



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

(Stock Code : 0347)



2012
Annual Report

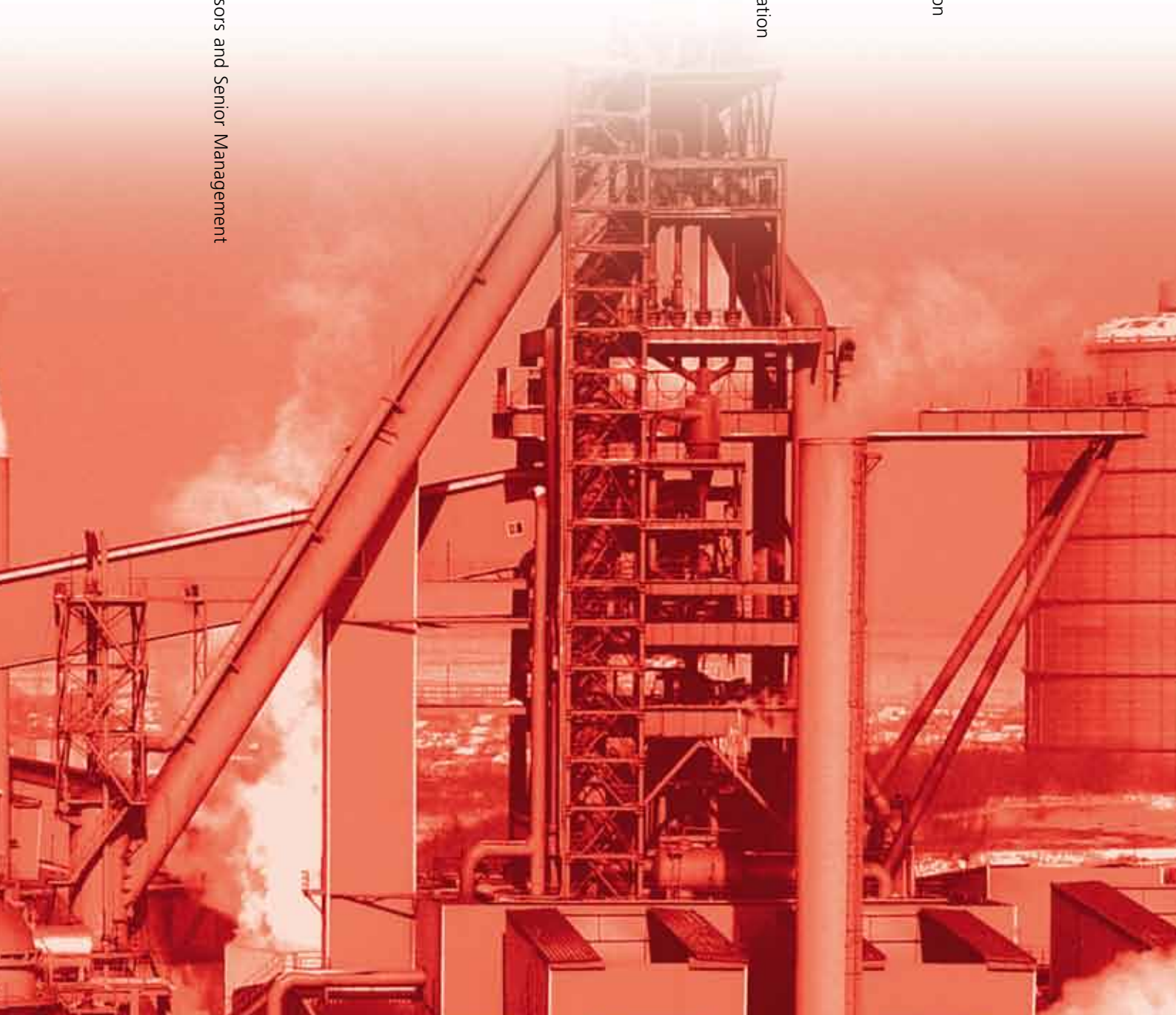
* For identification purposes only

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Corporate Profile

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

Zhang Xiaogang, the Company’s Chairman, Ma Lianrong, Chief Accountant and Che Chengwei, person in charge of the accounting institution guarantee the truthfulness, accuracy and completeness of the financial statements in this report.

CORPORATE PROFILE

The Company is a joint stock limited company incorporated on 8 May 1997 with Angang Holding 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, with a net asset value of RMB2,028,817,600 as determined by the State-owned Assets Administration Bureau, and 1,319,000,000 domestic state-owned legal person shares with a par value of RMB1 each were issued to Angang Holding.

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 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 placed 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 placed to the employees of the Company commenced on the Shenzhen Stock Exchange on 25 December 1997 and 26 June 1998, respectively.



CORPORATE PROFILE *(continued)*

On 15 March 2000, the Company issued A share convertible debentures amounting to RMB1.5 billion in the People's Republic of China. 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.

On 26 January 2006, the Company issued 2,970,000,000 A shares at RMB4.29 per share to Angang Holding as partial payment of the consideration for the acquisition of 100% equity interests of ANSI. The registration for custody of such shares at Shenzhen Branch of China Securities Depository and Clearing Corporation Limited was 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)*

CORPORATE PROFILE *(continued)*

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

During 2007, the Company issued rights shares on the basis of 2.2 rights shares for every 10 existing shares to all the shareholders of the Company. From 10 October to 16 October 2007, the Company issued 1,106,022,150 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 Angang Holding, 1,281,327,517 shares were held by other A shareholders and 1,085,800,000 shares were held by H shareholders.

The Company's principal activities include production and sale of steel products such as hot rolled sheets, cold rolled sheets, galvanized steel sheets, colour coating plates, silicon steel, 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. Corporate profile

Stock Exchange Listings	Shenzhen Stock Exchange
Stock Abbreviation	Angang Steel
Stock Code	000898 (A share)
Stock Exchange Listings	Hong Kong Stock Exchange
Stock Abbreviation	Angang Steel
Stock Code	0347 (H share)
Chinese Name of the Company	鞍鋼股份有限公司
Chinese Name Abbreviation	鞍鋼股份
English Name of the Company	Angang Steel Company Limited
English Name Abbreviation	ANSTEEL
Legal Representative of the Company	Zhang Xiaogang
Registered Address	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC
Postal Code of the Registered Address	114021
Business Address	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC
Postal Code of Business Address	114021
Website of the Company	http://www.ansteel.com.cn
E-mail of the Company	ansteel@ansteel.com.cn

2. Contact persons and contact methods

	Secretary to the Board	Securities Affairs Representative
Name	Fu Jihui	Jin Yimin
Address	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC	1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC
Telephone	0412-8419192	0412-8419192, 8417273
Fax	0412-6727772	0412-6727772
E-mail	ansteel@ansteel.com.cn	ansteel@ansteel.com.cn

3. Information disclosure and places for inspection

Company's Designated PRC Newspapers for Disclosure of Information	PRC Securities Journal, Securities Times,
Website for Publication of Annual Report Designated by CSRC	http://www.cninfo.com.cn
Website for Disclosure of the Company's Information Overseas	http://www.hkex.com.hk and http://angang.wspr.com.hk
Company's Annual Report Available at	Secretarial Office of the Board of the Company

Summary of Accounting Figures and Financial Indicators

I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS

Unit: RMB' million

Items	2012	2011	Changes over the preceding year (%)	2010
Operating income	77,748	90,423	-14.02	92,431
Operating profit	-5,563	-3,446	-61.43	2,253
Total profit	-5,496	-3,281	-67.51	2,358
Net profit attributable to the owner of the listed company	-4,157	-2,146	-93.71	2,039
Net profit attributable to the shareholders of the listed company after extraordinary items	-4,207	-2,270	-85.33	1,960
Net cash flow from operating activities	1,453	4,663	-68.84	9,026
Basic earnings per share (RMB Yuan/share)	-0.575	-0.297	-93.60	0.282
Diluted earnings per share (RMB Yuan/share)	-0.575	-0.297	-93.60	0.282
Basic earnings per share after extraordinary items (RMB Yuan/share)	-0.581	-0.314	-85.03	0.271
Diluted earnings per share after extraordinary items (RMB Yuan/share)	-0.581	-0.314	-85.03	0.271
Returns on net assets on weighted average basis (%)	-8.54	-4.09	decrease by 4.45%	3.83
Return on net assets on weighted average basis after extraordinary items (%)	-8.64	-4.33	decrease by 4.31%	3.68

Summary of Accounting Figures and Financial Indicators *(continued)*

I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS *(Continued)*

Items	At the year end of 2012	At the year end of 2011	Changes over the preceding year (%)	At the year end of 2010
Total assets	101,237	102,988	-1.70	105,114
Total liabilities	53,008	50,683	4.59	49,769
Equity attributable to the shareholders of the listed company	46,598	50,751	-8.18	54,068
Net assets per share attributable to the shareholders of the listed company (RMB/share)	6.44	7.01	-8.13	7.47
Assets-liability ratio (%)	52.36	49.21	increase by 3.15%	47.35
Total share capital	7,235	7,235	—	7,235

II. EXTRAORDINARY ITEMS AND AMOUNTS AFFECTED ON PROFIT

Unit: RMB' million

Extraordinary items	2012	2011	2010
1 Gains or losses from disposal of non-current assets	11	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 applicable standards) attributable to gains or losses for the period	60	190	117
3 Other non-operating income and expenses apart from those stated above	-4	-32	-16
4 Effect of minority interest	—	—	—
5 Effect of income tax	-17	-41	-26
Total	50	124	79

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

Chairman's Statement



On behalf of the Board of Angang Steel Company Limited, I am pleased to present the annual report of the Company for the year ended 31 December 2012 and hereby extend my regards to all shareholders.

OPERATING RESULTS FOR 2012

In accordance with the PRC ASBE, the Group recorded a net loss attributable to shareholders of the Company of RMB4,157 million for the year ended 31 December 2012, representing a decrease of 93.71% as compared with the previous year. The basic loss per share was RMB0.575.

PROFIT DISTRIBUTION

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership), the Company recorded a net profit of RMB-4,157 million attributable to the shareholders of the Company for the year of 2012 in accordance with the PRC ASBE. 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 for the year of 2012. The Board proposed that the Company would not make any profit distribution or transfer of reserve to share capital for year of 2012. This proposal shall be subject to consideration at the 2012 annual general meeting.

BUSINESS REVIEW

In 2012, the iron and steel industry encountered the "harsh winter". Notwithstanding the deteriorated market conditions and more intense competitions and challenges, the management and staff of the Company concentrated minds and changed their mindset, coped with the difficulties with full confidence, reinforced the efforts in reducing the costs and enhancing efficiency. All of these efforts delivered a stable production and business.

(1) New improvement in capabilities of lean production and organisation by taking advantage of cooperation.

During the Reporting Period, the Group produced 20,288,300 tons of iron, 19,628,800 tons of steel and 19,091,100 tons of steel products, representing a decrease of 0.75%, 0.78% and 0.41%, respectively, as compared with the previous year. Sale of steel products amounted to 18,876,000 tons, representing an increase of 0.20% as compared with the previous year. The Group also realized a 98.87% sale-to-production ratio for steel products.

For the year of 2012, the Company organized production in accordance with the principle of "prioritise benefit, moderate scale, improving indicators and lowest cost" (效益優先、規模適度、指標改善、成本最低). As with the system before iron-making, attention was mainly paid to "maintaining stability" (維穩) of blast furnace, coal blending and ore proportioning were optimized, thus resulting in an overall reduction in the cost of steel-making; as with the steel-making system, management by production line and furnace charging optimization were adhered to and accordingly stable production as well as low-cost operation were achieved; as with the rolled steel system, the production was stringently organized as per the contracts, so as to ensure full-load production of efficient varieties and production lines. Steady and smooth production and operation were achieved by lean organization, while the output targets and plans of the main products were fully completed. The cost of operation decreased continuously and the key technological and economic indicators were improved effectively.

(2) Logistics and procurement strategies were adjusted as needed thus better results were achieved with low-cost operation.

The Group stayed abreast of market changes. Through seeking sources publicly, actively invited new suppliers to eliminate the bottleneck of exclusive supply, continuously expanded functional subcontracting projects, conducted procurement as appropriate by avoiding the peak whilst choosing the bottom, purchase cost of raw fuels was substantially reduced. Logistics optimization research team was established and logistics forecast was carried out, logistics and transport organizations were optimized. Great efforts were made to coal blending and ore proportioning, internal and external low-cost material resources were excavated and developed vigorously. The percentages of usage of the inventory-clearing varieties, alternative varieties, spot iron materials and mines and coals improved continuously, meanwhile, the inventory levels were adjusted dynamically and promptly according to the changes in the market of the raw materials, and a series of effective mechanism and measures were formed preliminarily, thereby significantly reducing operating risks.

Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

(3) Vigorously explored the market and the quality of marketing management saw new improvement.

With a view to benefit maximization, greater efforts were made to adjust the structure of product varieties, raised the proportion of sales of the high value-added products e.g. steel for automobiles, steel for pipelines and steel for high-end appliances, a sales goal of 7.22 million tons of high value-added products were achieved during the year, of which the steel plates for pipelines and engineering machines and other steel plates reached a peak in the recent years, and the percentage of special materials reached 79%.

Vigorously developed direct suppliers, established key customers management and service mechanism, deepened EVI management, strengthened the function "integrating" production, sale and research, greater efforts were made to sell and the market share was improved. The Group was responsive to the industrial and regional demands, it continued to vigorously develop medium and small-sized direct supply enterprises, and the percentage of direct supply reached 65% during the year.

The Group is market-oriented, constantly improving the sales of the spot goods in the Greater Northeastern region of China, the market share in the neighboring market has increased year-on-year. Greater efforts were made to the tender of key projects, successively won the bids i.e. Hong Kong-Zhuhai-Macao Bridge (港珠澳大橋) (the longest crosssea bridge in the world), Pipeline No.3 of the project of natural gas transmission from west to east China (西氣東輸三線), China-Myanmar pipeline (中緬管線), Sinopec Tianjin oil storage tank (中石化天津儲油罐) and other large-scale key projects, brand awareness was improved.

Vigorously explored overseas market and promoted internationalized operations, the sales for export settlement amounted to 1,697,300 tons.

BUSINESS REVIEW *(continued)*

(4) Energy management was emphasized, and new progress was made with regards to energy-saving and emission reduction.

The concept of “operating energies” (經營能源) was established, energy basic management was strengthened, and the effectiveness of energy management was improved. During the year, a total of 52 energy-saving projects and contracted energy management projects were implemented and the investments aggregated RMB229 million. Of which, the steel-making headquarter plant's second-burning waste heat steam recycling power generation project (煉鐵總廠二燒餘熱蒸汽回收發電), the production line No. 2150 furnace waste heat recycling project (2150生產線加熱爐餘熱回收) and the project to supply additional fuel gas to the boiler at the southern area of the second power plant (供二發電南區鍋爐增燒煤氣) were successively put into production and operation, 29,000 tons of standard coal were saved during the year. By fully exploring the potential of power generation, the proportion of self-generated power reached 54%.

Composite energy consumption per ton of steel, fresh water consumption per ton of steel and other indicators all reached the best in the history. During the year, there was no material environment pollution accident, and the compliance rate of air pollution source emissions, the rate of decontamination and disposal of hazardous wastes and the recycling rate of waste materials all reached 100%.



Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

(5) Technological innovation was promoted and R&D advanced to a new level.

Increased investment in research, promoted key technological development projects, a total of 327 research projects were approved and initiated during the year.

X80-grade anti-high deformation wide and thick steel sheet (X80級抗大變形寬厚板) passed PetroChina's examination. Substantive progress was made in the development of ultrahigh tough steel plates for automobiles, ultra wide and thick steel sheet, ultra thin wide steel sheet and other new products. 4.4 million tons of new products (which represents 22% of products) were developed during the year.

Nine scientific achievements including "development and utilization of iron dust-wallow efficient recycling new technologies" (含鐵塵泥高效再資源化新工藝開發與應用) of which three reached the internationally leading standard and six reached the internationally advanced standard. Eight new products, including steel series for large heat input welding of ship and marine engineering (大線能量焊接用船舶及海洋工程系列鋼板) were awarded "provincially excellent new product". During the year, 700 patent applications were received by the state, 487 granted patents and 685 proprietary technologies were obtained. Six gold medals were received at the Seventh International Invention Patent Exhibition (第七屆國際發明專利展覽會).

(6) Speed up equipment upgrade, technological transformation and construction of capital projects saw new progress.

The annual investment in fixed assets was RMB3.65 billion. 19 capital investment projects including the west area sintering waste-heat power generation technological transformation project (西區燒結餘熱發電技術改造工程) were put into operation. Chemical coke ovens (phase 4), CDQ and generator sets, the headquarters' newly-built No.1 converter gas tank (本部新建1號轉爐煤氣櫃) and newly built 20,000 m³ waste nitrogen compressor as well as the slab heat treatment production lines in Anshan and Yingkou (鞍營兩地厚板熱處理生產線), tar expansion and renovation project phase 1 and other projects have started production consecutively. Renovation of blast furnace No.10 progressed as scheduled. A series of major projects including oriented silicon steel experiment project, the production line No.2150 ultrafast cooling project (2150生產線超快冷項目), the west power plant boiler mixed gas project (西部電站鍋爐改燒混合煤氣項目), No.1 and No.2 casting machine electromagnetic brake at the No. 4 steelmaking work section and No.3 casting machine automotive slab production improvement project (3號鑄機生產汽車板坯完善項目), the large-scale plant new steel track full-length quenching line (大型廠新建鋼軌全長淬火生產線), the hot-rolled plant production line No.2150 high-strength coiler renovation (熱軋廠2150生產線高強卷取機改造), the cold-rolled galvanizing lines renovation and military supporting renovation projects were approved.

DEVELOPMENT PLANS FOR THE NEW YEAR

1. Competition and development in the industry

Unfavorable factors: the aggravated debt crises in the western countries left a bleak prospect for the global economic recovery. The downside risks of economies remained in light of the weak performance of developed economies. According to the estimates by International Monetary Fund (IMF), the world economic growth will only reach 3.6% in 2013, lingering in the range of weak growth and the recovery will take time. The three major components of domestic demand, namely export, investment and consumption, all recorded a result below the market expectations. The task of macro-control is still arduous since a quick solution for the awkward coexistence of decelerated growth and inflation is not available. The domestic iron and steel industry is up against a grim situation where the excess production capacity is severe and the prices of raw materials and fuel remain high. As for the performance of the downstream industries, the machinery and ship-building industries see little improvement in the depression while the appliances and construction industries are undergoing adjustment. In addition, the export trade is hard to taking a turn for the better amidst the constant frictions under the new round of international trade protection

Favorable factors: it is proposed at the Central Economic Work Conference that a series of measures be carried out to deliver a steady growth, expand the domestic demand and expedite the adjustment of industrial structure. The work emphasis will be put on tackling the excess production capacity and the main task on promoting the urbanization proactively and prudently. Also, the investment in the fixed assets is expected to see a slight growth. The fundamental judgment that our country is in an important period of strategic opportunities still works and the domestic GDP will be maintained at approximately 8% in 2013, representing a steady growth. The domestic iron and steel enterprises will place more importance on the quality of development instead of blindly pursuing a production expansion. The new production capacity generated under the expedited construction of mines both at home and abroad formed the basic pattern of oversupply of iron ore, which is expected to alleviate the costs pressure of enterprises in steel industries. As for the demand, the expedited railway construction and the unlikely further policy tightening of the real estate control brought hope for a growth in the total demand.

2. The Company's development strategy

In 2013, the Company will implement the strategy of "make progress while maintaining stability, prioritise benefit and stringent implementation" (穩中求進、效益為先、剛性執行) to achieve the target of "turn loss into profitability", improve the enterprise's adaptability to the market, transformation and innovation capability, differentiated competitiveness and comprehensive management capability.

Chairman's Statement *(continued)*

DEVELOPMENT PLANS FOR THE NEW YEAR *(continued)*

3. Operation plan for the year of 2013

- (1) Implement comprehensive innovation, and achieve new breakthrough in the route emphasizing quality and benefit of the varieties by keeping a keen eye on substitution of imported products and the domestic demand on special steel and stepping up efforts in new product development.
- (2) Step up efforts in marketing, services and procurement, achieve new breakthrough in the capability of collaboratively creating benefit in both the international market and the domestic market.
- (3) Improve the "one-stop shop" service quality, achieve new breakthrough in the construction of large logistics management system.
- (4) Optimize key production elements, achieve new breakthrough in improvement of capacity to secure lean production.
- (5) Step up efforts in energy-saving and emission reduction, achieve new breakthrough in the implementation of green development.
- (6) Fully enhance operation management, achieve new breakthrough in improvement of operation management and control capability.
- (7) Improve the management system and the operation system, achieve new breakthrough in deepening enterprise reform.

4. Capital requirements plan

For the year of 2013, a capital investment of RMB5,105 million is planned to be injected into the Group's chemical coke oven renovation project phase 4 and phase 5, the 3.8m slab project in Bayuquan and other main construction projects and external investments.

The main sources of the capital for the Group in 2013 are: short-term financing bills, medium-term notes, cash flows generated by operating activities and bank loans.

Chairman
Zhang Xiaogang

Anshan City, the PRC
27 March 2013

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2012.

I. 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.

Composition of the principal businesses in 2012

Principal businesses of the Group by industry and products

Unit: RMB' million

	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operating income as compared with the same period of the previous year (%)	Increase/ decrease in operating cost as compared with the same period of the previous year (%)	Increase/ decrease in gross profit margin as compared with the same period of the previous year (%)
By industry						
Steel pressing and processing industry	77,531	75,375	2.78	-14.05	-12.55	-1.67
By products						
Hot-rolled sheets products	27,015	26,408	2.25	-1.48	0.27	-1.70
Cold-rolled sheets products	29,653	28,581	3.62	-18.70	-14.55	-4.68
Medium and thick plates	9,367	8,951	4.44	-34.19	-36.88	4.08

Report of the Directors *(continued)*

I. PRINCIPAL BUSINESS *(continued)*

Composition of the principal businesses in 2012 *(continued)*

Notes:

- 1) The decrease in operating income from cold-rolled sheets products as compared with the same period of the previous year was primarily due to i) the decrease in the prices of products and ii) the decrease in the product sales volume. The decrease of operating cost was due to i) the decrease in the processing cost attributable to the Company's efforts in reducing the costs through stringent control of consumptions and improving the economic and technical standards; ii) the decrease in the prices of raw materials and fuels and iii) the decrease in the product sales volume. The decrease in gross profit margin was mainly attributable to a more significant decrease in the steel prices as compared with the decrease in prices of external raw materials and fuels, and the deepening of the Company's efforts in cost reduction and efficiency enhancement had yet to offset the loss in profit arising from the decrease in steel price.
- 2) The decrease in operating income from medium and thick plates as compared with the same period of the previous year was primarily due to i) the decrease in the product sales volume and ii) the decrease in the prices of products. The decrease of operating cost was due to i) the decrease in the product sales volume; ii) the decrease in the processing cost attributable to the Company's unswerving promotion of the operation solutions such as costs reduction and efficiency enhancement as well as transmission of market force and iii) the decrease in the prices of raw materials and fuels. The increase in gross profit margin was mainly attributable to provision made for written down of medium and thick plates at the earlier stage of sales.

Segmental information of operating revenue of the Group by geographical locations of sales

Unit: RMB' million

	Operating revenue from main operation	Increase/ decrease in operating revenue from main operation as compared with the previous year (%)
Northeast China	27,718	-18.59
North China	8,426	-21.14
East China	17,601	-13.56
South China	14,769	1.53
Central south China	896	-29.17
Northwest China	452	-17.67
Southwest China	170	-30.04
Export sales	7,499	-11.87
Total	77,531	-14.05

II. DIRECTORS

The Directors of the Company during the Reporting Period and up to the date of this report are:

Executive Directors

Zhang Xiaogang

Yang Hua

Chen Ming

Yu Wanyuan

Fu Jihui

Independent Non-executive Directors

Li Shijun

Ma Guoqiang

Kwong Chi Kit, Victor

Details of the Directors' profiles are set out on pages 68 to 70 of this annual report.

The Board has received confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Hong Kong Listing Rules. The Board has duly reviewed the confirmation of independence and considers that the independent non-executive Directors had been independent during the Reporting Period.

III. ACCOUNTING POLICIES AND CONSOLIDATION SCOPE

In comparison with the financial report of the preceding year, the Group has no change in accounting policies, accounting estimates and accounting methods for the year.

In comparison with the financial report of the preceding year, there is no change of the consolidation scope for the year.

Report of the Directors *(continued)*

IV. DISTRIBUTION OF PROFIT AND DIVIDEND PAYMENT BY THE COMPANY

Formulation, implementation and adjustment of profit distribution policy, especially cash dividend policy, during the Reporting Period

Pursuant to the Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC, the 37th meeting of the fifth session of the Board of the Company held on 27 August 2012 considered and approved the Resolution in Relation to Amendments to the Articles of Association (《關於修改〈公司章程〉的議案》), which amended the dividend distribution policy of the Company and clarified the specific conditions and ratios of cash dividend, the review procedures of profit distribution plan and made specific requirement for the procedures of adjustments and changes of the profit distribution policy. The resolution has been approved by the general meeting of the Company.

The Company's profit distribution policy was in compliance with the provisions of the Articles of Association and review procedures, and fully protected the lawful interests of minority investors. Independent Directors have issued opinions and the policy has clear criteria and ratios of dividend distribution. Adjustments and changes of the profit distribution policy were made in lawful and transparent conditions and procedures.

Proposals and plans of profit distribution and transfer of reserve to capital of the Company for the last three years (including the Reporting Period)

1. The profit distribution proposal of the Company in 2012

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership), the Company recorded a net profit of RMB-4,157 million attributable to the shareholders of the Company for the year of 2012 in accordance with the PRC ASBE. 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 for the year of 2012. The Board recommend the Company not to make any profit distribution or transfer of reserve to share capital for year 2012. This proposal shall be subject to consideration at the 2012 annual general meeting of the shareholders of the Company.

Report of the Directors *(continued)*

IV. DISTRIBUTION OF PROFIT AND DIVIDEND PAYMENT BY THE COMPANY *(continued)*

Proposals and plans of profit distribution and transfer of reserve to capital of the Company for the last three years (including the Reporting Period) *(continued)*

2. The profit distribution plan of the Company in 2011

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership) and as reviewed and approved by the 2011 annual general meeting of Company, the Company recorded a net profit of RMB2,146 million attributable to the shareholders of the Company for the year 2011 in accordance with the PRC ASBE. As the Company recorded a loss, pursuant to the PRC laws and regulations and the articles of association of the Company, the Company did not make allocation to surplus reserve nor any profit distribution or transfer of reserve to share capital for year 2011.

3. The profit distribution plan of the Company in 2010

As audited and confirmed by RSM China Certified Public Accountants (Special General Partnership) and as reviewed and approved by the 2010 annual general meeting of Company, the net profit attributable to the shareholders of the Company for year 2010 amounted to RMB2,039 million and as at the year end of 2010, the profit available for distribution to the shareholders of the Company was RMB11,672 million under the PRC ASBE. In accordance with the laws and regulations of the PRC and the articles of association of the Company, a cash dividend of RMB0.15 per share (inclusive of tax) for 2010 based on the Company's total issued share capital of 7,234,807,847 shares. A profit available for distribution of RMB1,085 million was distributed to the shareholders. After the implementation of the plan, the balance of the profit available for distribution was RMB10,587 million.

Distribution for the last three years

Unit: RMB' million

Year	Amounts of cash dividends (including tax)	Net profit attributable to the shareholders of the Company in the consolidated financial statement during the year	Percentage of the net profit attributable to the shareholders of the Company in the consolidated financial statement (%)
2012	0	-4,157	0
2011	0	-2,146	0
2010	1,085	2,039	53.21

Report of the Directors *(continued)*

V. ANALYSIS OF THE MAJOR CONTROLLED COMPANIES AND COMPANIES WITH A PARTICIPATING INTEREST

Unit: RMB' million

Name	Type	Industry	Main products or services	Registered capital	Total assets as at 31 December 2012	Net assets as at 31 December 2012	Operating income for the year of 2012	Operating profit for the year of 2012	Net profit for the year of 2012
Angang Wuhan	Wholly-owned subsidiary	Steel pressing and processing	Production, processing, wholesale and retail business of steel and relevant products	108	134	106	—	-3	-2
Angang Putian	Controlling subsidiary	Steel pressing and processing	Ferrous metal rolling process, production of steel rolling co-products and metallurgical parts, sales and processing of steel products and related services	1,500	3,685	1,435	—	-60	-45
Angang Hefei	Wholly-owned subsidiary	Steel pressing and processing	Production, processing, wholesale and retail sale of steel products and relevant products	97.5	104	97	1	-2	-1
Guangzhou Angang	Controlling subsidiary	Steel pressing and processing	Production, processing, wholesale and retail sale of steel products and relevant products	80	39	39	—	-1	-1
Angang Tiantie	Joint venture	Steel pressing and processing	Steel rolling and processing; production, processing and sales of cold rolled sheets, galvanized sheets and colour coated sheets; metallurgy equipment technology advisory service, technological service (excluding intermediaries); import and export business	3,700	8,084	2,633	3,228	-575	-435
ANSC-TKS	Sino-foreign cooperative venture	Steel pressing and processing	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	USD 132 million	3,398	2,570	4,570	599	564
ANSC-Dachuan	Limited liability company	Steel pressing and processing	Processing of steel products, and manufacturing, distribution and sale of structural steel	380	1,065	448	1,686	16	11
Changchun FAM	Sino-foreign cooperative venture	Steel pressing and processing	Processing and production of steel products and related services	90.374	298	175	426	28	20
TKAS-SSC	Sino-foreign cooperative venture	Steel pressing and processing	Production, processing, sale services of steel products, steel service products and other related commercial activities	USD12 million	367	121	1,184	27	24
Angang Shenyang	Limited liability company	Steel pressing and processing	Processing, storage and distribution of steel products	104	309	99	309	-9	-6
TKAS	Sino-foreign cooperative venture	Steel pressing and processing	Production of tailored blanks	USD10 million	199	127	555	48	36
Angang Finance	Limited liability Company	Financial industry	Deposit, lending and financing	1,000	24,837	2,835	667	539	404

Report of the Directors *(continued)*

VI. MAJOR SUPPLIERS AND CUSTOMERS

Major customers of the Company

Total sales of the top five customers (<i>RMB million</i>)	15,701
Proportion of total sales of the top five customers over total sales for the year	20.72%
Total sales attributable to the largest customer (<i>RMB million</i>)	6,844
Proportion of total sales attributable to the largest customer over total sales for the year	9.03%

Major suppliers of the Company

Total purchases attributable to the top five suppliers (<i>RMB million</i>)	34,677
Proportion of total purchases attributable to the top five suppliers over total purchases for the year	54.26%
Total purchases attributable to the largest supplier (<i>RMB million</i>)	14,415
Proportion of total purchases attributable to the largest supplier over total purchases for the year	22.56%

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 top five suppliers or top five customers of the Company during 2012.

VII. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Directors and Supervisors have entered into service contracts with the Company for a term of three years. 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.

VIII. 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.

Report of the Directors *(continued)*

IX. 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.

X. DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

In 2012, none of the Directors or Supervisors had any material interests in any contracts in which the Company, or the holding companies or any of its subsidiaries were involved.

XI. 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.

XII. CHAPTER 13 DISCLOSURE

The Directors confirmed that there was no matter occurring in 2012 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.

XIII. SUFFICIENT PUBLIC FLOAT

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

XIV. FIXED ASSETS

Changes in the fixed assets during the year are set out in note 7(10) to financial statements on pages 161 to 162 of this annual report.

XV. OPERATING RESULTS

The results of the Company for the year ended 31 December 2012 and its financial position as at that date are set out in the financial statements included in this annual report.

Report of the Directors *(continued)*

XVI. SHARE CAPITAL

Changes in share capital during the year are set out in note 7(29) to the financial statements on page 175 of this annual report.

XVII. RESERVES

Changes in the reserves during the year are set out in notes 7(30), 7(31) and 7(32) to financial statements on pages 175 to 176 of this annual report.

XVIII. EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 7(21) to financial statements on page 169 of this annual report.

XIX. RELATED PARTY TRANSACTIONS

In 2012, the Company entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Some of these related party transactions are regarded as connected transactions or continuing connected transactions and have complied with the relevant reporting, announcement and shareholders’ approval requirements under the Hong Kong Listing Rules and the Shenzhen Listing Rules. Details of these related party transactions are set out in note 9 to financial statements on pages 188 to 196 of this annual report. Details of major connected transactions and continuing connected transactions for the year are set out on pages 48 to 58 of this annual report.

XX. FIVE YEARS SUMMARY

A summary of the results and balance sheet of the Company for five years are set out on page 210 of this annual report.

XXI. AUDITOR

RSM China Certified Public Accountants (Special General Partnership) was appointed as the Company’s auditor in 2012.

The appointment of RSM China Certified Public Accountants (Special General Partnership) as the Company’s auditor for 2013 will be proposed at the annual general meeting of 2012 to be held on 31 May 2013.

By order of the Board
Zhang Xiaogang
Chairman

27 March 2013

Report of the Supervisory Committee

During the year, the Supervisory Committee of the Company 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 THE BASIS OF THEIR SUFFICIENT KNOWLEDGE OF THE COMPANY'S MAJOR PRODUCTION AND OPERATION DECISIONS AS WELL AS IMPLEMENTATION PROCESS.

1. The fifth Supervisory Committee of the Company convened the 14th meeting on 27 March 2012. All members of the Supervisory Committee of the Company attended the meeting. Announcement on the Resolutions Passed at the 14th Meeting of the Fifth Session of the Supervisory Committee of Angang Steel Company Limited was published in China Securities Journal and Securities Times as well as on CNINF <http://www.cninfo.com.cn> on 28 March 2012.
2. The 15th meeting of the Fifth Session of the Supervisory Committee of the Company convened on 25 April 2012. All members of the Supervisory Committee of the Company attended the meeting, at which the 2012 First Quarterly Report of the Company and its summary were considered and approved.
3. The 16th meeting of the Fifth Session of the Supervisory Committee of the Company convened on 20 June 2012. All members of the Supervisory Committee of the Company attended the meeting. The Announcement on the Resolutions Passed at the 16th Meeting of the Fifth Session of the Supervisory Committee of Angang Steel Company Limited was published in China Securities Journal and Securities Times as well as on CNINF <http://www.cninfo.com.cn> on 21 June 2012.

Report of the Supervisory Committee *(continued)*

(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 SUFFICIENT KNOWLEDGE OF THE COMPANY'S MAJOR PRODUCTION AND OPERATION DECISIONS AS WELL AS IMPLEMENTATION PROCESS. *(CONTINUED)*

4. The 17th meeting of the Fifth Session of the Supervisory Committee of the Company convened on 27 August 2012. All members of the Supervisory Committee of the Company attended the meeting, at which the 2012 Interim Report of the Company and its summary were considered and approved.
5. The 18th meeting of the Fifth Session of the Supervisory Committee of the Company convened on 24 October 2012. All members of the Supervisory Committee of the Company attended the meeting, at which the 2012 Third Quarterly Report of the Company and its summary were considered and approved.
6. The 19th meeting of the Fifth Session of the Supervisory Committee of the Company convened on 16 November 2012. All members of the Supervisory Committee of the Company attended the meeting. Announcement on the Resolutions Passed at the 19th Meeting of the Fifth Session of the Supervisory Committee of Angang Steel Company Limited was published in China Securities Journal and Securities Times as well as on CNINF <http://www.cninfo.com.cn> on 17 November 2012.

Report of the Supervisory Committee *(continued)*

(II) IN 2012, THE SUPERVISORY COMMITTEE 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 ANGANG HOLDING. THE SUPERVISORY COMMITTEE RAISED NO OBJECTION TO MONITORING ISSUES.

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

1. During the Reporting Period, 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 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.
5. 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

Su Wensheng

Chairman of the Supervisory Committee

27 March 2013

Management Discussion and Analysis

I. ANALYSIS OF PRINCIPAL BUSINESS

1. Overview

Unit: RMB' million

Item	2012	2011	Increase/ decrease of the Reporting Period as compared with the same period of the previous year (%)	Explanation and reasons for significant change
Operating income	77,748	90,423	-14.02	
Operating costs	75,630	86,406	-12.47	
Marketing expenses	1,355	1,549	-12.52	
Administrative expenses	3,023	3,339	-9.46	
Financial expenses	1,846	1,470	25.58	
Net cash flow	-292	-1,310	77.71	Note

Note: Net cash flow has increased by RMB1,018 million as compared with the previous year, which was mainly attributable to (1) a decrease of RMB3,210 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 provision of services for the year; (2) a decrease of RMB2,794 million in net cash outflow from investing activities as compared with the previous year due to a decrease in the acquisition of fixed assets and expenditures of construction in progress; and (3) an increase of RMB1,434 million in net cash inflow from financing activities as compared with the previous year as cash received from borrowings exceeded cash repaid for loans during the year.

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

2. Income

Is the Company's income from sales of goods larger than its income from provision of services?

☒ Yes ☐ No

Analysis by industry		2012	2011	Year-on-year increase/decrease (%)
Steel rolling process industry	Sales volume (0'000 tons)	1,887.60	1,883.83	0.20
	Production volume (0'000 tons)	1,909.11	1,916.96	-0.41
	Stock volume (0'000 tons)	55.49	53.19	4.32

Explanation should be given on year-on-year changes of more than 30% in relevant figures

☐ Applicable ☒ Not applicable

Income from orders account for more than 50%

☐ Applicable ☒ Not applicable

Material changes or adjustment in products or services during the Reporting Period

☐ Applicable ☒ Not applicable

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

3. Costs

Analysis by industry:

Unit: RMB' million

Analysis by industry	Item	2012		2011		Year-on-year increase/decrease (%)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Steel rolling process industry	Raw materials	33,776	44.81	39,950	46.35	-15.45
	Ancillary materials	3,950	5.24	4,525	5.25	-12.71
	Spare parts and tools	1,085	1.44	1,120	1.30	-3.13
	Fuel	20,502	27.20	23,177	26.89	-11.54
	Power supplies	6,286	8.34	5,585	6.48	12.55
	Salaries and welfare	2,261	3.00	2,284	2.65	-1.01
	Depreciation	5,435	7.21	6,525	7.57	-16.70
	Others	2,080	2.76	3,026	3.51	-31.26
Total		75,375	100.00	86,192	100.00	-12.55

4. Expenses

Unit: RMB' million

Item	2012	2011	Increase/decrease of the Reporting Period as compared with the same period of the previous year (%)
Marketing expenses	1,355	1,549	-12.52
Administrative expenses	3,023	3,339	-9.46
Financial expenses	1,846	1,470	25.58
Income tax expenses	-1,116	-949	-17.60

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

5. R&D expenditure

Unit: RMB' million

Item	2012	2011	Year-on-year increase/ decrease (%)
R&D expenditure for the current period included in profit or loss for the period	2,157	2,146	0.51
R&D expenditure for the current period recognized as intangible assets	—	—	—
Total R&D expenditure	2,157	2,146	0.51
Proportion of total R&D expenditure over net assets (%)	4.63	4.23	0.40
Proportion of total R&D expenditure over operating income (%)	2.77	2.37	0.40

6. Cash flow

Unit: RMB' million

Item	2012	2011	Year-on-year increase/ decrease (%)
Sub-total of cash inflow from operating activities	75,479	90,855	-16.92
Sub-total of cash outflow from operating activities	74,026	86,192	-14.11
Net cash flow from operating activities	1,453	4,663	-68.84
Sub-total of cash inflow from investing activities	278	74	275.68
Sub-total of cash outflow from investing activities	3,030	5,620	-46.09
Net cash flow from investing activities	-2,752	-5,546	50.38
Sub-total of cash inflow from financing activities	53,639	24,884	115.56
Sub-total of cash outflow from financing activities	52,632	25,311	107.94
Net cash flows from financing activities	1,007	-427	335.83
Net increase of cash and cash equivalents	-292	-1,310	77.71

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

6. Cash flow *(Continued)*

Reasons for a year-on-year change of more than 30% for the relevant amounts:

- (1) A decrease in net cash flow from operating activities as compared with the previous year was mainly attributable to a decrease in cash received from sale of goods or provision of services resulting from the decrease in the prices of steel products for the year.
- (2) An increase in cash inflow from investing activities as compared with the previous year was mainly attributable to an increase in cash received from dividends distributed by investment company.
- (3) A decrease in cash outflow from investing activities as compared with the previous year was mainly attributable to a decrease in the acquisition of fixed assets and expenditures of construction in progress.
- (4) A decrease in net cash outflow from investing activities as compared with the previous year was mainly attributable to a decrease in the acquisition of fixed assets and expenditures of construction in progress.
- (5) An increase in cash inflow from financing activities as compared with the previous year was mainly attributable to an increase in the cash received from borrowings.
- (6) An increase in cash outflow from financing activities as compared with the previous year was mainly attributable to an increase in cash payments for repayment of debts.
- (7) An increase in net cash flow from financing activities as compared with the previous year was mainly attributable to the cash received from borrowings exceeded cash repaid for loans during the year.
- (8) Net increase of cash and cash equivalents has increased as compared with the previous year, which was mainly attributable to (1) a decrease of RMB3,210 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 provision of services for the year; (2) a decrease of RMB2,794 million in the net cash outflow from investing activities as compared with the previous year due to a decrease in the acquisition of fixed assets and expenditures of construction in progress; and (3) cash received from borrowings exceeded cash repaid for loans during the year, therefore an increase of RMB1,434 million in the net cash inflow from financing activities was recorded as compared with the previous year.

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

7. Liquidity and Financial Resources

As at 31 December 2012, the Group had cash and cash equivalents of approximately RMB2,049 million, representing a decrease of 12.47% as compared with 2011.

As at 31 December 2012, the Group had long-term loans of RMB8,364 million (exclusive of loans due within one year) with interest rates ranging from 5.535% to 6.9% per annum. Under the terms of three to twenty-five years, the loans will expire during the period from 2014 to 2030. The loans are mainly used for replenishing working capital and project borrowings. The Group's long-term loans due within one year amounted to RMB7,501 million.

In 2012, with good credibility, the Group was reviewed and rated by the rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) with a long-term credit rating of "AAA". In 2012, nine financial institutes which had strategic cooperation with the Company had given credits to the Company. Therefore, the Group is capable of repaying its debts when they become due.

As at 31 December 2012, the Group had a total capital commitment of RMB1,559 million, which was primarily attributable to the construction and renovation contracts entered into but not performed or partially performed, and the external investment contracts entered into but not performed or partially performed.

8. Foreign Exchange Risk

The Group adopts locked exchange rates in settling its transactions with export and import agents for export product sales, import and procurement of raw materials and other equipment for projects, therefore the Group is not subject to any significant foreign currency risk arising from foreign currency transactions. Most of our businesses are settled in RMB. As of 31 December 2012, approximately 99.98% of the borrowings of the Group were denominated in RMB and approximately 0.02% were denominated in Euro whereas approximately 100% of the cash and cash equivalents were held by the Group in RMB. The management of the Group has been monitoring the foreign exchange risk and the Group has not hedged against currency risk by using any financial instruments.

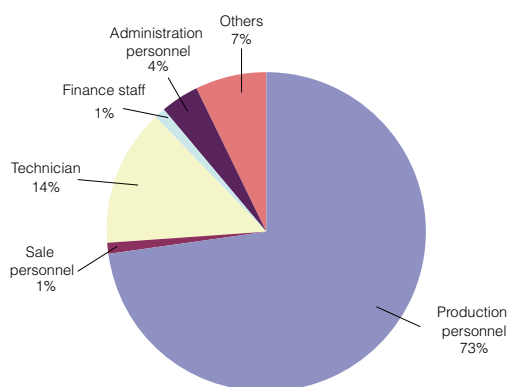
Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

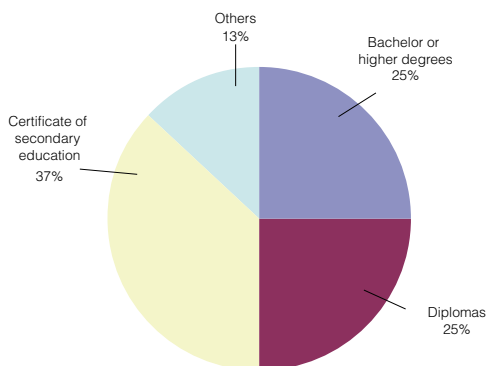
9. Employees

As at 31 December 2012, the Company had 28,044 employees. During the Reporting Period, the Company paid employee costs of approximately RMB2,682 million, representing a decrease of 2.76% as compared with 2011.

By professions:



By education levels:



Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

9. Employees *(Continued)*

In 2012, 26,170 employees attended and completed centralized training course. 431 member counts of senior management attended training for, among others, political theory knowledge, strategy management, and 8,040 member counts of management and professional technology staff attended trainings for management knowledge and expertise. 590 high-skilled talent counts attended training for innovation ability. 5,763 production staff counts attended training for technical grades and equipment inspection. 9,544 employee counts attended training for specialized operation security qualifications, 2,342 employee counts attended training for team and group security and vocational training. 78 employees attended entrusted training for on-the-job studying for master degree. 134 management and expertise counts attended training courses in colleges. 23,721 employees completed training for on-the-job knowledge and operation techniques.

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 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.

10. Material acquisitions and disposals

During the Reporting Period, save as disclosed in the section headed "Significant Events" on pages 48 to 60 of this annual report, there had not been any material acquisitions and disposals of subsidiaries and associated companies of the Company.

Management Discussion and Analysis *(continued)*

I. ANALYSIS OF PRINCIPAL BUSINESS *(CONTINUED)*

11. Market review

Composition of the principal businesses in 2012

Principal businesses of the Group by industries and products

Unit: RMB' million

	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income as compared with the same period of the previous year (%)	Increase/decrease in operating cost as compared with the same period of the previous year (%)	Increase/decrease in gross profit margin as compared with the same period of the previous year (%)
By industry						
Steel pressing and processing industry	77,531	75,375	2.78	-14.05	-12.55	-1.67
By products						
Hot-rolled sheets products	27,015	26,408	2.25	-1.48	0.27	-1.70
Cold-rolled sheets products	29,653	28,581	3.62	-18.70	-14.55	-4.68
Medium and thick plates	9,367	8,951	4.44	-34.19	-36.88	4.08

Notes:

- 1) The decrease in operating income from cold-rolled sheets products as compared with the same period of the previous year was primarily due to i) the decrease in the prices of products and ii) the decrease in the product sales volume. The decrease of operating cost was due to i) the decrease in the processing cost attributable to the Company's efforts in reducing the costs through stringent control of consumptions and improving the economic and technical standards; ii) the decrease in the prices of raw materials and fuels and iii) the decrease in the product sales volume. The decrease in gross profit margin was mainly attributable to a more significant decrease in the steel prices as compared with the decrease in prices of external raw materials and fuels, and the deepening of the Company's efforts in cost reduction and efficiency enhancement had yet to offset the loss in profit arising from the decrease in steel price.
- 2) The decrease in operating income from medium and thick plates as compared with the same period of the previous year was primarily due to i) the decrease in the product sales volume and ii) the decrease in the prices of products. The decrease of operating cost was due to i) the decrease in the product sales volume; ii) the decrease in the processing cost attributable to the Company's unswerving promotion of the operation solutions such as costs reduction and efficiency enhancement as well as transmission of market force and iii) the decrease in the prices of raw materials and fuels. The increase in gross profit margin was mainly attributable to provision made for written down of medium and thick plates at the earlier stage of sales.

Management Discussion and Analysis *(continued)*

II. ANALYSIS OF ASSETS AND LIABILITY

1. Significant changes in assets

Unit: RMB' million

	End of 2012		End of 2011		Increase/ decrease (%)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary assets	2,049	2.02	2,341	2.27	-0.25	—
Account receivables	2,247	2.22	1,879	1.82	0.40	—
Inventories	10,642	10.51	14,242	13.83	-3.32	—
Investment properties	—	—	—	—	—	—
Long-term equity investments	2,740	2.71	2,483	2.41	0.30	—
Fixed assets	51,257	50.63	53,566	52.01	-1.38	—
Construction in progress	9,736	9.62	9,136	8.87	0.75	—

2. Significant change in liabilities

Unit: RMB' million

	End of 2012		End of 2011		Increase/ decrease (%)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Short-term loans	15,130	14.95	10,630	10.32	4.63	Year-end balance has increased by 42% as compared to the opening balance, mainly attributable to an increase in working capital loans.
Long-term loans	8,364	8.26	13,135	12.75	-4.49	Year-end balance has decreased by 36% as compared to the opening balance, mainly attributable to the transfer of long-term loans due within 1 year to non-current liabilities due within 1 year.

Management Discussion and Analysis *(continued)*

II. ANALYSIS OF ASSETS AND LIABILITY *(CONTINUED)*

3. Assets and liabilities measured at fair value

Unit: RMB' million

Item	Opening balance	Gains or losses arising from changes in fair value for the Reporting Period	Gains or losses arising from changes in fair value reported in equity	Impairment made for the Reporting Period	Purchase in the Reporting Period	Disposal in the Reporting Period	Closing balance
Financial assets							
Of which:							
1. Financial assets measured at fair value through profit and loss (excluding derivative financial assets)							
2. Derivative financial assets							
3. Available-for-sale financial assets	92	—	7	—	—	—	101
Sub-total of financial assets	92	—	7	—	—	—	101
Investment properties							
Productive biological assets							
Others							
Total	92	—	7	—	—	—	101
Financial liabilities							

Material changes in assets during the Reporting Period

☐ Applicable ☒ Not applicable

4. Gearing ratio

For the year 2012 and 2011, the Group's ratio of equity to liability is 0.91 times and 1.03 times respectively.

Management Discussion and Analysis *(continued)*

II. ANALYSIS OF ASSETS AND LIABILITY *(CONTINUED)*

5. Pledge of assets

For 2012, the Group pledged the bank certificate of deposit in a nominal amount of RMB217 million with Industrial Bank, and notes payable in the same amount was issued by the Industrial Bank upon the request of the Group. The period of pledge is from 31 July 2012 to 31 January 2013.

For 2012, the Group pledged the notes receivable in a nominal amount of RMB814 million with the Bank of China, and the notes payable in an amount of RMB753 million was issued by the Bank of China upon the request of the Group. The period of pledge is from January 2013 to June 2013.

6. Contingent liabilities

As of 31 December 2012, the Group had no contingent liabilities.

III. ANALYSIS ON THE CORE COMPETITIVENESS

With the continuous improvement of the Company's level of technologies and equipment as well as R&D capability in recent years, the Company possesses relatively strong R&D capability in respect of the steel plates for automobiles, marine, railway, power, petroleum and petrochemical, machinery, construction, light industry and other industries, and developed a series of leading strategic products with independent intellectual property rights.

1. Core technologies of the products

(1) Steel plates for automobiles

The Company produces four types of high-strength steel plates for automobiles including hardened steel, dual-phase steel, phase transformation induced plasticity steel and low alloy high-strength steel. Meanwhile, the Company possesses the capability to supply lightweight steel to auto manufacturers.

III. ANALYSIS ON THE CORE COMPETITIVENESS *(CONTINUED)*

1. Core technologies of the products *(Continued)*

(2) Steel plates for nuclear power purposes

Breakthrough has been made in the development of steel plates for nuclear power purposes, development of three series of steel plates for nuclear power purposes including steel plates for nuclear reactor safety shells, nuclear island key equipment and nuclear power supporting components have been completed. Pioneered in establishing quality assurance system for the steel plates for nuclear power purposes in China, the national mandatory standard namely "Hot-rolled Steel Plates for Nuclear Power Purposes" (核電站用熱軋鋼板) edited by the Company has been approved by the state which conferred the Company with an authoritative role in terms of the technical knowhow of steel plates for nuclear power. Realized sole production of nuclear grade-one products including 15MnNi, 16MND5 etc, and produced the domestically widest A516 steel plates for nuclear power purposes. The Company has achieved great progress in the development of Ni series steel, and has become the sole domestic bulk supplier of 5Ni steel plates in China. It has also become the first producer and supplier to have a complete integrated technology chain of 9Ni steel plates domestically.

(3) Steel plates for hull and marine engineering purposes

Pioneered in completing development and certification of TMCP steel plates for ultra thick high-strength, ultra-high-strength hull and marine engineering purposes, and the production technology level has reached the internationally leading standard. Pioneered in passing FQ70 (the highest-grade certification of the steel plates for marine engineering purpose), and has supplied nearly 400,000 tons of steel plates of every grade for marine engineering purpose.

(4) Steel plates for high-speed train purposes

Pioneered in preparing procurement specifications of steel plates for high-speed train bogies which is suitable for the national conditions of China, the Company became the sole domestic company to produce S355J2W(H) steel plates for high-speed train bogies. To date, the Company is the only supplier of steel plates for high-speed train bogies.

(5) Steel plates for bridge purposes

Paint-free weather-proof steel plate GR.50W has been successfully used in American Alaska arctic region and has been used in China for the first time, which ended the history that domestic bridges have to be painted.

Management Discussion and Analysis *(continued)*

III. ANALYSIS ON THE CORE COMPETITIVENESS *(CONTINUED)*

1. Core technologies of the products *(Continued)*

(6) Acid-resistant steel plate

The Company's development of the acid-resistant steel plate Q345NS fully satisfies the needs of upgrading of its gas pipeline network, saving paint and labor maintenance costs. The results of laboratory rapid corrosion experiment shows the anti-corrosion quality of acid-resistant steel plate Q345NS is seven times that of Q345B, therefore, it is expected that the useful life of the gas pipeline network of Angang can be increased from 10 years to over 30 years.

(7) Oriented silicon steel

The research and development efforts on our oriented silicon steel have achieved great progress by transforming it into mass production. The mass production process of serial No. 30GO120 and No. 30HIB120 have taken place, while serial No. 27HiB100 is in small scale production. Being the only enterprise participating in the project of "developing industrial steel containing high level of silicon for ultra-low iron loss transformers" (超低鐵損變壓器用高硅電工鋼開發), we have been subsidized through the 863 program of the state, and our research and development on oriented silicon steel are conducted on an advanced level in China.

(8) Steel for pipelines

We have successfully developed the X80-grade anti-high deformation steel for pipelines, and completed the pilot production and supply of thousand tons of products which have been examined and approved by the Xi'an Pipe Material Research Institute (西安管材所) and jointly verified by the China National Petroleum Corporation (中石油) and the China Iron and Steel Association. These have made the Company one of the two steel enterprises which are able to supply such products. Our pipelines which are produced with X80-grade anti-high deformation steel plates have been approved by the Alaska Pipeline Project (阿拉斯加管道項目), making the Company the only Chinese steel factory which has passed the accreditation of the Alaska Pipeline Project Engineering Project (阿拉斯加管線工程項目).

III. ANALYSIS ON THE CORE COMPETITIVENESS *(CONTINUED)*

2. Core technologies

(1) Ultrafast cooling technology

The rolling system has opened the routes of slab ultrafast cooling technology, rolling and heating technology by developing and implementing “ultrafast cooling technology” and reduced raw alloy addition and accordingly saved costs significantly and achieved reduced alloy addition.

(2) Low carbon aluminum killed steel new-type deoxidizing alloying technology (低碳鋁鎮靜鋼新型脫氧合金化工藝), technology of alloying directly by manganese for converter tapping and other technologies

The smelting system reduces deoxidation aluminum consumption and improves the ferromanganese closing rate and significantly reduces alloying costs by developing low carbon aluminum killed steel new-type deoxidizing alloying technology, the technology of alloying directly by manganese for converter tapping and other technologies.

(3) Technology on shape control of cold-rolled plates (冷軋板形) and system of shape control

We have successfully developed the first industrial application for the shape examination system of cold-rolled plates (冷軋板形) and the implementation of research and development of the system of shape control in industrial use in China. Besides, we have registered the trademark of “AnShaper” for the technology on “self-research and development as well as industrial application of core technology for the control system of the shape of cold-rolled plates” (冷軋機板形控制系統核心技術自主研發與工業應用). This is our first trademark for speciality technologies which has ended the long-term foreign monopolization on the control system of the shape of cold-rolled plates (冷軋板形控制系統), making China one of the few countries in the world mastering the comprehensive set of shape control technologies for cold-strip steel (冷軋帶鋼) applicable for industrial use. Through controlling the cooling rate and the coolant circuit (冷卻路徑), the system could not only perform the hardening process during production, but could also operate a diversified transformation and produce materials of different types, hence minimising procedures in heat processing and minimizing the use of alloys.

III. ANALYSIS ON THE CORE COMPETITIVENESS *(CONTINUED)*

3. Core technologies of energy-saving, emission reduction and green manufacturing

(1) Tar slag recycling technology

Through approved research project “research on tar slag recycling technology” (焦油渣回配工藝研究), opened the technological route of scientifically utilizing hazardous waste tar slag, by doing so, nearly 10,000 tons of tar slags can be recycled annually therefore the production cost is reduced and the effect is remarkable. Research and application of such technology is the pioneer in the industry, which plays a comprehensive exemplary role in chemical waste recycling treatment.

(2) Technology of recycling of dust and dustwallow of steel plants

The undertaken national project “research on technology of recycling of dust and dustwallow of steel plants” (鋼鐵廠烟塵與塵泥資源化利用技術研究) developed new technologies of treatment and recycling of iron, carbon and zinc from dust and dustwallow as well as comprehensive utilization of dust and dustwallow. All technological resolutions proposed in the project are implemented, reduced 200,000 tons of waste emissions, utilization rate for recycled metallurgical waste containing iron is above 95%. 200,000 tons of dustwallow containing iron were treated during the year with brilliant result.

(3) Technology of coking phenol cyanide wastewater treatment

Based on several original scientific research achievements of the Institute of Process Engineering at the Chinese Academy of Sciences, integrated a number of key technologies on its own, significant achievements were made in renovating phase three biological nitrogen removal devices. After renovation of biological nitrogen removal devices, dehydrogenation plant effluent COD \leq 50mg/L, total cyanogen reduced to 0.2mg/L. Such project had passed the achievement identification by China Iron and Steel Association in November 2012, and the key technologies reached international leading standard.

Management Discussion and Analysis *(continued)*

IV. ANALYSIS OF INVESTMENTS

1. External equity investment

(1) External Investments

External Investments

Investments in 2012 (RMB' million)	Investments in 2011 (RMB' million)	Change
112	1,123	-90.03%

Targets of investments

Name of Companies	Principal Activities	The Company's share of interest in investees (%)
TKAS Angang Shenyang Steel Product Processing and Distribution Group Limited	Tailored blanks processing	30
Dalian Shipbuilding Industry Co., Ltd Shipyard Company	Repair and modification for large vessels, special vessels and offshore service vessels etc.	15
Dalian Shipbuilding Industry Group Steel Co., Ltd	Disassemble forage vessels, special vessels, offshore service vessels etc.	15
CAERI (Beijing) Vehicle Lightweight Technology Academy Limited (國汽(北京)汽車輕量化技術研究院有限公司)	Technical testing, development, transfer, consultation and services	6.89

Management Discussion and Analysis *(continued)*

IV. ANALYSIS OF INVESTMENTS *(CONTINUED)*

1. External equity investment *(Continued)*

(2) Equity in Financial Enterprises held by the Company

Company name	Company type	Initial investment cost (RMB million)	Number of shares held at the beginning of the Reporting Period (shares)	Shareholding ratio at the beginning of the Reporting Period (%)	Number of shares held at the end of the Reporting Period (RMB' million shares)	Shareholding ratio at the end of the Reporting Period (%)	Book Value at the end of the Reporting Period (RMB' million)	Loss or gain during the Reporting Period (RMB' million)	Available	Source of shares
Angang Financial Company	—	315	—	20	—	20	563	78	Long-term equity investments	

(3) Securities Investment

Stock type	Stock code	Abbreviation	Initial investment cost (RMB million)	Number of shares held at the beginning of the Reporting Period (RMB' million shares)	Shareholding ratio at the beginning of the Reporting Period (%)	Number of shares held at the end of the Reporting Period (RMB' million shares)	Shareholding ratio at the end of the Reporting Period (%)	Book Value at the end of the Reporting Period (RMB' million)	Loss or gain during the Reporting Period (RMB' million)	Available	Source of shares
Shares	600961	Zhuzhou Group (株冶集團)	81	10	1.9	10	1.9	101	—	Available for sale financial assets	Non-public offering

2. The Company did not entrust any financial management, derivatives investments and entrusted loans during the Reporting Period.

Management Discussion and Analysis *(continued)*

IV. ANALYSIS OF INVESTMENTS *(CONTINUED)*

3. Highlights of the major investments not funded by proceeds

Unit: RMB' million

Project name	Total investments	Investment made during the Reporting Period	Accumulated actual investments made as of the end of the Reporting Period	Project progress	Project proceeds
Tiantie project	6,296	395	5,739	98%	-575

V. POSSIBLE RISKS WHICH THE COMPANY MAY ENCOUNTER

1. Policy risks

The steel industry is a basic raw materials industry. The State exerted significant influence over the steel industry as well as the production and business of the Company arising from its control of the real estate industry and fixed assets investment.

Solution: The Company will bolster its development efforts to exclusive products and leading products, focused on speeding up thin plate production orienting to the development of silicon steel technology and think plate series products. The Company accelerated its adjustment and optimization to variety portfolio, gradually achieved full coverage on varieties such as hot series, cold series, ultra-wide, ultra-thick, ultra-thin and ultra-strong, thereby raised competitiveness of company products.

Management Discussion and Analysis *(continued)*

V. POSSIBLE RISKS WHICH THE COMPANY MAY ENCOUNTER (CONTINUED)

2. Industry risks

Affected by factors such as slowdown of domestic and overseas economic growth, the whole industry of steel enterprises in China recorded loss in 2012. Due to the decline in growth of downstream consumption and demand, the oversupply of production capacity of the steel industry became further prominent. Stronger performance of ore price over steel price led the steel enterprises to a passive position. The degree of industry concentration reduced while the growth of non-major enterprise investments did not slow down.

Solution: The Company will firmly grasp the procurement chain, reinforce price and trend forecasts on raw materials, undertake advanced operation and make procurement as appropriate by avoiding the peak whilst choosing the bottom. Through proactive exploration on technique and product development technology with low cost, low energy consumption and low emission, the Company will increase its efforts in cost reduction and efficiency improvement to exploit potential of enterprises and raise profitability of the Company.

3. Environmental protection risks

In 2012, following the promulgation and implementation of new emission standard on pollutants from the national steel industry, intensified environmental risk of excessive emissions increased environmental pressure on the production and business of the Company.

Solution: In face of such circumstance, the Company will proactively cope with and implement specific measures, intensify comprehensive rectification and sanitary production, foster energy-saving and emission reduction as to improve the technical indicators of sanitary production of the Company.

4. Operating risks

Under policy and industry influence, the Company recorded losses in two consecutive years whilst its current production and business encountered unprecedented pressure.

Solution: The Company will prop up the strategy of boutique brand and create the Angang brand with activeness. The Company will intensively implement low cost strategy to enhance product profitability. The Company, in adherence to progressing toward the direction of competitive differentiation based on market segments, will streamline and extend the service chain. The procurement chain should be divided according to resource channels, regions, varieties and suppliers as a way to generate the best CIF cost and raise the level of differentiation.

Management Discussion and Analysis *(continued)*

VII. POSSIBLE RISKS WHICH THE COMPANY MAY ENCOUNTER *(CONTINUED)*

5. Risk of suspension from listing

Pursuant to the Shenzhen Listing Rules, due to the fact that the audited net profits in 2011 and 2012 were negative, a delisting risk warning will be imposed on the A shares of the Company. After imposition of the delisting risk warning, the Shenzhen Stock Exchange will have the rights of determination on suspension of listing transactions of the A shares of the Company if its audited net profit continues to be negative in 2013. As a result the Company will encounter the risk of suspension from the listing of its A shares.

Solution: In 2013, the Company will deeply explore the market demand. By means of increasing variety, quality and efficiency, bolstering marketing and procurement efforts, optimizing key elements of production and urging for cost reduction and efficiency improvement, the Company will strive for practical performance with great attention to details in order to accomplish the goal of turning loss into profit.

Significant Events

I. MATERIAL LITIGATION AND ARBITRATION

The Company had no material litigation and arbitration during the Reporting Period.

II. MISAPPROPRIATION OF FUNDS BY CONTROLLING SHAREHOLDER AND CONNECTED PERSON

None of the controlling shareholder of the Company or its connected person has misappropriated the Company's funds during the Reporting Period.

III. ACQUISITION AND DISPOSAL OF ASSETS

Save as disclosed in paragraph IV below, the Company had no asset acquisition or asset disposal during the Reporting Period.

IV. MAJOR CONNECTED TRANSACTIONS

1. Continuing connected transactions related to daily operations

- A. Related party: Angang Holding Group
- Connected relationship: controlling shareholder of the Company holding approximately 67.29% of the equity interest of the Company
- Agreement date: 16 April 2012
- Settlement method of connected transaction: money payment

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of similar transaction amount <i>(%)</i>
Procurement of principal raw materials from connected person	Iron concentrate	Not higher than the average import price reported to the PRC customs in the second month preceding the month of the transaction (T-2), plus the railway transportation cost from Bayuquan Port to the Company, and adjusted based on the average weighted grade of the iron concentrate imported by the Company, in the second month preceding the month of the transaction (T-2). For every one percentage point increase or decrease in the grade of iron concentrate, the price shall be increased or decreased by RMB10/tonne. A discount equal to 5% of the average import price reported to the PRC customs in the second month preceding the month of the transaction (T-2) months shall apply on the price determined pursuant to the formula set out above. (T stands for the current month)		RMB863/ tonne	6,230	34.38
	Pellet	Market price		RMB 964/ tonne	5,513	100.00
	Sinter ore	The price of iron concentrate plus processing cost in the preceding two months (T-2), the processing cost of which should not be higher than that of similar products produced by the Company.		RMB 941/ tonne	2,448	100.00
	Scrap steel	Market price		—	281	61.03
	Billets			—	279	98.44
	Alloy and non-ferrous metal			—	100	3.56
	Sub-total	—	20,103	—	14,851	50.12

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of similar transaction amount <i>(%)</i>
Procurement of energy and power by connected person	Electricity	State price		RMB0.55/ Kwh	1,845	32.61
	Water	State price		RMB 3.25/ tonne	70	32.66
	Stream	Cost of production plus gross profit margin of 5%		RMB 41.57/ GJ	30	100.00
	Sub-total	—	2,230	—	1,945	32.96
Purchase of ancillary products from connected persons	Lime stone	Not higher than the selling prices offered by relevant members of Angang Holding Group to independent third parties		RMB53.93/ tonne	155	75.48
	Lime powder			RMB394/ tonne	735	87.86
	Refractory materials			—	421	28.70
	Other ancillary materials			—	149	5.87
	Spare parts			—	387	14.18
	Sub-total	—	2,007	—	1,847	23.74

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of similar transaction amount <i>(%)</i>
Purchase of support services from connected persons	Railway transportation	State price		—	701	55.44
	Road transportation	Market price		—	434	83.14
	Agency services: Import of raw materials, equipment, components and ancillary materials; Export of products; Domestic sales of products	Commission not higher than 1.5% (not more than the commissions levied by major state-owned import and export companies of China)		—	172	100.00
	Repair and maintenance of equipment	Market price		—	1,277	69.22
	Design and engineering services			—	1,397	50.51
	Education facilities, vocational education, on-the-job training, translation work			—	4	38.52
	Newspaper and other publications	State price		—	2	24.28
	Telecommunication business and services, information system	State price or depreciation plus maintenance costs		—	51	77.65
	Production assistance and maintenance	Expenses of labour, materials and management as paid based on market prices		—	1,234	75.69
	Welfare assistance and maintenance			—	182	76.43
	Company vehicle services	Market price		—	1	99.76
	Environmental protection and security inspection services	State price		—	8	91.32
	Business reception and meeting	Market price		—	3	49.37
	Supply of heating	State price		—	2	1.83
	Greening services	Expenses of labour, materials and management as paid based on market prices		—	35	100.00
	Security services			—	46	82.00
	Sub-total	—	7,916	—	5,549	63.46

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of similar transaction amount <i>(%)</i>
Sale of goods to connected persons	Cold-rolled sheets	The selling price charged by the Angang Holding Group to the independent third parties; for provision of aforesaid products for the development of new products by the other party, the price is based on the market price if the market price exists; if the market price is absent, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by the relevant member company.		RMB4,131/ tonne	2,061	9.27
	Heavy plates			RMB3,214/ tonne	913	11.98
	Wire rods			RMB3,411/ tonne	101	2.54
	Heavy section			RMB4,450/ tonne	4	0.16
	Hot-rolled sheets			RMB3,287/ tonne	3,676	13.61
	Medium plates			RMB3,129/ tonne	266	15.28
	Galvanized steel sheets			RMB3,951/ tonne	138	3.13
	Colour coated sheets			RMB5,153/ tonne	7	0.47
	Seamless steel pipes			RMB3,587/ tonne	39	2.58
	Molten iron			RMB2,460/ tonne	9	100.00
	Billets			RMB3,412/ tonne	5	20.57
	Coke			—	76	100.00
	Chemical by-products			—	284	14.73
	Sub-total	—	25,297	—	7,579	10.21
Sale of scrap steel and abandoned material to connected persons	Scrap steel	Market price		—	118	100
	Abandoned material			—	9	45.07
	Obsolete assets or idle assets	Market price or appraised price		—	31	99.67
	Sub-total	—	265	—	158	93.24

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of similar transaction amount <i>(%)</i>
Provision of comprehensive services to connected persons	Fresh water	State price		RMB2.93/ tonne	42	98.09
	Clean recycled water	Market price or production cost plus a gross profit margin of 5%		RMB0.74/ tonne	20	99.98
	Soft water			RMB4.9/ tonne	0.4	100.00
	Gas			RMB56.67/ GJ	422	79.85
	Blast furnace gas			RMB4/ GJ	34	100.00
	Steam			RMB47.5/ GJ	33	97.79
	Nitrogen			RMB240.18/ km ³	3.5	30.40
	Oxygen			RMB427.48/ km ³	3	11.84
	Argon			RMB616.28/ km ³	0.7	6.55
	Compressed air			RMB106.1/ km ³	0.5	98.18
	Used hot water			RMB23.35/ GJ	55	94.49
	Product testing service	Market price		—	3.5	80.30
	Transportation service			—	0.4	100.00
	Sub-total	—	721	—	618	38.17
	Total		58,539		32,547	25.42

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

A. Connected person: Angang Holding Group *(Continued)*

Reasons for the continuing connected transactions:	As production in the iron and steel industry is on a continuous basis, Angang Holding Group has been engaged in mining, supplying, processing and manufacturing of raw materials, auxiliary materials and energy and power, which is a part of supply chain of the Company. In the meantime, its internal subsidiaries have a high technological level and service capabilities, which can provide necessary support services and financial services for production and operation of the Company. The Company would sell some products, abandoned steel, abandoned materials and integrated services to Angang Holding Group which is a client of the Company.
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B. Connected person: Angang Finance

Connected relationship:	controlled directly by Angang Group Company, the ultimate controlling shareholder of the Company
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Agreement date:	16 April 2012
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Settlement method of connected transaction: money payment

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

B. Connected person: Angang Finance *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of the amount of similar transactions <i>(%)</i>
Financial services provided by the connected person	Interest payable on deposits	State price	50	—	7	23.00
	Daily balance of deposit (including accrued interests)	—	7,000	—	5,418	—
	Loans	—	12,000	—	4,900	—
	Interest payable on loans and discounted bills	State price	600	—	314	16.85
	Entrusted loans	—	8,000	—	4,650	—
	Interest payable on entrusted loans	Not higher than the interest rate obtained by the Company from commercial banks during the same period	400	—	193	100.00

C. Connected person: Pangang Vandaium & Titanium

Connected relationship: controlled indirectly by Angang Group Company, the ultimate shareholder of the Company

Agreement date: 16 April 2012

Settlement method of connected transaction: money payment

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

C. Connected persons: Pangang Steel & Vanadium *(Continued)*

Type	Details	Pricing principle	Annual cap for 2012 <i>(RMB' million)</i>	Price	Actual transaction amount <i>(RMB' million)</i>	As a percentage of the amount of similar transactions <i>(%)</i>
Purchase of raw materials from connected person	Iron concentrate	Not higher than the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) plus the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the trade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by The Company in the month (T-2). For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/tonne. A discount equal to 5% of the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) was granted on such a basis. (T stands for the current month)		RMB843/tonne	878	4.85
	Alloy	Market price		—	58	2.07
	Total		2,185	—	936	4.47

Reasons for the continuing connected transactions: Anqian Mining, owned by Pangang Vanadium & Titanium, has supplied iron concentrate for the Company for several years, and Pangang Vanadium & Titanium supplies alloy for the Company at the market price, which provides guarantee for the Company obtaining continuous and stable supply of raw materials.

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

1. Continuing connected transactions related to daily operations *(Continued)*

On 28 June 2012, the resolution in relation to the Supply of Materials and Services Agreement (2012-2013) signed by the Company and Angang Holding, the resolution in relation to the Supply of Materials Agreement (2012-2013) signed by the Company and Pangang Vanadium & Titanium and the resolution in relation to the Financial Services Agreement (2012-2013) signed by the Company and Angang Finance were considered and approved at the first extraordinary general meeting of the Company in 2012.

The above continuing connected transactions, as confirmed by independent non-executive Directors of the Company, 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 the Supply of Materials and Services Agreement (2012-2013), the Supply of Materials Agreement (2012-2013) and the Financial Services Agreement (2012-2013), respectively, which were fair and reasonable and in the interest of the Company and its shareholders as a whole; and 4) in 2012, the total amount of continuing connected transactions of the Company did not exceed the relevant caps as set out in the Supply of Materials and Services Agreement (2012-2013), the Supply of Materials Agreement (2012-2013) and the Financial Services Agreement (2012-2013).

The auditor of the Company has reviewed the above continuing connected transactions and issued a letter to the Board confirming that: 1) the above transactions have received the approval of the Board; 2) the above transactions are in accordance with the pricing policies of the Company; 3) the above transactions have been entered into in accordance with the Supply of Materials and Services Agreement (2012-2013), the Supply of Materials Agreement (2012-2013) and the Financial Services Agreement (2012-2013); and 4) the actual amounts of such connected transactions did not exceed the relevant caps as set out in the Supply of Materials and Services Agreement (2012-2013), the Supply of Materials Agreement (2012-2013) and the Financial Services Agreement (2012-2013).

2. There were no claims or obligations for non-operating purpose during the Reporting Period.

Significant Events *(continued)*

IV. MAJOR CONNECTED TRANSACTIONS *(CONTINUED)*

3. Other material connected transactions

On 20 November 2012, the Company entered into the Share Transfer Agreement with Angang Holding pursuant to which the Company would sell and transfer its 45% equity interest in Tianjin Angang Tiantie Cold Rolled Sheets Co., Limited ("Tianjin Tiantie") to Angang Holding for a total cash consideration of RMB 1,181,354,900. On the same date, the Company also entered into the Assets Exchange Agreement with Angang Holding Trading pursuant to which the Company would transfer and assign its 80% equity interest in Angang Putian to Angang Holding Trading in exchange for certain domestic trade business assets (including equity interests in nine subsidiary companies).

In connection with the Share Transfer Agreement and the Assets Exchange Agreement, the Company also entered into the Entrustment Agreement with Angang Holding and Angang Holding Trading on 20 November 2012. Pursuant to the Entrustment Agreement, Angang Holding and Angang Holding Trading would transfer the management rights associated with the 45% equity interest in Tianjin Tiantie and the 80% equity interest in Angang Putian, respectively, to the Company following completion of the Share Transfer Agreement and the Assets Exchange Agreement.

Following the completion of the Share Transfer Agreement, the Assets Exchange Agreement and the Entrustment Agreement, the Company will be able to develop a comprehensive domestic sales and distribution network. The Company will no longer need to outsource its domestic steel products distribution to Angang Holding Trading. Following the assets consolidation, downstream sale and distribution of the Company's products will be carried out by the Company's own sales force. As a result, the Company will be able to more promptly respond to changes in market conditions, and the Directors believe this will improve the profitability of the Group.

Angang Holding is the controlling shareholder holding approximate 69.27% of the equity interest of the Company and Angang Holding Trading is a subsidiary of Angang Holding. They are both connected persons of the Company as defined under the Hong Kong Listing Rules. As such, the transactions contemplated under the Share Transfer Agreement, the Asset Exchange Agreement and the Entrustment Agreement constituted connected transactions (and in the case of the Entrustment Agreement, an exempt continuing connected transaction) for the Company under the Hong Kong Listing Rules.

The resolutions in relation to the above connected transactions were considered and approved at the 40th meeting of the fifth session of the Board of the Company on 20 November 2012, and were approved by the shareholders of the Company at the 2013 first extraordinary general meeting on 30 January 2013.

Significant Events *(continued)*

V. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

1. Trust, contractual or lease arrangement

The Company did not enter into any material trust, contractual or lease arrangement during the Reporting Period.

2. Guarantee

During the Reporting Period, there were no material guarantee provided by the Company and no material guarantee subsisting in this reporting period.

VI. THERE WERE NO COMMITMENTS OF THE COMPANY OR SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE SHARE HOLDINGS DURING OR SUBSISTED TO THE REPORTING PERIOD.

VII. PENALTY AND RECTIFICATIONS

Name	Type	Reason	Type of investigation and penalty	Conclusion (if any)	Date of disclosure	Reference of disclosure
Angang Steel Company Limited	Administrative supervision decision	Not fulfilled the acquisition commitment on schedule	Administrative supervision decision	Requesting the Company to publish on the media as designated by the CSRC the information on and reasons for its failure to fulfill an undertaking and further rectifications within 10 days after received the notice of administrative supervision decision	13 July 2012	Announcement in relation to a notice of administrative and supervision decision from the CSRC Liaoning Bureau received by Angang Steel Company Limited published on China Securities Journal, Securities Times and CNINF www.cninfo.com.cn

Significant Events *(continued)*

VII. PENALTY AND RECTIFICATIONS *(CONTINUED)*

Explanation on rectifications:

On 13 July 2012, the Company has published on the media as designated by the CSRC the information about related matters.

In July 2007, during the period of placing application the Company undertook with the Liaoning Bureau that the Company would promote the integrated product sales platform in concerted efforts with Angang Holding to eliminate connected transaction relating to product sales from the source.

For the purpose of proceeding the above matter, the Company convened the 40th meeting of the fifth session of the Board on 20 November 2012 for approval of the asset exchange between the Company and Angang Holding Trading that the assets of the domestic trade business of Angang Holding Trading be transferred to the Company. The matter was approved at the first extraordinary general meeting in 2013 and completed transfer on 31 January 2013. Accordingly, rectification regarding the above matter had completed by the Company.

Movement in Share Capital and Shareholders' Profile

1. MOVEMENT IN SHARE CAPITAL

Unit: Share

	Before the change during the Reporting Period		Increase/decrease during the period(+/-) Shares transferred from accumulated fund					After the change during the Reporting Period	
	Number	Percentage (%)	Issue of new shares	Bonus shares		Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	21,777	0.00	—	—	—	89,778	89,778	111,555	0.00
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: shares held									
by domestic legal persons	—	—	—	—	—	—	—	—	—
shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: shares held by									
overseas legal persons	—	—	—	—	—	—	—	—	—
shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
5. Senior management shares	21,777	0.00	—	—	—	89,778	89,778	111,555	0.00
II. Shares not subject to trading moratorium	7,234,786,070	100.00	—	—	—	-89,778	-89,778	7,234,696,292	100.00
1. Renminbi ordinary shares	6,148,986,070	84.99	—	—	—	-89,778	-89,778	6,148,896,292	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

Reasons for movement in shares:

During the Reporting Period, Directors, Supervisors and senior management of the Company acquired A shares of the Company in the secondary market, 75% of their shareholdings were subject to trading moratorium in accordance with the requirements by the Shenzhen Stock Exchange. Therefore, changes in the shares subject to trading moratorium, senior management shares, shares not subject to trading moratorium, and Renminbi ordinary shares of the Company occurred.

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

2. SHAREHOLDERS AND DE FACTO CONTROLLER

1. Number of shareholders and details of shareholding of the Company

Unit: Share

As at the end of the Reporting Period, the Company had a total of 185,830 shareholders, of which 612 were holders of H shares. As on 21 March 2013, there were a total of 182,563 shareholders, of which 611 were holders of H shares.

Details of shareholders with more than 5% of shares

Name of shareholder	Nature of shareholder	Percentage of shareholdings (%)	Number of shares as at the end of the Reporting Period	Increase/decrease during the Reporting Period	Number of shares held subject to trading moratorium	Number of shares held not subject to trading moratorium	Number of shares pledged frozen Status of shares	Amount
Angang Holding	State-owned legal person	67.29	4,868,547,330	—	—	4,868,547,330	—	—
HKSCC (Nominees) Limited	Overseas legal person	14.83	1,073,237,226	—	—	1,073,237,226	—	—
Bank of China- Invesco Great Wall Dingyi Equity Open-end Securities Investment Fund	Domestic non-state-owned legal person	0.23	16,999,840	—	—	16,999,840	—	—
GF Securities - Bank of Communications - GF Collective Asset Management Plan (no.3) (廣發證券—交行—廣發集合資管理計劃(3號))	Domestic non-state-owned legal person	0.22	15,794,532	—	—	15,794,532	—	—
Bank of China - Harvest CSI 300 Index Open-ended Securities Investment Fund (中國銀行—嘉實滬深300交易型開放式指數證券投資基金)	Domestic non-State-owned legal person	0.20	14,620,000	—	—	14,620,000	—	—
IFC — STANDARD CHARTERED — GOV'T OF SINGAPORE INVEST CORP. PTE LTD.	Overseas legal person	0.18	13,012,398	—	—	13,012,398	—	—
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司客戶信用交易擔保證券賬戶)	Domestic non-State-owned legal person	0.18	12,860,103	—	—	12,860,103	—	—
Liang Yaohui (梁耀輝)	Domestic natural person	0.17	11,939,645	—	—	11,939,645	—	—
An-Bang Insurance Group Co., Ltd.- Traditional insurance products	Domestic non-state-owned legal person	0.15	10,962,000	—	—	10,962,000	—	—
Haitong - HSBC MERRILL LYNCH INTERNATIONAL	Overseas legal person	0.14	9,911,980	—	—	9,911,980	—	—

Explanations on the connected relationship or concerted action among the shareholders mentioned above:

The Company is not aware of any connected relationship among the above-mentioned 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.

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

2. SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

1. Number of Shareholders and Details of Shareholding of the Company *(Continued)*

Shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholder	Number of shares held not subject to trading moratorium at the end of the Reporting Period	Type of share	
		Type of share	Amount
Angang Holding	4,868,547,330	Renminbi ordinary shares	4,868,547,330
HKSCC (Nominees) Limited	1,073,237,226	Overseas listed foreign shares	1,073,237,226
Bank of China- Invesco Great Wall Dingyi Equity Open-end Securities Investment Fund	16,999,840	Renminbi ordinary shares	16,999,840
GF Securities - Bank of Communications - GF Collective Asset Management Plan (no.3) (廣發證券 — 交行 — 廣發集合資產管理計劃(3號))	15,794,532	Renminbi ordinary shares	15,794,532
Bank of China - Harvest CSI 300 Index Open-ended Securities Investment Fund (中國銀行 — 嘉實滬深300交易型開放式指數證券投資基金)	14,620,000	Renminbi ordinary shares	14,620,000
IFC — STANDARD CHARTERED — GOV'T OF SINGAPORE INVEST CORP. PTE LTD.	13,012,398	Renminbi ordinary shares	13,012,398
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司客戶信用交易擔保證券賬戶)	12,860,103	Renminbi ordinary shares	12,860,103
Liang Yaohui (梁耀輝)	11,939,645	Renminbi ordinary shares	11,939,645
An-Bang Insurance Group Co., Ltd. - Traditional insurance products	10,962,000	Renminbi ordinary shares	10,962,000
Haitong - HSBC MERRILL LYNCH INTERNATIONAL	9,911,980	Renminbi ordinary shares	9,911,980

Explanations on the connected relationship or concerted action among the shareholders mentioned above:

The Company is not aware of any connected relationship among the above-mentioned 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.

2. SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

2. Details of the controlling shareholder of the Company

Controlling Shareholder:	Angang Holding
Legal representative:	Zhang Xiaogang
Date of incorporation:	1948
Organization number:	24142001-4
Registered capital:	RMB10,794 million
Principal 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.
Future Development Strategies:	The future development strategies for Angang Group are: to establish "Six Beliefs for Development", to carry out strong production of fine iron and steel, to construct advantages in resources, to bring up vanadium and titanium businesses, to stress on non-steel business development, to put forward innovative restructuring and to explore "Six Strategies" of multi-national business. In 2015, it is prospected that Angang Holding Group will be the top in domestic iron and steel industry, obtaining strong competitive edge in resources industry, globally leading vanadium industry and domestic leading titanium industry, developing diversified non-steel businesses in coordination, that internationally it will be strongly competitive as a multi-national steel corporation. Angang Group aims at becoming the most globally competitive multi-national iron and steel corporation as well as a pacesetter in the domestic market.

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

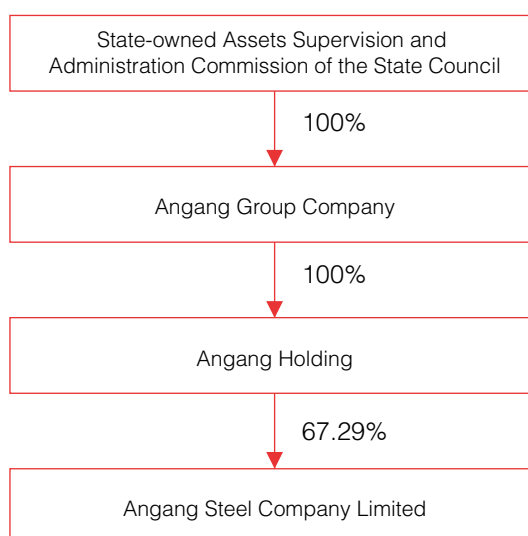
2. SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

2. Details of the controlling shareholder of the Company *(Continued)*

During the Reporting Period, details of direct shareholding of other domestic and overseas listed foreign shares by Angang Holding, the controlling shareholder of the Company, are as follows:

Abbreviation of listed companies	Number of shares held <i>(shares)</i>	Percentage of shareholdings <i>(%)</i>
ST Dongsheng (ST東盛)	13,783,396	5.65
China Heavy (中國重工)	153,144,330	1.04
Jien Nickel (吉恩鎳業)	21,690,200	2.67
Xishan Coal Electricity (西山煤電)	150,000	0.00
Agricultural Bank of China	594,379,000	0.18
Avic Capital (St航投)	1,918,400	0.13
Pangang Steel & Vanadium (攀鋼釩鈦)	928,946,141	10.81

3. Details of de facto controller of the Company



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

2. SHAREHOLDERS AND DE FACTO CONTROLLER *(CONTINUED)*

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

Save as disclosed below, as at 31 December 2012, 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 SFO:

Interest in ordinary shares of the Company

Name of shareholder	Number and class of shares held	Percentage in total share capital	Percentage in total issued H shares	Percentage in total issued domestic shares	Capacity
Angang Holding	4,868,547,330 State-owned shares	67.29%	—	79.18%	Beneficial owner
HKSCC (Nominees) Limited	1,073,237,226 H shares	14.83%	98.84%	—	Nominee

Information on Directors, Supervisors and Senior Management

I. CHANGES IN THE SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Date of Commencement of Term	Date of Termination of Term	No. of Shares			
						Held at the Beginning of the Reporting Period (shares)	Shares Held in the Current Reporting Period (shares)	No. of Shares Reduced in the Reporting Period (shares)	Shares Held at the End of the Reporting Period (shares)
Zhang Xiaogang	Chairman	Male	59	2009.06	—	0	10,000	—	10,000
Yang Hua	Vice Chairman	Male	51	2009.06	—	0	10,000	—	10,000
Chen Ming	Vice Chairman	Male	52	2009.06	—	610	10,000	—	10,610
	General Manager			2010.12	—				
Yu Wanyuan	Director	Male	52	2009.06	—	16,317	10,000	—	26,317
Fu Jihui	Director, Secretary to the Board	Male	61	2009.06	—	8,540	10,000	—	18,540
Li Shijun	Independent non-executive Director	Male	69	2009.06	—	0	—	—	0
Ma Guoqiang	Independent non-executive Director	Male	59	2009.06	—	0	—	—	0
Kwong Chi Kit, Victor	Independent non-executive Director	Male	46	2009.09	—	0	—	—	0
Su Wensheng	Chairman of the Supervisory Committee	Male	57	2012.05	—	0	10,000	—	10,000
Shan Mingyi	Supervisor	Male	60	2009.06	—	5,124	10,000		15,124
Bai Hai	Supervisor	Male	38	2011.05	—	0	—	—	0
Wang Yidong	Deputy General Manager	Male	45	2012.06	—	0	10,200	—	10,200
Liu Baoshan	Deputy General Manager	Male	51	2011.12	—	0	15,000	—	15,000
Zhang Lifan	Deputy General Manager	Female	48	2009.11	—	0	11,000	—	11,000
Ma Lianrong	Chief Accountant	Male	51	2002.03	—	0	10,000	—	10,000
Ren Ziping	Chief Engineer	Male	49	2011.08	—	0	24,000	—	24,000

Notes: All the shares mentioned above are A shares of the Company, of which the shares held by Yu Wanyuan are in the capacity of family interest (held by his spouse); part of the shares held by Chen Ming and Shan Mingyi are in the capacity of family interest (held by their spouses) and part are held in the capacity of individual beneficial owner; the rest of the others held the shares in the capacity of individual beneficial owners.

Information on Directors, Supervisors and Senior Management *(continued)*

I. CHANGES IN THE SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

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 2012, 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 Hong Kong Listing Rules.

II. EMPLOYMENT INFORMATION

1. Major work experience of the Directors, Supervisors and senior management members of the Company

Executive Directors

Mr. Zhang Xiaogang, professor-level senior engineer holding a PhD degree in engineering, is the Chairman of the Company and Angang Holding, Chairman as well as General Manager of Angang Group Company. 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 Group Company over 30 years and has held various senior management positions in Angang Group Company, including the Head of the Technology Department and the Deputy Chief Engineer of Angang Holding, the General Manager of ANSI and the Standing Deputy General Manager of Angang Holding. He is an alternate member of the Seventeenth Central Committee of the Communist Party of China, a representative of the Eleventh National People's Congress and a member of the Eighteen Session of the Central Committee for Discipline Inspection of the Communist Party of China. 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.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

1. Major work experience of the Directors, Supervisors and senior management members of the Company *(Continued)*

Executive Directors *(Continued)*

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

Mr. Chen Ming, 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 Group Company 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.

Mr. Yu Wanyuan, Director of the Company, Deputy General Manager and chief accountant of Angang Group Company and a professor-level senior accountant. Mr. Yu joined Angang Holding in 1998. Mr. Yu graduated from Northeastern University with a bachelor's degree in mechanical engineering. He studied at 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 Angang Holding.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

1. Major work experience of the Directors, Supervisors and senior management members of the Company *(Continued)*

Executive Directors *(Continued)*

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

Independent Non-executive Directors

Mr. Li Shijun, Independent Non-executive Director of the Company. 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, Executive Deputy Secretary General of China Iron and Steel Association, principal analyst of China Iron and Steel Association and Deputy Secretary-General of the Chinese Society for Metals.

Mr. Ma Guoqiang, 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 Head of Taxation Department, the Dean of the Finance and Taxation School and the Assistant to the President of Dongbei University Finance and Economics.

Mr. Kwong Chi Kit, Victor, 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.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

1. Major work experience of the Directors, Supervisors and senior management members of the Company *(Continued)*

MEMBERS OF THE SUPERVISORY COMMITTEE

Mr. Su Wensheng, Chairman of the Supervisory Committee of the Company, Director, Secretary of Committee for Discipline Inspection and professorate senior engineer of Angang Group Company. Mr. Su was graduated from Tsinghua University with a degree in Civil and Environmental Engineering in the Professional School of Environmental Engineering of Nuclear Industry (核工業環境工程專業大學), and from China University of Petroleum (Beijing) with a master's degree in Management Science and Engineering in the Department of Business Administration. He was the Secretary to the Party Committee of Beijing Design Institute (北京設計院) of China Petroleum & Chemical Corporation, the director of the Ideological and Political Work Department, the deputy secretary of directly subordinated Party Committee of Sinopec Group and the standing deputy secretary of the Party Working Committee under New Western District Exploration Headquarters of Sinopec, the member of supervisory committee of China Petroleum & Chemical Corporation, the Secretary to the Party Committee, Vice-chairman of Beijing Yanshan Company of China Petroleum & Chemical Corporation, the standing committee member of the Party Committee, Secretary of Committee for Discipline Inspection of Angang Holding and Secretary of the Disciplinary Committee of Angang Group Company. Mr. Su is currently the senior political cadre evaluator of State-owned Assets Supervision and Administration Commission.

Mr. Shan Mingyi, Supervisor of the Company and the Chairman of the Labour Union of the Company and a senior politician. Mr. Shan graduated from the correspondence education of Central Party's School majoring in economics and management. He joined Angang Holding in 1969, and had been the Deputy Head 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 Angang Holding, and Chairman of the Labour Union of ANSI.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

1. Major work experience of the Directors, Supervisors and senior management members of the Company *(Continued)*

MEMBERS OF THE SUPERVISORY COMMITTEE *(Continued)*

Supervisor from staff representatives:

Mr. Bai Hai, 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 Angang Holding 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.

OTHER SENIOR MANAGEMENT MEMBERS

Mr. Wang Yidong, Deputy General Manager of the Company and a senior engineer. Mr. Wang obtained a master's degree from the University of Science and Technology Beijing in March 2005. Mr. Wang joined Angang in 1991 and has taken various positions in the Company, including the director of the cold rolling plant (冷軋廠廠長) of the Company, deputy manager of Baiyuquan Steel Branch Company (鮫魚圈鋼鐵分公司經理) of the Company, deputy head of manufacturing department (產品製造部副部長) of the Company, director of manufacturing management and control centre of branch company (分公司製造管控中心主任), head of cold rolling department (冷軋部部長) and manager of Baiyuquan Steel Branch Company (鮫魚圈鋼鐵分公司副經理) of the Company.

Mr. Liu Baoshan, deputy general manager and senior engineer of the Company. Mr. Liu graduated from Anshan Institute of Iron and Steel with a bachelor's degree. Mr. Liu worked for Angang since 1988 and was successively 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 Angang Holding. Mr. Liu is concurrently the Vice-chairman of Shanxi Wuchan Group Import & Export Limited and a director of China Ordins Group Company Limited.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

1. Major work experience of the Directors, Supervisors and senior management members of the Company *(Continued)*

OTHER SENIOR MANAGEMENT MEMBERS *(Continued)*

Ms. Zhang Lifan, 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 Angang Holding in 1986 and has been the Manager of Wire Rod Plant of Angang Holding as well as the Deputy General Manager and the Assistant to the General Manager of the Company.

Mr. Ma Lianying, 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 Angang Holding 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, 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 Angang Holding, Executive Deputy Director of the Technology Center of the Company, Director of the Science Development Department of Angang Holding and Director of the Scientific Quality Department of Angang Holding.

Information on Directors, Supervisors and Senior Management *(continued)*

II. EMPLOYMENT INFORMATION *(CONTINUED)*

2. POSITION IN THE SHAREHOLDERS OF THE COMPANY

Name of the personnel who held position	Name of the shareholder	Position in the shareholder	Commencement date of terms	End date of terms	Receipt of remuneration and allowance in the shareholder
Zhang Xiaogang	Angang Holding	General Manager	January 2007	January 2013	Yes
		Chairman	January 2013	—	
	Angang Group Company	Director and General Manager	July 2011	—	
Yu Wanyuan	Angang Holding	Deputy General Manager and Chief Accountant	December 2001	January 2013	Yes
	Angang Group Company	Deputy General Manager and Chief Accountant	July 2011	—	
Su Wensheng	Angang Holding	Secretary of the Disciplinary Committee	August 2009	December 2013	No
	Angang Group Company	Director and Secretary of the Disciplinary Committee	February 2013	—	

III. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Decision-making procedures, rationale for determination and actual payment of the remuneration for 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.

Information on Directors, Supervisors and Senior Management *(continued)*

III. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(CONTINUED)*

2. Remuneration of the Directors, Supervisors and senior management of the Company during the Reporting Period

Name	Position	Gender	Age	Total Remuneration Received from the Company <i>(RMB0'000)</i>	Total Remuneration Received from Shareholders <i>(RMB0'000)</i>
Zhang Xiaogang	Chairman	Male	59	0	43.1
Yang Hua	Deputy Chairman	Male	51	39.1	0
Chen Ming	Deputy Chairman and General Manager	Male	52	29.7	0
Yu Wanyuan	Director	Male	52	0	38.3
Fu Jihui	Director and Secretary to the Board	Male	61	26.1	0
Li Shijun	Independent Non-executive Director	Male	69	9.0	0
Ma Guoqiang	Independent Non-executive Director	Male	59	9.0	0
Kwong Chi Kit, Victor	Independent Non-executive Director	Male	46	9.0	0
Su Wensheng	Chairman of the Supervisory Committee	Male	57	0	0
Shan Mingyi	Supervisor	Male	60	27.6	0
Bai Hai	Supervisor	Male	38	7.7	0
Wang Yidong	Deputy General Manager	Male	45	28.7	0
Liu Baoshan	Deputy General Manager	Male	51	22.4	0
Zhang Lifan	Deputy General Manager	Female	48	27.3	0
Ma Lianyong	Chief Accountant	Male	51	27.3	0
Ren Ziping	Chief Engineer	Male	49	25.4	0
Total	—	—	—	288.3	81.4

The five highest paid individuals during the Reporting Period are the Directors and Supervisors of the Company whose remunerations are included in the above disclosure.

IV. RESIGNATION AND DISMISSAL OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Category	Date	Reason
Wen Baoman	Chairman of the Supervisory Committee	Resignation	29 May 2012	Retirement

Corporate Governance

I. BASIC INFORMATION ON CORPORATE GOVERNANCE

On 27 March 2012, pursuant to the Requirements for the Establishment of Administrative System for Registration of Persons with Inside Information of Listed Companies* (《關於上市公司建立內幕信息知情人登記管理制度的規定》) stipulated by China Securities Regulatory Commission, the Board of the Company has further amended the Administrative System for Registration of Persons with Inside Information (《內幕信息知情人登記管理制度》). For routine management on inside information, the Company stringently complied with requirements of the securities regulatory authorities, designated personnel to promptly perform registration and filing for persons with insider information. During the price sensitive period of periodic reports and major information disclosure of the Company, the Company reminded personnel with insider information of no trading of the Company's shares, enhanced supervision and control over the shareholding of personnel with insider information and effectively prevented the occurrence of insider trading.

II. INFORMATION ON THE ANNUAL GENERAL MEETINGS AND EXTRAORDINARY GENERAL MEETINGS DURING THE REPORTING PERIOD

1. Annual general meetings in the Reporting Period

Session and number of Meeting	Date of Meeting	Proposals in the Meetings	Resolution Status	Date of Disclosure	Reference of Disclosure
2011 Annual General Meeting	29 May 2012	<ol style="list-style-type: none">1. To consider the report of the board of Directors of the Company for 2011.2. To consider the report of the Supervisory Committee of the Company for 2011.3. To consider the auditor's report of the Company for 2011.4. To consider the proposal for distribution of the profits of the Company for 2011.5. To consider the proposed remuneration of the Directors and Supervisors of the Company for 2011.6. To consider the proposal for appointment of RSM China Certified Public Accountants (Special General Partnership) as the auditor of the Company for 2012 and to authorize the board of Directors to determine their remunerations.7. To consider the proposal for election of Mr. Su Wensheng as a Supervisor of the fifth session of the Supervisory Committee.8. To consider the proposal for continuing connected transactions in January and February 2012.9. To consider the proposed amendments to the articles of association of the Company.	All approved	30 May 2012	Published in China Securities Journal, the Securities Times and on CNINF http://www.cninfo.com.cn Announcement on Resolutions of the 2011 Annual General Meeting of Angang Steel Company Limited

II. INFORMATION ON THE ANNUAL GENERAL MEETINGS AND EXTRAORDINARY GENERAL MEETINGS DURING THE REPORTING PERIOD *(CONTINUED)*

2. Extraordinary general meeting in the Reporting Period

Session and number of meeting	Date of meeting	Proposals in the meetings	Resolution status	Date of disclosure	Reference of Disclosure
First extraordinary general meeting in 2012	28 June 2012	<ol style="list-style-type: none"> To consider the proposal in relation to the Supply of Materials and Services Agreement (2012-2013) entered into between the Company and Angang Holding. To consider the proposal in relation to the Supply of Materials Agreement (2012-2013) entered into between the Company and Pangang Steel & Vanadium. To consider the proposal in relation to the Financial Services Agreement (2012-2013) entered into between the Company and Angang Financial Company. 	All approved	29 June 2012	Published in China Securities Journal, the Securities Times and on CNINF http://www.cninfo.com.cn Announcement on Resolutions of the First Extraordinary General Meeting of Angang Steel Company Limited in 2012

III. DISCHARGE OF DUTIES BY INDEPENDENT DIRECTORS DURING THE REPORTING PERIOD

1. Attendance of independent Directors at Board meetings and general meetings

Name of independent Directors	Required attendance at the Board meetings during the Reporting Period	Attendance of independent Directors at Board meetings				Non-attendance in person for two consecutive times
		Attendance in person	Attendance through communication	Attendance by proxy	Absence	
Li Shijun	9	3	5	1	0	No
Ma Guoqiang	9	4	5	0	0	No
Kwong Chi Kit, Victor	9	2	5	2	0	No

III. DISCHARGE OF DUTIES BY INDEPENDENT DIRECTORS DURING THE REPORTING PERIOD *(CONTINUED)*

2. Disagreement of independent Directors on relevant issues of the Company

During the Reporting Period, no disagreement was proposed by independent non-executive Directors of the Company on its relevant issues.

IV. 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.

The Company has adopted the code provisions (the "Corporate Governance Code") set out in Appendix 14 to the Hong Kong Listing Rules as currently in force at the date of this report. The Company has periodically reviewed its corporate governance practices to ensure its continuous compliance with the Corporate Governance Code.

2 Securities Transactions of Directors

The Board has adopted the relevant code for securities transactions by directors in compliance with the Hong Kong Listing Rules. In the responses to the 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.

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

3 Independent Non-executive Directors

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

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

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 Appraisal 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 at the Board meetings in 2012 are as follows:

Name	Position in the Board	Attendance to Board 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%

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

(1) Composition of the Board *(Continued)*

The Company held an annual general meeting and an extraordinary general meeting in 2012. The attendance of each Director at the general meetings in 2012 is as follows:

Name	Position in the Board	Attendance to general 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%

(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;

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

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

- viii. to determine the Company's internal management structure;
- ix. to appoint or dismiss the Company's manager and the Secretary to the Board, to appoint or dismiss the Company's deputy general manager and other senior management including financial controller as nominated by the manager, and determine their remunerations, awards and punishment;
- x. to prepare the Company's basic management system;
- xi. to prepare amendments to the articles of association of the Company.

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

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

In 2012, the Board of the Company held a total of 9 Board meetings.

(3) Remuneration and Appraisal Committee

The members of the Remuneration and Appraisal Committee of the Company and their attendance in 2012 are as follows:

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

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

(3) Remuneration and Appraisal Committee *(Continued)*

Main duties of the Remuneration and Appraisal 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 2012, the Remuneration and Appraisal Committee of the Company held 1 meeting which mainly assessed the performance of the Directors and senior management personnel of the Company during 2011 and reviewed their remunerations during 2011, and submitted the same to the Board for consideration. The Remuneration and Appraisal Committee was also responsible for determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management of the Company.

(4) Nomination Committee

The members of the Nomination Committee of the Company and their attendance in 2012 are as follows:

Name	Position in the Committee	Attendance to meetings
Li Shijun	convener	100%
Zhang Xiaogang	member	100%
Ma Guoqiang	member	100%
Kwong Chi Kit, Victor	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 2012, the Nomination Committee of the Company held 1 meeting to nominate the 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.

IV. 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 2012 are as follows:

Name	Position in the Committee	Attendance to meetings
Ma Guoqiang	convener	100%
Kwong Chi Kit, Victor	member	100%
Li Shijun	member	100%

Main duties of the Audit Committee are:

- i. to make proposals in relation to the engagement or change of external auditor;
- ii. to supervise the Company's internal auditing system and implementation;
- iii. to facilitate communication between internal auditing department and external auditor;
- 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 Code Provision C.2.2 of the Corporate Governance Code, taking into account of the resources of the accounting and financial reporting of the Company, the sufficiency of qualifications and experience of its staff and the training courses for employees and the relevant budget. It will also submit the reviewed internal control report to the Board of the Company for consideration.

In 2012, 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 auditor.

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

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

(5) Audit Committee *(Continued)*

The Audit Committee and the management of the Company have jointly examined 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 2012.

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 2012

The Company's financial report for 2012 was prepared based on the requirements of the PRC ASBE; 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 2012

RSM China Certified Public Accountants (Special General Partnership) performed their duties during the auditing of the Company's financial statements for 2012 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 objectively and fairly, enabling the Company to satisfy the requirements from the domestic and overseas regulatory institutions.

- Opinions on the Appointment of RSM China Certified Public Accountants (Special General Partnership) as auditor of the Company for 2013

The Board has proposed to appoint RSM China Certified Public Accountants (Special General Partnership) as auditor of the Company for 2013 for a term from the close of the 2012 annual general meeting to the time of convening of the annual general meeting for 2013.

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

5 Chairman and General Manager

The positions of Chairman and General Manager of the Company are assumed by different persons with definite division of duties. In 2012, Mr. Zhang Xiaogang was our Chairman and Mr. Chen Ming was our General Manager.

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.

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.

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

6 Auditor's Remuneration

Accounting firm currently engaged by the Company

Name of the accounting firm	RSM China Certified Public Accountants (Special General Partnership)
Remuneration to the accounting firm (RMB0'000)	372
Limit of consecutive years of audit service provided by the accounting firm	5 years

Engagement of auditor for internal control, financial consultant or sponsor:

The Company has engaged RSM China Certified Public Accountants (Special General Partnership) as the Company's auditor for internal control for 2012. The remuneration is RMB880,000.

7. Training for Directors

The Company has regularly provided the Directors with relevant training courses. In 2012, the Directors have participated in continuous professional development and provided with the Company with a record of their training received as follows:

Name	Areas of training		
	Corporate Governance	Regulatory	Business/ Management/ Accounting
Executive Directors			
Zhang Xiaogang	✓	✓	✓
Yang Hua	✓	✓	✓
Chen Ming	✓	✓	✓
Yu Wanyuan	✓	✓	✓
Fu Jihui	✓	✓	✓
Independent non-executive Directors			
Li Shijun	✓	✓	✓
Ma Guoqiang	✓	✓	✓
Kwong Chi Kit, Victor	✓	✓	✓

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

8. Corporate Governance Functions

The corporate governance functions of the Company have been reserved to the Board. During the Reporting Period, the Board has performed the following corporate governance duties:

- (1) developed and reviewed the Company's policies and practices on corporate governance;
- (2) reviewed and monitored the training and professional development of Directors and senior management;
- (3) reviewed and monitored the Company's disclosure in this report, compliance with the Corporate Governance Code and other legal and regulatory requirements; and
- (4) developed and monitored the code of conduct and compliance manual applicable to the Directors and the employees of the Company.

9. Management Functions

The senior management of the Company holds meetings regularly to discuss and review with the executive Directors on operational and financial issues as well as to monitor and ensure that the directions and strategies determined by the Board have been properly implemented.

10. Shareholders' Rights and Investor Relations

Pursuant to the articles of association of the Company, shareholder(s) individually or aggregately holding more than 10% of the shares of the Company shall be entitled to request in writing to the Board to convene an extraordinary general meeting. The Board shall reply, in writing, within 10 days upon receipt of such proposal whether or not it consents to the convening of such extraordinary general meeting. If the Board does not consent to convene the extraordinary general meeting or does not reply within 10 days upon receipt of such request, the shareholder(s) individually or aggregately holding more than 10% of the shares of the Company shall be entitled to request in writing to the Supervisory Committee to convene the extraordinary general meeting. If the Supervisory Committee fails to give a notice convening a general meeting within 5 days, it shall be deemed as not to convene and hold such general meeting, in which circumstance, the shareholder(s) individually or aggregately holding more than 10% of the shares of the Company shall be entitled to convene and chair such general meeting on its/their own.

IV. CORPORATE GOVERNANCE REPORT *(CONTINUED)*

10. Shareholders' Rights and Investor Relations *(Continued)*

Shareholders who wish to put forward a proposal at general meetings may request the Company to convene a general meeting following the procedures as set out above.

Shareholders of the Company are welcome to send their written enquiries to the Board at 1 Qianshan Road West, Qianshan District, Anshan City, Liaoning Province, the PRC.

As disclosed in the notice of annual general meeting made by the Company on 12 April 2012, the Board proposed to amend certain provisions of the articles of association of the Company with respect to preparation of financial statements and these proposed amendments had been approved by the shareholders of the Company at the annual general meeting held on 29 May 2012. In addition, the Board proposed to amend certain provisions of the articles of association of the Company with respect to payment of dividend and the rules of procedures for shareholders' general meeting as disclosed in the announcement made by the Company on 27 August 2012 and these proposed amendments had been approved by the shareholders of the Company at the extraordinary general meeting held on 30 January 2013. Save as disclosed above, there is no significant change in the Company's constitutional documents during the Reporting Period. The updated and consolidated version of the Company's articles of association is available on the website of the Hong Kong Stock Exchange and the website of the Company.

V. THE INDEPENDENCE AND COMPLETENESS OF THE COMPANY IN RELATION TO ITS CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATION AND FINANCE

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.

VI. COMPETITION WITH PEERS IN THE INDUSTRY

In November 2010, the 2 million-tonne iron and steel project in Chaoyang, which was jointly funded and established by Angang Holding and Lingyuan Iron & Steel Group Co., Ltd. (凌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 on CNINF <http://www.cninfo.com.cn> on 27 March 2007.

VII. 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.

Internal control

I. DEVELOPMENT OF INTERNAL CONTROL

The Company has conducted self-evaluation on the effectiveness of the design and operation of its control as at 31 December 2012 pursuant to the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》) and the Assessment Guidelines for Enterprise Internal Control (《企業內部控制評價指引》) as well as the requirements of the other laws and regulations.

The Board is of the view that, 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 changes in internal control that would cause material effect on the conclusion of the assessment.

The Board of the Company is 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 2013, 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.

II. STATEMENT OF THE BOARD ON THE RESPONSIBILITY OF INTERNAL CONTROL

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.

III. ESTABLISHMENT OF THE STANDARD ON THE INTERNAL CONTROL OF FINANCIAL STATEMENT

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 Hong Kong Listing Rules, the Shenzhen Listing Rules, 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 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.

IV. SELF-EVALUATION REPORT ON INTERNAL CONTROL

Details of material defect on internal control discovered during the Reporting Period as set out in the self-evaluation report on internal control

None

Date of disclosure of full text of the self-evaluation report on internal control 28 March 2013

Reference of disclosure of full text of the self-evaluation report on internal control China Securities Journal, the Securities Times and on CNINF <http://www.cninfo.com.cn>

V. AUDIT REPORT ON INTERNAL CONTROL

Opinion on the review of the audit report on internal control

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 maintained effective internal control on the financial report in all material aspects in accordance with the Basic Standards and the relevant regulations as of 31 December 2012.

Date of disclosure of full text of the self-evaluation report on internal control 28 March 2013

Reference of disclosure of full text of the self-evaluation report on internal control China Securities Journal, the Securities Times and on CNINF <http://www.cninfo.com.cn>

The opinion of the audit report on internal control issued by accounting firm is consistent with that of the self-evaluation report of the Board.

VI. ESTABLISHMENT AND IMPLEMENTATION OF THE ACCOUNTABILITY SYSTEM FOR MAJOR ERRORS IN DISCLOSURE OF INFORMATION IN THE ANNUAL REPORT (《年報信息披露重大差錯責任追究制度》)

On 19 April 2010, the 10th meeting of the 5th session of the Board of the Company considered and approved the Accountability System for Major Errors in Disclosure of Information in the Annual Report (《年報信息披露重大差錯責任追究制度》).

No material error in disclosure of information in annual report, clarification on material accounting error, supplement of material omission of information and amendment on estimated results have occurred to the Company as at the present.

Annual General Meeting

The annual general meeting of the Company for 2012 will be held on 31 May 2013, details of which and the proposed resolutions are set out in the accompanying notice of annual general meeting of the Company.

Auditor's Report

RSM China Audit [2013]No.2243

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 2012, 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 2012 and the Notes to the financial statements, and issued an audit report with standard unqualified opinion.

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 2012, the consolidated financial performance and consolidated cash flow of Angang Steel Company Limited and its subsidiaries for the year 2012, the financial position of Angang Steel Company Limited as at 31 December 2012 and the financial performance and cash flow of Angang Steel Company Limited for the year 2012.

RSM China Certified Public Accountants
(special general partnership)

China Beijing

27 March 2013

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

Li Zhushan
Wang Ruiqi

Consolidated Balance Sheet

Prepared by: Angang Steel Company Limited

As at 31 December 2012

Monetary unit: RMB million

Assets	Note	31 Dec. 2012	31 Dec. 2011
Current assets:			
Cash at banks and on hand	7(1)	2,049	2,341
Trading financial assets			
Notes receivable	7(2)	9,198	5,914
Account receivables	7(3)	2,247	1,879
Prepayments	7(5)	2,806	3,860
Interests receivable		7	
Other receivables	7(4)	40	34
Inventories	7(6)	10,642	14,242
Non-current assets due within 1 year			
Other current assets	7(7)		94
Total current assets		26,989	28,364
Non-current assets:			
Available-for-sale financial assets	7(8)	101	92
Long-term equity investments	7(9)	2,740	2,483
Investment properties			
Fixed assets	7(10)	51,257	53,566
Construction in progress	7(11)	9,736	9,136
Construction material	7(12)	243	132
Intangible assets	7(13)	6,677	6,824
Deferred income tax assets	7(14)	3,494	2,391
Other non-current assets			
Total non-current assets		74,248	74,624
Total assets		101,237	102,988

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Balance Sheet (continued)

Liabilities and shareholders' equity	Note	31 Dec. 2012	31 Dec. 2011
Current liabilities:			
Short-term loans	7(17)	15,130	10,630
Notes payable	7(18)	3,260	5,565
Account payables	7(19)	5,821	4,687
Advances from customers	7(20)	4,386	4,396
Employee benefits payable	7(21)	312	318
Tax and surcharges payable	7(22)	(1,240)	(1,914)
Interest payables	7(23)	96	232
Other payables	7(24)	2,684	2,703
Non-current liabilities due within 1 year	7(25)	7,501	4,201
Other current liabilities	7(26)	6,005	6,005
Total current liabilities		43,955	36,823
Non-current liabilities:			
Long-term loans	7(27)	8,364	13,135
Deferred income tax liabilities	7(14)	28	39
Other non-current liabilities	7(28)	661	686
Total non-current liabilities		9,053	13,860
Total liabilities		53,008	50,683
Shareholders' equity:			
Share capital	7(29)	7,235	7,235
Capital reserve	7(30)	31,465	31,458
Special reserve	7(31)	44	47
Surplus reserves	7(32)	3,570	3,570
Undistributed profits	7(33)	4,284	8,441
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to shareholders of parent company		46,598	50,751
Minority interests		1,631	1,554
Total shareholders' equity		48,229	52,305
Total liabilities and shareholders' equity		101,237	102,988

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianying

Controller:
Che Chengwei

Consolidated Income Statement

Prepared by: Angang Steel Company Limited

For the year ended 31 December 2012

Monetary unit: RMB million

Items	Note	2012	2011
1. Operating income		77,748	90,423
Including: Operating income from main business	7(34)	77,748	90,423
2. Operating costs		83,723	94,271
Including: Operating costs for main business	7(34)	75,630	86,406
Business tax and surcharges	7(35)	167	169
Marketing expenses	7(36)	1,355	1,549
Administrative expenses	7(37)	3,023	3,339
Financial expenses	7(38)	1,846	1,470
Impairment losses on assets	7(40)	1,702	1,338
Add: gains/losses from fair value variation			
Investment income	7(39)	412	402
Including: Income from investment in joint ventures and associates	7(39)	402	391
3. Operating profit		(5,563)	(3,446)
Add: Non-operating income	7(41)	116	217
Less: Non-operating expenses	7(42)	49	52
Including: Losses on non-current assets disposal	7(42)	41	49
4. Profit before income tax		(5,496)	(3,281)
Less: Income tax expenses	7(43)	(1,116)	(949)
5. Net profit for the year		(4,380)	(2,332)
Net profit attributable to shareholders of parent company		(4,157)	(2,146)
Gains/losses attributable to minority shareholders		(223)	(186)
6. Earning per share			
(1) Basic earnings per share (RMB Yuan/share)	7(44)	(0.575)	(0.297)
(2) Diluted earnings per share (RMB Yuan/share)	7(44)	(0.575)	(0.297)
7. Other comprehensive income	7(45)	7	(63)
8. Total comprehensive income		(4,373)	(2,395)
Share of total comprehensive income attributable to shareholders of parent company		(4,150)	(2,209)
Share of total comprehensive income attributable to minority interest		(223)	(186)

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Cash Flow Statement

Items	Note	2012	2011
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		74,991	90,385
Refund of tax and fare		382	132
Other cash received from operating activities	7(46)	106	338
Sub-total of cash inflows		75,479	90,855
Cash paid for goods and services		68,893	80,737
Cash paid to and for the employees		2,634	2,557
Cash paid for all types of taxes		1,209	1,398
Other cash paid for operating activities	7(46)	1,290	1,500
Sub-total of cash outflows		74,026	86,192
Net cash flow from operating activities	7(47)	1,453	4,663
2. Cash flows from investing activities			
Cash received from return of investments		236	28
Cash received from investment income		236	28
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		6	3
Net cash received from disposal of subsidiaries and other operating units		36	43
Other cash received from investment activities	7(46)	36	43
Sub-total of cash inflows		278	74
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		2,918	5,506
Cash paid for acquisition of investments		112	114
Net cash paid for acquisition of subsidiaries and other operating units		3,030	5,620
Other cash paid for investment activities		3,030	5,620
Sub-total of cash outflows		3,030	5,620
Net cash flow from investing activities		(2,752)	(5,546)

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Cash Flow Statement *(continued)*

Prepared by: Angang Steel Company Limited
For the year ended 31 December 2012
Monetary unit: RMB million

Items	Note	2012	2011
3. Cash flows from financing activities			
Cash received from absorbing investments		300	463
Including: received of subsidiary from minority shareholders		300	463
Cash received from borrowings		53,339	24,421
Other cash received from financing activities			
Sub-total of cash inflows		53,639	24,884
Cash paid for settling of debts		50,334	22,550
Cash paid for distribution of dividends or profit and repayment of interests		2,298	2,649
Including: dividends or profit paid to minority shareholders			
Other cash paid for financing activities	7(46)		112
Sub-total of cash outflows		52,632	25,311
Net cash inflow from financing activities		1,007	(427)
4. Effect of changes in foreign exchange rate on cash and cash equivalents			
5. Net increase in cash and cash equivalents	7(47)	(292)	(1,310)
Add: Cash and cash equivalents brought forward	7(47)	2,341	3,651
6. Cash and cash equivalents carried forward	7(47)	2,049	2,341

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Statement of changes in shareholders' equity

Prepared by: Angang Steel Company Limited
As at 31 December 2012
Monetary unit: RMB million

2012										
Shareholders' equity attributable to shareholders of the parent company										
			Less:							Total of
Items	Share capital	Capital reserve	treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	shareholders' equity
1. Balance as at 31 Dec. 2011	7,235	31,458		47	3,570		8,441		1,554	52,305
Add: Changes of accounting policy										
Correction of prior year errors										
Others										
2. Balance as at 1 Jan. 2012	7,235	31,458		47	3,570		8,441		1,554	52,305
3. Increase/decrease in 2012										
(“—” represents loss)		7		(3)			(4,157)		77	(4,076)
(1) Net profit							(4,157)		(223)	(4,380)
(2) Other comprehensive income		7								7
Subtotal of (1) and (2)		7					(4,157)		(223)	(4,373)
(3) Capital introduced or withdrawn by owners									300	300
i. Capital introduced by owners									300	300
ii. Amount of shares-based payment recorded in owner's equity										
iii. Others										
(4) Profit distribution										
i. Transfer to surplus reserve										
ii. Transfer to general risk reserve										
iii. Distribution to shareholders										
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				(3)						(3)
i. Extracts of this year				65						65
ii. Usage of this year				(68)						(68)
4. Balance as at 31 Dec. 2012	7,235	31,465		44	3,570		4,284		1,631	48,229

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianying

Controller:
Che Chengwei

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

Prepared by: Angang Steel Company Limited

As at 31 December 2012

Monetary unit: RMB million

2011										
Shareholders' equity attributable to shareholders of the parent company										
			Less:							Total of
Items	Share capital	Capital reserve	treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	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)
4. Balance as at 31 Dec. 2011	7,235	31,458		47	3,570		8,441		1,554	52,305

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianying

Controller:
Che Chengwei

Balance Sheet

Assets	Note	31 Dec. 2012	31 Dec. 2011
Current assets:			
Cash at banks and on hand		884	1,183
Trading financial assets			
Notes receivable		9,184	5,719
Account receivables	15(1)	2,288	1,924
Prepayments		2,254	3,176
Interests receivable			
Dividends receivable		7	
Other receivables	15(2)	37	34
Inventories		9,915	13,120
Non-current assets due within 1 year			
Other current assets			94
Total current assets		24,569	25,250
Non-current assets:			
Available-for-sale financial assets		101	92
Long-term equity investments	15(3)	6,010	5,754
Fixed assets		48,161	50,337
Construction in progress		4,554	5,037
Construction materials		14	116
Intangible assets		6,167	6,305
Deferred income tax assets		2,957	2,014
Other non-current assets			
Total non-current assets		67,964	69,655
Total assets		92,533	94,905

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Balance Sheet *(continued)*

Prepared by: Angang Steel Company Limited

As at 31 December 2012

Monetary unit: RMB million

Liabilities and shareholders' equity	Note	31 Dec. 2012	31 Dec. 2011
Current liabilities:			
Short-term loans		12,930	9,250
Notes payable		1,555	4,810
Account payables		5,521	3,900
Advances from customers		4,094	3,755
Employee benefits payable		312	318
Tax and surcharges payable		(739)	(1,496)
Interests payables		96	232
Other payables		2,157	2,271
Non-current liabilities due within 1 year		6,471	3,481
Other current liabilities		6,005	6,005
Total current liabilities		38,402	32,526
Non-current liabilities:			
Long-term loans		6,274	10,645
Deferred income tax liabilities		28	29
Other non-current liabilities		623	647
Total non-current liabilities		6,925	11,321
Total liabilities		45,327	43,847
Shareholders' equity:			
Share capital		7,235	7,235
Capital reserve		31,465	31,458
Special reserve		44	47
Surplus reserves		3,570	3,570
Undistributed profits		4,892	8,748
Total shareholders' equity		47,206	51,058
Total liabilities and shareholders' equity		92,533	94,905

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Income Statement

Items	Note	2012	2011
1. Operating income	15(4)	75,788	88,649
Less: Operating costs for main business	15(4)	73,320	84,480
Business tax and surcharges		167	169
Marketing expenses		1,310	1,498
Administrative expenses		2,894	3,259
Financial expenses		1,680	1,293
Impairment losses on assets		1,697	1,331
Add: gains/losses from fair value variation			
Investment income	15(5)	411	402
Including: Income from investment in jointly ventures and associates		401	391
2. Operating profit		(4,869)	(2,979)
Add: Non-operating income		115	217
Less: Non-operating expenses		48	52
Including: Losses on non-current assets disposal		41	49
3. Profit before income tax		(4,802)	(2,814)
Less: Income tax expenses		(946)	(846)
4. Net profit for the year		(3,856)	(1,968)
5. Other comprehensive income		7	(63)
6. Total comprehensive income		(3,849)	(2,031)

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Cash Flow Statement

Prepared by: Angang Steel Company Limited

For the year ended 31 December 2012

Monetary unit: RMB million

Items	Note	2012	2011
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		72,733	88,112
Refund of tax and fare		382	132
Other cash received from operating activities		104	334
Sub-total of cash inflows		73,219	88,578
Cash paid for goods and services		66,844	79,451
Cash paid to and for employees		2,548	2,490
Cash paid for all types of taxes		1,190	1,382
Other cash paid for operating activities		1,260	1,480
Sub-total of cash outflows		71,842	84,803
Net cash flow from operating activities	15(6)	1,377	3,775
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		236	28
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		6	3
Net cash received from the disposal of subsidiaries and other operating units			
Other cash received from investment activities		10	24
Sub-total of cash inflows		252	55
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		2,186	4,112
Cash paid for acquisition of investments		112	1,105
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities			
Sub-total of cash outflows		2,298	5,217
Net cash flow from investing activities		(2,046)	(5,162)

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Cash Flow Statement *(continued)*

Items	Note	2012	2011
3. Cash flows from financing activities			
Cash received from absorbing investments			
Cash received from borrowings		47,806	22,196
Other cash received from financing activities			
Sub-total of cash inflows		47,806	22,196
Cash paid for settling of debts		45,531	19,740
Cash paid for distribution of dividends or profit and repayment of interests		1,905	2,341
Other cash paid for financing activities			87
Sub-total of cash outflows		47,436	22,168
Net cash inflow from financing activities		370	28
4. Effect of changes in foreign exchange rate on cash and cash equivalents			
5. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents brought forward	15(6)	(299)	(1,359)
	15(6)	1,183	2,542
6. Cash and cash equivalents carried forward	15(6)	884	1,183

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Statement of changes in shareholders' equity

Prepared by: Angang Steel Company Limited

As at 31 December 2012

Monetary unit: RMB million

Items	2012							Total of shareholders' equity
	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	
1. Balance as at 31 Dec. 2011	7,235	31,458		47	3,570		8,748	51,058
Add: Changes of accounting policy								
Correction of prior year errors								
Others								
2. Balance as at 1 Jan. 2012	7,235	31,458		47	3,570		8,748	51,058
3. Increase/decrease in 2012								
("—" represents loss)		7		(3)			(3,856)	(3,852)
(1) Net profit							(3,856)	(3,856)
(2) Other comprehensive income		7						7
Subtotal of (1) and (2)		7					(3,856)	(3,849)
(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								
i. Transfer to surplus reserve								
ii. Transfer to general risk reserve								
iii. Distribution to shareholders								
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				(3)				(3)
i. Extracts of this year				65				65
ii. Usage of this year				(68)				(68)
4. Balance as at 31 Dec. 2012	7,235	31,465		44	3,570		4,892	47,206

Legal representative:
Zhang Xiaogang

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Statement of changes in shareholders' equity (continued)

Items	2011							Total of shareholders' equity
	Share capital	Capital reserve	Less: treasury stock	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	
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)
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:
Che Chengwei

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 Company ("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 Separation Agreement which took effect from the 1st January 1997, Angang Holding transferred the production, sales, research and development, administration activities of the Plants as well as 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 24th 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 was 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 matures on the 14th March 2005. A 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. At the same time, ANSI nullified its registration with the Department of Administration for Industry and Commerce.

Through a special resolution approved by the shareholders at 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 the revised business license.

The Company proposed to issue A shares and H 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 trading 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, Tie Xi District, Anshan City, Liaoning Province, the PRC.

The Company and its subsidiaries (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 27 March, 2013

2. BASIS OF PREPARATION

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

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 2012, 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 period

The accounting period 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 common control and the business combinations not under common control.

(a) The business combinations under common control

A business combination under common 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(in) which the control is not temporary. In a business combination under common control, the party which obtains control of the other combining entity on the combining date is the acquirer, the other combining entity is the acquiree. The "acquisition 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. The capital reserve shall be adjusted 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). 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 for the current period.

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

(3) Business combinations *(Continued)*

(b) The business combinations not under common control

A business combination not under common 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 common 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 of the acquiree.

For the business combinations not under common 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 of the acquiree. The direct cost of 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 affect goodwill. The relevant contingent consideration shall be recorded into the combination costs at its fair values at the purchase date, and 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 recognize 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 recognize 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 common 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 common 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 are adjusted simultaneously.

When preparing consolidated financial statements, 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 common 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 profit or loss 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 profit or loss 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 in foreign currency exchange or transaction involving foreign currency exchange shall be translated into RMB at the 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 foreign monetary items and foreign non-monetary items

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 other comprehensive income.

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 (including 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 the current situation. For those where 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. These techniques mainly include referring to prices that are adopted by knowledgeable and willing parties in the 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 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 subsequently 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 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 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 subsequently measured at amortized costs using the 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 equity shall be transferred to profit or loss at de-recognition.

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

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

(7) Financial instruments *(Continued)*

(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 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 tested together. Where, upon the 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. 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 an 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.

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

It indicates that the financial asset is impaired when considering related factors shows that the written-down invested fair value of available-for-sale equity instrument is serious or is not temporary. Serious written-down refers to the accumulated extent of decrease on fair value is over 20%; Non temporary written-down refers to continuous decrease period on fair value is over 12 months.

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

(7) Financial instruments *(Continued)*

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

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

Where such financial asset is impaired, the accumulative losses arising from the decrease of the fair value recognized in the capital reserve shall be transferred to the profit and loss for 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 partial transfer of a 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.

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 for the current period.

(ii) Other financial liabilities

The derivative financial liabilities, derived from equity instrument without a 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 liabilities shall be subsequently measured at amortized cost by using the effective rate method. The profit or loss that arises at de-recognition and amortization shall be recorded into the profit and loss for 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 account receivables and other 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 have been impaired, an impairment provision shall be made. (i) The debtor has a serious financial difficulty; (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 restructuring; (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, Account receivables shall be subject to impairment test individually. The difference between the present value of the expected future cash flow of the assets and the carrying value shall be recorded as bad debt allowance. The reduced amount shall be recognized as an 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 objective evidences show that the value of receivables is recovered which relates to the event subsequent to the recognition of impairment loss, previously recognized impairment loss shall be reversed and recorded into current profit and loss. The carrying value after reversal shall not exceed the amortized cost as if no impairment loss has 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. The cost of inventory consists of purchase price, processing cost and other costs. Inventories shall be measured by using the weighted average method, specific-unit-cost method or other method when requisitioned or dispatched.

(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 deducted by the estimated cost before completion, estimated selling expense and relevant taxes in the daily operations. The estimation of net realizable value of inventories shall be based on reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events after balance sheet date.

At balance sheet date, the inventories shall be measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision for impairment shall be made. Except spare parts, impairment of inventory is calculated on an individual item. Impairment of spare parts is calculated according to the actual situation and the management's estimation.

If the factors causing any write-down of 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 according to 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 long-term equity investment formed by business combination under common 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 common control, on the date of combination, the initial cost shall be the sum of the fair value of assets transferred, the liabilities incurred or assumed 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 for the current period. Transaction expenses of issued equity securities or liability securities as the consideration for the combination, shall be recorded into the initial cost 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, the fair value or carrying value of the assets surrendered in the non-monetary assets exchange transaction, the fair value of the long-term equity investment itself, 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 investments and recognition of investment income

A long-term equity investment, where the investing entity has 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. Long-term equity investment where the investing entity has joint control or significant influence 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 investments and recognition of investment income *(Continued)*

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

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

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. Long-term investment stated by applying equity method

In the 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 the 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 profits or losses 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 jointly controlled entities and associates 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.8-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 investments and recognition of investment income *(Continued)*

- ii. Long-term 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 continuously measured 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 company disposes part of the investment in subsidiary without losing control, the difference between the disposal proceeds and the net asset disposed shall be recognized in equity. When the parent company 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 recognized 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 policies 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 an impairment is recognized, it could not be reversed 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 category of fixed assets are as follows:

Category of fixed assets	Useful life	Scrap value rate (%)
Plants and buildings	30 years	3–5
Machinery and equipment	10–15 years	3–5
Other fixed assets	5–10 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 lease

The “finance lease” refers to a lease where, in substance, all the risks and rewards related to the ownership of an asset have been transferred 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 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

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 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 the provision of construction in progress, refer Note 15.

(13) Borrowing costs

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 its intended use or sale, the capitalization of borrowing costs shall cease. Other borrowing costs shall be recognized into the current profit and loss.

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

(13) Borrowing costs *(Continued)*

The interests of 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 weighted 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, of which the acquisition, construction or production may take quite a long time to reach the intended use or be qualified for sale.

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

(14) Intangible assets

(a) Intangible assets

The term “intangible asset” refers to the identifiable non-monetary asset possessed or controlled by the Group which has 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 associated with the 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 use right is usually stated as an intangible asset. For self-constructed plants and buildings, the expenditure on land use right 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 use right 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 by the straight-line method 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 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 losses 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 losses:

- (i) The technical feasibility to complete the intangible asset for use or sale;
- (ii) The intention to complete the intangible asset for use or sale;
- (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 losses.

(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, and 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 an asset, goodwill formed by business combination, intangible assets with indefinite useful life and intangible assets without reaching the intended use shall be subject to impairment test every year.

If the recoverable amount of an asset is lower than its carrying value, the difference 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 from 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 the 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 a 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 single 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 reversed 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 the 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 part of the expenditure necessary for the settlement of an obligation 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 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 relevant 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 the amount that is 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 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 reliably when all the following conditions are satisfied simultaneously:

- (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 both selling goods and rendering services shall be separated and accounted respectively, provided that the part of selling goods and part of rendering services can be distinguished from each other and measured respectively. Otherwise, both parts shall be accounted for as a sale of goods.

(c) Royalty revenue

Royalties should be recognized on an accrual basis in accordance with the substance of the 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

A government grant refers to the monetary asset or non-monetary asset obtained for free by the Group from the government, excluding the capital invested by the government as an owner of the Group. It is classified into government grant pertinent to assets and government grants pertinent to income.

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

A government grant pertinent to assets is recognized initially as deferred income and amortized into profit and loss on a straight-line basis over the useful life of the relevant asset. A grant pertinent to income that compensates the Group for expenses to be incurred in subsequent periods is recognized initially as deferred income and recognized in profit and loss in the periods when the expenses are recognized. A grant that compensates the Group for expenses incurred is recognized in profit and 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 date, 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 between the carrying value of the assets or liabilities and the tax base, and temporary difference of items that are 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.

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)*

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.

Deferred tax assets shall not be recognized on the deductible temporary differences relating 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 that may be used for making up the deductible temporary differences.

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 date, 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 date. 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.

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

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

(c) Income tax expenses

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 a business combination shall adjust goodwill. Other income taxes and deferred taxes are recorded into current profit and loss.

(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 for the current period in a straight-line approach over the period of the lease term. Initial direct costs incurred by the lessee shall be recognized in the profit and loss of the current period. 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 for the current period in a straight-line approach over the period of the lease term. Initial direct costs incurred to the lessor shall be recorded into the profit and loss for the current period. Contingent rentals shall be recorded into the profit and loss in the period when they actually occur.

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

(20) Leases *(Continued)*

(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, and recognize a long term liability at the amount of the minimum lease payments. The difference between the carrying value of the leased asset and the long term liability shall be recognized as unrecognized financing cost. In addition, the directly 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 non-current liability.

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

(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 as financing lease receivables, as well as the unguaranteed residual value. The difference 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 non-current receivables.

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

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

(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 detailed formal termination plan or a voluntary redundancy offer without realistic possibility of withdrawal 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.

(22) Changes of significant accounting policies and estimates

- (a) In the financial year of 2012, the Group has no changes in accounting policies.
- (b) In the financial year of 2012, the Group has no changes in accounting estimates.

(23) Corrections of prior year errors

In the financial year of 2012, 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, assets and liabilities in financial statements are based on historical experience of the management and 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

The allowance method is adopted for doubtful debts according to accounting policies. Impairment losses for receivables are assessed based on the recoverability of receivables. The assessment of the impairment losses requires the judgments and estimates of the management. Hence, the difference between actual outcome and the previously estimated outcome can impact the carrying values of receivables and results in recognition or reversal of provisions in the period estimate is changed.

(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 events after balance date shall be taken into account when making judgments and estimates. Hence, the difference between actual outcome and the previously estimated outcome can impact the carrying value of inventories and results in recognition or reversal of provisions in the period estimate is changed.

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, 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 to contract price for similar asset in a fair trade or observable market price. The disposal cost is the attributable incremental cost directly 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 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 on a straight-line approach over their estimated useful lives, taking into account of the scrap values. The Group periodically 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. Significant changes to accounting estimates 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 future taxable profits will be generated against which tax losses can 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 into account of the influence of tax planning.

(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 the tax authority. 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 average growth rate of medical cost, the growth rate of 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 rise to present obligations which result in outflow of economic benefits from the Group, the Group recognizes the provisions on the best estimate of the expenditures needed to settle the relevant current obligations. Recognition and measurement of the estimated liabilities, to the great extent, rely on the management's judgments, which is based on related risks, uncertainties, time value of money and other factors relating to the contingent events.

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, Educational surcharge and local educational surcharge	Paid circulating tax: 7%, 3% , 1%
Corporate income tax	Taxable income: 25%
Custom duty	FOB: 5%–15%

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Subsidiaries

(a) Subsidiaries acquired by setting up

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 substantive 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	Ran Maoyu	67583176-9	108	
Angang Cold Rolled Steel(Putian) Co., Ltd. ("Angang Putian")	Controlling subsidiary	Putian	Steel processing and distribution	1,500	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	Chen Ming	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 Lifan	58950506-X	20	

Notes To The Financial Statements (Continued)

6. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Subsidiaries (Continued)

(a) Subsidiaries acquired by setting up (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.	80	80	Yes	295		
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 same 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	Deep processing distribution; cold rolling plate, galvanized sheet, color coated sheet production, processing, sale; technical advice of metallurgical equipment technology; import and export business service	Limited liability company.	Chen Ming	75224243-2	1,850	

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

(1) Subsidiaries *(Continued)*

- (b) Subsidiaries acquired by business combination not under same 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	1,316		

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

- Tiantie's financial and operational policies are in accordance with that of the Company.
- Chairman of the board is recommended by the Company.
- The board of directors consists of nine directors, of which five are recommended by the Company and four are recommended by the Tiantie Group (Resolution of the board is passed by approval of at least half of the directors of board).

For the above listed reasons, the Company has control power over the Tianjin Tiantie. Tianjin Tiantie is included in the consolidation scope.

(2) Changes in the consolidation scope

There is no changes in the consolidation scope for the year of 2012.

(3) Subsidiaries that are consolidated for the first time

No subsidiaries are consolidated for the first time for the year of 2012.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the notes below (including notes to parent's financial statements), unless otherwise specified, the closing balance refers to the balance at 31 Dec. 2012, the opening balance refers to the balance at 1 Jan. 2012, this year refers to the twelve months ended at 31 Dec. 2012, last year refers to the twelve months ended at 31 Dec. 2011.

(1) CASH AND BANKS

Items	Closing balance	Opening balance
Cash	1	1
Banks	1,420	1,697
Other cash and banks	628	643
Total	2,049	2,341

Note: The Group pledged the bank certificate of deposit in a nominal amount of RMB217 million with the Industrial Bank, and notes payable in the same amount was issued by the Industrial Bank upon the request of the Group. The period of pledge is from 31 Jul 2012 to 31 Jan 2013.

(2) NOTES RECEIVABLE

(a) Classification of notes receivable

Items	Closing balance	Opening balance
Bank acceptances	9,198	5,914
Total	9,198	5,914

Note: Notes receivable at the end of the year increases by 56% comparing with last year, mainly due to more notes received in this year.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) NOTES RECEIVABLE (Continued)

- (b) Notes receivable pledged at the end of the year

Issuer	Issuing Date	Maturity Date	Closing Balance
Ningbo thick constant Machinery Co., Ltd.	Oct to Dec 2012	Apr to Jun 2013	57
Dongguan Dongpu Trading Co Ltd	Aug to Dec 2012	Mar to Jun 2013	57
Jiangsu Tianming Group Co., Ltd.	Oct to Dec 2012	Mar to May 2013	50
Shanghai Tiecheng Industrial Co., Ltd.	Nov to Dec 2012	Mar 2013	48
Guangdong Galanz microwave Electrical Appliance Manufacturing Co., Ltd.	Oct 2012	Apr 2013	41
Total			253

Note: The Group pledged notes receivable in a nominal amount of RMB 814 million with the Bank of China, and notes payable in an amount of RMB 753 million was issued by the Bank of China upon the request of the Group. The period of pledge is from Jan 2013 to Jun 2013.

- (c) For this year, there was no notes receivable transferred to account receivables due to default of issuer.
- (d) Outstanding undue endorsed notes (the top five by amount)

Issuer	Issuing date	Maturity date	Closing balance	Whether de-recognized	Notes
Zhejiang Ouhua Shipbuilding Co., Ltd.	Jul to Nov 2012	Jan to May 2013	196	Yes	
Xiamen Xiangyu logistics Group Limited	Jul to Oct 2012	Jan to Apr 2013	163	Yes	
Shenyang Co., Ltd. of China Railway Materials	Aug to Nov 2012	Feb 2013	154	Yes	
Tianjin Tiantie	Aug to Oct 2012	Feb to Apr 2013	146	Yes	
Bohai Shipbuilding Heavy Industry Co., Ltd.	Oct to Nov 2012	Apr to May 2013	137	Yes	
Total			796		

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) ACCOUNT RECEIVABLES

(a) Nature of account receivables

Items	Closing balance			
	Book balance		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Account receivables with significant single amount subject to individual impairment	1,979	88		
Other account receivables with insignificant single amount subject to individual impairment	268	12		
Total	2,247	100		

Type	Opening balance			
	Book balance		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Account receivables with significant single amount subject to individual impairment	1,646	88		
Other account receivables with insignificant single amount subject to individual impairment	233	12		
Total	1,879	100		

Note: The Group requires a majority of its customers to advance the full amount of goods by cash or bank acceptances before delivery. The credit terms for credit sales will expire from one to four months since the bills are issued.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) ACCOUNT RECEIVABLES (Continued)

(b) Aging of account receivables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,230	99	1,876	100
1 to 2 years	15	1	1	
2 to 3 years			1	
Over 3 years	2		1	
Total	2,247	100	1,879	100

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

The management considered that major account receivables could be recovered and the debtors were able to fulfill their obligations, so bad debt provision is relatively low.

(d) Account receivables due from shareholders with more than 5% (including 5%) voting rights of the Group at the end of the year

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

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) ACCOUNT RECEIVABLES (Continued)

(e) As at 31 Dec. 2012, the top five debtors is disclosed as follows

Debtors	Relationship	Balance	Aging	Percentage (%)
Angang Group International Trade Corporation ("Angang Trade")	Fellow subsidiary	1,146	Within 3 months	51
Baoji Steel Liaoyang Steel Tube Factory	Third party	197	Within 4 months	9
China Petrochemical International Co., Ltd.	Third party	187	Within 3 months	8
FAM Purchasing Center	Third party	162	Within 3 months	7
ANSC-TKS Changchun Steel Logistics Co., Ltd.. ("TKAS-SSC")	Jointly controlled enterprise	126	Within 3 months	6
Total		1,818		81

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

(4) OTHER RECEIVABLES

(a) Nature of other receivables

Type	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with significant single amount subject to individual impairment	26	65		
Other receivables with insignificant single amount subject to individual impairment	14	35		
Total	40	100		

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

(4) OTHER RECEIVABLES *(Continued)*

(a) Nature of other receivables *(Continued)*

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with significant single amount subject to individual impairment	16	47		
Other receivables with insignificant single amount subject to individual impairment	18	53		
Total	34	100		

(b) Aging of other receivables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	30	75	20	59
1 to 2 years			12	35
2 to 3 years	8	20	2	6
Over 3 years	2	5		
Total	40	100	34	100

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

The management considered that major other receivables could be recovered and the debtors were able to fulfill their obligations, so bad debt provision is relatively low.

(d) The Group has no other receivables due from shareholders with more than 5% (including 5%) voting right of the Group at the end of the year.

(e) The related party transactions are disclosed in Note: 9 (6).

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) PREPAYMENTS

(a) Aging of prepayments

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,542	91	3,406	88
1 to 2 years	30	1	324	8
2 to 3 years	158	6	100	3
Over 3 years	76	2	30	1
Total	2,806	100	3,860	100

Note: The prepayments aged more than one year were mainly prepaid to import engineering equipment.

(b) At the end of the year, the top five debtors were as follows

Debtors	Relationship	Amounts	Aging	Reason for unsettlement
Angang Trade	Fellow subsidiary	2,330	Within 5 years	undue
Tianjin Tiantie Metallurgy Trade Group Co., Ltd.	Third party	150	Within 1 year	undue
Shanghai Hanbao Industry and Business Co., Ltd	Third party	101	Within 1 year	undue
Tangshan Guofeng Iron & Steel Co., Ltd.	Third party	68	Within 1 year	undue
Angang Construction Group	Fellow subsidiary	16	Within 1 year	undue
Total		2,665		

(c) The Group has no prepayments to shareholders with more than 5% (including 5%) voting right of the Group at the end of the year.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) INVENTORIES

(a) Types of inventories

Types	Closing balance		
	Book value	Provisions for written-down of inventories	Carrying value
Raw materials	2,537	38	2,499
Work in progress	2,762	140	2,622
Finished goods	2,113	147	1,966
Consumables	1,280		1,280
Spare parts	2,235		2,235
Materials in transit	36		36
Outsourced materials	4		4
Total	10,967	325	10,642

Types	Opening balance		
	Book value	Provisions for written-down of inventories	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
Outsourced materials	5		5
Total	14,902	660	14,242

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

(6) INVENTORIES *(Continued)*

- (b) Changes in provisions for written-down of inventories

Items	Opening balance	Increase of the year	Decrease of the year		Closing balance
			Written back	Written off	
Raw materials	64	217		243	38
Work in progress	228	860		948	140
Finished goods	368	625		846	147
Total	660	1,702		2,037	325

- (c) Analysis of provisions for written-down of inventories

- (i) The net realizable value for finished goods and the relevant raw materials is lower than the cost. Therefore, provisions for written-down of inventories was made at the end of the year.
- (ii) The reason that provisions for written-down of inventories decreases because relevant products had been sold, and corresponding provisions had been transferred to cost of sales.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) OTHER CURRENT ASSETS

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

Note: The overpayment of corporate income tax was returned in this year.

(8) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Items	Closing balance	Opening balance
Available-for-sale equity instrument	101	92
Total	101	92

(9) LONG-TERM EQUITY INVESTMENTS

(a) Types of long-term equity investments

Type	Opening balance	Increase of the year	Decrease of the year	Closing balance
Investment in joint ventures	1,544	287	215	1,616
Investment in associates	581	101	21	661
Other equity investments	358	105		463
Less: Provisions for impairment of long-term equity investments				
Total	2,483	493	236	2,740

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Details of long-term equity investments

Name of investees	Accounting method	Initial investment cost	Opening balance	Change of the year	Closing balance
ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS")	Equity method	533	1,190	64	1,254
ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Group Limited ("ANSC-Dachuan")	Equity method	190	218	6	224
Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	Equity method	45	81	5	86
TKAS-SSC	Equity method	48	55	(3)	52
TKAS Angang Shenyang Steel Product Processing and Distribution Group Limited ("Angang Shenyang")	Equity method	31	27	2	29
ANSC-TKS (Changchun) Tailored Blanks Ltd("TKAS")	Equity method	37	59	(2)	57
Angang Entity Group Packing Steel Strip Company Limited) ("Entity Packing")	Equity method	11	5		5
Angang Finance	Equity method	315	485	78	563
Anshan Angang Iron Oxide Powder Co., Ltd. ("Iron Oxide Powder")	Equity method	1	0	1	1
Tianjin Tantie Binhai Metallurgy Enterprise Co., Ltd. ("Binhai Industry")	Equity method	2	5	1	6
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	151	63	88	151
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	23	9	14	23
Guoqi Automobile Lightweight (Beijing) Technology Research Institute Co., Ltd.("Guoqi Lightweight")	Cost method	3		3	3
Total			2,483	257	2,740

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

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

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

Name of investees	Proportion of Shareholding (%)	Proportion of voting- rights (%)	Difference between proportions of voting- rights and shareholding	Impairment	Impairment made this year	Cash dividends
ANSC-TKS	50	50				200
ANSC-Dachuan	50	50				
Changchun FAM	50	50				4
TKAS-SSC	50	50				11
Angang Shenyang	30	30				
TKAS	45	45				18
Entity Packing	30	30				
Angang Finance	20	20				
Iron Oxide Powder	30	30				
Binhai Industry	30	30				
WISDRI	7	7				7
Longmay Group	1	1				2
Falan Packing	15	15				1
Dalian Shipyard	15	15				
China Shipbuilding	10	10				
Dalian Steel	15	15				
Guoqi Lightweight	7	7				
Total						243

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

(i) Joint ventures of the Group.

Name of investees	Type	Registered place	Legal representative	Nature of business	Registered capital	Proportion of shareholding	Proportion of voting-rights (%)
ANSC-TKS	Sino-Foreign Cooperative Venture	Dalian	Ai Qile	Steel processing	USD 132 million	50	50
ANSC-Dachuan	Limited Liability Company	Dalian	Zhang Lifan	Steel processing and sale	RMB 380 million	50	50
Changchun FAM	Sino-Foreign Cooperative Venture	Changchun	Li Baojie	Steel production processing and service	RMB 90.374 million	50	50
TKAS-SSC	Sino-Foreign Cooperative Venture	Changchun	Reina Haobo	Steel processing and sale	USD 12 million	50	50

Name of investees	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 for this year	Net profit for this year
ANSC-TKS	3,398	828	2,570	4,570	564
ANSC-Dachuan	1,065	617	448	1,686	11
Changchun FAM	298	123	175	426	20
TKAS-SSC	367	246	121	1,184	24

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (Continued)

(ii) 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 Company	Shenyang	Hao Weiqiang	Steel processing and distribution	RMB 104 million	30	30
TKAS	Sino-Foreign Joint Venture	Changchun	Reina Haobo	Steel processing and logistic	USD 10 million	45	45
Entity Packing	Limited Liability Company	Anshan	Zhang Leng	Packaging steel belt and steel processing	RMB 35.73 million	30	30
Angang Finance	Limited Liability Company	Anshan	Yu Wanyuan	Deposit finance	RMB 1000 million	20	20
Iron Oxide Powder	Limited Liability Company	Anshan	Yuan Xuefeng	Iron oxide powder processing	RMB 2 million	30	30
Binhai Industry	Limited Liability Company	Tianjin	Jia Deqi	Service	RMB 5 million	30	30

Name of investees	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 for this year	Net profit for this year
Angang Shenyang	309	210	99	309	(6)
TKAS	199	72	127	555	36
Entity Packing	22	5	17		(1)
Angang Finance	24,837	22,002	2,835	667	404
Iron Oxide Powder	5	3	2		
Binhai Industry	30	12	18	160	1

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) FIXED ASSETS

(a) Analysis of fixed assets

Items	Opening balance	Increase of the year	Decrease of the year	Closing Balance
Cost	90,661	3,240	154	93,747
Of which: Buildings and Plants	25,374	504	3	25,875
Machineries and equipment	60,848	2,450	136	63,162
Others	4,439	286	15	4,710
Accumulated depreciation	37,010	5,526	123	42,413
Of which: Buildings and Plants	6,660	808	107	7,361
Machineries and equipment	27,846	4,172	14	32,004
Others	2,504	546	2	3,048
Net book value	53,651			51,334
Of which: Buildings and Plants	18,714			18,514
Machineries and equipment	33,002			31,158
Others	1,935			1,662
Provision for impairment	85		8	77
Of which: Buildings and Plants	14			14
Machineries and equipment	68		8	60
Others	3			3
Carrying value	53,566			51,257
Of which: Buildings and Plants	18,700			18,500
Machineries and equipment	32,934			31,098
Others	1,932			1,659

- Note: i. The depreciation of this year was 5,526 million.
- ii. During this year, the cost of constructions in progress transferred into fixed assets was 3,228 million.

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

(10) FIXED ASSETS *(Continued)*

(b) Temporarily idle fixed assets

Items	Cost	Accumulated depreciation	Provision for impairment	Carrying value	Notes
Buildings and Plants	19	8		11	Reconstruction
Machineries and Equipment	299	208	22	69	Renovation
Others	19	15	3	1	Renovation
Total	337	231	25	81	

(c) The Group had no financial leased-in fixed asset as at 31 Dec. 2012.

(d) Operating leased-out fixed assets

Items	Closing carrying value	Opening carrying value
Buildings and Plants	63	69
Machineries and Equipment	68	74
Total	131	143

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) CONSTRUCTIONS IN PROGRESS

(a) Details of constructions in progress

Items	Closing balance			Opening balance		
	Book value	Provision for impairment	Carrying value	Book value	Provision for impairment	Carrying value
Bayuquan project	2,885		2,885	2,103		2,103
Putian project	2,886		2,886	2,228		2,228
Tiantie project	2,161		2,161	1,871		1,871
Hefei project	72		72			
Wuhan project	62		62			
Guangzhou project	1		1			
Chemical plant renovation	858		858	555		555
Chemical oven renovation project	42		42	1,441		1,441
Chemical ND furnace to coal preparation system and public auxiliary supporting project	110		110	422		422
The 1st converter gas tank project	33		33	22		22
Others	626		626	494		494
Total	9,736		9,736	9,136		9,136

(b) Changes in major constructions in progress

Items	Budget	Opening balance	Increase of the year	Transferred into fixed assets	Other decrease	Closing balance
Bayuquan project	8,421	2,103	1,021	239		2,885
Putian project	3,770	2,228	658			2,886
Tiantie project	6,296	1,871	395	105		2,161
Hefei project	112		72			72
Wuhan project	170		62			62
Guangzhou project	139		1			1
Chemical plant renovation	845	555	303			858
Chemical oven renovation project	1,577	1,441	127	1,526		42
Chemical ND furnace to coal preparation system and public auxiliary supporting project	559	422	120	432		110
The 1st converter gas tank project	35	22	11			33
Others		494	1,072	926	14	626
Total		9,136	3,842	3,228	14	9,736

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) CONSTRUCTIONS IN PROGRESS (Continued)

(b) Changes in major constructions in progress (Continued)

Items	Accumulated capitalized borrowing cost	Of which: capitalized this year	Capitalization rate (%)	Expenditure over budget (%)	Project progress (%)	Resource of fund
Bayuquan project	333	139	6.18	49	49	Self-financing, Borrowings
Putian project	231	117	6.12	88	88	Self-financing, Borrowings
Tiantie project	349	113	5.36	98	98	Self-financing,
Hefei project				85	85	Self-financing,
Wuhan project				44	44	Self-financing, Borrowings
Guangzhou project				1	1	Self-financing,
Chemical plant renovation	149	40	5.75	84	84	Self-financing, Borrowings
Chemical oven renovation project	97	26	5.75	93	93	Self-financing,
Chemical ND furnace to coal preparation system and public auxiliary supporting project	26	13	5.75	92	92	Self-financing,
The 1st converter gas tank project	2	2	5.75	89	89	Self-financing,
Others	560	26	5.75			Self-financing,
Total	1,747	476				

Note: Self-financing includes non-special borrowings and reserves from operations.

(c) As at 31 Dec 2012, there was no construction in progress whose book value was higher than its realizable value.

(12) CONSTRUCTION MATERIALS

Items	Opening balance	Increase of the year	Decrease of the year	Closing balance
Special materials	1		1	
Special equipment	131	2,369	2,257	243
Total	132	2,369	2,258	243

Note: The closing balance of construction materials increased by 84% comparing with the opening balance because purchase is more than usage.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) INTANGIBLE ASSETS

Items	Opening balance	Increase of the year	Decrease of the year	Closing balance
Total cost	7,777	19		7,796
Land use right	7,713	4		7,717
software	32	15		47
Non-patented technology	32			32
Accumulative amortization	953	166		1,119
Land use right	905	156		1,061
software	19	9		28
Non-patented technology	29	1		30
Total net book value	6,824			6,677
Land use right	6,808			6,656
software	13			19
Non-patented technology	3			2
Total provision for impairment				
Land use right				
software				
Non-patented technology				
Total book value	6,824			6,677
Land use right	6,808			6,656
software	13			19
Non-patented technology	3			2

Note: The amortization was 166 million this year

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITIES

(a) Recognized deferred income tax assets

Items	Closing balance		Opening balance	
	Deferred income tax assets	Temporary difference or deductible loss	Deferred income tax assets	Temporary difference or deductible loss
Provision for written-down of inventories	81	325	165	660
Provision for impairment of fixed assets	19	77	21	85
Accumulated depreciation of fixed assets	5	21	5	21
Unrealized inter-group profit	32	129	7	27
Salaries payable	47	187	42	169
Termination benefits	5	17	9	37
Employee training expenses	16	63	15	60
Deductible loss	3,113	12,453	1,948	7,791
Government grants	165	659	167	667
Safety production expenses	11	44	12	47
Total	3,494	13,975	2,391	9,564

Note: Deferred income tax assets this year increased by 46% comparing with last year, mainly due to the increase in deductible losses.

(b) Recognized deferred income tax liabilities

Items	Closing balance		Opening balance	
	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference
Fair value variation on available-for-sale financial asset	5	20	3	11
Capitalized borrowing costs	23	92	26	106
Unrealized inter-group profit			10	40
Total	28	112	39	157

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) PROVISIONS FOR IMPAIRMENT

Items	Opening balance	Increase for this year	Decrease of this year		Closing balance
			Written back	Written off	
Provision for written-down of inventories	660	1,702		2,037	325
Provision for impairment of fixed assets	85			8	77
Total	745	1,702		2,045	402

(16) ASSETS WITH RESTRICTIONS OVER OWNERSHIP OR USAGE

Disclosed in Note 7 (1) and (2) (b).

(17) SHORT-TERM LOANS

Items	Closing balance	Opening balance
Guaranteed loans (Note ii)	3,200	1,380
Credit loans	11,930	9,250
Total	15,130	10,630

Note: i. The closing balance of short-term loans increased by 42%, due to increase in working capital borrowings.

ii. The guaranteed loans were used for working capital and Tiantie project, which were guaranteed by Angang Group, Tiantie Group and its subsidiaries.

(18) NOTES PAYABLE

Types of notes	Closing balance	Opening balance
Bank acceptances	3,260	5,565
Total	3,260	5,565

Note: i. The amount due within next accounting year was 3,260 million.

ii. The closing balance of notes payable decreased by 41%, due to increase in bank acceptances endorsed.

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) ACCOUNT PAYABLES

- (a) Classification of account payables by nature

Items	Closing balance	Opening balance
Account payables for purchasing	5,474	4,252
Construction payables	232	286
Operation expenses on supporting production	50	76
Freight	26	26
Others	39	47
Total	5,821	4,687

- (b) Related party transactions and payables to shareholders with more than 5% (including 5%) of voting rights of the Group are disclosed in

Note: 9 (6).

- (c) There was no significant account payables aging over 1 year at the end of the year.

- (d) Aging of account payables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	5,749	99	4,612	98
1 to 2 years	20		26	1
2 to 3 years	10		1	
Over 3 years	42	1	48	1
Total	5,821	100	4,687	100

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) ADVANCES FROM CUSTOMERS

- (a) Classification of advances from customers by nature

Items	Closing balance	Opening balance
Selling of products	4,386	4,396
Total	4,386	4,396

- (b) Related party transactions and advances from shareholders with more than 5% (including 5%) of voting rights of the Group are disclosed in

Note: 9 (6).

- (c) There was no significant advances from customers aging over 1 year at the end of the year.

(21) EMPLOYEE BENEFITS PAYABLE

Items	Opening balance	Accrued during this year	Paid during this year	Closing balance
1. Salaries, bonus and allowance	236	1,533	1,533	236
2. Staff welfare		219	219	
3. Social insurance		548	548	
Including: Medical insurance		139	139	
Basic Pension Insurance		306	306	
Annuity payment		48	48	
Unemployment insurance		30	30	
Staff and workers' injury insurance		23	23	
Others		2	2	
4. Housing fund		222	222	
5. Labor union fee and staff training fee	63	46	43	66
6. Termination benefits	19	80	89	10
7. Non-currency benefits				
8. Others		58	58	
Total	318	2,706	2,712	312

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

(22) TAXES AND SURCHARGES PAYABLE

Items	Closing balance	Opening balance
VAT	(1,299)	(1,934)
Corporate income tax	8	8
Individual income tax	4	4
City maintenance and construction tax	18	6
Educational surcharges	8	3
Local educational surcharges	5	2
Property tax	9	13
Land use tax	18	18
Stamp tax	5	9
Taxes to be offset	(16)	(43)
Total	(1,240)	(1,914)

Note: The closing balance of taxes and surcharges payable increased by 35%, because VAT payable for this year was used to set off against deductible tax brought down from prior years.

(23) INTERESTS PAYABLE

Items	Closing balance	Opening balance
Interest for short-term financing bonds	96	232
Total	96	232

Note: The closing balance of interests payable decreased by 59%, due to interests accrued last year paid in this year.

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) OTHER PAYABLES

- (a) Classification of other payables by nature

Items	Closing balance	Opening balance
Construction payables	1,067	1,126
Quality assurance -project/spare parts	791	858
The Energy-saving and Emission-reducing funds transferred by Angang holding	365	319
Performance assurance	121	184
Freight charges	123	105
Deposit for steel shelves	36	14
Others	181	97
total	2,684	2,703

- (b) Related party transaction and payables to shareholders with more than 5% (including 5%) of voting rights of the Group are disclosed in Note: 9 (6).

- (c) Significant balances of other payables aging over 1 year

Creditor	Closing balance	Reason	Whether paid after balance sheet date
ACRE Coking & Refractory Engineering Technology Corporation	135	Quality assurance	No
Angang Construction Group	62	Project quality assurance	No
Angang Engineering Technology Co.Ltd	45	Project quality assurance	No
Northeast Geotechnical Investigation Co., L td	44	Project quality assurance	No
China First Heavy Machine Co. Ltd.	39	Project quality assurance	No
Third of China Metallurgical Group Co., Ltd.	35	Project quality assurance	No
Others	135	Project quality assurance	No
Total	495		

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

(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))	7,501	4,201
Total	7,501	4,201

Note: The closing balance of long-term liabilities due within 1 year increased by 79%, due to increase in long-term loans due within 1 year.

- (b) Long-term loans due within 1 year

- (i) Classification of long-term loans due within 1 year

Items	Closing balance	Opening balance
Guaranteed loans (Note.(27))	1,030	720
Credit loans	6,471	3,481
Total	7,501	4,201

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR (Continued)

(b) Long-term loans due within 1 year (Continued)

(ii) Top five long-term loans due within 1 year

Loaner	Commencement date	Due date	Interest Rate (%)	Closing balance	Opening balance
Industrial and Commercial Bank of China Angang Branch	31 Jul 2008	30 Jul 2013	6.21	700	
Industrial and Commercial Bank of China Angang Branch	19 Jul 2010	10 Jul 2013	5.99	400	
Industrial and Commercial Bank of China Angang Branch	13 Jun 2010	28 May 2013	5.76	400	
Angang Group Finance Corporation	25 Jun 2010	25 Jun 2013	5.76	400	
Industrial and Commercial Bank of China Angang Branch	23 Apr 2010	12 Apr 2013	5.76	300	
Total				2,200	

(iii) There was no overdue long-term loan due within 1 year.

(26) OTHER CURRENT LIABILITIES

Item	Nature	Closing balance	Opening balance
Deferred income	Government grants relating to assets	5	5
Short-term financing bonds		6,000	6,000
Total		6,005	6,005

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 ii)	1,240	2,660
Credit loans	14,625	14,676
Minus: long-term loans due within 1 year (Note:7(25))	7,501	4,201
Total	8,364	13,135

Note: i. The closing balance of long-term loans decreased by 36%, due to increase in long-term loans due within 1 year.

ii. Guaranteed loans were used in Putian project and Tiantie project, guaranteed by Angang Group, Tiantie group and its subsidiaries.

(b) Top five long-term loans

Lender	Commencement date	Expiry date	Interest rate (%)	Closing balance	Opening balance
Angang Finance	28 Sep 2012	28 Sep 2015	6.00	700	700
Angang Finance	29 Jun 2011	27 Jun 2014	5.76	500	500
China Construction Bank Angang Branch	27 Jul 2011	26 Jul 2014	5.99	500	500
China Agricultural Bank Lishan Branch	19 May 2011	18 May 2014	5.76	500	500
China Agricultural Bank Lishan Branch	24 May 2011	22 May 2014	5.76	500	500
Total				2,700	2,700

Note: The above top five long-term loans do not include long-term loans due within one year.

(28) OTHER NON-CURRENT LIABILITIES

Items	Content	Closing balance	Opening balance
Deferred income	Government grants relating to assets	654	668
Termination benefits	Termination benefits payable in above 1 year	7	18
Total		661	686

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) SHARE CAPITAL

Items	Opening balance		Changes of the year (+,-)					Closing balance	
	Balance	Proportion	New shares issued	Bonus issue	Shares transferred from reserves	Others	Subtotal	Balance	Proportion
Shares unrestricted on sale									
a. Ordinary A shares	6,149	85						6,149	85
b. Foreign shares listed overseas ("H shares")	1,086	15						1,086	15
Total	7,235	100						7,235	100

(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	19	7		26
Including: Fair value variation on available-for-sale financial asset	19	7		26
Total	31,458	7		31,465

(31) SPECIAL RESERVE

Items	Opening balance	Increase of the year	Decease of the year	Closing balance
Safety production expenses	47	65	68	44
Total	47	65	68	44

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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

(33) UNDISTRIBUTED PROFITS

Items	This year	Last year
Undistributed profits at the end of last year before adjustment	8,441	11,672
Adjustment for undistributed profits at the beginning of year		
Undistributed profits at the end of last year after adjustment	8,441	11,672
Add: Net profits attributable to owners of parent company during this year	(4,157)	(2,146)
Less: Dividend to shareholders		1,085
Undistributed profits at the end of the year	4,284	8,441

Note: The closing balance of undistributed profits decreased by 49% due to operating loss for the year.

(34) OPERATING INCOME AND OPERATING COST

(a) Operating income and operating cost

Items	This year	Last year
Operating income from main business	77,531	90,207
Other operating income	217	216
Total	77,748	90,423
Operating cost for main business	75,375	86,192
Other operating cost	255	214
Total	75,630	86,406

Note: The Group has one segment according to business category which is production and sale of iron and steel products.

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) OPERATING INCOME AND OPERATING COST (Continued)

(b) Main business by industry

Name of industry	This year		Last year	
	Operating income from main business	Operating cost from main business	Operating income from main business	Operating cost from main business
Ferrous metal smelting and steel rolling process	77,531	75,375	90,207	86,192
Total	77,531	75,375	90,207	86,192

(c) Main business by products

Name of products	This year		Last year	
	Operating income from main business	Operating cost from main business	Operating income from main business	Operating cost from main business
Hot rolled products	27,015	26,408	27,421	26,337
Cold rolled products	29,653	28,581	36,472	33,446
Medium -thick plate	9,367	8,951	14,233	14,182
Others	11,496	11,435	12,081	12,227
Total	77,531	75,375	90,207	86,192

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) OPERATING INCOME AND OPERATING COST (Continued)

(d) Operating income by region

Regions	This year		Last year	
	Operating income	Operating cost	Operating income	Operating cost
China	70,249	68,376	81,914	78,632
Overseas	7,499	7,254	8,509	7,774
Total	77,748	75,630	90,423	86,406

(e) Operating income from top five customers

Period	Operating income from top five customers	Proportion (%)
This year	15,486	20
Last year	20,893	23

(35) BUSINESS TAXES AND SURCHARGES

Items	This year	Last year
Resources tax and business tax	3	3
City maintenance and construction tax	95	92
Educational surcharge and local educational surcharge	68	65
Custom duty	1	9
Total	167	169

Note: Business taxes and surcharges paid complying with Note 5.

Notes To The Financial Statements (Continued)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) MARKETING EXPENSES

Items	This year	Last year
Packing expense	583	687
Delivery expense	451	534
Sales and service expense	119	125
Agency fee for commissioned sales	36	37
Employee benefits	36	36
Insurance expense	6	8
Warehouse storage expense	6	5
Others	118	117
Total	1,355	1,549

(37) ADMINISTRATIVE EXPENSES

Items	This year	Last year
Repair and maintenance	1,265	1,638
Employee benefits	445	387
Taxes	388	380
Amortization of intangible assets	166	168
Depreciation	79	96
Sewage fee	90	95
Assistance for production expense	83	89
Computer maintenance expense	65	73
Security and firefighting expense	58	62
Warehouse expenditure	45	47
Others	339	304
Total	3,023	3,339

(38) FINANCIAL EXPENSES

Items	This year	Last year
Interest expense	2,350	1,919
Less: Interest income	30	28
Less: Capitalized interest expense	476	427
Exchange gain or loss	(51)	(42)
Less: Capitalized exchange gain or loss		
Others	53	48
Total	1,846	1,470

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(39) INVESTMENT INCOME

(a) Details of investment income

Items	This year	Last year
Long-term equity investment income measured at cost method	10	11
Long-term equity investment income measured at equity method	402	391
Total	412	402

Note: There were no severe restrictions on the transfer of investment income to the Group.

(b) Long-term equity investment income measured at cost method

Investees	This year	Last year
WISDRI	7	9
Longmay Group	2	2
Falan Packing	1	
Total	10	11

(c) Long-term equity investment income measured at equity method

Investees	This year	Last year
ANSC-TKS	282	260
Angang Finance	78	77
TKAS	16	20
Changchun FAM	10	14
TKAS-SSC	12	12
ANSC-Dachuan	5	9
Angang Shenyang	(2)	1
Entity Packing		(2)
Binhai Industry	1	
Total	402	391

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) IMPAIRMENT LOSSES

Items	This year	Last year
Provision for written-down of inventories	1,702	1,338
Total	1,702	1,338

(41) NON-OPERATING INCOME

Items	This year	Last year	Recorded into extraordinary gains and losses
Total gains from disposal of non-current assets	52	24	52
Including: Gains on fixed assets scrapped	20	14	20
Other gains on disposal of fixed assets	32	10	32
Government grant (Disclosed in the below: Details of government grants)	60	190	60
Others	4	3	4
Total	116	217	116

Note: The non-operating income decreased by 47% comparing with last year mainly due to the decrease in government grants.

Details of government grants:

Items	This year	Last year
R & D subsidy	7	33
Military project grants	40	25
Environmental rewards	13	132
Total	60	190

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

(42) NON-OPERATING EXPENSES

Items	This year	Last year	Recorded into extraordinary gains and losses
Total loss on disposal of non-current assets	41	49	41
Including: Loss on fixed assets scrapped	29	46	29
Other loss on disposal of fixed assets	12	3	12
Others	8	3	8
Total	49	52	49

(43) INCOME TAX EXPENSES

Items	This year	Last year
Income tax calculated according to the Tax Law and the relevant regulations		(5)
Changes on deferred income tax	(1,116)	(944)
Total	(1,116)	(949)

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

(44) BASIC EPS AND DILUTED EPS

For the company, the basic earnings per share shall be calculated at the current net profits attributable to shareholders of ordinary shares divided 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 losses 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 the current period. The diluted potential ordinary shares issued in the current period shall be assumed to be converted at the date of offer.

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

(44) BASIC EPS AND DILUTED EPS *(Continued)*

(a) Basic EPS and diluted EPS

Net profit	This year		Last year	
	Basic EPS (RMB Yuan/ share)	Diluted EPS (RMB Yuan/ share)	Basic EPS (RMB Yuan/ share)	Diluted EPS (RMB Yuan/ share)
Net profit attributable to ordinary shareholders	(0.575)	(0.575)	(0.297)	(0.297)
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	(0.581)	(0.581)	(0.314)	(0.314)

(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	(4,157)	(2,146)
Including: Net profit attributable to continuing operations	(4,157)	(2,146)
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	(4,207)	(2,270)
Including: Net profit attributable to continuing operations	(4,207)	(2,270)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) BASIC EPS AND DILUTED EPS (Continued)

(b) Calculation of basic EPS and diluted EPS

(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 repurchased 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, the diluted EPS equals to the basic EPS.

(45) OTHER COMPREHENSIVE INCOME

Items	This year	Last year
1. Gain from the available-for-sale financial assets	9	(87)
Minus: Income tax impact resulted from available-for-sale financial assets	2	(22)
Subtotal	7	(65)
2. The share of investees' other comprehensive income under equity method		2
Minus: Income tax impact on the share of investees' other comprehensive income under equity method		
Subtotal		2
Total	7	(63)

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	91	326
Others	15	12
Total	106	338

(b) Cash paid for other operating activities

Items	This year	Last year
Freight fee payments for others	434	519
Agency fee for commissioned sales	83	85
Sewage fee	94	94
Computer maintenance expenses	58	66
Security and firefighting expenses	61	65
Afforestation fees	31	43
Pipeline transportation expenses	17	15
Agency fee	16	13
Procurement and marketing fees	92	105
Insurance fees	39	48
Others	365	447
Total	1,290	1,500

(c) Cash received from other investing activities

Items	This year	Last year
Income from test run	3	11
Interest income	33	32
Total	36	43

Notes To The Financial Statements (Continued)

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 for discount rate on bills payable		112
Total		112

(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	(4,380)	(2,332)
Add: Provision for impairment	(343)	60
Depreciation of fixed assets	5,526	6,887
Amortization of intangible assets	166	168
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets("—" for gains)	(20)	(7)
Loss on scrap of fixed assets	9	32
Loss on the change of fair value		
Financial expenses	1,817	1,422
Investment loss	(412)	(402)
Decrease in deferred tax assets("—" for increase)	(1,103)	(944)
Increase in deferred tax liabilities("—" for decrease)	(13)	
Decrease in inventories ("—" for increase)	3,859	(1,144)
Decrease in operating receivables ("—" for increase)	(3,177)	1,628
Increase in operating payables ("—" for decrease)	(494)	(673)
Others	18	(32)
Net cash flow from operating activities	1,453	4,663
2. Change in cash and cash equivalents		
Cash at the end of the year	2,049	2,341
Less: cash at the beginning of the year	2,341	3,651
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	(292)	(1,310)

7. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(47) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

(b) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash at bank and on hand	2,049	2,341
Of which: Cash	1	1
Bank deposits available	1,420	1,697
Other deposits available	628	643
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	2,049	2,341

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 COMPANY

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 Corporation	24142001-4

(2) INFORMATION ON THE SUBSIDIARIES OF THE COMPANY

Disclosed in Note 6 (1).

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(3) INFORMATION ON THE JOINTLY VENTURES AND ASSOCIATES OF THE GROUP

Disclosed in Note 7 (9).

(4) RELATED PARTIES WITHOUT CONTROL RELATIONSHIP

Name of enterprise	Relation with the Company	Organization code
ANSC-TKS	Jointly controlled enterprise	71093688-2
ANSC-Dachuan	Jointly controlled enterprise	75990387-0
TKAS-SSC	Jointly controlled enterprise	76717649-0
Changchun FAM	Jointly controlled enterprise	785926056
TKAS	Associate	767159789
Angang Finance	Associate	1188857-2
Binhai Industry	Subsidiary's associate	671473722
Falan Packing	Fellow subsidiary	57090841-6
Angang Trade	Fellow subsidiary	24142372-5
Angang Construction Group	Fellow subsidiary	94129158-3
Angang Heavy machine Co., Ltd	Fellow subsidiary	24150326-6
Angang Fire-resistant material Co	Fellow subsidiary	94126547-3
Angang Steel rope Co., Ltd.	Fellow subsidiary	94126496-4
Angang Mining Co	Fellow subsidiary	24150404-X
Angang Entity Group	Fellow subsidiary	24142765-4
Angang House Property Co.	Fellow subsidiary	94126840-4
Angang Railway Transport Facilities Construction Co.	Fellow subsidiary	94121854-6
Angang Real Estate 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 Co., Ltd	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
Anling Steel	Fellow subsidiary	664560991
Pangang steel Vanadium and Titanium Co., Ltd	Fellow subsidiary	204360956
Ansahn Angang weisuwei Refractory Co., Ltd	Joint venture of the parent company	686619528
Anshan Jidong Cement Co., Ltd	Joint venture of the parent company	77077858X
Angang BK Jilini Water Treatment Co., Ltd	Joint venture of the parent company	68661847X

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(5) RELATED PARTY TRANSACTIONS

(a) Related party transactions with Angang Holding and its subsidiaries

(i) Procurement of goods and services from Angang Holding and its subsidiaries

Contents	Pricing Policy	This Year		Last Year	
		Amount	Percent of related transactions (%)	Amount	Percent of related transactions (%)
Raw materials	Note. I	14,851	50	18,152	50
Ancillary materials and spare parts	Note. ii	1,847	24	1,595	14
Energy and power supplies	Note. iii	1,945	33	1,772	31
Support services	Note. iv	5,549	64	6,290	53
Total		24,192		27,809	

(ii) Sales, Render services to Angang Holding and its subsidiaries

Contents	Pricing Policy	This Year		Last Year	
		Amount	Percent of related transactions (%)	Amount	Percent of related transactions (%)
Products	Note.v	7,579	10	8,452	10
Scrap materials and Minus sieve powder		158	93	211	95
General services	Note.vi	618	38	573	37
Total		8,355		9,236	

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED PARTY TRANSACTIONS (Continued)

- (b) Related party transactions with Pangang steel Vanadium and Titanium Co., Ltd

Procurement of goods and services

Contents	Pricing Policy	This Year		Last Year	
		Amount	Percent of related transactions (%)	Amount	Percent of related transactions (%)
Raw materials	Note. I	936	4		
Total		936			

Notes:

- i. The iron ore concentrate purchase price is not higher than the average import prices of (T-2) month quotation from China customs plus freight charges and adjustment for grade. The price is adjusted by 10 yuan per ton for one percentage of grade based on the weighted average grade of iron concentrate imports and an extra 5% discount for importing average prices of the (T-2) months. The pellets is purchased at market price and sinter the processing cost of iron ore concentrate of (T-2) month (processing cost is not higher than similar products) (where T is the current month); scrap, billets, alloys and non-ferrous metal are purchased at market prices;
- ii. The purchasing prices are not higher than the average prices charged to independent customers.
- iii. Mainly at state prices, or operating costs plus 5% of gross profit margin.
- iv. At state prices, or market prices, or not higher than 1.5% of the commissions, or depreciation fees and maintenance costs, or labour, materials and management fees, or processing costs plus no more than 5% of the gross margin.
- v. 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 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, or operating costs plus 5% of gross profit margin, or market prices.

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED PARTY TRANSACTIONS (Continued)

(c) 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 2012	Dec 2012	Lease agreement	2

(d) Guarantee of loans

Warrantor	Warrantee	Amount Guaranteed	Starting date	Expiring date	Whether fulfilled
Angang Holding	Angang Putian	400	Apr 2010	Jun 2013	No
Angang Holding	Tianjin Tiantie	800	Oct 2012	May 2013	No
Angang Holding	The Company	1,000	Feb 2012	Feb 2013	No

(e) Directors' and supervisors' remunerations

The interval of remunerations	This year	Last year
Total	4	4
Including: (number)		
Over 0.20 million	9	7
0.15 to 0.20 million		
0.10 to 0.15 million	1	1
Within 0.10 million	3	4

(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 6.41 million tons and 1.70 million tons respectively for the year 2012 (6.04 million tons and 1.63 million tons for the year 2011).

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED PARTY TRANSACTIONS (Continued)

(f) Other related party transactions (Continued)

(ii) Related party transactions with the jointly controlled enterprises and the associates:

A. Sales of products

Name of enterprise	Sales in this year	Sales in Last year
ANSC-TKS	3,097	3,315
TKAS-SSC	531	466
Changchun FAM	59	52
TKAS	38	2

B. Agency service received from TKAS-SSC

The Group received agency services for domestic sales of products from TKAS-SSC amount to RMB 3 million tons for the year 2012(2011: 4 million).

C. The Group received supporting services from Binhai Industry amount to 0 million for the year 2012 (2011:5 million).

(iii) Loan deposit, interest paid in/to Angang Finance

Items	Annual interest rate	Opening balance	Increased	Decreased	Closing balance	Terms of credit
Loan	5.40-5.904	6,150	4,200	5,450	4,900	Credit and Guarantee Loan
Deposit		1,128			543	

The Group's interest income of deposit from Angang finance was RMB 7 million (for the year 2011: RMB 12 million) and the interests for borrowing and bills discounted was RMB 314 million (for the year 2011: RMB 280 million). The highest daily deposit in Angang Finance was RMB 5,418 million.

(iv) Loan and interest paid to Angang Holding

Items	Annual interest rate	Opening balance	Increased	Decreased	Closing balance	Terms of credit
Loan	5.04-6.90	550	4,100		4,650	Credit Loan

The Group's interests for borrowing was RMB 193 million (for the year 2011: RMB 21 million).

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(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	1,146	1,033
TKAS-SSC	126	115
Anling Steel	14	18
Angang Engineering Technology Co., Ltd	2	
Angang Holding	1	1
Angang House Property Co.		16
Angang Heavy machine Co., Ltd		14
Other related parties	2	3
Total	1,291	1,200
Prepayment		
Angang Trade	2,330	3,054
Angang Construction Group	16	3
Angang Engineering Technology Co., Ltd	8	259
Anling Steel	3	115
Angang Mining Construction Co.	1	
Angang Heavy machine Co., Ltd		9
Total	2,358	3,440
Other receivables		
Anling Steel	26	
Angang Trade	2	
Total	28	

Notes To The Financial Statements (Continued)

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	31	137
Angang Entity Group	21	34
Angang Construction Group	15	27
Angang Heavy machine Co., Ltd	14	1
Falan Packing	13	
Angang Auto Transport Co., Ltd	12	12
Anling Steel	12	
Angang Mine Construction Co.	8	20
Angang Holding	8	12
Angang Railway Transport Facilities Construction Co.	7	3
Angang Automatism Co	6	9
Angang Steel rope Co., Ltd.	3	5
Angang Electric Co., Ltd	3	4
Angang Real Estate Development Co., Ltd	3	3
Other related parties	1	
Total	157	267
Advance from customers		
Angang Trade	830	581
ANSC-TKS	64	35
Falan Packing	13	
TKAS	12	1
Angang Holding	9	1
Angang Construction Group	7	17
Angang Mining Co	7	8
Changchun FAM	7	4
Angang Entity Group	6	9
Angang Steel rope Co., Ltd.	1	1
Other related parties	1	1
Total	957	658

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	371	320
Angang Trade	191	197
Angang Engineering Technology Co., Ltd	245	71
Angang Construction Group	184	183
Angang Mine Construction Co.	59	24
Angang Automatism Co	38	40
Angang Entity Group	25	36
Angang Heavy machine Co., Ltd	12	17
Binhai Industry	11	20
Angang Electric Co., Ltd	11	13
Angang Real Estate Development Co., Ltd	6	9
Angang Auto Transport Co., Ltd	6	3
Other related parties	1	
Total	1,160	933

10. SHARE-BASED PAYMENT

As at the 31 December 2012, the Group had no share-based payment.

11. CONTINGENCIES

As at the 31 December 2012, there were no contingencies to be disclosed.

12. CAPITAL COMMITMENTS

(1) SIGNIFICANT CAPITAL COMMITMENTS

Items	2012	2011
Investment contracts entered but not performed or performed partially	353	456
Construction and renovation contracts entered but not performed or performed partially	1,206	3,198
Total	1,559	3,654

(2) PERFORMANCE OF THE CAPITAL COMMITMENT OF PREVIOUS YEARS

The Group's capital commitment has been performed according to commitment of previous years up to the 31 December 2012.

13. EVENTS AFTER THE BALANCE SHEET DATE

- (a) The company convened the first extraordinary general meeting in 2013 for consideration and approval of the following proposals: Resolution in relation to Assets Exchange between the Company and Angang Group International Trade Corporation, Resolution in relation to Equity Transfer between the Company and Anshan Iron and Steel Group, The proposal about Entrustment Agreement on shares of subsidiaries of Anshan Iron and Steel Group and Resolution in relation to the Transfer of Entrusted Equity Interest of Certain Companies under Anshan Iron and Steel Group and Angang Group International Trade Corporation to the Company. According to the above resolutions, the Company exchanged its 80% equity interest in Angang Putian with the assets of the domestic trade business of Angang Trade (including equity interest in nine domestic trading subsidiaries), while Anshan Iron and Steel Group acquired 45% equity interest of Tianjin Tianjin Tiantie owned by the company, upon which Anshan Iron and Steel Group and Angang Trade will transfer the management rights associated with their equity interest in Angang Putian and Tianjin Tiantie to the Company.

After the assets exchange, the share transfer and the entrusting arrangement, the Company will have a complete domestic selling system and network, which improve the marketing capacity of the Company. The Company will be able to quickly respond to the market and profitability will also be improved.

The assets delivery proceeding under the Assets Exchange Agreement and Equity Transfer Agreement was completed on 31 January 2013. Upon completion of the transfer, the Group's equity attributable to the shareholders of the Company as at 31 January 2013 decreased by RMB 261 million; net profit attributable to the shareholder of the Company for January 2013 increased by RMB 24 million.

- (b) The company convened the 39th meeting of the fifth session of the Board on 16 November 2012 for consideration and approval of the Resolution in relation to Adjustment on Accounting Estimations of the Useful Life of Certain Fixed Assets. According to the actual condition of certain fixed assets, the Company has re-determined the actual useful life of the fixed assets, and decided to make an adjustment, from 1 Jan 2013, to the useful life of certain fixed assets.

After the adjustment, the useful life adopted by the company is in line with the average level of useful life of similar fixed assets adopted by other entities in the same industry. It is expected that the equity and net profit of the Company for the year of 2013 will increase by RMB 900 million respectively, and the depreciation on the fixed assets of the company for the year 2013 will decrease approximately by RMB 1,200 million in comparison to the year 2012.

14. OTHER SIGNIFICANT TRANSACTION

As at 31 December 2012, there was no other significant transaction to be disclosed.

15. NOTES TO PARENT'S FINANCIAL STATEMENTS

(1) ACCOUNT RECEIVABLES

(a) Nature of account receivables

Items	Closing balance			
	Book value Balance	Percentage (%)	Bad debt provision Balance	Percentage (%)
Account receivables with significant single amount subject to individual impairment	2,020	88		
Other account receivables with insignificant single amount subject to individual impairment	268	12		
Total	2,288	100		

Type	Opening balance			
	Book value Balance	Percentage (%)	Bad debt provision Balance	Percentage (%)
Account receivables with significant single amount subject to individual impairment	1,691	88		
Other account receivables with insignificant single amount subject to individual impairment	233	12		
Total	1,924	100		

(b) Aging analysis of account receivables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,271	99	1,921	100
1 to 2 years	15	1	1	
2 to 3 years			1	
Over 3 years	2		1	
Total	2,288		1,924	100

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

The management considered that major account receivables could be recovered and the debtors were able to fulfill their obligations, so bad debt provision is relatively low.

Notes To The Financial Statements (Continued)

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(1) ACCOUNT RECEIVABLES (Continued)

- (d) Account receivables due from shareholders with more than 5% (including 5%) voting rights of the Company 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		1	
Total	1		1	

- (e) As at 31 Dec. 2012, the top five account receivables are same as Note 7 (3).
(f) Related party transactions are disclosed as follows:

Item	Closing balance	Opening balance
Angang Trade	1,146	1,033
TKAS-SSC	126	115
Angang Putian	42	
Anling Steel	14	18
Angang Holding	1	1
Angang Electric Co., Ltd	1	
Angang House Property Co.		16
Angang Heavy machine Co., Ltd		14
Others	2	3
Total	1,332	1,200

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) OTHER RECEIVABLES

(a) Nature of other receivables

Type	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with significant single amount subject to individual impairment	26	70		
Other receivables with insignificant single amount subject to individual impairment	11	30		
Total	37	100		

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with significant single amount subject to individual impairment	16	47		
Other receivables with insignificant single amount subject to individual impairment	18	53		
Total	34	100		

Notes To The Financial Statements (Continued)

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) OTHER RECEIVABLES (Continued)

(b) Aging of other receivables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	27	73	20	59
1 to 2 years			12	35
2 to 3 years	8	22	2	6
Over 3 years	2	5		
Total	37	100	34	100

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

The management considered that major other receivables could be recovered and the debtors were able to fulfill their obligations, so bad debt provision is relatively low.

(d) The Company has no other receivables due from shareholders with more than 5% (including 5%) voting right of the Company at the end of the year.

(e) Related party transactions are disclosed as follows:

Item	Closing balance	Opening balance
Anling Steel	26	
Total	26	

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(3) LONG-TERM EQUITY INVESTMENTS

(a) Types of long-term equity investments

Type	Opening balance	Increase of the year	Decrease of the year	Closing balance
Investments in subsidiaries	3,276			3,276
Investments in joint ventures	1,544	287	215	1,616
Investments in associates	576	100	21	655
Other equity investments	358	105		463
Less: Provision for impairment of long-term equity investments				
Total	5,754	492	236	6,010

(b) Details of long-term equity investments

Investee	Accounting method	Initial investment cost	Opening balance	Changes of the year	Closing balance
Angang Wuhan	Cost method	108	108		108
Tianjin Tiantie	Cost method	1,850	1,850		1,850
Angang PuTian	Cost method	1,200	1,200		1,200
Angang Hefei	Cost method	98	98		98
Angang Guangzhou	Cost method	20	20		20
ANSC-TKS	Equity method	533	1,190	64	1,254
ANSC-Dachuan	Equity method	190	218	6	224
Changchun FAM	Equity method	45	81	5	86
TKAS-SSC	Equity method	48	55	(3)	52
Angang Shenyang	Equity method	31	27	2	29
TKAS	Equity method	37	59	(2)	57
Entity Packing	Equity method	11	5		5
Angang Finance	Equity method	315	485	78	563
Iron Oxide Powder	Equity method	1		1	1
WISDRI	Cost method	35	35		35
Longmay Group	Cost method	220	220		220
Falan Packing	Cost method	21	21		21
Dalian Shipyard	Cost method	151	63	88	151
China Shipbuilding	Cost method	10	10		10
Dalian Steel	Cost method	23	9	14	23
Guoqi Lightweight	Cost method	3		3	3
Total			5,754	256	6,010

Notes To The Financial Statements (Continued)

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(3) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Details of long-term equity investments (Continued)

Investee	Proportion of Shareholding (%)	Proportion of voting- rights (%)	Difference between proportions of voting- rights and shareholding	Impairment	Impairment made this year	Cash dividends
Angang Wuhan	100	100				
Tianjin Tiantie	50	50				
Angang Putian	80	80				
Angang Hefei	100	100				
Angang Guangzhou	51	51				
ANSC-TKS	50	50				200
ANSC-Dachuan	50	50				
Changchun FAM	50	50				4
TKAS-SSC	50	50				11
Angang Shenyang	30	30				
TKAS	45	45				18
Entity Packing	30	30				
Angang Finance	20	20				
Iron Oxide Powder	30	30				
WISDRI	7	7				7
Longmay Group	1	1				2
Falan Packing	15	15				1
Dalian Shipyard	15	15				
China Shipbuilding	10	10				
Dalian Steel	15	15				
Guoqi Lightweight	7	7				
Total						243

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(4) OPERATING INCOME AND OPERATING COST

(a) Operating income and operating cost

Items	This year	Last year
Operating income from main business	75,744	88,601
Other operating income	44	48
Total	75,788	88,649
Operating cost for main business	73,278	84,445
Other operating cost	42	35
Total	73,320	84,480

(b) Main business by industry

Industry nature	This year		Last year	
	Operating income from main business	Operating cost for main business	Operating income from main business	Operating cost for main business
Ferrous metal smelting and steel rolling process	75,744	73,278	88,601	84,445
Total	75,744	73,278	88,601	84,445

(c) Main business by products

Product types	This year		Last year	
	Operating income from main business	Operating cost for main business	Operating income from main business	Operating cost for main business
Hot-rolled products	28,282	27,691	28,636	27,534
Cold-rolled products	26,599	25,201	33,651	30,502
Medium-thick plates	9,367	8,951	14,233	14,182
Others	11,496	11,435	12,081	12,227
Total	75,744	73,278	88,601	84,445

Notes To The Financial Statements (Continued)

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(4) OPERATING INCOME AND OPERATING COST (Continued)

(d) Operating income by regions

Regions	This year		Last year	
	Operating income	Operating cost	Operating income	Operating cost
China	68,289	66,066	80,140	76,706
Overseas	7,499	7,254	8,509	7,774
Total	75,788	73,320	88,649	84,480

(e) Top five customers

Period	Income from top five customers	Proportion (%)
This year	15,701	21
Last year	20,511	23

(5) INVESTMENT INCOME

(a) Details of investment income

Items	This year	Last year
Long-term equity investment income measured at cost method	10	11
Long-term equity investment income measured at equity method	401	391
Total	411	402

Note: There were no severe restrictions on the transfer of investment income to the Company.

(b) Long-term equity investment income measured at cost method

Investee	This year	Last year
WISDRI	7	9
Longmay Group	2	2
Falan Packing	1	
Total	10	11

15. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(5) INVESTMENT INCOME (Continued)

(c) Long-term equity investment income measured at equity method

Investee	This year	Last year
ANSC-TKS	282	260
Angang Finance	78	77
TKAS	16	20
Changchun FAM	10	14
TKAS-SSC	12	12
ANSC-Dachuan	5	9
Angang Shenyang	(2)	1
Entity Packing		(2)
Total	401	391

(6) SUPPLEMENT TO CASH FLOW STATEMENT

Items	This year	Last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	(3,856)	(1,968)
Add: Provision for impairment	(346)	53
Depreciation of fixed assets	5,288	6,589
Amortization of intangible assets	153	156
Amortization of deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets ("—" for gains)	(20)	(7)
Loss on scrap of fixed assets	9	32
Loss on the change of fair value		
Financial expenses	1,655	1,249
Investment loss	(411)	(402)
Decrease in deferred tax assets ("—" for increase)	(943)	(825)
Increase in deferred tax liabilities ("—" for decrease)	(3)	(8)
Decrease in inventories ("—" for increase)	3,468	(778)
Decrease in operating receivables ("—" for increase)	(3,216)	990
Increase in operating payables ("—" for decrease)	(421)	(1,277)
Others	20	(29)
Net cash inflow from operating activities	1,377	3,775
2. Change in cash and cash equivalents		
Cash at the end of the year	884	1,183
Less: Cash at the beginning of the year	1,183	2,542
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	(299)	(1,359)

Notes To The Financial Statements (Continued)

16. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	26,989	28,364
Less: current liabilities	43,955	36,823
Net current assets/(liabilities)	(16,966)	(8,459)

17. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	101,237	102,988
Less: current liabilities	43,955	36,823
Total assets less current liabilities	57,282	66,165

18. SUPPLEMENTARY DOCUMENTS

(1) NON-RECURRING GAINS AND LOSSES

Items	This year	Last year
Gains/losses from disposal of non-current assets	11	7
Government grant which recorded into profit/loss of current year except that relevant to enterprise operation and in compliance with government policies	60	190
Other non-operating income and expense Except above	(4)	(32)
Other extraordinary gains/ losses		
subtotal	67	165
Effect on taxation	17	41
Effect on minority interest (after tax)		
Total	50	124

The recognizing of Company's non-recurring gains and losses comply with the disclosure requirements of "explanatory announcement of Information Disclosures of Companies Issuing Public Shares, No. 1: non-recurring gains and losses" (CSRC' announcement [2009] No.43)

18. SUPPLEMENTARY DOCUMENTS (Continued)

(2) ROE AND EPS

Profit in this year	Weighted average (ROE)	EPS (Yuan per share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shares	(8.54)	(0.575)	(0.575)
Net profit (exclusive of non-operating profit) attributable to ordinary shares	(8.64)	(0.581)	(0.581)

Note:

- (i) Weighted average ROE = $P0 / (E0 + NP \div 2 + E_i \times M_i \div M0 - E_j \times M_j \div M0 \pm E_k \times M_k \div M0)$

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

E_i refers to the additional of net assets attributable to ordinary shares resulted from issuing the new shares or converting from convertible debentures in report period

E_j refers to the reduction of net assets attributable to ordinary shares resulted from share repurchase or cash dividend in report period

M0 refers to the months of reporting period.

M_i refers to the duration from the second month since the additional of share capital occurred to the end of reporting period

M_j refers to the duration from the second month since the share capital withdrawn occurred to the end of reporting period

E_k refers to the change of net assets resulted from other transaction and matters

M_k refers to the duration from the second month since the variation of net assets resulted from other transaction and matters occurred to the end of reporting period

- (ii) Basic EPS and Diluted EPS disclosed in note 7(44)

18. SUPPLEMENTARY DOCUMENTS *(Continued)*

(3) ANALYSIS OF THE UNUSUAL SITUATION ABOUT MAIN ITEMS OF THE FINANCIAL STATEMENTS

Items on cash flow statement

- (i) Compared with RMB 4.663 million of the last year, the net cash inflow from operating activities this year was RMB 1,453 million. The decrease is mainly due to the decline in cash received from selling of goods and rendering of services.
- (ii) Compared with RMB 5,546 million of the last year, the net cash outflow from investing activities this year was RMB 2,752 million. The decrease is mainly due to the decline in cash paid for the purchase and construction of fixed assets, intangible assets and other long term assets.
- (iii) Compared with RMB 427 million outflow of the last year, the net cash inflow from financing activities this year was RMB 1,007 million. The increase is mainly because the cash received from loans exceeds that of liability repayment.

Five-Year Summary

Unit: RMB' millions

	2012	2011	2010	2009	2008
Operating revenue	77,748	90,423	92,431	70,126	79,616
Net (loss)/profit	(4,380)	(2,332)	1,950	686	2,981
Total assets	101,237	102,988	105,114	100,987	92,184
Total liabilities	(53,008)	(50,683)	(49,769)	(47,189)	(39,076)
Net assets	48,229	52,305	55,345	53,798	53,108

Other Relevant Corporate Information

INCORPORATION:

	Date of incorporation	Place of incorporation	Registration number of legal person business license held by the Company	Taxation registration number	Organisation code
Initial incorporation	8 May 1997	396 Nan Zhong Hua Road, Tie Dong District, Anshan City, Liaoning Province	Qi Gu Han Zong Zi No. 00344	210302242669479	24266947-9
Incorporation as at the end of the Reporting Period	11 March 2008	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC	210000400006026	210302242669479	24266947-9

AUDITOR:

Name of auditor:	RSM China Certified Public Accountants (Special General Partnership)
Place of business of auditor:	3–9 F, West Tower, China Overseas Property Plaza, Xi Binhe Road, Yong Ding Men, Dong Cheng District, Beijing, China

BUSINESS ADDRESS OF THE COMPANY IN HONG KONG:

33rd Floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Angang Group”	Angang Group Company and its subsidiaries and the companies in which Angang Group Company holds or controls 30% or more of their equity interests;
“Angang Group Company”	Angang Group Company* (鞍鋼集團公司), a company incorporated in the PRC with limited liabilities, the ultimate controlling shareholder of the Company;
“Angang Financial Company” or “Angang Finance”	Angang Group Financial Company Limited* (鞍鋼集團財務有限責任公司), a company incorporated in the PRC and a subsidiary of Angang Group Company;
“Angang Guangzhou”	Guangzhou Angang Steel Processing Co., Ltd. (廣州鞍鋼鋼材加工有限公司);
“Angang Hefei”	Angang Steel Distribution (Hefei) Co., Ltd. (鞍鋼鋼材配送(合肥)有限公司);
“Angang Holding”	Anshan Iron & Steel Group Complex* (鞍山鋼鐵集團公司), the immediate holding company of the Company, which currently holds approximately 67.29% of the equity interest of the Company and a major enterprise in the iron and steel industry of the PRC;
“Angang Holding Group”	Angang Holding and its subsidiaries;
“Angang Holding Trading”	Angang Group International Economic Trading Company* (鞍鋼集團國際經濟貿易公司), a company incorporated in the PRC and a wholly-owned subsidiary of Angang Holding;
“Angang Putian”	Angang Cold Rolled Steel Plate (Putian) Co., Limited* (鞍鋼冷軋鋼板(莆田)有限公司), a limited liability company incorporated in Putian, Fujian Province, the PRC in the business of steeling production, processing and distribution;
“Angang Shenyang”	TKAS Angang Shenyang Steel Product Processing and Distribution Group Limited (鞍鋼瀋陽鋼材加工配送有限公司);
“Angang Wuhan”	Angang Steel Distribution (Wuhan) Co., Ltd. (鞍鋼鋼材配送(武漢)有限公司);

Definitions *(continued)*

“Anqian Mining”	Angang Group Anqian Mining Company Limited* (鞍鋼集團鞍千礦業有限責任公司), a company incorporated in the PRC and a wholly-owned subsidiary of Pangang Vanadium & Titanium;
“ANSC-Dachuan”	ANSC-Dachuan Heavy Industries Dalian Steel Product Processing and Distribution Co., Ltd. (鞍鋼股份 — 大船重工大連鋼材加工配送有限公司);
“ANSC-TKS”	ANSC-TKS Galvanizing Co., Ltd. (鞍鋼新軋 — 蒂森克虜伯鍍鋅鋼板有限公司);
“ANSI”	Angang New Steel and Iron Company Limited (鞍鋼集團新鋼鐵有限責任公司);
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“Changchun FAM”	Changchun FAM Steel Processing and Distribution Co., Ltd. (長春一汽鞍井鋼材加工配送有限公司);
“Company” or “Angang Steel”	Angang Steel Company Limited* (鞍鋼股份有限公司), a joint stock limited company incorporated in Anshan, Liaoning Province, the PRC, the H Shares of which are listed on the Hong Kong Stock Exchange and the A Shares of which are listed on the Shenzhen Stock Exchange;
“connected person”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets;
“Director(s)”	the director(s) of the Company;

Definitions *(continued)*

“EPS”	earning per share;
“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited;
“Panggang Group Company”	Panggang Group Company Limited* (攀鋼集團有限公司), a company incorporated in the PRC with limited liabilities and a major enterprise in iron and steel industry of the PRC;
“Pangang Vanadium & Titanium”	Pangang Group Steel Vanadium & Titanium Co., Ltd. (攀鋼集團鋼鐵鈦股份有限公司), a company incorporated in the PRC with shares listed on the Shenzhen Stock Exchange;
“Pangang Vanadium & Titanium Group”	Pangang Vanadium & Titanium and its subsidiaries;
“PRC”	the People’s Republic of China;
“PRC ASBE”	Accounting Standards for Business Enterprises - Basic Standard and 38 Specific Standards issued by the Ministry of Finance of the PRC, and application guidance, bulletins and other relevant accounting regulations issued thereafter, collectively;
“Reporting Period”	the 12-month period from 1 January 2012 to 31 December 2012;
“SFO”	Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong);
“Supervisor(s)”	member(s) of the Supervisory Committee;
“Supervisory Committee”	the supervisory committee of the Company;

Definitions *(continued)*

"Shenzhen Listing Rules"	the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange;
"Tianjin Tiantie"	Tianjin Angang Tiantie Cold Rolled Sheets Co. Limited* (天津鞍鋼天鐵冷軋薄板有限公司), a company incorporated in Tianjin, PRC;
"TKAS"	ANSC-TKS (Changchun) Tailored Blanks Ltd. (蒂森克虜伯鞍鋼(長春)激光拼焊板有限公司);
"TKAS-SSC"	ANSC-TKS Changchun Steel Logistics Co., Ltd. (鞍鋼蒂森克虜伯鋼材配送(長春)有限公司);
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC; and
"%"	per cent.

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 auditor's 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 2012; and
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 2013

* *For identification only*



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