258
Angang Finance	**77**	76
TKAS	**20**	18
Changchun FAM	**14**	17
TKAS-SSC	**12**	11
ANSC-Dachuan	**9**	11
Angang Shenyang	**1**	1
Entity Packing	**(2)**	(2)
Total	**391**	390

(Expressed in million RMB unless otherwise indicated)

15. NOTES TO PRINCIPAL ITEMS OF PARENT'S FINANCIAL REPORT *(Continued)*

(6) SUPPLEMENT TO CASH FLOW STATEMENT

Supplement	This year	Last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(1,968)**	2,123
Add: Provision for impairment	**53**	515
Depreciation of fixed assets	**6,589**	6,754
Amortization of intangible assets	**156**	155
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets("-" for gains)	**(7)**	(4)
Loss on scrap of fixed assets	**32**	18
Loss on the change of fair value		
Financial expenses	**1,249**	1,125
Investment loss	**(402)**	(408)
Decrease in deferred tax assets ("-" for increase)	**(825)**	(285)
Increase in deferred tax liabilities ("-" for decrease)	**(8)**	(7)
Decrease in inventories ("-" for increase)	**(778)**	(2,795)
Decrease in operating receivables ("-" for increase)	**990**	(2,447)
Increase in operating payables ("-" for decrease)	**(1,277)**	3,956
Others	**(29)**	3
Net cash inflow from operating activities	**3,775**	8,703
2. Change in cash and cash equivalents		
Cash at the end of the year	**1,183**	2,542
Less: Cash at the beginning of the year	**2,542**	1,138
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	**(1,359)**	1,404

(Expressed in million RMB
unless otherwise indicated)

16. SUPPLEMENTARY DOCUMENTS

(1) EXTRAORDINARY GAINS AND LOSSES

Items	This year	Last year
Gains/losses from disposal of non-current assets	7	4
Tax refund or exemption from unauthorized approval or non-official approved document or contingency		
Government grant which recorded into profit/loss of current year except that relevant to enterprise operation and in compliance with government policies	190	117
Capital occupation income from non-financial enterprise credited to current income statement		
Gains from the excess of the enterprise share of the net fair value of identifiable net assets over the cost of acquisition of the subsidiary, jointly controlled entity and associate		
Gains/losses from the exchange of non-monetary assets		
Gains/losses from trusted investment or assets of management		
Losses on provision for impairment of assets due to force majeure i.e. natural disaster		
Debt restructuring gains/losses		
Restructuring expense, i.e. employee placement, integration costs etc.		
Gains/losses from the excess over fair value of an unfair transaction		
Current net profit/loss of subsidiary under the common control from the beginning of the year of consolidation to the consolidation date		
Gains/Losses from contingencies irrelevant to the normal operations		
Investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets and gains/losses from variation of fair value of trading financial assets, trading financial liabilities and available-for-sale financial assets except the hedging relevant to the principal business		
Written back of the provision for impairment of account receivables under the independent test		
Gains/losses from trusted loan		
Gains/loss from variation of fair value of investment property		
Effects of one-off adjustment on current profit/loss in accordance with taxation and accounting regulations		
Hosting income from entrusted operations		
Other non-operating income and expense Except above	(32)	(16)
Other extraordinary gains/ losses		
subtotal	165	105
Effect on taxation	41	26
Effect on minority interest (after tax)		
Total	124	79

(Expressed in million RMB unless otherwise indicated)

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(1) EXTRAORDINARY GAINS AND LOSSES *(Continued)*

The recognizing of Company's non-recurring gains and losses comply with the disclosure requirements of "explanatory announcement of Information Disclosures of Companies Issuing Public Shares, No. 1: non-recurring gains and losses" (CSRC' announcement [2008] No.43)

(2) THE DIFFERENCE BETWEEN IFRS AND PRC GAAP

		The group				Attributable to ordinary shareholders			
		Net profit		Net assets		Net profit		Net assets	
	Note	This year	Last year	Closing balance	Opening balance	This year	Last year	Closing balance	Opening balance
Under PRC GAAPs		**(2,332)**	1,950	**52,305**	55,345	**(2,146)**	2,039	**50,751**	54,068
Adjustment:									
— Safety production expenses	i	**(23)**	20			**(23)**	20		
— Deferred income tax assets	ii	**6**	(5)	**(12)**	(18)	**6**	(5)	**(12)**	(18)
— Interests in jointly controlled entities					2				2
Under IFRSs		**(2,349)**	1,965	**52,293**	55,329	**(2,163)**	2,054	**50,739**	54,052

Note: i. Pursuant to the interpretation to the enterprise accounting standard (CAI QI [2006] No.478), safe production provision should be accrued based on the production amount or operating income by the Group related to the industry of mining, construction, production of dangerous goods and road transport, but the provision could be recorded to profit and loss only when they are actual paid under IFRSs.

ii. based on above-mentioned adjustments, deferred assets and income tax expense had been recognized by liability method in light of IFRSs .

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(3) ROE AND EPS

Profit in this year	Weighted average (ROE)	EPS (Yuan per share) Basic EPS	Diluted EPS
Net profit attributable to ordinary shares	(4.09)	(0.297)	(0.297)
Net profit (exclusive of non-operating profit) attributable to ordinary shares	(4.33)	(0.314)	(0.314)

Note: (i) Weighted average ROE =P0/(E0＋NP÷2＋Ei×Mi÷M0-Ej×Mj÷M0±Ek×Mk÷M0)

P0 refers to the net profit attributable to ordinary shares and net profit (exclusive of non-operating profit) attributable to ordinary shares

NP refers to the net profit attributable to ordinary shares

E0 refers to the net assets attributable to ordinary shares

Ei refers to the additional of net assets attributable to ordinary shares resulted from issuing the new shares or converting from convertible debentures in report period

Ej refers to the reduction of net assets attributable to ordinary shares resulted from share repurchase or cash dividend in report period

M0 refers to the months of reporting period.

Mi refers to the duration from the second month since the additional of share capital occurred to the end of reporting period

Mj refers to the duration from the second month since the share capital withdrawn occurred to the end of reporting period

Ek refers to the change of net assets resulted from other transaction and matters

Mk refers to the duration from the second month since the variation of net assets resulted form other transaction and matters occurred to the end of reporting period

(ii) Basic EPS and Diluted EPS disclosed in note 7(44)

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS

The risks related to the financial instrument include:

— Credit risk;

— Liquidity risk;

— Interest rate risk;

— Foreign exchange risk

This note presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and procedures for measuring and managing risks, etc.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and control procedures, and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) Credit risk

The Group's credit risk is primarily attributable to receivables. Exposure to these credit risks are monitored by management on an ongoing basis.

In respect of receivables, the Group has established a credit policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires most of the customer prepay full amount either in cash or by issuing bills before delivering goods to them. Receivables are due within 1 to 4 months from the date of billing. Debtors with balances that are more than one month are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain mortgage from customers.

Most of the Group's customers have had business relationship with the Group for many years, and credit loss rarely occurs. In monitoring customers' credit risk, customers are grouped according to some factors, such as ageing and maturity date.

As at the 31st December 2011, there were no significant debtors that were due and impaired.

At the balance sheet date, the Group had a certain concentration of credit risk, as 86.51% (2010:75.06%) of the total account receivables and other receivables was due from the Group's top five buyers.

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

The maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet. The Group does not provide any other guarantees leading to credit risks.

(b) Liquidity risk

The Group is responsible for its own cash management, including short term investment for temporary cash redundancy and the raising of loans to satisfy expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable and marketable securities and adequate commitment of funds from major financial institutions to meet its liquidity requirements in the short and longer terms.

(c) Interest rate risk

The interest-bearing financial instruments held by the Group at the 31st December 2011 are set out in Note 7(1), (17), (25), (26) and (27).

Sensitivity analysis:

In managing interest rate the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest rates would have an impact on earnings.

As at the 31st December 2011, it is estimated that a general increase of one percentage point in interest rates of cash at bank and on hand, short-term loans, non-current liabilities due within 1 year, long-term borrowings and other current liabilities, would reduce the Group's net profit and equity by RMB 87 million (2010 RMB 74 million).

The above sensitivity analysis has been ascertained assuming that the changes in interest rates had occurred at the balance sheet date and had been applied to both derivative and non-derivative financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year till the next annual balance sheet date. The analysis was performed on the same basis for the year 2010.

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(Continued)*

(d) Foreign exchange risk

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

(i) The Group's exposure to exchange risk based on nominal amount at the 31st December 2011 is set out in Note 7(25) and (27).

(ii) The following are the significant exchange rates applied by the Group:

	Average rate		**Reporting date mid-spot rate**	
	2011	2010	**2011**	2010
Japanese yen		0.0776		0.0813
Euro	**9.02**	8.92	**8.16**	8.81

(iii) Sensitivity analysis

A 5% appreciation of the RMB against the Euro at the 31st Dec 2011 would have decreased /increased equity and profit or loss by the amount shown below:

		Shareholder's equities *(RMB Million)*	**Profit and loss** *(RMB Million)*
31 Dec 2011	Japanese yen		
	Euro	(1)	(1)
31 Dec 2010	Japanese yen	(3)	(3)
	Euro	(1)	(1)

A 5% depreciation of the RMB against the Euro at the 31st Dec 2011 would have had the equal but opposite effect on them by the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity analysis has been ascertained assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to both derivative and non-derivative financial instruments in existence at that date. The stated changes represent management's assessment of a reasonably possible change in foreign exchange rates over the year till the next annual balance sheet date. The analysis was performed on the same basis for the year 2010.

16. SUPPLEMENTARY DOCUMENTS *(Continued)*

(4) RISK ANALYSIS AND SENSITIVITY ANALYSIS FOR FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair values

There is no significant variance between the carrying amounts of the Group's financial assets and liabilities reflected in the consolidated balance sheet and their fair values.

(5) ANALYSIS OF THE UNUSUAL SITUATION ABOUT MAIN ITEMS OF THE FINANCIAL STATEMENTS

Items on cash flow statement

(i) The net cash inflow from operating activities this year was RMB 4,663 million, comparing with 9,026 million of the last year, mainly due to the decrease in cash received from selling of goods and rendering of services.

(ii) The net cash outflow from financing activities this year was RMB 427 million, comparing with 2,867 million of the last year, mainly due to the decrease in the repayment of loans.

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
ANGANG STEEL COMPANY LIMITED
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Angang Steel Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 210 to 276, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
27 March 2012

	Note	**2011** **RMB million**	2010 RMB million
Turnover	5	**90,207**	92,212
Cost of sales		**(89,158)**	(85,409)
Sales related taxes		**(169)**	(285)
Gross profit		**880**	6,518
Other operating profit, net	6	**271**	266
Distribution and other operating expenses		**(1,549)**	(1,622)
Administrative expenses		**(1,757)**	(1,844)
(Loss)/profit from operations		**(2,155)**	3,318
Finance costs	8(a)	**(1,540)**	(1,333)
Share of profits of jointly controlled entities	16	**295**	297
Share of profits of associates	17	**96**	96
(Loss)/profit before tax		**(3,304)**	2,378
Income tax credit/(expense)	7(a)	**955**	(413)
(Loss)/profit for the year	8(b)	**(2,349)**	1,965
Attributable to:			
Owners of the Company		**(2,163)**	2,054
Non-controlling interests		**(186)**	(89)
		(2,349)	1,965
(Loss)/earnings per share	11		
— Basic		**RMB(0.299)**	RMB0.284

Consolidated Statement of Comprehensive Income

	2011 *RMB million*	2010 *RMB million*
(Loss)/profit for the year	**(2,349)**	1,965
Other comprehensive income:		
Fair value changes on other investments	**(87)**	18
Income tax relating to component of other comprehensive income	**22**	(5)
Other comprehensive income for the year, net of tax	**(65)**	13
Total comprehensive income for the year	**(2,414)**	1,978
Attributable to:		
Owners of the Company	**(2,228)**	2,067
Non-controlling interests	**(186)**	(89)
	(2,414)	1,978

	Note	At 31 December 2011 RMB million	2010 RMB million (restated)	At 1 January 2010 RMB million (restated)
Non-current assets				
Property, plant and equipment	12	**60,387**	64,226	60,853
Intangible assets	13	**3**	8	13
Construction in progress	14	**9,268**	6,324	12,922
Interests in jointly controlled entities	16	**1,544**	1,245	934
Interests in associates	17	**581**	488	465
Other investments	18	**450**	434	391
Deferred tax assets	7(b)	**2,340**	1,368	1,038
		74,573	74,093	76,616
Current assets				
Inventories	19	**14,242**	13,134	10,658
Trade receivables	20	**6,586**	4,856	4,145
Prepayments, deposits and other receivables		**2,432**	4,004	3,742
Amount due from immediate parent	33	**1**	—	2
Amounts due from fellow subsidiaries	33	**4,524**	7,272	5,547
Amount due from a jointly controlled entity	33	**115**	69	98
Amount due from an associate	33	**—**	—	1
Amounts due from other related parties	33	**7**	16	—
Current tax assets		**94**	24	203
Cash and cash equivalents	21	**2,341**	3,651	2,242
		30,342	33,026	26,638

	Note	At 31 December 2011 RMB million	2010 RMB million (restated)	At 1 January 2010 RMB million (restated)
Current liabilities				
Trade payables	22	**9,900**	9,357	6,742
Other payables		**6,078**	7,354	6,987
Amount due to immediate parent	33	**333**	294	202
Amounts due to fellow subsidiaries	33	**1,485**	1,651	2,104
Amounts due to jointly controlled entities	33	**39**	402	373
Amounts due to associates	33	**21**	30	11
Amounts due to other related parties	33	**101**	15	4
Current tax liabilities		**8**	—	—
Deferred income		**5**	23	42
Current portion of bank loans	23	**14,831**	16,356	21,363
Short-term debentures	24	**6,000**	3,000	—
		38,801	38,482	37,828
Net current liabilities		**(8,459)**	(5,456)	(11,190)
Total assets less current liabilities		**66,114**	68,637	65,426
Non-current liabilities				
Bank loans	23	**13,135**	12,717	11,502
Provisions	25	**18**	37	65
Deferred income		**668**	554	74
		13,821	13,308	11,641
NET ASSETS		**52,293**	55,329	53,785

	Note	At 31 December **2011** ***RMB million***	 2010 *RMB million* (restated)	At 1 January 2010 *RMB million* (restated)
CAPITAL AND RESERVES				
Share capital	26	**7,235**	7,235	7,235
Share premium	27	**31,414**	31,414	31,414
Reserves	28	**3,625**	3,713	3,467
Retained profits	29	**8,465**	11,690	10,303
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**50,739**	54,052	52,419
Non-controlling interests		**1,554**	1,277	1,366
TOTAL EQUITY		**52,293**	55,329	53,785

Approved and authorised for issue by the Board of Directors on 27 March 2012

Zhang Xiaogang
Chairman

Fu Jihui
Director

		Attributable to owners of the Company						
	Note	Share capital RMB million	Share premium RMB million	Reserves RMB million	Retained profits RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2010		7,235	31,414	3,467	10,303	52,419	1,366	53,785
Total comprehensive income for the year		—	—	13	2,054	2,067	(89)	1,978
Proposed transfer between reserves	28, 29	—	—	233	(233)	—	—	—
Final dividend - 2009	10(b)	—	—	—	(434)	(434)	—	(434)
Changes in equity for the year		—	—	246	1,387	1,633	(89)	1,544
At 31 December 2010		7,235	31,414	3,713	11,690	54,052	1,277	55,329
At 1 January 2011		**7,235**	**31,414**	**3,713**	**11,690**	**54,052**	**1,277**	**55,329**
Total comprehensive income for the year		**—**	**—**	**(65)**	**(2,163)**	**(2,228)**	**(186)**	**(2,414)**
Capital injection by non-controlling interests		**—**	**—**	**—**	**—**	**—**	**463**	**463**
Proposed transfer between reserves	28, 29	**—**	**—**	**(23)**	**23**	**—**	**—**	**—**
Final dividend - 2010	10(b)	**—**	**—**	**—**	**(1,085)**	**(1,085)**	**—**	**(1,085)**
Changes in equity for the year		**—**	**—**	**(88)**	**(3,225)**	**(3,313)**	**277**	**(3,036)**
At 31 December 2011		**7,235**	**31,414**	**3,625**	**8,465**	**50,739**	**1,554**	**52,293**

	Note	**2011 RMB million**	2010 RMB million (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	**4,821**	9,683
Interest received		**32**	26
Interest paid		**(1,766)**	(1,679)
Income tax paid		**(57)**	(568)
Net cash generated from operating activities		**3,030**	7,462
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(5,495)**	(4,851)
Proceeds from disposals of property, plant and equipment		**3**	5
Capital contribution to an associate		**(11)**	—
Dividends income from associates and jointly controlled entities		**17**	76
Payment for capital contribution in other investments		**(103)**	(25)
Net cash used in investing activities		**(5,589)**	(4,795)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(1,085)**	(434)
Proceeds of bank loans		**18,445**	22,265
Repayment of bank loans		**(19,550)**	(26,077)
Proceeds of short-term debentures		**6,000**	3,000
Handling charges for issuing of short-term debentures		**(24)**	(12)
Repayment of short-term debentures		**(3,000)**	—
Capital injection by non-controlling interests		**463**	—
Net cash generated from/(used in) financing activities		**1,249**	(1,258)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,310)**	1,409
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**3,651**	2,242
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,341**	3,651

1. GENERAL INFORMATION

Angang Steel Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 8 May 1997 as a joint stock limited liability company. The address of its registered office is Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC. The Company's A-shares and H-shares are listed on the Shenzhen Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") respectively.

The Company is principally engaged in the production and sales of hot rolled sheets, cold rolled sheets, galvanised steel, seamless tubes, wire rods, thick plates, large section steel products and steel billets. The principal activities of its subsidiaries are set out in note 15 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2011, Anshan Iron and Steel Group Complex ("Angang Holding"), a state-owned enterprise incorporated in the PRC, is the immediate parent and Angang Group Company, a state-owned enterprise incorporated in the PRC, is the ultimate parent.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years except as stated below.

Related Party Disclosures

IAS 24 (Revised) "Related Party Disclosures" revises the definition of a related party and provides a partial exemption of disclosing related party transactions for government-related entities.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Related Party Disclosures *(continued)*

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

IAS 24 (Revised) exempts an entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

— a government that has control, joint control or significant influence over the entity; and

— another entity that is a related party because the same government has control, joint control or significant influence over both entities.

The entity that applies the exemption is required to disclose the followings:

— the name of the government and the nature of its relationship with the entity (i.e. control, joint control or significant influence); and

— the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

i. the nature and amount of each individually significant transaction; and

ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Related Party Disclosures *(continued)*

IAS 24 (Revised) has been applied retrospectively and resulted in changes in the consolidated amounts disclosed in the financial statements as follows:

	At 31 December		At 1 January
	2011	2010	2010
	RMB million	*RMB million*	*RMB million*
Increase in amounts due from other related parties	**7**	16	—
Decrease in trade receivables	**(7)**	(16)	—
Increase in amounts due to other related parties	**(101)**	(15)	(4)
Decrease in trade payables	**81**	14	2
Decrease in other payables	**20**	1	2

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs, the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of other investments which are carried at their fair values.

The Group also prepares a set of financial statements which complies with the Accounting Standards for Business Enterprises in the PRC (the "PRC GAAP"). A reconciliation of the Group's (loss)/profit for the year and the equity attributable to owners of the Company under IFRSs and the PRC GAAP is presented on page 277.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 38 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Company has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of an acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (w) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in the consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates *(continued)*

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Joint venture *(continued)*

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their estimated residual values, over their estimated useful lives on a straight-line basis are as follows:

Leasehold land	according to the terms of lease of the land
Buildings	10 to 30 years
Plant, machinery and equipment	3 to 15 years
Transportation vehicles and other related equipment	2 to 12 years

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in profit or loss.

(g) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially completed and ready for its intended use.

Depreciation begins when the relevant assets are available for use.

(h) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research costs and development costs are therefore recognised in profit or loss in the period in which they are incurred.

(j) Intangible assets

Intangible assets represent industrial technology acquired by the Group and are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is calculated on a straight-line basis over the assets' estimated useful lives of 6 to 10 years.

Both the period and method of amortisation are reviewed annually.

(k) Inventories

Inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value.

Cost is determined using the weighted average cost formula or the specific identification method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and tools are stated at cost less any allowance for obsolescence.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(m) Other investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss, available-for-sale financial assets or unlisted equity securities.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Other investments *(continued)*

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Unlisted equity securities

Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses.

(n) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

(p) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sale of goods

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Service income

Service income is recognised when the service is rendered.

(iii) Dividend income

Dividend income is recognised when the shareholder's rights to receive payment are established.

(iv) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(r) Employee benefits

(i) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Taxation *(continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(v) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties *(continued)*

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(w) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Impairment of assets *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(x) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. SEGMENT INFORMATION

The Group's revenue and trading result are generated from production and sales of steel products and therefore no other reportable segments analysis of the Group is presented.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include dividend income, and gains or losses from investments and derivative instruments. Segment assets do not include amounts due from related parties and investments. Segment liabilities do not include amounts due to related parties, corporate borrowings, convertible loans and derivative instruments. Segment non-current assets do not include deferred tax assets.

4. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities:

	2011 **RMB million**	2010 RMB million (restated)
Year ended 31 December		
Revenue from external customers	**90,207**	92,212
Segment (loss)/profit	**(2,360)**	1,947
Interest revenue	**28**	26
Interest expense	**1,492**	1,303
Depreciation and amortisation	**7,055**	7,176
Other material items of income and expense:		
Insurance compensation received	**24**	52
Share of profits of jointly controlled entities	**295**	297
Share of profits of associates	**96**	96
Income tax (credit)/expense	**(955)**	413
Other material non-cash items:		
Impairment of assets	**—**	4
Allowance for inventories	**1,338**	1,294
Additions to segment non-current assets	**6,322**	4,000
As at 31 December		
Segment assets	**97,478**	97,960
Segment liabilities	**16,677**	17,325
Interests in jointly controlled entities	**1,544**	1,245
Interests in associates	**581**	488

4. SEGMENT INFORMATION *(continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2011 **RMB million**	2010 RMB million (restated)
Revenue		
Total revenue of reportable segments and consolidated revenue	**90,207**	92,212
Profit or loss		
Total profit or loss of reportable segments	**(2,360)**	1,947
Dividend income from other investments	**11**	18
Consolidated (loss)/profit for the year	**(2,349)**	1,965
Assets		
Total assets of reportable segments	**97,478**	97,960
Amount due from immediate parent	**1**	—
Amounts due from fellow subsidiaries	**4,524**	7,272
Amount due from a jointly controlled entity	**115**	69
Amounts due from other related parties	**7**	16
Deferred tax assets	**2,340**	1,368
Investments	**450**	434
Consolidated total assets	**104,915**	107,119
Liabilities		
Total liabilities of reportable segments	**16,677**	17,325
Amount due to immediate parent	**333**	294
Amounts due to fellow subsidiaries	**1,485**	1,651
Amounts due to jointly controlled entities	**39**	402
Amounts due to associates	**21**	30
Amounts due to other related parties	**101**	15
Bank loans	**27,966**	29,073
Short-term debentures	**6,000**	3,000
Consolidated total liabilities	**52,622**	51,790
Other material items		
Impairment of assets	**—**	4
Allowance for inventories	**1,338**	1,294
Depreciation and amortisation	**7,055**	7,176
Interest expenses	**1,492**	1,303
Insurance compensation received	**24**	52
Additions of construction in progress	**6,166**	3,852

4. SEGMENT INFORMATION (continued)

Geographical information:

	2011 RMB million	2010 RMB million
Revenue		
— The PRC	**81,698**	84,382
— Other countries	**8,509**	7,830
	90,207	92,212

In presenting the geographical information, revenue is based on the locations of the customers. All of the Group's non-current assets are located in the PRC.

Revenue from major customers:

	2011 RMB million	2010 RMB million
Customer A	**7,831**	8,604
Customer B	**7,244**	6,502
Customer C	**3,315**	3,187

5. TURNOVER

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

6. OTHER OPERATING PROFIT, NET

	2011 RMB million	2010 RMB million
Loss on disposals of property, plant and equipment	**(25)**	(14)
Impairment losses on property, plant and equipment	**—**	(4)
(Loss)/gain from sales of raw and scrap materials	**(1)**	14
Net exchange gain	**42**	58
Interest income	**28**	26
Government grant *(note)*	**190**	117
Insurance compensation	**24**	52
Dividend income from other investments	**11**	18
Others	**2**	(1)
	271	266

Note: Government grant mainly are subsidy for the scientific research and grant for the military industrial project.

7. INCOME TAX

(a) Income tax (credit)/expense in the income statement

	2011 **RMB million**	2010 *RMB million*
Current tax expense		
— Provision for PRC enterprise income tax for the year	**8**	748
— Over provision for prior years	**(13)**	—
Deferred tax *(note 7(b))*	**(950)**	(335)
	(955)	413

The provision for PRC enterprise income tax is based on a statutory rate of 25 % (2010: 25%) of the estimated assessable profits of the Group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

The reconciliation between the income tax (credit)/expense and the product of (loss)/ profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2011 **RMB million**	2010 *RMB million*
(Loss)/profit before tax	**(3,304)**	2,378
Tax at a statutory tax rate of 25% (2010: 25%)	**(826)**	594
Tax effect of non-taxable income	**(98)**	(95)
Tax effect of non-deductible expenses	**59**	20
Additional deduction*	**(77)**	(106)
Over provision for prior years	**(13)**	—
	(955)	413

* Pursuant to relevant PRC tax regulations, the Group is entitled to claim an additional deduction based on 50% of approved costs related to research and development.

7. INCOME TAX *(continued)*

(b) Deferred taxation

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

	Assets		Liabilities		Net	
	2011	2010	**2011**	2010	**2011**	2010
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Borrowing costs capitalised	**—**	—	**(26)**	(34)	**(26)**	(34)
Allowance for inventories	**165**	141	**—**	—	**165**	141
Impairment losses on property, plant and equipment	**21**	30	**—**	—	**21**	30
Depreciation of property, plant and equipment	**5**	5	**—**	—	**5**	5
Expenses to be claimed on paid basis	**57**	56	**—**	—	**57**	56
Changes in fair value of available-for-sale financial assets	**—**	—	**(3)**	(25)	**(3)**	(25)
Provision for termination benefits	**9**	16	**—**	—	**9**	16
Tax loss	**1,948**	1,125	**—**	—	**1,948**	1,125
Others	**164**	56	**—**	(2)	**164**	54
	2,369	1,429	**(29)**	(61)	**2,340**	1,368
Set-off within legal tax units and jurisdictions	**(29)**	(61)	**29**	61	**—**	—
Net deferred tax assets	**2,340**	1,368	**—**	—	**2,340**	1,368

7. INCOME TAX *(continued)*

(b) Deferred taxation *(continued)*

(ii) Movement in temporary differences during the year:

	Balance at 1 January 2010	Recognised in profit or loss	Recognised in reserves	Balance at 31 December 2010 and 1 January 2011	Recognised in profit or loss	Recognised in reserves	Balance at 31 December 2011
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Borrowing costs capitalised	(41)	7	—	(34)	8	—	(26)
Allowance for inventories	10	131	—	141	24	—	165
Impairment losses on property, plant and equipment	32	(2)	—	30	(9)	—	21
Depreciation of property, plant and equipment	5	—	—	5	—	—	5
Expenses to be claimed on paid basis	56	—	—	56	1	—	57
Changes in fair value of available-for-sale financial assets	(20)	—	(5)	(25)	—	22	(3)
Provision for termination benefits	25	(9)	—	16	(7)	—	9
Tax loss	915	210	—	1,125	823	—	1,948
Others	56	(2)	—	54	110	—	164
	1,038	335	(5)	1,368	950	22	2,340

8. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging/(crediting) the following:

(a) Finance costs

	2011 RMB million	2010 RMB million
Interest and other borrowing costs	**1,919**	1,758
Less: Amount capitalised as construction in progress*	**(427)**	(455)
Net interest expenses	**1,492**	1,303
Bank charges	**35**	21
Others	**13**	9
	1,540	1,333

* The borrowing costs on funds borrowed generally have been capitalised at an average rate of 5.19% (2010: 5.02%) per annum for construction in progress.

(b) Other items

	2011 RMB million	2010 RMB million
Auditors' remuneration	**7**	6
Cost of inventories sold	**89,158**	85,409
Depreciation	**7,050**	7,171
Amortisation of intangible assets (included in administrative expenses)	**5**	5
Impairment losses on property, plant and equipment (included in other operating profit, net)	**—**	4
Allowance for inventories *(note 19)*	**1,338**	1,294
Staff costs		
— Salaries and wages, welfare and other costs	**2,041**	2,043
— Contributions to defined contribution scheme	**780**	768
	2,821	2,811
Repairs and maintenance	**3,494**	3,362
Research and development costs	**26**	29

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Directors' and supervisors' remunerations were as follows:

	Directors' and supervisors' fees *RMB million*	Salaries, allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	2011 Total *RMB million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.61	—	0.10	0.71
Chen Ming	—	0.54	—	0.09	0.63
Fu Jihui	—	0.43	—	0.07	0.50
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Li Shijun	0.09	—	—	—	0.09
Ma Guoqiang	0.09	—	—	—	0.09
Kwong Chi Kit, Victor	0.09	—	—	—	0.09
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin (resigned on 16 May 2011)	—	—	—	—	—
Shan Mingyi	—	0.43	—	0.07	0.50
Bai Hai (appointed on 16 May 2011)	—	0.07	—	0.01	0.08
	0.27	2.08	—	0.34	2.69

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

Directors' and supervisors' remunerations were as follows: *(continued)*

	Directors' and supervisors' fees *RMB million*	Salaries, allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	2010 Total *RMB million*
Executive directors					
Zhang Xiaogang	—	—	—	—	—
Yang Hua	—	0.53	—	0.08	0.61
Chen Ming	—	0.48	—	0.08	0.56
Fu Jihui	—	0.43	—	0.07	0.50
Yu Wanyuan	—	—	—	—	—
Independent non-executive directors					
Li Shijun	0.09	—	—	—	0.09
Ma Guoqiang	0.09	—	—	—	0.09
Liu Wei (resigned on 21 June 2010)	0.05	—	—	—	0.05
Kwong Chi Kit, Victor	0.09	—	—	—	0.09
Supervisors					
Wen Baoman	—	—	—	—	—
Xing Guibin	—	0.19	—	0.03	0.22
Shan Mingyi	—	0.43	—	0.08	0.51
	0.32	2.06	—	0.34	2.72

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2010: RMB Nil).

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2010: RMB Nil).

9. DIRECTORS' AND SUPERVISORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The five highest paid individuals of the Group in 2011 included two executive directors and one supervisor of the Company (2010: three executive directors and two supervisors) whose emoluments are disclosed above. The emoluments of the remaining two (2010: nil) individuals are set out below:

	2011 *RMB million*	2010 *RMB million*
Salaries, allowances and benefits in kind	**0.87**	—
Retirement benefit scheme contributions	**0.15**	—
	1.02	—

The emoluments fell within the following band:

	Number of individuals **2011**	2010
HK$Nil to HK$1,000,000	**2**	—

10. DIVIDENDS

(a) Dividend for the year

	2011 *RMB million*	2010 *RMB million*
Final dividend proposed after the end of the reporting period of RMB Nil per share (2010: RMB0.15 per share)	—	1,085

Pursuant to a resolution passed at the directors' meeting on 27 March 2012, a final dividend of RMB Nil (2010: RMB0.15) per share totalling RMB Nil (2010: RMB1,085 million) was approved for shareholders' approval at the forthcoming annual general meeting.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10. DIVIDENDS *(continued)*

(b) Dividend for the previous financial year, approved and paid during the year

	2011	2010
	RMB million	*RMB million*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.15 per share (2010: RMB0.06 per share)	**1,085**	434

Pursuant to the PRC enterprise income tax law, the Company is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

11. LOSS/(EARNINGS) PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of RMB2,163 million (2010: profit for the year attributable to owners of the Company of RMB2,054 million) and the weighted average number of shares of 7,235 million in issue during the year (2010: 7,235 million).

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential equity shares in existence during the two years ended 31 December 2011.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Plant, machinery and equipment *RMB million*	Transportation vehicles and other related equipment *RMB million*	Total *RMB million*
Cost:				
At 1 January 2010	28,033	52,231	3,294	83,558
Additions	90	5	28	123
Transfer from construction in progress *(note 14)*	3,218	6,541	691	10,450
Disposals	(9)	(90)	(12)	(111)
At 31 December 2010 and 1 January 2011	31,332	58,687	4,001	94,020
Additions	13	9	20	42
Transfer from construction in progress *(note 14)*	740	2,316	166	3,222
Disposals	(25)	(274)	(26)	(325)
At 31 December 2011	32,060	60,738	4,161	96,959
Accumulated depreciation and impairment:				
At 1 January 2010	4,321	16,952	1,432	22,705
Charge for the year	1,418	5,310	443	7,171
Written back on disposals	(15)	(56)	(15)	(86)
Impairment losses *(note (b))*	—	4	—	4
At 31 December 2010 and 1 January 2011	5,724	22,210	1,860	29,794
Charge for the year	1,381	5,187	482	7,050
Written back on disposals	(14)	(241)	(17)	(272)
At 31 December 2011	7,091	27,156	2,325	36,572
Carrying amount:				
At 31 December 2011	24,969	33,582	1,836	60,387
At 31 December 2010	25,608	36,477	2,141	64,226

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Note:

(a) All of the Group's land and buildings are located in the PRC. The land of the Group represented the land use rights on the land located in the PRC under medium term leases.

(b) During the year ended 31 December 2010, the Group planned to dispose of certain machinery which were obsolete. The recoverable amounts of these machinery were assessed based on their scrap value less costs to sell. As a result, the carrying amount of the machinery, after recognised the impairment losses, was written down by RMB4 million. The impairment loss for the year ended 31 December 2010 was included in "Other operating profit, net" in the consolidated income statement.

(c) At 31 December 2011, the Group was in the process of applying for or changing registration of the title certifications of certain of its land use rights with an aggregate carrying value of approximately RMB8 million (2010: RMB1,307 million), of which related to acquisition of the entire equity interests of Angang New Steel and Iron Company Limited as mentioned in the circular published by the Company on 11 November 2005 with an aggregate carrying value of approximately RMB8 million (2010: RMB10 million). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned land.

(d) During the year the Group changed the estimated useful lives of certain land and buildings and plant and machinery from the range of 3 to 20 years to the range of 3 to 30 years. As a result of this change in accounting estimate, the depreciation charge decreased by RMB491 million for the year and will also decrease by RMB1,964 million in the year 2012.

13. INTANGIBLE ASSETS

	Industrial technology *RMB million*
Cost:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	32
Accumulated amortisation:	
At 1 January 2010	19
Amortisation for the year	5
At 31 December 2010 and 1 January 2011	24
Amortisation for the year	5
At 31 December 2011	29
Carrying amount:	
At 31 December 2011	3
At 31 December 2010	8

The remaining useful lives of the intangible assets are in the range of 0 to 4 years.

14. CONSTRUCTION IN PROGRESS

	2011 ***RMB million***	2010 *RMB million*
At 1 January	**6,324**	12,922
Additions	**6,166**	3,852
	12,490	16,774
Transfer to property, plant and equipment *(note 12)*	**(3,222)**	(10,450)
At 31 December	**9,268**	6,324

At 31 December 2010 the carrying amount of construction in progress pledged as security for the Group's bank loan amounted to RMB717 million. This bank loan has been fully repaid in 2011.

15. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼鋼材配送(武漢)有限公司 (Angang Steel Logistics (Wuhan) Company Limited)	Limited liability company	PRC	RMB108 million	100%	Not yet commence business
鞍鋼冷軋鋼板(莆田)有限公司 (Angang Cold Rolled Steel Sheets (Putian) Company Limited) ("Angang Putian")	Limited liability company	PRC	RMB1,200 million	100%	Not yet commence business
天津鞍鋼天鐵冷軋薄板有限公司 (Tianjin Angang Tian Tie Cold Rolled Sheets Company Limited) ("Tianjin Tiantie")	Equity joint venture	PRC	RMB3,700 million	50%	Steel rolling processing
鞍鋼鋼材配送(合肥)有限公司 (Angang Steel Logistics (Hefei) Company Limited)	Limited liability company	PRC	RMB97.5 million	100%	Not yet commence business
廣州鞍鋼鋼材加工有限公司 (Guangzhou Angang Steel Product Processing Company Limited)	Limited liability company	PRC	Registered capital RMB80 million Paid up capital RMB40 million	51%	Not yet commence business

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2011 ***RMB million***	2010 *RMB million*
Unlisted investments — Share of net assets	**1,544**	1,245

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's interests in the jointly controlled entities at 31 December 2011 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼新軋—蒂森克虜伯鍍鋅鋼板有限公司 (ANSC-TKS Galvanizing Co., Ltd.) ("ANSC-TKS")	Sino-foreign equity joint venture	PRC	US$132 million	50%	Production and sale of hot dip galvanised steel products
鞍鋼股份—大船重工大連鋼材加工配送有限公司 (ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Co., Ltd) ("ANSC-Dachuan")	Equity joint venture	PRC	RMB380 million	50%	Sale, processing and distribution of steel products
長春一汽鞍井鋼材加工配送有限公司 (Changchun FAM Steel Processing and Distribution Company Limited) ("Changchun FAM")	Sino-foreign equity joint venture	PRC	RMB90 million	50%	Sale and processing of steel products
鞍鋼蒂森克虜伯鋼材配送(長春)有限公司 (TKAS (Changchun) Steel Service Center Ltd.) ("TKAS-SSC")	Sino-foreign equity joint venture	PRC	US$12 million	50%	Production, processing and sale of anti-fluorin steel and connected commercial activities

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

The following amounts are the Group's share of the jointly controlled entities that are accounted for by the equity method of accounting.

	2011 **RMB million**	2010 RMB million
At 31 December		
Non-current assets	**991**	1,081
Current assets	**1,752**	1,638
Non-current liabilities	**(320)**	(388)
Current liabilities	**(859)**	(1,064)
Net assets	**1,564**	1,267
Year ended 31 December		
Revenue	**4,629**	4,410
Expenses	**(4,329)**	(4,113)
	300	297

17. INTERESTS IN ASSOCIATES

	2011 **RMB million**	2010 RMB million
Unlisted investments		
— Share of net assets	**581**	488

Details of the Group's interests in the associates at 31 December 2011 are as follows:

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼瀋陽鋼材加工配送有限公司 (Angang Shenyang Steel Product Processing And Distribution Company Limited) ("Angang Shenyang")	Equity joint venture	PRC	RMB87 million	30%	Sale, processing, storage and distribution of steel products
蒂森克虜伯鞍鋼(長春)激光拼焊板有限公司 (TKAS (Changchun) Tailored Blanks Ltd) ("TKAS")	Sino-foreign equity joint venture	PRC	US$10 million	45%	Production and sale of tailored blanks

17. INTERESTS IN ASSOCIATES *(continued)*

Details of the Group's interests in the associates at 31 December 2011 are as follows: *(continued)*

Name	Form of business structure	Place of incorporation and operation	Registered and paid up capital	Percentage of equity interest held by the Group	Principal activities
鞍鋼實業集團包裝鋼帶有限公司 (Angang Package Steel Strip Company Limited) ("Angang Steel Strip")	Equity joint venture	PRC	RMB36 million	30%	Production and sales of packing steel strip
鞍鋼集團財務有限責任公司 (Angang Holdings Financial Company Limited) ("Angang Finance")	Equity joint venture	PRC	RMB1,000 million	20%	Provision of financial service of deposit, lending, financing and etc.
天津天鐵濱海冶金實業有限公司 (Tianjin Tiantie Ban Hai Metallurgy Enterprise Company Limited) ("Ban Hai Enterprise")	Equity joint venture	PRC	RMB5 million	30%	Provision of service

Summary financial information in respect of the Group's associates is set out below:

	2011 **RMB million**	2010 RMB million
At 31 December		
Total assets	**21,448**	21,018
Total liabilities	**(18,758)**	(18,767)
Net assets	**2,690**	2,251
Group's share of associates' net assets	**581**	488
Year ended 31 December		
Total revenue	**2,151**	1,943
Total profit for the year	**433**	426
Group's share of associates' profits for the year	**96**	96

18. OTHER INVESTMENTS

	2011 RMB million	2010 RMB million
Available-for-sale financial assets		
Equity securities, at fair value		
— Listed in the PRC	92	179
Unlisted equity securities, at cost	358	255
	450	434

The fair values of listed securities are based on current bid prices. Unlisted equity securities with carrying amount of RMB358 million (2010: RMB255 million) was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

19. INVENTORIES

	2011 RMB million	2010 RMB million
Raw materials and fuels	3,891	3,739
Work in progress	4,152	3,531
Finished goods	2,272	1,931
Spare parts, tools and ancillary materials	3,927	3,933
	14,242	13,134

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

	2011 RMB million	2010 RMB million
Carrying amount of inventories sold	89,063	84,886
Allowance for inventories	1,338	1,294
Realisation of allowance for inventories	(1,243)	(771)
	89,158	85,409

20. TRADE RECEIVABLES

	2011 **RMB million**	2010 *RMB million* *(restated)*
Accounts receivables	**672**	1,153
Bills receivables	**5,914**	3,703
	6,586	4,856

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2011 **RMB million**	2010 *RMB million* *(restated)*
Less than 3 months	**3,963**	4,386
More than 3 months but less than 12 months	**2,620**	463
More than 1 year	**3**	7
	6,586	4,856

As of 31 December 2011, trade receivables of RMB98 million (2010: RMB22 million (restated)) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 **RMB million**	2010 *RMB million* *(restated)*
Less than 3 months	**15**	9
More than 3 months but less than 12 months	**81**	6
More than 1 year	**2**	7
	98	22

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of one to four months is only available for certain major customers with well-established trading records.

As at 31 December 2011, bills receivables of RMB530 million (2010: RMB Nil) have been pledged to two banks to secure the Group to issue the bills payables amounted to RMB507 million and letter of credit amounted to RMB10 million (2010: RMB Nil and RMB Nil).

21. CASH AND CASH EQUIVALENTS

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

As at 31 December 2011, a deposit of RMB1,128 million (2010: RMB2,607 million) was placed in Angang Finance, an associate and a fellow subsidiary of the Group.

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. TRADE PAYABLES

	2011 **RMB million**	2010 *RMB million* *(restated)*
Accounts payables	**4,335**	4,478
Bills payables	**5,565**	4,879
	9,900	9,357

The ageing analysis of trade payables is as follows:

	2011 **RMB million**	2010 *RMB million* *(restated)*
Due on demand	**746**	88
Due within 3 months	**5,693**	6,710
Due after 3 months but within 6 months	**3,416**	2,559
Due after 6 months but within 1 year	**45**	-
	9,900	9,357

23. BANK LOANS

The bank loans are repayable as follows:

	2011 RMB million	2010 RMB million
On demand or within one year	**14,831**	16,356
In the second year	**8,301**	3,401
In the third to fifth years, inclusive	**4,433**	8,411
After five years	**401**	905
	27,966	29,073
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(14,831)**	(16,356)
Amount due for settlement after 12 months	**13,135**	12,717

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2011 RMB million	2010 RMB million
RMB	**27,960**	28,995
Euro	**6**	8
Japanese Yen	**—**	70
	27,966	29,073

The interest rate at 31 December is as follows:

	2011	2010
Bank loans	**0.25% to 7.87%**	0.25% to 5.94 %

23. BANK LOANS (continued)

Bank loans of RMB7,600 million (2010: RMB18,677 million) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Among the bank loans of the Group as at 31 December 2011, RMB1,100 million (2010: RMB2,100 million) and RMB2,940 million (2010: RMB3,875 million) were guaranteed by Angang Holding and 天津天鐵冶金集團有限公司 (Tianjin Tian Tie Metallurgy Holding Ltd.), a non-controlling shareholder and two of its subsidiaries respectively. Other than the guarantees as stated above, as at 31 December 2010 the bank loan of the Group amounted to RMB200 million was secured by pledge of the construction in progress of a subsidiary of the Company and this bank loan has been fully repaid in 2011.

As at 31 December 2011, loans from Angang Holding (entrusted and arranged by Angang Finance) and Angang Finance, an associate and a fellow subsidiary of the Group, amounted to RMB550 million and RMB6,150 million respectively (2010: RMB Nil and RMB7,300 million).

24. SHORT-TERM DEBENTURES

As at 31 December 2011, the Group issued two (2010: one) tranches of short-term debentures ("Debentures") of RMB3,000 million each with an aggregate principal amount of RMB6,000 million (2010: RMB3,000 million) in the PRC inter-bank debenture market. The interest rate of the two Debentures are of 4.18% and 4.38% per annum respectively (2010: 2.84%) and the term of maturity is 365 days (2010: 365 days).

25. PROVISIONS

	2011 ***RMB million***	2010 *RMB million*
At 1 January	**65**	102
Provision used for the year	**(28)**	(37)
At 31 December	**37**	65
Less: Amount included under "other payables"	**(19)**	(28)
	18	37

Taking into consideration the relevant laws and regulations and the actual situation, as certain employees no longer generate economic benefits for the Group, they have been treated by the Group for compensation purposes by providing them with termination benefits. The termination benefits are calculated based on the salaries and welfare payable to these employees from 1 January 2011 to the normal retirement age. The present value of the future cash flow expected to be required to settle the obligation is recognised as provision for termination benefits.

26. SHARE CAPITAL

	2011		2010	
	Number of shares million	**RMB million**	Number of shares million	RMB million
Issued and fully paid:				
State-owned legal person shares of RMB1 each				
At 1 January and 31 December	**4,869**	**4,869**	4,869	4,869
A shares of RMB1 each				
At 1 January and 31 December	**1,280**	**1,280**	1,280	1,280
H shares of RMB1 each				
At 1 January and 31 December	**1,086**	**1,086**	1,086	1,086
	7,235	**7,235**	7,235	7,235

Note:

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

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain the net debt-to-adjusted capital ratio at a reasonable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

26. SHARE CAPITAL *(continued)*

Note: (continued)

(b) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2011 and 2010 was as follows:

	2011 **RMB million**	2010 RMB million (restated)
Current liabilities		
Trade and other payables	**15,978**	16,711
Amount due to immediate parent	**333**	294
Amounts due to fellow subsidiaries	**1,485**	1,651
Amounts due to jointly controlled entities	**39**	402
Amounts due to associates	**21**	30
Amounts due to other related parties	**101**	15
Current portion of bank loans	**14,831**	16,356
Short-term debentures	**6,000**	3,000
	38,788	38,459
Non-current liabilities		
Bank loans	**13,135**	12,717
Total debt	**51,923**	51,176
Add: Proposed dividends	**—**	1,085
Less: Cash and cash equivalents	**(2,341)**	(3,651)
Net debt	**49,582**	48,610
Total equity	**52,293**	55,329
Less: Proposed dividends	**—**	(1,085)
Adjusted capital	**52,293**	54,244
Net debt-to-adjusted capital ratio	**95%**	90%

The increase in the net debt-to-adjusted capital ratio during 2011 resulted primarily from the increase of the debt.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2011, 32.71% (2010: 32.71%) of the shares were in public hands.

27. SHARE PREMIUM

	RMB million
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	31,414

28. RESERVES

	Statutory surplus reserve *(note (a))* *RMB million*	**Specified reserve** *RMB million*	**Fair value reserve** *(note (b))* *RMB million*	**Total** *RMB million*
2010				
At 1 January 2010	3,357	50	60	3,467
Proposed transfer for the year *(note 29)*	213	20	—	233
Changes in fair value of available-for-sale financial assets, net of deferred tax	—	—	13	13
At 31 December 2010	3,570	70	73	3,713
2011				
At 1 January 2011	**3,570**	**70**	**73**	**3,713**
Proposed transfer for the year *(note 29)*	**—**	**(23)**	**—**	**(23)**
Changes in fair value of available-for-sale financial assets, net of deferred tax	**—**	**—**	**(65)**	**(65)**
At 31 December 2011	**3,570**	**47**	**8**	**3,625**

28. RESERVES *(continued)*

Note:

(a) Under the Company's Articles of Association, the Company's net profit after tax as reported in the financial statements prepared in accordance with the PRC GAAP can only be distributed as dividends after allowance has been made for:

(i) making up cumulative prior years' losses, if any;

(ii) allocations to the statutory surplus reserve of at least 10% of the net profit after tax, as determined under the PRC GAAP; and

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

(b) The fair value reserve comprises the cumulative change in the fair value of available-for-sale financial assets net of deferred tax held at the end of the reporting period.

29. RETAINED PROFITS

	2011 **RMB million**	2010 *RMB million*
At 1 January	**11,690**	10,303
(Loss)/profit for the year	**(2,163)**	2,054
Transfer between reserves *(note 28)*	**23**	(233)
Dividend approved in respect of the previous year *(note 10(b))*	**(1,085)**	(434)
At 31 December	**8,465**	11,690

30. DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under the PRC GAAP and the amount determined under IFRSs. As at 31 December 2011, the reserve available for distribution was RMB8,441 million (2010: RMB11,672 million). Final dividend of RMB Nil (2010: RMB1,085 million) in respect of the financial year 2011 was proposed after the end of the reporting period.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of (loss)/profit before tax to cash generated from operations

	2011 *RMB million*	2010 *RMB million* (restated)
Operating activities		
(Loss)/profit before tax	**(3,304)**	2,378
Adjustments for:		
Interest income	**(28)**	(26)
Interest expenses	**1,492**	1,303
Share of profits of jointly controlled entities	**(295)**	(297)
Share of profits of associates	**(96)**	(96)
Depreciation	**7,050**	7,171
Amortisation of intangible assets	**5**	5
Loss on disposals of property, plant and equipment	**25**	14
Net exchange gain	**(42)**	(58)
Government grant	**(53)**	(29)
Allowance for inventories	**1,338**	1,294
Realisation of allowance for inventories	**(1,243)**	(771)
Realisation of impairment losses on property, plant and equipment	**(35)**	(12)
Other operating income	**—**	(2)
Impairment losses on property, plant and equipment	**—**	4
Operating profit before changes in working capital carried forward	**4,814**	10,878

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Reconciliation of (loss)/profit before tax to cash generated from operations *(continued)*

	2011 *RMB million*	2010 *RMB million* (restated)
Operating profit before changes in working capital brought forward	**4,814**	10,878
Increase in inventories	**(1,144)**	(2,938)
Decrease/(increase) in amounts due from fellow subsidiaries	**2,344**	(454)
Decrease/(increase) in accounts receivables	**481**	(326)
Increase in bills receivables	**(2,211)**	(307)
(Increase)/decrease in amount due from immediate parent	**(1)**	2
(Increase)/decrease in amount due from a jointly controlled entity	**(46)**	29
Decrease in amount due from an associate	**—**	1
Decrease/(increase) in amounts due from other related parties	**9**	(16)
Decrease/(increase) in prepayments, deposits and other receivables	**1,572**	(262)
(Decrease)/increase in accounts payables	**(143)**	1,245
Increase in bills payables	**686**	1,370
Increase in amount due to immediate parent	**39**	92
Decrease in amounts due to fellow subsidiaries	**(166)**	(453)
(Decrease)/increase in amounts due to jointly controlled entities	**(363)**	29
(Decrease)/increase in amounts due to associates	**(9)**	19
Increase in amounts due to other related parties	**86**	11
(Decrease)/increase in other payables	**(1,276)**	273
Increase in deferred income	**149**	490
Cash generated from operations	**4,821**	9,683

32. COMMITMENTS

The Group had capital commitments outstanding at the end of the reporting period not provided for in the financial statements as follows:

	2011 **RMB million**	2010 *RMB million*
Authorised and contracted for:		
— Construction projects of production lines	**3,198**	3,985
— Investment in subsidiaries	**339**	318
— Investment in two investee companies	**117**	—
	3,654	4,303

33. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out between the Group, Angang Holding and its subsidiaries other than the Group (collectively referred to as "Angang Holding Group"), Pangang Group Steel Vanadium & Titanium Co., Ltd, a fellow subsidiary of the Company, and its subsidiaries (collectively referred to as "Pangang Steel & Vanadium"), Pangang Group Company Limited, a fellow subsidiary of the Company, and its subsidiaries other than Pangang Steel & Vanadium (collectively referred to as "Pangang Group"), the jointly controlled entities and associates of the Group and Angang Holding Group during the year.

(a) Significant transactions and balances with Angang Holding Group

(i) Significant transactions which the Group conducts with Angang Holding Group in the normal course of business are as follows:

	Note	**2011** ***RMB million***	2010 *RMB million*
Sales of finished goods (before deducting sales related taxes)	(a)	**8,452**	9,225
Sales of scrap materials (before deducting sales related taxes)	(a)	**211**	122
Fee received for utilities and services provided	(b)	**573**	559
Purchase of raw materials	(d)	**18,152**	14,468
Purchase of ancillary materials and spare parts	(e)	**1,595**	1,653
Utility supplies	(f)	**1,772**	1,971
Fees paid for welfare and other support services	(g)	**6,290**	5,665
Purchase of assets	(h)	**—**	65
Interest received	(i)	**12**	11
Interest paid	(i)	**280**	410
Interest paid for entrusted loan	(i)	**21**	—

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Holding Group *(continued)*

(i) Significant transactions which the Group conducts with Angang Holding Group in the normal course of business are as follows: *(continued)*

Note:

(a) The Group sold finished goods and scrap materials to Angang Holding Group mainly at selling prices based on the prices charged to independent customers. Steel products sold to Angang Holding Group for their development of new products were set at market prices, or production cost plus reasonable profit margin if no market prices were available.

The Group sold minus sieve powder to Angang Holding Group at prices for sinter ore less the costs of producing the same by Angang Holding Group.

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

(c) The Group sold certain assets to Angang Holding Group for their own use at selling prices based on market value.

(d) The Group purchased its principal raw materials from Angang Holding Group at prices determined and modified on a semi-annual basis. The purchase price is mainly no higher than the average prices quoted to the Group for importing principal raw materials of similar quality in the previous interim period ("Quoted Prices") plus freight charges, price adjustments for the quality and 5% discount on the Quoted Prices or the average purchase prices charged by independent suppliers plus price adjustments for the quality, or raw materials price plus 10% mark up of the last semi-annual processing costs or market prices.

(e) The Group purchased ancillary materials and spare parts from Angang Holding Group at selling prices no higher than the average prices of such materials charged by Angang Holding Group to independent customers.

(f) The Group purchased utilities supplies from Angang Holding Group mainly at State prices or production cost plus 5%.

(g) Angang Holding Group provided certain supporting services to the Group. These services include railway and road transportation services; agency services for import of raw materials, equipment, spare parts and ancillary materials; agency services for domestic sales and export of products; examination, repair and maintenance of equipment; design and engineering services; and other employees' supporting related services. Service fees were charged at applicable State prices, market prices, no higher than 1.5% of commission, depreciation and repair and maintenance, labour cost, material costs and management fee, and no higher than 5% mark up of processing costs.

(h) The Group purchased certain assets from Angang Holding Group at prices based on the market value.

33. RELATED PARTY TRANSACTIONS *(continued)*

(a) Significant transactions and balances with Angang Holding Group *(continued)*

(i) Significant transactions which the Group conducts with Angang Holding Group in the normal course of business are as follows: *(continued)*

Note: (continued)

(i) Angang Holding Group provided financial services in the form of deposit taking, settlement, borrowing and discounting services at State prices. The applicable borrowing rates are 10% lower of the interest rates quoted by The People's Bank of China.

As at 31 December 2011, the deposit placed with Angang Finance amounted to RMB1,128 million (2010: RMB2,607 million) and the loans from Angang Holding (entrusted and arranged by Angang Finance) and Angang Finance amounted to RMB550 million and RMB6,150 million respectively (2010: RMB Nil and RMB7,300 million).

(ii) Bank loans

As at 31 December 2011, certain bank loans amounted to RMB1,100 million (2010: RMB2,100 million) were guaranteed by Angang Holding.

(iii) Amount due from/to immediate parent

Amount due from/to immediate parent mainly represents fees receivables for utilities and services provided and fees payable for support services.

The amount due from/to immediate parent is unsecured, interest free and has no fixed terms of repayment.

(iv) Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries mainly represent prepayments and amounts payable for the purchase of raw materials and other services. Advances are received by the Group in respect of sales of finished goods.

The amounts due from/to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(v) Supply of Materials and Services Agreement

The Company entered into a Supply of Material and Services Agreement 2010/11 ("Supply Agreement") with Angang Holding on 27 October 2009, which is effective on 1 January 2010 for 2 years. According to the Supply Agreement, the cap of total transactions for the year amounted to RMB93,200 million.

33. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant transactions and balances with Pangang Steel & Vanadium

(i) Significant transactions which the Group conducts with Pangang Steel & Vanadium in the normal course of business

The Group purchased iron concentrate from Pangang Steel & Vanadium at prices determined and modified on a semi-annual basis. The purchase price is not higher than the average prices of iron concentrate reported to the PRC customs in the preceding half-year period (namely, the half-year period either from 1 January 2011 to 30 June 2011 or from 1 July 2011 to 31 December 2011) ("Average Import Prices") and the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the grade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the preceding half year. For every one percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10 per tonne.

Pangang Steel & Vanadium will provide a discount equal to 5% of the Average Import Prices on the price of iron concentrate as determined under the above mentioned formula.

(ii) Iron concentrate supply agreement

The Company entered into an iron concentrate supply agreement with Pangang Steel & Vanadium on 6 May 2011, which is effective immediately upon approval by (i) each of the Board of the Company; (ii) the board of directors of Pangang Steel & Vanadium; and (iii) the shareholders of Pangang Steel & Vanadium, and remain valid till 31 December 2011. According to the iron concentrate supply agreement, the cap of transactions for the year will not exceed RMB260 million.

33. RELATED PARTY TRANSACTIONS *(continued)*

(c) Significant transactions with other related parties

(i) Significant transactions with ANSC-TKS

The Group sold finished products to ANSC-TKS amounting to RMB3,315 million for the year (2010: RMB3,187 million) for further processing.

(ii) Significant transactions with Changchun FAM

The Group sold finished products to Changchun FAM amounting to RMB52 million for the year (2010: RMB94 million) for further processing.

(iii) Significant transactions with TKAS-SSC

The Group sold finished products to TKAS-SSC amounting to RMB466 million for the year (2010: RMB459 million) for further processing.

The Group paid agency fee for the agency services provided by TKAS-SSC for domestic sales of products amounting to RMB4 million (2010: RMB5 million).

(iv) Significant transactions with TKAS

The Group sold finished products to TKAS amounting to RMB2 million for the year (2010: RMB3 million) for further processing.

(v) Significant transactions with Ban Hai Enterprise

The Group sold scrap steel to Ban Hai Enterprise amounting to RMB Nil for the year (2010: RMB31 million).

The Group paid services fee for the service provided by Ban Hai Enterprise amounting to RMB5 million for the year (2010: RMB95 million).

(vi) Significant transactions with jointly controlled entities of Angang Holding Group

The Group sold products to jointly controlled entities of Angang Holding Group amounting to RMB317 million for the year (2010: RMB41 million).

The Group purchases of raw materials and ancillary materials from jointly controlled entities of Angang Holding Group amounting to RMB354 million for the year (2010: RMB134 million).

33. RELATED PARTY TRANSACTIONS *(continued)*

(c) Significant transactions with other related parties *(continued)*

(vii) Significant transactions with Pangang Group

The Group sold products to Pangang Group amounting to RMB4 million for the year (2010: RMB Nil).

The Group purchases raw materials and ancillary materials from Pangang Group amounting to RMB63 million for the year (2010: RMB70 million).

(viii) Amounts due from/to jointly controlled entities and associates of the Group, jointly controlled entities of Angang Holding Group and Pangang Group

Amounts due from/to jointly controlled entities and associates of the Group, jointly controlled entities of Angang Holding Group and Pangang Group mainly represent the amounts receivables/receipts in advance by the Group in respect of sales of finished products and payables for the purchase of raw materials and ancillary materials.

The amounts due from/to jointly controlled entities and associates of the Group, jointly controlled entities of Angang Holding Group and Pangang Group are unsecured, interest free and have no fixed terms of repayment.

(ix) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 9 to the financial statements is as follows:

	2011 ***RMB million***	2010 *RMB million*
Directors' and supervisors' fees	**0.27**	0.32
Salaries, allowance and other benefits in kind	**3.48**	3.35
Retirement scheme contributions	**0.58**	0.56
	4.33	4.23

34. RETIREMENT BENEFITS AND OTHER STAFF BENEFITS

The Group is required to contribute to the retirement benefits scheme based on 20% (2010: 20%) of the total salary in accordance with the regulations of the local labour bureau.

All the employees of the Group are entitled to receive, on retirement, pension payments from these schemes. Except as disclosed in note 25 to the financial statements, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk, interest rate risk and equity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has no significant foreign currency risk exposure arising from the transactions as the Group has fixed the exchange rates to settle the amounts with the export and import agents for the export of products and import of raw materials for production and equipments for construction.

At 31 December 2011, if the RMB had weakened 5 per cent against the Euro with all other variables held constant, consolidated loss after tax for the year would have been RMB1 million higher (2010: consolidated profit after tax for the year RMB1 million lower), arising mainly as a result of the foreign exchange loss on bank borrowings denominated in Euro. If the RMB had strengthened 5 per cent against the Euro with all other variables held constant, consolidated loss after tax for the year would have been RMB1 million lower (2010: consolidated profit after tax for the year RMB1 million higher), arising mainly as a result of the foreign exchange gain on bank borrowings denominated in Euro.

(b) Credit risk

The carrying amount of the cash and cash equivalents, trade and other receivables, investments, amounts due from fellow subsidiaries, a jointly controlled entity and other related parties included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has certain concentrations of credit risk.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from fellow subsidiaries, a jointly controlled entity and other related parties are closely monitored by the directors.

The credit risk on cash and cash equivalents is limited.

35. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year *RMB million*	Between 1 and 2 years *RMB million*	Between 3 and 5 years *RMB million*	Over 5 years *RMB million*
At 31 December 2011				
Trade payables	**9,900**	**—**	**—**	**—**
Other payables	**6,078**	**—**	**—**	**—**
Amount due to immediate parent	**333**	**—**	**—**	**—**
Amounts due to fellow subsidiaries	**1,485**	**—**	**—**	**—**
Amounts due to jointly controlled entities	**39**	**—**	**—**	**—**
Amounts due to associates	**21**	**—**	**—**	**—**
Amounts due to other related parties	**101**	**—**	**—**	**—**
Bank loans	**14,831**	**8,301**	**4,433**	**401**
Short-term debentures	**6,000**	**—**	**—**	**—**
At 31 December 2010 (restated)				
Trade payables	9,357	—	—	—
Other payables	7,354	—	—	—
Amount due to immediate parent	294	—	—	—
Amounts due to fellow subsidiaries	1,651	—	—	—
Amounts due to jointly controlled entities	402	—	—	—
Amounts due to associates	30	—	—	—
Amounts due to other related parties	15	—	—	—
Bank loans	16,356	3,401	8,411	905
Short-term debentures	3,000	—	—	—

35. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank loans. The Group's bank deposits and certain of the Group's bank loans bear interests at variable rates varied with the then prevailing market condition. The Group's other bank loans bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

At 31 December 2011, if the interest rate at that date had been decreased by 1 per cent with all other variables held constant, consolidated loss after tax for the year would have been RMB104 million lower (2010: consolidated profit after tax for the year RMB74 million higher), arising mainly as a result of lower interest expense on bank loans. If the interest rate at that date had been increased by 1 per cent with all other variables held constant, consolidated loss after tax for the year would have been RMB104 million higher (2010: consolidated profit after tax for the year RMB74 million lower), arising mainly as a result of higher interest expense on bank loans.

(e) Equity price risk

The Group's available-for-sale financial assets are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

At 31 December 2011, if the equity share price increases/decreases by 10 per cent with all other variables held constant, the Group's consolidated other comprehensive income would have been RMB7 million (2010: RMB18 million) higher/lower, arising as a result of changes of fair value of available-for-sale financial assets.

(f) Categories of financial instruments at 31 December 2011

	2011 *RMB million*	2010 *RMB million (restated)*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**13,609**	15,879
Other investments, at cost	**358**	255
Available-for-sale financial assets, at fair value	**92**	179
Financial liabilities:		
Financial liabilities at amortised cost	**48,204**	46,333

35. FINANCIAL RISK MANAGEMENT *(continued)*

(g) Fair values

Except as disclosed in note 18 to the financial statements, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2011:

	Fair value measurement using:			**Total**
Description	**Level 1**	**Level 2**	**Level 3**	**2011**
	RMB million	***RMB million***	***RMB million***	***RMB million***
Available-for-sale financial assets	**92**	**—**	**—**	**92**

	Fair value measurement using:			Total
Description	Level 1	Level 2	Level 3	2010
	RMB million	*RMB million*	*RMB million*	*RMB million*
Available-for-sale financial assets	179	—	—	179

36. EVENTS AFTER THE REPORTING PERIOD

The directors proposed a final dividend subsequent to the end of the reporting period (note 10).

Subsequent to the end of the reporting period, the Company entered an agreement with two independent parties to increase the registered capital in Angang Putian, a wholly-owned subsidiary of the Company, by RMB300 million. The increase of the registered capital in Angang Putian will satisfy by cash contributions from these two independent parties of RMB150 million each. Upon completion of the cash contributions by these two independent parties, the equity interests of Angang Putian held by the Company and each of the independent third parties are 80%, 10% and 10% respectively.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 RMB million	2010 RMB million (restated)
Non-current assets		
Property, plant and equipment	**56,639**	60,205
Intangible assets	**3**	8
Construction in progress	**5,153**	3,764
Investments in subsidiaries	**3,276**	2,267
Interests in jointly controlled entities	**1,544**	1,245
Interests in associates	**576**	483
Other investments	**450**	434
Deferred tax assets	**1,973**	1,112
	69,614	69,518
Current assets		
Inventories	**13,120**	12,378
Trade receivables	**6,436**	4,321
Prepayments, deposits and other receivables	**1,821**	2,902
Amount due from immediate parent	**1**	—
Amounts due from fellow subsidiaries	**4,025**	6,951
Amount due from a jointly controlled entity	**115**	69
Amounts due from other related parties	**7**	16
Current tax assets	**94**	24
Cash and cash equivalents	**1,183**	2,542
	26,802	29,203
Current liabilities		
Trade payables	**8,361**	8,067
Other payables	**5,174**	6,803
Amount due to immediate parent	**333**	294
Amounts due to fellow subsidiaries	**1,334**	1,484
Amounts due to jointly controlled entities	**39**	402
Amounts due to associates	**1**	—
Amounts due to other related parties	**100**	15
Deferred income	**5**	23
Current portion of bank loans	**12,731**	13,841
Short-term debentures	**6,000**	3,000
	34,078	33,929
Net current liabilities	**(7,276)**	(4,726)
Total assets less current liabilities carried forward	**62,338**	64,792

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2011 RMB million	2010 RMB million (restated)
Total assets less current liabilities brought forward	**62,338**	64,792
Non-current liabilities		
Bank loans	**10,645**	10,057
Provisions	**18**	37
Deferred income	**629**	517
	11,292	10,611
NET ASSETS	**51,046**	54,181
CAPITAL AND RESERVES		
Share capital	**7,235**	7,235
Share premium	**31,414**	31,414
Reserves	**3,625**	3,713
Retained profits	**8,772**	11,819
TOTAL EQUITY	**51,046**	54,181

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 3 to the financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

38. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Impairment for property, plant and equipment and intangible assets

If circumstances indicate that the carry amount of property, plant and equipment and intangible assets may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of assets". The carrying amounts of property, plant and equipment and intangible assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use. It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, and anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Allowance for inventories

As explained in note 3(k) to the financial statements, the Group's inventories, other than spare parts and tools, are stated at the lower of cost and net realisable value. Spare parts and tools are stated at cost less any allowance for obsolescence. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs to be incurred in selling the inventories and the costs of completion in case for work in progress or the usage for future repair and maintenance. Uncertainty exists in these estimations.

		(Loss)/profit for the year of the Group		(Loss)/profit for the year attributable to owners of the Company	
		2011	2010	**2011**	2010
		RMB	*RMB*	***RMB***	*RMB*
	Note	***million***	*million*	***million***	*million*
Under IFRSs		**(2,349)**	1,965	**(2,163)**	2,054
Adjustments:					
— Safety production expenses	(i)	**23**	(20)	**23**	(20)
— Deferred tax charge	(ii)	**(6)**	5	**(6)**	5
Under PRC GAAP		**(2,332)**	1,950	**(2,146)**	2,039

		Total equity of the Group		Equity attributable to owners of the Company	
		2011	2010	**2011**	2010
		RMB	*RMB*	***RMB***	*RMB*
	Note	***million***	*million*	***million***	*million*
Under IFRSs		**52,293**	55,329	**50,739**	54,052
Adjustments:					
— Deferred tax	(ii)	**12**	18	**12**	18
— Interests in jointly controlled entities		**—**	(2)	**—**	(2)
Under PRC GAAP		**52,305**	55,345	**50,751**	54,068

Note:

(i) According to the document (Cai Qi* [2006] No. 478), entities involved in mining, construction, production of dangerous goods and land transport are required to accrue production safety expenses to the relevant period's income statement at fixed rates on production volume or operating revenue. Under IFRSs, expenses are recognised when they are actually incurred.

(ii) According to the above adjustment made in (i), no income tax is recognised by liability method under IFRSs, whereas deferred tax assets are provided by PRC GAAP.

A PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES IN THE PRC

	2011 **RMB million**	2010 *RMB million*	2009 *RMB million*	2008 *RMB million* (restated)	2007 *RMB million*
Principal operating revenue	**90,423**	92,431	70,126	79,616	65,499
Net (loss)/profit	**(2,332)**	1,950	686	2,981	7,553
Total assets	**102,988**	105,114	100,987	92,184	86,783
Total liabilities	**(50,683)**	(49,769)	(47,189)	(39,076)	(32,520)
Net assets	**52,305**	55,345	53,798	53,108	54,263

B. PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	2011 **RMB million**	2010 *RMB million*	2009 *RMB million* (restated)	2008 *RMB million* (restated)	2007 *RMB million* (restated)
Turnover	**90,207**	92,212	70,057	78,985	65,294
(Loss)/profit for the year attributable to owners of the Company	**(2,163)**	2,054	748	2,989	7,530
Non-current assets	**74,573**	74,093	76,616	72,158	56,566
Current assets	**30,342**	33,026	26,638	22,800	30,951
Current liabilities	**(38,801)**	(38,482)	(37,828)	(24,149)	(20,811)
Net current (liabilities)/assets	**(8,459)**	(5,456)	(11,190)	(1,349)	10,140
Total assets less current liabilities	**66,114**	68,637	65,426	70,809	66,706
Non-current liabilities	**(13,821)**	(13,308)	(11,641)	(17,706)	(12,443)
Net assets	**52,293**	55,329	53,785	53,103	54,263

Note:

(a) Turnover was stated as the amount before deducting sales related taxes.

(b) In 2007, the Group changed its accounting policy relating to interest in jointly controlled entities. The new accounting policy has been applied retrospectively by restating opening balance at 1 January 2006 and 2007.

In 2010, the Group changed its accounting policy relating to adoption of the amendment to IAS 17 and which has been applied retrospectively by restating opening balance at 1 January 2007, 2008 and 2009.

(c) Figures in years earlier than 2007 are stated in accordance with the policies before the change on a consistent basis.

INCORPORATION OF THE COMPANY:

Date :	8 May 1997
Place :	396 Nan Zhong Hua Road, Tie Dong District, Anshan City, Liaoning Province

BUSINESS ADDRESS OF THE COMPANY IN HONG KONG:

23rd Floor, Entertainment Building, 30 Queen's Road, Central, Hong Kong

REGISTRATION NUMBER OF LEGAL PERSON BUSINESS LICENSE HELD BY THE COMPANY:

210000400006026

TAXATION REGISTRATION NUMBER:

210302242669479

AUDITORS:

Name of the international auditors :	RSM Nelson Wheeler Certified Public Accountants
Place of Business :	29th Floor, Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong
Name of the PRC auditors :	RSM China Certified Public Accountants (Special General Partnership)
Place of Business :	8-9/F, Block A, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing

Documents Available for Inspection

1. Financial statements signed by the Legal Representative, Chief Accountant and Head of the Accounting Department of the Company and with seal affixed;

2. Original of the auditors' report sealed by the accounting firm and signed and sealed by certified public accountants;

3. Originals of all documents and manuscripts of announcements disclosed by the Company in the China Securities Journal and the Securities Times in 2011;

4. Annual report of the Company submitted to the Hong Kong Stock Exchange.

The above documents are available for inspection at the secretarial office of the Board, Angang Steel Company Limited* situated at No. 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province.

Note: This report is prepared in both Chinese and English. The Chinese version shall prevail in case of any inconsistency in the interpretation of the two versions.

Angang Steel Company Limited*
The Board

27 March 2012

* *For identification only*

鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*