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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 323)

2009 ANNUAL RESULTS ANNOUNCEMENT

1 IMPORTANT NOTICES

- 1.1 The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of Maanshan Iron & Steel Company Limited (the “Company”) warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report. This annual results announcement has been extracted from the Company’s annual report. Investors should read the full text of the annual report for details.
- 1.2 Mr. Gu Jianguo, Chairman of the Company, Mr. Su Jianguo, Director and General Manager overseeing the accounting operations, and Mr. Zhang Qianchun, Planning and Finance Manager in charge of the Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the annual report.
- 1.3 No appropriation of funds on a non-operating basis by the controlling shareholder or its related parties was found in the Company.
- 1.4 Company did not provide external guarantees which were in violation of stipulated decision-making procedures.

2 COMPANY INFORMATION

2.1 Company profile

| Stock abbreviation | Magang Stock | Maanshan Iron & Steel |
|---|--|---|
| Stock code | 600808 | 323 |
| Places of listing | Shanghai Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Company’s registered and office address | No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC | |
| Postal code | 243003 | |
| Company’s website | http://www.magang.com.cn | |
| Email address | mggfdms@magang.com.cn | |

2.2 Contact people and details

| | Secretary to the Board of Directors | Representative for Securities Affairs |
|------------------------|---|---|
| Name | Gao Haijian | Hu Shunliang |
| Correspondence address | No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC | No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC |
| Telephone | 86-555-2888158/2875251 | 86-555-2888158/2875251 |
| Fax | 86-555-2887284 | 86-555-2887284 |
| Email address | mggfdms@magang.com.cn | mggfdms@magang.com.cn |

3 EXTRACTS OF ACCOUNTING AND BUSINESS DATA

3.1 Major accounting data

(Prepared under China Accounting Standards for Business Enterprises)

| | <i>Unit: RMB'000</i> | | | |
|--|----------------------------------|--------------------------|--|--------------------------|
| | 2009 | 2008 | Increase/ (decrease) compared to the previous year (%) | 2007 |
| Operating income | 51,859,970 | 71,259,739 | -27.22 | 50,670,879 |
| Profit before tax | 562,876 | 805,874 | -30.15 | 2,796,705 |
| Net profit attributable to shareholders of the Company | 392,475 | 710,234 | -44.74 | 2,475,382 |
| Net profit excluding non-recurring gains or losses attributable to shareholders of the Company | 242,094 | 626,027 | -61.33 | 2,485,197 |
| Net cash flows from operating activities | 6,668,701 | 8,387,795 | -20.50 | 3,624,951 |
| | | | Increase/ (decrease) compared to the end of the previous year (%) | |
| | As at the end of 2009 | As at the end of 2008 | | As at the end of 2007 |
| Total assets | 67,984,107 | 66,144,556 | 2.78 | 71,126,024 |
| Shareholders' equity attributable to shareholders of the Company | 26,464,654 | 26,006,983 | 1.76 | 23,017,264 |

3.2 Major financial indicators

| | <i>Unit: RMB'000</i> | | | |
|---|----------------------------------|--------------------------|--|--------------------------|
| | 2009 | 2008 | Increase/ (decrease) compared to the previous year (%) | 2007 |
| Basic earnings per share | 0.051 | 0.104 | -50.96 | 0.382 |
| Diluted earnings per share | Not applicable | Not applicable | Not applicable | 0.350 |
| Basic earnings per share excluding non-recurring gains or losses | 0.031 | 0.091 | -65.93 | 0.383 |
| Return on net assets – Weighted average (%) | 1.50 | 3.06 | a decrease of 1.56 percentage- points | 11.39 |
| Return on net assets excluding non-recurring gains or losses – Weighted average (%) | 0.92 | 2.70 | a decrease of 1.78 percentage- points | 11.44 |
| Net cash flow per share from operating activities | 0.8660 | 1.2256 | -29.34 | 0.5592 |
| | As at the end of 2009 | As at the end of 2008 | Increase/ (decrease) compared to the end of the previous year (%) | As at the end of 2007 |
| Net assets per share attributable to shareholders of the Company | 3.44 | 3.80 | -9.47 | 3.55 |

Non-recurring gains or losses

| Item | <i>Unit: RMB'000</i> | |
|---|----------------------|-------------|
| | 2009 | |
| Subsidy income | | 95,218 |
| Other non-operating income and expenses, net | | 13,939 |
| Amortisation of deferred income | | 79,503 |
| Other investment income | | 197 |
| Fair value gains and losses of financial assets held for trading | | 224 |
| Income tax effect on non-recurring gains or losses | | (29,494) |
| Non-recurring gains or losses attributable to minority shareholders | | (9,206) |
| | | <hr/> |
| Net effect of non-recurring gains or losses | | 150,381 |
| | | <hr/> <hr/> |

Items Accounted under the Fair Value Method

| Item | <i>Unit: RMB'000</i> | | | |
|--------------------------------------|---|---|--|---|
| | Balance at the beginning of the reporting period | Balance at the end of the reporting period | Changes during the reporting period | Effects on the profit for the reporting period |
| Financial assets held for trading | 813 | 1,037 | 224 | 224 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 813 | 1,037 | 224 | 224 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

4 MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Table on share movements

Unit: Shares

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

Note: The above shares not subject to selling restrictions include 55,863,927 A shares held by the controlling shareholder Magang (Group) Holding Company Limited (the “Holding”) due to the shares acquisition plan and 3,886 A shares held respectively by two current directors each, Mr. Gu Jianguo and Mr. Su Jianguang.

Table on Movement of Shares with Selling Restrictions

Unit: Shares

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

4.2 Respective shareholdings of the 10 largest shareholders and the 10 largest holders of circulating shares or shares without selling restrictions

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

Shareholding of the top 10 shareholders

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

Shareholding of the top 10 shareholders without selling restrictions

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

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

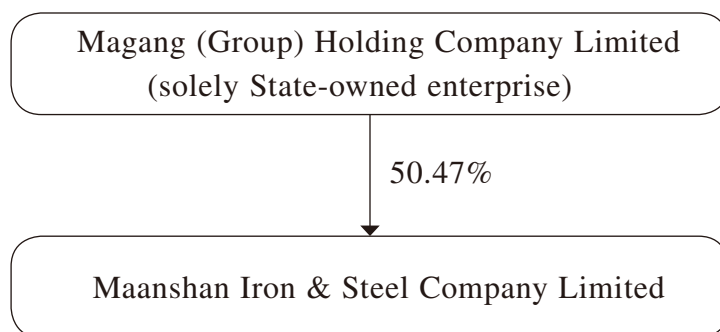
There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). The manager of 南方成份精選股票型證券投資基金, 南方穩健成長貳號證券投資基金 and 南方穩健成長證券投資基金 is China Southern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

4.3 Profiles of the controlling shareholder and the de facto controller

4.3.1 Details of the controlling shareholder and the de facto controller

Magang (Group) Holding Company Limited, the controlling shareholder of the Company, was established on 1 September 1993 as a solely State-owned enterprise. The legal representative of Holding is Mr. Gu Jianguo. Holding had a registered capital of RMB6,298,290,000. Its operating scopes include: mining and sorting of mineral products; construction, materials, machine manufacturing, maintenance and design of building projects; external trading; domestic trading; distribution and storage of materials; consulting service; rental services; and agriculture.

4.3.2 Flow chart indicating the proprietorship and controlling relationship between the Company and the de facto controller



5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Movement in shareholding and emoluments of Directors, Supervisors and senior management

Unit: share; Currency: RMB'000

| Name | Position | Sex | Age | Term of office | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Reasons for the change | Total amount of emoluments received from the Company during the reporting period | Share option incentives granted during the reporting period | | | Market price of shares as at the end of the reporting period | Emoluments/ allowance received from shareholder/ other associates |
|----------------|---|-----|-----|---------------------|--|--|------------------------|--|---|----------------------------|----------------|--|---|
| | | | | | | | | | Number of exercisable shares | Number of shares exercised | Exercise price | | |
| Gu Jianguo | Chairman | M | 57 | 2008.8.31-2011.8.31 | 3,886 | 3,886 | - | 901 | - | - | - | - | No |
| Su Jianguang | Director and General Manager | M | 55 | 2008.8.31-2011.8.31 | 3,886 | 3,886 | - | 896 | - | - | - | - | No |
| Zhao Jianming | Director | M | 56 | 2008.8.31-2011.8.31 | 0 | 0 | - | - | - | - | - | - | Yes |
| Gao Haijian | Director, Deputy General Manager and Secretary to the Board | M | 53 | 2008.8.31-2011.8.31 | 0 | 0 | - | 721 | - | - | - | - | No |
| Hui Zhigang | Director, Deputy General Manager | M | 56 | 2008.8.31-2011.8.31 | 0 | 0 | - | 721 | - | - | - | - | No |
| Wong Chun Wa | Independent Director | M | 36 | 2008.8.31-2011.8.31 | 0 | 0 | - | 100 | - | - | - | - | No |
| Su Yong | Independent Director | M | 55 | 2008.8.31-2011.8.31 | 0 | 0 | - | 100 | - | - | - | - | No |
| Hui Leung Wah | Independent Director | M | 47 | 2008.8.31-2011.8.31 | 0 | 0 | - | 100 | - | - | - | - | No |
| Han Yi | Independent Director | M | 46 | 2008.8.31-2011.8.31 | 0 | 0 | - | 100 | - | - | - | - | No |
| Zhang Xiaofeng | Chairman of the Supervisory Committee | M | 48 | 2008.8.31-2011.8.31 | 0 | 0 | - | 720 | - | - | - | - | No |
| Fang Jinrong | Supervisor | M | 46 | 2008.8.31-2011.8.31 | 0 | 0 | - | - | - | - | - | - | Yes |
| Liu Xianli | Supervisor | M | 55 | 2008.8.31-2011.8.31 | 0 | 0 | - | 258 | - | - | - | - | No |
| Cheng Shaoxiu | Independent Supervisor | F | 67 | 2008.8.31-2011.8.31 | 0 | 0 | - | 62.5 | - | - | - | - | No |
| An Qun | Independent Supervisor | F | 47 | 2008.8.31-2011.8.31 | 0 | 0 | - | 62.5 | - | - | - | - | No |
| Shi Xiongliang | Deputy General Manager | M | 57 | 2008.8.31-2011.8.31 | 0 | 0 | - | 716 | - | - | - | - | No |
| Ding Yi | Deputy General Manager | M | 46 | 2008.8.31-2011.8.31 | 0 | 0 | - | 720 | - | - | - | - | No |
| Su Shihuai | Deputy General Manager and Chief Engineer | M | 50 | 2010.1.1-2011.8.31 | 0 | 0 | - | Not applicable | - | - | - | - | No |
| Total | - | - | - | - | 7,772 | 7,772 | - | 6,178 | - | - | - | - | - |

Note: Mr. Shi Xiongliang resigned as Chief Engineer of the Company on 31 December 2009. Mr. Su Shihuai was appointed as Deputy General Manager and Chief Engineer of the Company on 1 January 2010.

6 REPORT OF THE BOARD OF DIRECTORS

6.1 Management Discussion and Analysis

(1) *Business Environment*

- **The Steel Product Market**

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

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

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

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

- **The Markets of Fuels and Raw Materials**

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

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

(2) Major Work

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

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

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

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

(3) Results of the Group's Principal Operating Activities for the Reporting Period Prepared Under China Accounting Standards for Business Enterprises

The iron and steel segment accounted for 95.63% of the Group's income from principal operation. The iron and steel segment also accounted for 81.46% of the Group's gross profit from principal operation.

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

(4) *Assets and Liabilities of the Group as at the End of the Reporting Period Prepared Under China Accounting Standards for Business Enterprises*

• ***Assets***

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

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

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

• ***Liabilities***

As compared to the end of the previous year, bills payable increased by 414.74% mainly due to an increase in the amount of procurement paid by acceptance bills during the year; payroll and benefits payable increased by 39.57% mainly due to an increase in accrued unpaid bonuses at the end of the year; tax payable decreased by 112.87% mainly due to the payment of 2008 unpaid value-added tax payable during the reporting period; dividend payable decreased by 36.31% mainly due to the payment of dividend to Holding by the Company at the end of the reporting period; interests payable decreased by 81.54% mainly due to a decrease in borrowing rates during the year; deferred income tax liabilities decreased by 100% mainly due to a decrease in temporary differences in deferred income tax liabilities; other non-current liabilities decreased by 100% mainly due to the fact that the Group had paid all the liabilities in relation to the early

retirement benefits; and converted differences in foreign currency statements increased by 136.46% mainly due to the appreciation of book currencies (Australian dollars) of the Company's subsidiaries in Australia against Renminbi during 2009; minority interests increased by 38.47% mainly due to the increase in profits of some of the Company's non-wholly owned subsidiaries during the reporting period.

(5) *Expenses and Income Tax of the Group for the Reporting Period Prepared Under China Accounting Standards for Business Enterprises*

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

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

(6) *Operating Results During the Reporting Period Prepared Under China Accounting Standards for Business Enterprises*

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

(7) *Analysis of the Group's Cash Flows for the Reporting Period Prepared Under China Accounting Standards for Business Enterprises*

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

(8) *Major Suppliers and Customers*

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

(9) *The Operations and Results of the Group's Major Controlling Subsidiaries and Invested Entities*

- Ma Steel (Hefei) Iron & Steel Co. Ltd. has a registered capital of RMB500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB167 million. As at the end of the reporting period, it had total assets amounting to RMB2,379 million and net assets of RMB811 million.
- Ma Steel International Trade and Economics Corporation, the wholly-owned subsidiary, has a registered capital of RMB50 million, is mainly engaged in the import of machinery and raw materials and export of steel products. Net profit for the reporting period amounted to RMB3 million. As at the end of the reporting period, it had total assets amounting to RMB3,963 million and net assets of RMB37 million.
- Design & Research Institute of Maanshan Iron & Steel Company Limited has a registered capital of RMB100 million, in which the Company holds direct and indirect stakes of 58.96% and 7.86%, respectively. It is mainly engaged in metallurgical, construction and planning and design of environmental protection projects. Net profit

for the reporting period amounted to RMB50 million. As at the end of the reporting period, it had total assets amounting to RMB287 million and net assets of RMB174 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US\$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB14 million. As at the end of the reporting period, it had total assets amounting to RMB138 million and net assets of RMB112 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB30 million. As at the end of the reporting period, it had total assets amounting to RMB1,134 million and net assets of RMB98 million.
- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB21 million. As at the end of the reporting period, it had total assets amounting to RMB1,230 million and net assets of RMB190 million.
- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB12 million. As at the end of the reporting period, it had total assets amounting to RMB433 million and net assets of RMB144 million.
- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB10 million. As at the end of the reporting period, it had total assets amounting to RMB711 million and net assets of RMB181 million.
- Anhui Masteel Holly Industries Co. Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB95 million. As at the end of the reporting period, it had total assets amounting to RMB435 million and net assets of RMB239 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB46 million. As at the end of the reporting period, it had total assets amounting to RMB312 million and net assets of RMB300 million.
- Maanshan Harbor Group Co., Ltd has a registered capital of RMB250 million, in which the Company holds a direct stake of 45%. It is mainly engaged in stevedoring of materials at the ports, freight agency, ocean-land cargo transit and storage services. Net profit for the reporting period amounted to RMB30 million. As at the end of the reporting period, it had total assets amounting to RMB883 million and net assets of RMB379 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB136 million. As at the end of the reporting period, it had total assets amounting to RMB697 million and net assets of RMB618 million.
- Ma Steel (Hefei) Processing and Distribution Co., Ltd has a registered capital of RMB 120 million, in which the Company holds direct and indirect stakes of 61% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB36 million. As at the end of the reporting period, it had total assets amounting to RMB782 million and net assets of RMB129 million.

(10) Project Constructions

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

(11) Financial Position and Exchange Risks

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

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

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

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

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

(12) *Important Accounting Estimates and Judgments by the Company and their Impact on the Company's Financial Position and Operating Results*

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

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

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

(13) Recent Changes in the Production and Operating Environment and Coping Strategies

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

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

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

- ***Coping strategies of the Company***

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

- a. Focus on adjustment to the Company's product mix, execute a marketing strategy aimed at big clients and establish a new operating mechanism for extensive strategic cooperation.
- b. Consolidate the advantage of conventional premier products by increasing the market shares of the automotives and home appliances segments, and build up new premier products by speeding up the research and development of products such as high-grade electrical steel, automobile panels, high power locomotive wheels and wheels of motor train unit and by gradually increasing the capacity thereof.

- c. Continue to proceed with logistics optimisation solutions by implementing a joint transportation scheme for steel products, coal and ore to utilise the advantages of joint railway operations, thereby further reducing logistics costs.
- d. Continue to carry out benchmarking management, unleash potential and identify a system-wide mode of the economic operation by committing adequate resources to process control, analysis, evaluation and assessment of the production and operation to achieve an optimal allocation of production factors and offset cost pressure.
- e. Establish an appraisal mechanism for related units by linking the iron making system and the steel rolling system with the relevant units or departments respectively for appraisal to achieve a new breakthrough in cost efficiency.
- f. Put the concept of a low-carbon, recycling economy into practice by implementing an accountability system for energy conservation targets and continuing to treat energy conservation and emissions reduction as a key growth point.
- g. Cultivate the value orientation on profit creation by improving the incentive and check-and-balance mechanism; strengthen the responsibilities of each position and improve the accountability system.

(14) Long-Term Strategies of the Company

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

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

6.2 Analysis of principal operating activities by segment and product

Unit: RMB million

| Business segment/ product segment | Operating income | Operating cost | Gross profit margin (%) | Year-on-year increase/ (decrease) of operating income (%) | Year-on-year increase/ (decrease) of operating cost (%) | Year-on-year increase/ (decrease) of gross profit margin (%) |
|--------------------------------------|---------------------|-------------------|-------------------------------|--|--|---|
| Iron and steel | 48,210 | 45,933 | 4.72 | -27.48 | -25.33 | A decrease of 2.74 percentage-points |
| Product segment | | | | | | |
| Steel plates | 23,533 | 23,093 | 1.87 | -29.33 | -26.39 | A decrease of 3.92 percentage points |
| Section steels | 7,681 | 7,072 | 7.93 | -29.29 | -27.29 | A decrease of 2.54 percentage points |
| Wire rods | 14,456 | 13,829 | 4.34 | -23.63 | -22.95 | A decrease of 0.84 percentage points |
| Train wheels and wheel rims | 1,397 | 873 | 37.51 | -51.53 | -55.86 | An increase of 6.14 percentage-points |

6.3 Geographical analysis of principal operating activities

Unit: RMB million

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

6.4 Projects financed by other than fundraising proceeds

| Project name | Total investment | Construction progress | <i>Unit: RMB million</i> Project income |
|--|------------------|--|--|
| Phase II of the capacity enhancement project of train wheel rolling system | 450 | Completed and commenced operation in February 2009 | Not applicable |
| Liufenhe sewage treatment project | 90 | Completed and commenced operation in March 2009 | Not applicable |
| Dezincification rotary hearth furnace project at the New Area | 265 | Completed and commenced operation in June 2009 | Not applicable |
| Large-scale forged backup rolling line | 287 | Completed and commenced operation in December 2009 | Not applicable |
| Recovered coal gas power generation project at the thermal power plant | 220 | Preparatory stage before construction | Not applicable |
| Coal moisture controlling project at the coke plant | 54 | Preparatory stage before construction | Not applicable |
| Mold alloy plating project at No. 2 machinery plant | 45 | Under construction | Not applicable |

6.5 The Board's proposal on profit distribution or transfer of capital reserve fund

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

7 SIGNIFICANT MATTERS

7.1 Material guarantees

Unit: RMB million

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

7.2 Connected transactions from normal course of business

Unit: RMB'million

| Related parties | Sale of products and provision of services to connected parties | | Purchase of products and services received from connected parties | |
|--|---|------------------------------------|---|------------------------------------|
| | Transaction amount | Percentage of similar transactions | Transaction amount | Percentage of similar transactions |
| Magang (Group) Holding Company Limited | 65 | 0.13% | 2,511 | 21.21% |
| Other related parties | 70 | 0.14% | 234 | 1.98% |
| Total | 135 | – | 2,745 | – |

Including: connected transactions of product sales or rendering of services to the controlling shareholder and its subsidiaries from the Company amounting to RMB134,561,000 during the reporting period.

7.3 Performance of undertakings

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

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

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

Moreover, Holding makes representations as follows:

- (1) If Holding acts in breach of the above undertakings, it will bear the following breach liabilities in accordance with the law: Holding will be liable for making compensation in respect of the direct economic losses suffered by the other shareholders of the Company as a result of Holding's breach of the above undertakings. Moreover, Holding will, in accordance with the relevant provisions of Chapter 7 "Regulatory Measures and Legal Liabilities" of the Administrative Procedures of the State Share Reform of Listed Companies, accept any punishment imposed by the regulatory authorities such as the China Securities and Regulatory Commission and the Shanghai Stock Exchange, and will bear any legal liabilities accordingly.
- (2) Holding will perform its undertakings in a faithful manner and bear any legal liabilities accordingly. Unless the transferee agrees and has the ability to bear the liabilities for the undertakings, Holding will not transfer the shares it held otherwise.

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

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

As at 11 September 2009 when the period of acquisition expired, Holding acquired a total of 55,857,927 A shares of the Company. Such number of shares acquired did not exceed 2% of the issued share capital of the Company. Nor did Holding sell the shares of the Company it held. It completely carried out these undertakings.

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

7.4 Securities investments

Unit: RMB'000

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

7.5 Purchase, sales or redemption of listed securities of the Company

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

7.6 Pre-emptive rights

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions to grant the existing shareholders of the Company pre-emptive rights for subscribing new shares in proportion to their shareholdings whenever the Company issues new shares.

7.7 Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this announcement, the Company has fulfilled the public float requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

7.8 Auditors' remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for year 2008. They have audited the enclosed financial reports prepared under PRC Accounting Standards and Hong Kong Accounting Standards respectively. The remuneration for the two accounting firms amounted to RMB5,175,000 in aggregate. Among the total remuneration, RMB4,590,000 represented the annual audit fee and RMB585,000 represented the agreed-upon procedures fee. Both the audit fee and the agreed-upon procedures fee were already inclusive of disbursements incurred by the two auditors and related taxes on the fees. In addition, meal and accommodation expenses incurred by auditors while performing audit duties at the Company were borne by the Company.

7.9 Audit Committee

During the reporting period, the Audit Committee of the Board of Directors comprised Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all independent directors. The committee met five times and duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2008 annual accounts, 2009 first quarter accounts, 2009 interim accounts and 2009 third quarter accounts of the Company and gave its independent opinion on the appointment of the auditors.

The 2009 annual account of the Company has been reviewed by the Audit Committee.

8 REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the view that the Company's operations were in compliance with the laws. The Company's financial situation, application of fundraising, connected transactions, transactions relating to acquisitions and disposal of assets did not pose any harm to the interests of both the Company and the shareholders.

9. CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in 2009.

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

10 FINANCIAL REPORT

10.1 Auditors' opinion

Financial report Unaudited Audited
Audit opinion Standard Non-qualified opinion Non-standard Audit opinion

10.2 Comparison of the consolidated and the Company's balance sheets, statement of income, cash flow statements and statement of changes in equity for the current year. (Please refer to the tables set out below)

10.3 Detailed explanation on changes in accounting policy, accounting estimates and auditing method during the reporting period as compared to the previous annual report (if any)

During the year, there were no changes in the accounting policy and accounting estimates of the Group as compared to the previous financial report.

10.4 Significant account errors, adjusted amounts, reasons and impacts

Not applicable.

10.5 Comparison of consolidation criteria with that of the latest annual report with details provided if there are any changes.

During the reporting period, the consolidation scope of the Group's financial statements for the year has no change as compared to the previous issue of financial report.

CONSOLIDATED BALANCE SHEET

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2009

Renminbi Yuan

ASSETS

| | Group 2009 | Company 2009 | Group 2008 | Company 2008 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| CURRENT ASSETS: | | | | |
| Cash and bank balances | 8,700,317,608 | 5,809,069,109 | 5,951,087,213 | 4,368,314,406 |
| Financial assets held for trading | 1,037,360 | 1,037,360 | 813,250 | 813,250 |
| Bills receivable | 4,421,189,686 | 4,183,146,951 | 1,267,254,719 | 1,180,972,207 |
| Trade receivables | 822,930,091 | 1,071,371,524 | 626,727,102 | 840,021,187 |
| Dividends receivable | 24,751,198 | 24,751,198 | - | - |
| Prepayments | 823,338,565 | 571,602,521 | 1,107,261,236 | 1,573,542,503 |
| Other receivables | 268,164,615 | 29,344,892 | 436,494,366 | 48,206,022 |
| Inventories | 8,988,794,051 | 7,729,440,621 | 9,848,058,341 | 8,991,015,193 |
| Non-current assets due within one year | - | - | 2,938,870 | 2,938,870 |
| Total current assets | <u>24,050,523,174</u> | <u>19,419,764,176</u> | <u>19,240,635,097</u> | <u>17,005,823,638</u> |
| NON-CURRENT ASSETS: | | | | |
| Long term equity investments | 999,403,592 | 2,181,564,626 | 909,160,061 | 2,018,118,616 |
| Investment properties | 4,727,175 | 18,404,084 | 1,205,850 | 18,809,133 |
| Fixed assets | 38,272,898,821 | 36,293,704,502 | 40,769,495,822 | 38,877,703,976 |
| Construction materials | 223,238,270 | 221,471,149 | 476,672,223 | 434,169,176 |
| Construction in progress | 1,797,954,642 | 1,505,126,557 | 2,277,918,588 | 2,138,731,681 |
| Intangible assets | 1,855,779,750 | 1,238,079,244 | 1,850,539,277 | 1,269,925,611 |
| Deferred tax assets | 779,581,081 | 767,989,564 | 618,928,724 | 603,267,351 |
| Total non-current assets | <u>43,933,583,331</u> | <u>42,226,339,726</u> | <u>46,903,920,545</u> | <u>45,360,725,544</u> |
| TOTAL ASSETS | <u><u>67,984,106,505</u></u> | <u><u>61,646,103,902</u></u> | <u><u>66,144,555,642</u></u> | <u><u>62,366,549,182</u></u> |

CONSOLIDATED BALANCE SHEET (Continued)*(Prepared under China Accounting Standards for Business Enterprises)*

31 December 2009

Renminbi Yuan

| | Group 2009 | Company 2009 | Group 2008 | Company 2008 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Short term loans | 1,173,245,805 | - | 1,154,000,000 | 630,000,000 |
| Bills payable | 5,400,287,600 | 3,057,932,063 | 1,049,125,831 | 20,000,000 |
| Accounts payable | 6,315,104,235 | 5,743,462,652 | 7,525,140,482 | 6,917,042,896 |
| Deposits received | 6,092,362,835 | 5,584,922,592 | 5,615,976,320 | 5,212,997,409 |
| Payroll and benefits payable | 275,489,773 | 208,145,931 | 197,384,329 | 136,423,372 |
| Taxes payable | (85,807,517) | (66,882,101) | 666,749,301 | 650,199,891 |
| Interests payable | 8,138,718 | 8,039,421 | 44,099,563 | 43,853,466 |
| Dividends payable | 701,538,763 | 701,538,763 | 1,101,575,013 | 1,101,575,013 |
| Other payables | 753,587,311 | 710,762,838 | 802,838,050 | 734,772,103 |
| Non-current liabilities due within one year | 816,000,000 | 816,000,000 | 223,579,337 | 216,000,000 |
| Total current liabilities | <u>21,449,947,523</u> | <u>16,763,922,159</u> | 18,380,468,226 | 15,662,864,150 |
| NON-CURRENT LIABILITIES: | | | | |
| Long term loans | 13,603,960,000 | 13,577,000,000 | 15,666,296,218 | 15,654,324,200 |
| Bonds payable | 5,165,409,845 | 5,165,409,845 | 4,992,975,444 | 4,992,975,444 |
| Deferred income | 579,926,538 | 562,619,538 | 563,549,396 | 562,504,397 |
| Deferred tax liabilities | - | - | 6,678,903 | - |
| Other non-current liabilities | - | - | 7,485,033 | 7,485,033 |
| Total non-current liabilities | <u>19,349,296,383</u> | <u>19,305,029,383</u> | 21,236,984,994 | 21,217,289,074 |
| Total liabilities | <u>40,799,243,906</u> | <u>36,068,951,542</u> | 39,617,453,220 | 36,880,153,224 |
| SHAREHOLDERS' EQUITY: | | | | |
| Share capital | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 |
| Capital reserve | 8,338,358,399 | 8,338,358,399 | 8,338,358,399 | 8,338,358,399 |
| Surplus reserves | 3,057,920,649 | 2,873,596,445 | 3,008,523,500 | 2,864,520,805 |
| Retained profits | 7,350,273,452 | 6,664,516,330 | 7,007,195,285 | 6,582,835,568 |
| Exchange fluctuation reserve | 17,419,949 | - | (47,775,207) | - |
| Equity attributable to equity holders of the parent | <u>26,464,653,635</u> | <u>25,577,152,360</u> | 26,006,983,163 | 25,486,395,958 |
| Minority interests | 720,208,964 | - | 520,119,259 | - |
| Total shareholder's equity | <u>27,184,862,599</u> | <u>25,577,152,360</u> | 26,527,102,422 | 25,486,395,958 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>67,984,106,505</u> | <u>61,646,103,902</u> | <u>66,144,555,642</u> | <u>62,366,549,182</u> |

CONSOLIDATED STATEMENT OF INCOME

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2009

Renminbi Yuan

| | Group 2009 | Company 2009 | Group 2008 | Company 2008 |
|--|--------------------|-------------------|--------------------|--------------------|
| Revenue | 51,859,969,514 | 52,577,803,993 | 71,259,739,377 | 75,148,069,659 |
| Less: Cost of sales | 49,106,658,380 | 50,682,172,839 | 65,154,401,331 | 69,713,506,492 |
| Business taxes and surcharges | 219,403,050 | 192,555,640 | 778,052,466 | 748,551,737 |
| Selling expenses | 229,232,917 | 211,682,235 | 367,289,708 | 350,915,918 |
| Administrative expenses | 1,138,339,300 | 902,399,740 | 1,092,817,467 | 847,471,805 |
| Financial expenses | 939,046,170 | 862,154,362 | 1,575,913,707 | 1,296,859,062 |
| Assets impairment losses | 57,598,030 | 57,810,860 | 1,796,584,712 | 1,664,503,803 |
| Add: Gain/(loss) on fair value changes | 224,110 | 224,110 | (1,033,080) | (1,033,080) |
| Investment income | 204,300,261 | 222,049,960 | 199,877,256 | 313,324,057 |
| including: share of profits of associates and jointly controlled entities | 183,239,930 | 183,133,600 | 199,367,579 | 203,058,158 |
| Operating profit | 374,216,038 | (108,697,613) | 693,524,162 | 838,551,819 |
| Add: Non-operating income | 191,703,227 | 141,823,422 | 122,326,177 | 75,898,971 |
| Less: Non-operating expenses | 3,043,520 | 2,628,327 | 9,976,147 | 7,150,580 |
| including: loss on disposal of non-current assets | - | - | 2,788,556 | 1,497,324 |
| Profit before tax | 562,875,745 | 30,497,482 | 805,874,192 | 907,300,210 |
| Less: Income tax | 29,009,600 | (60,258,920) | 74,644,736 | 40,609,852 |
| Net profit | <u>533,866,145</u> | <u>90,756,402</u> | <u>731,229,456</u> | <u>866,690,358</u> |
| Including: Net profit attributable to the entity prior to the business combination under common control | - | - | 9,846,023 | - |
| Attributable to equity holders of the Parent | <u>392,475,316</u> | <u>90,756,402</u> | <u>710,234,350</u> | <u>866,690,358</u> |
| Minority interests | <u>141,390,829</u> | <u>-</u> | <u>20,995,106</u> | <u>-</u> |
| EARNINGS PER SHARE: | | | | |
| Basic | <u>5.10 cents</u> | | <u>10.38 cents</u> | |
| Diluted | <u>N/A</u> | | <u>N/A</u> | |
| Other comprehensive income | 65,195,156 | - | (57,404,913) | - |
| Total comprehensive income | <u>599,061,301</u> | <u>90,756,402</u> | <u>673,824,543</u> | <u>866,690,358</u> |
| Include: | | | | |
| Total comprehensive income attributable to the holding shareholders | <u>457,670,472</u> | <u>90,756,402</u> | <u>652,829,437</u> | <u>866,690,358</u> |
| Total comprehensive income attributable to the minority shareholders | <u>141,390,829</u> | <u>-</u> | <u>20,995,106</u> | <u>-</u> |

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2009

Renminbi Yuan

| | Group 2009 | Company 2009 |
|--|------------------|------------------|
| 1. Cash flows from operating activities: | | |
| Cash received from sale of goods or rendering of services | 60,319,597,258 | 58,445,263,233 |
| Cash received relating to other operating activities | 95,300,970 | 63,628,999 |
| | <hr/> | <hr/> |
| Sub-total of cash inflows | 60,414,898,228 | 58,508,892,232 |
| | <hr/> | <hr/> |
| Cash paid for goods and services | (46,582,033,928) | (46,465,648,472) |
| Cash paid to and on behalf of employees | (3,449,444,939) | (3,068,781,566) |
| Cash paid for all taxes | (3,215,612,152) | (2,858,722,148) |
| Cash paid relating to other operating activities | (499,106,690) | (402,634,585) |
| | <hr/> | <hr/> |
| Sub-total of cash outflows | (53,746,197,709) | (52,795,786,771) |
| | <hr/> | <hr/> |
| Net cash flows from operating activities | 6,668,700,519 | 5,713,105,461 |
| | <hr/> | <hr/> |
| 2. Cash flows from investing activities: | | |
| Cash received from retrieval of investments | 2,938,870 | 2,938,870 |
| Cash received from investment income | 199,045,430 | 193,949,405 |
| Net cash received from disposal of fixed assets, intangible assets and other long term assets | 33,532,979 | 9,457,226 |
| Cash received relating to other investing activities | 95,880,000 | 78,000,000 |
| | <hr/> | <hr/> |
| Sub-total of cash inflows | 331,397,279 | 284,345,501 |
| | <hr/> | <hr/> |
| Cash paid for acquisitions of fixed assets, intangible assets and other long term assets | (1,636,438,980) | (1,202,246,367) |
| Cash paid for acquisitions of investments | (292,942,800) | (88,663,609) |
| Cash paid due to increase in pledged deposits, net | (2,406,061,806) | (2,043,545,713) |
| | <hr/> | <hr/> |
| Sub-total of cash outflows | (4,335,443,586) | (3,334,455,689) |
| | <hr/> | <hr/> |
| Net cash flows from investing activities | (4,004,046,307) | (3,050,110,188) |
| | <hr/> | <hr/> |

CONSOLIDATED CASH FLOW STATEMENT (Continued)

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2009

Renminbi Yuan

| | Group 2009 | Company 2009 |
|--|-----------------------------|-----------------------------|
| 3. Cash flows from financing activities: | | |
| Cash received from borrowings | 25,484,946,355 | 24,061,800,551 |
| Cash received from capital contribution including: capital contribution by minority shareholders received by subsidiaries | 68,672,446 | - |
| | <u>68,672,446</u> | <u>-</u> |
| Sub-total of cash inflows | <u>25,553,618,801</u> | <u>24,061,800,551</u> |
| Cash repayments of borrowings | (26,931,562,894) | (26,166,167,640) |
| Cash paid for distribution of dividend or profits and for interest expenses including: dividend paid to minority shareholders by subsidiaries | (1,241,730,076) | (1,144,403,881) |
| | <u>(9,973,571)</u> | <u>-</u> |
| Sub-total of cash outflows | <u>(28,173,292,970)</u> | <u>(27,310,571,521)</u> |
| Net cash flows from financing activities | <u>(2,619,674,169)</u> | <u>(3,248,770,970)</u> |
| 4. Effect of foreign exchange rate changes on cash | <u>20,600,546</u> | <u>(17,015,313)</u> |
| 5. Net increase/(decrease) in cash and cash equivalents | <u>65,580,589</u> | <u>(602,791,010)</u> |
| Add: Balance of cash and cash equivalents at beginning of year | <u>5,437,367,246</u> | <u>4,362,314,406</u> |
| 6. Balance of cash and cash equivalents at end of year | <u><u>5,502,947,835</u></u> | <u><u>3,759,523,396</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2009

Renminbi Yuan

| | Attributable to equity holders of the parent | | | | | | | |
|--|--|----------------------|----------------------|----------------------|------------------------------------|-----------------------|-----------------------|-----------------------|
| | Share Capital | Capital reserve | Surplus reserves | Retained profits | Exchange fluctuation reserve | Sub-total equity | Minority interests | Total shareholders |
| 1. At 1 January 2009 | 7,700,681,186 | 8,338,358,399 | 3,008,523,500 | 7,007,195,285 | (47,775,207) | 26,006,983,163 | 520,119,259 | 26,527,102,422 |
| 2. Increase/(decrease) during the year | | | | | | | | |
| (i) Net profit | - | - | - | 392,475,316 | - | 392,475,316 | 141,390,829 | 533,866,145 |
| (ii) Other comprehensive income | - | - | - | - | 65,195,156 | 65,195,156 | - | 65,195,156 |
| Sub-total (i) and (ii) | - | - | - | 392,475,316 | 65,195,156 | 457,670,472 | 141,390,829 | 599,061,301 |
| (iii) Capital contribution and withdrawal by shareholders | | | | | | | | |
| (a) Capital contribution by shareholders | - | - | - | - | - | - | 68,672,447 | 68,672,447 |
| (b) Others | - | - | - | - | - | - | - | - |
| (iv) Profit appropriation | | | | | | | | |
| (a) Transfer to surplus reserves | - | - | 49,397,149 | (49,397,149) | - | - | - | - |
| (b) Dividend paid | - | - | - | - | - | - | (9,973,571) | (9,973,571) |
| (v) Transfers within shareholders' equity | - | - | - | - | - | - | - | - |
| 3. At 31 December 2009 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>3,057,920,649</u> | <u>7,350,273,452</u> | <u>17,419,949</u> | <u>26,464,653,635</u> | <u>720,208,964</u> | <u>27,184,862,599</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2008 (Restated)

Renminbi Yuan

| | Attributable to equity holders of the parent | | | | | | | |
|---|--|----------------------|----------------------|----------------------|------------------------------------|-----------------------|-----------------------|-----------------------|
| | Share Capital | Capital reserve | Surplus reserves | Retained profits | Exchange fluctuation reserve | Sub-total equity | Minority interests | Total shareholders |
| 1. At 31 December 2007 | 6,758,551,716 | 6,056,692,904 | 2,901,562,765 | 7,282,533,393 | 9,629,706 | 23,008,970,484 | 446,514,689 | 23,455,485,173 |
| Add: Adjustment attributable to business combination | - | 8,293,083 | - | - | - | 8,293,083 | - | 8,293,083 |
| 2. At 1 January 2008 | 6,758,551,716 | 6,064,985,987 | 2,901,562,765 | 7,282,533,393 | 9,629,706 | 23,017,263,567 | 446,514,689 | 23,463,778,256 |
| 3. Increase/(decrease) during the year | | | | | | | | |
| (i) Net profit | - | - | - | 710,234,350 | - | 710,234,350 | 20,995,106 | 731,229,456 |
| (ii) Other comprehensive income | - | - | - | - | (57,404,913) | (57,404,913) | - | (57,404,913) |
| Sub-total (i) and (ii) | - | - | - | 710,234,350 | (57,404,913) | 652,829,437 | 20,995,106 | 673,824,543 |
| (iii) Capital contribution and withdrawal by shareholders | | | | | | | | |
| (a) Capital contribution by shareholders | 942,129,470 | 2,113,855,892 | - | - | - | 3,055,985,362 | 101,194,034 | 3,157,179,396 |
| (b) Business combination under common control | - | (8,293,083) | - | - | - | (8,293,083) | - | (8,293,083) |
| (c) Others | - | 167,809,603 | - | - | - | 167,809,603 | - | 167,809,603 |
| (iv) Profit appropriation | | | | | | | | |
| (a) Transfer to surplus reserves | - | - | 106,960,735 | (106,960,735) | - | - | - | - |
| (b) Dividend paid | - | - | - | (878,611,723) | - | (878,611,723) | (48,584,570) | (927,196,293) |
| (v) Transfers within shareholders' equity | - | - | - | - | - | - | - | - |
| 4. At 31 December 2008 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>3,008,523,500</u> | <u>7,007,195,285</u> | <u>(47,775,207)</u> | <u>26,006,983,163</u> | <u>520,119,259</u> | <u>26,527,102,422</u> |

STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2009

Renminbi Yuan

| | Share capital | Capital reserve | Surplus reserves | Retained profits | Total shareholders' equity |
|--|----------------------|----------------------|----------------------|----------------------|----------------------------------|
| 1. At 1 January 2009 | 7,700,681,186 | 8,338,358,399 | 2,864,520,805 | 6,582,835,568 | 25,486,395,958 |
| 2. Increase/(decrease) during the year | | | | | |
| (i) Net profit | - | - | - | 90,756,402 | 90,756,402 |
| (ii) Other comprehensive income | - | - | - | - | - |
| Sub-total (i) and (ii) | - | - | - | 90,756,402 | 90,756,402 |
| (iii) Capital contribution and withdrawal | | | | | |
| (a) Capital contribution by shareholders | - | - | - | - | - |
| (b) Others | - | - | - | - | - |
| (iv) Profit appropriation | | | | | |
| (a) Transfer to surplus reserves | - | - | 9,075,640 | (9,075,640) | - |
| (b) Dividend paid | - | - | - | - | - |
| (c) Others | - | - | - | - | - |
| (v) Transfers within shareholders' equity | - | - | - | - | - |
| 3. At 31 December 2009 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>2,873,596,445</u> | <u>6,664,516,330</u> | <u>25,577,152,360</u> |

STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards for Business Enterprises)

Year ended 31 December 2008 (Restated)

Renminbi Yuan

| | Share capital | Capital reserve | Surplus reserves | Retained profits | Total shareholders' equity |
|--|----------------------|----------------------|----------------------|----------------------|----------------------------------|
| 1. At 1 January 2008 | 6,758,551,716 | 6,056,692,904 | 2,777,851,769 | 6,681,425,969 | 22,274,522,358 |
| 2. Increase/(decrease) during the year | | | | | |
| (i) Net profit | - | - | - | 866,690,358 | 866,690,358 |
| (ii) Other comprehensive income | - | - | - | - | - |
| Sub-total (i) and (ii) | - | - | - | 866,690,358 | 866,690,358 |
| (iii) Capital contribution and withdrawal | | | | | |
| (a) Capital contribution by shareholders | 942,129,470 | 2,113,855,892 | - | - | 3,055,985,362 |
| (b) Others | - | 167,809,603 | - | - | 167,809,603 |
| (iv) Profit appropriation | | | | | |
| (a) Transfer to surplus reserves | - | - | 86,669,036 | (86,669,036) | - |
| (b) Dividend paid | - | - | - | (878,611,723) | (878,611,723) |
| (c) Others | - | - | - | - | - |
| (v) Transfers within shareholders' equity | - | - | - | - | - |
| 3. At 31 December 2008 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>2,864,520,805</u> | <u>6,582,835,568</u> | <u>25,486,395,958</u> |

CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2009

| | <i>Notes</i> | 2009 <i>RMB'000</i> | 2008 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| REVENUE | 4 | 50,411,554 | 70,009,580 |
| Cost of sales | | (47,674,579) | (65,777,650) |
| Gross profit | | 2,736,975 | 4,231,930 |
| Other income and gains | 4 | 307,770 | 314,969 |
| Selling and distribution costs | | (448,636) | (1,145,342) |
| Administrative expenses | | (1,170,688) | (951,063) |
| Other expenses | | (41,630) | (3,684) |
| Finance costs | 6 | (1,004,155) | (1,840,304) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 68,245 | 68,564 |
| Associates | | 114,995 | 130,804 |
| PROFIT BEFORE TAX | 5 | 562,876 | 805,874 |
| Income tax expense | 7 | (29,010) | (74,645) |
| PROFIT FOR THE YEAR | | 533,866 | 731,229 |
| Attributable to: | | | |
| Owners of the parent | | 392,475 | 710,234 |
| Minority interests | | 141,391 | 20,995 |
| | | 533,866 | 731,229 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 9 | | |
| Basic | | 5.10 cents | 10.38 cents |
| Diluted | | N/A | N/A |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2009

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2009

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|--|-------|-----------------|-----------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 38,272,899 | 40,769,496 |
| Construction in progress | | 2,021,193 | 2,754,591 |
| Investment properties | | 4,727 | 1,206 |
| Prepaid land premiums | | 1,746,690 | 1,765,348 |
| Other intangible asset | | 109,090 | 85,191 |
| Interests in jointly-controlled entities | | 309,672 | 304,279 |
| Interests in associates | | 580,959 | 501,964 |
| Available-for-sale financial investments | | 108,772 | 102,917 |
| Deferred tax assets | | 779,581 | 612,250 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 43,933,583 | 46,897,242 |
| CURRENT ASSETS | | | |
| Inventories | | 8,835,996 | 9,702,503 |
| Construction contracts | | 152,798 | 145,555 |
| Trade and bills receivables | 10 | 5,244,120 | 1,893,983 |
| Prepayments, deposits and other receivables | | 1,116,255 | 1,543,755 |
| Tax recoverable | | 141,960 | 145,702 |
| Held-to-maturity investments | | – | 2,939 |
| Equity investments at fair value through profit or loss | | 1,037 | 813 |
| Pledged time deposits | | 2,919,782 | 513,720 |
| Cash and cash equivalents | | 5,780,536 | 5,437,367 |
| | | <hr/> | <hr/> |
| Total current assets | | 24,192,484 | 19,386,337 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 11 | 11,715,391 | 8,574,266 |
| Other payables and accruals | | 7,853,123 | 8,549,471 |
| Tax payable | | 34,148 | – |
| Interest-bearing bank and other borrowings | | 1,989,246 | 1,377,579 |
| Provisions | | – | 24,856 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 21,591,908 | 18,526,172 |
| NET CURRENT ASSETS | | | |
| | | <hr/> | <hr/> |
| | | 2,600,576 | 860,165 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <hr/> | <hr/> |
| | | 46,534,159 | 47,757,407 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2009

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

1. BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

2. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|-----------------------------|--|
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹ |
| HKFRS 1 Amendments | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ² |
| HKFRS 2 Amendments | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ² |
| HKFRS 3 (Revised) | <i>Business Combinations</i> ¹ |
| HKFRS 9 | <i>Financial Instruments</i> ⁶ |
| HKAS 24 (Revised) | <i>Related Party Disclosures</i> ⁵ |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> ¹ |
| HKAS 32 Amendment | <i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> ³ |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹ |
| HK(IFRIC)-Int 14 Amendments | <i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i> ⁵ |
| HK(IFRIC)-Int 17 | <i>Distributions of Non-cash Assets to Owners</i> ¹ |
| HK(IFRIC)-Int 19 | <i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴ |

| | |
|--|--|
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> ¹ |
| HK Interpretation 4 (Revised in December 2009) | <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ² |

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

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

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

3. OPERATING SEGMENT INFORMATION

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

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

| | 2009 <i>RMB'000</i> | 2008 <i>RMB'000</i> |
|----------|-------------------------------|------------------------|
| The PRC | 49,661,673 | 65,516,697 |
| Overseas | 749,881 | 4,492,883 |
| | <hr/> 50,411,554 <hr/> | <hr/> 70,009,580 <hr/> |

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

| | 2009 <i>RMB'000</i> | 2008 <i>RMB'000</i> |
|----------|------------------------|------------------------|
| The PRC | 42,930,910 | 46,092,968 |
| Overseas | 114,320 | 89,107 |
| | <u>43,045,230</u> | <u>46,182,075</u> |

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

Note:

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

5. PROFIT BEFORE TAX

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

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

- * Included in the cost of inventories sold for the year is a provision for inventories of RMB57,811,000 (2008: RMB1,707,562,000).
- ** The amortisation of a mine participation right is included in “Cost of sales” in the consolidated income statement.
- # The provision and reversal of provision for doubtful debts are included in “Other expenses” and “Other income” in the consolidated income statement, respectively.
- ## Various government grants have been received for the construction of specific projects and are included in deferred income in the consolidated statement of financial position. Upon completion of the construction of specific projects and the related transfers to property, plant and equipment, the relevant government grants would be amortised and recorded as other revenue over the estimated useful lives of the property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

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

7. INCOME TAX

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

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

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

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

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

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

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

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

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

Group

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

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

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

8. DIVIDEND

| | 2009 | 2008 |
|---|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Proposed final – RMB4 cents (2008: Nil) per ordinary share | 308,027 | – |

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

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

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

Bills receivable will mature within one year.

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

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

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

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

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

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

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

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

As at 31 December 2009, all of the Company's trade receivables were pledged as securities for the Group's bank loans of RMB680,000,000 (2008: Nil).

As at 31 December 2009, certain of the Group's bills receivable of RMB29,000,000 (2008: RMB264,000,000) were pledged as securities for the Group's bank loans.

11. TRADE AND BILLS PAYABLES

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

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

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

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

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

12. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements prepared under PRC accounting standards are audited by Ernst & Young Hua Ming.

No difference exists on net profits and shareholders' equity recorded in the consolidated financial statements prepared under PRC according standards and Hong Kong Financial Reporting Standards during the reporting period.

By order of the Board of Directors
Gu Jianguo
Chairman

March 30, 2010
Maanshan City, Anhui Province, the PRC

Executive Directors: Gu Jianguo, Su Jiangang, Gao Haijian, Hui Zhigang

Non-executive Director: Zhao Jianming

Independent Non-executive Directors: Wong Chun Wa, Su Yong, Hui Leung Wah, Han Yi