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: 00323)

2010 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 Jiangang, Director and General Manager overseeing the accounting operations, and Mr. Zhang Qianchun, Planning and Finance Manager in charge of the Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the annual report.

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 The Company did not provide external guarantees which were in violation of stipulated decision-making procedures.

2 COMPANY PROFILE

2.1 Basic Information

Stock abbreviation	**Magang**	**Maanshan Iron & Steel**
Stock code	600808	323
Places of listing	The 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	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 (Prepared under China Accounting Standards for Business Enterprises)

3.1 Major accounting data

Unit: RMB'000

	2010	2009	Increase/ decrease compared to the previous year (%)	2008
Revenue	**64,981,112**	51,859,970	**25.30**	71,259,739
Profit before tax	**1,711,112**	562,876	**203.99**	805,874
Net profit attributable to shareholders of the Company	**1,101,839**	392,475	**180.74**	710,234
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	**999,677**	242,094	**312.93**	626,027
Net cash flows from operating activities	**400,007**	6,668,701	**(94)**	8,387,795

	As at the end of 2010	As at the end of 2009	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2008
Total assets	**70,104,925**	67,984,107	**3.12**	66,144,556
Shareholders' equity attributable to shareholders of the Company	**27,294,087**	26,464,653	**3.13**	26,006,983

3.2 Major financial indicators

Unit: RMB

	2010	2009	Increase/ (decrease) compared to the previous year (%)	2008
Basic earnings per share	**0.143**	0.051	**180.39**	0.104
Diluted earnings per share	**Not applicable**	Not applicable	**Not applicable**	Not applicable
Basic earnings per share excluding non-recurring gains or losses	**0.130**	0.031	**319.35**	0.091
Return on net assets (weighted average) (%)	**4.08**	1.50	**increased by 2.58 percentage points**	3.06
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**3.70**	0.92	**increased by 2.78 percentage points**	2.70
Net cash flow per share from operating activities	**0.052**	0.866	**(94.01)**	1.2256

	As at the end of 2010	As at the end of 2009	Increase/ (decrease) compared to the end of the previous year (%)	As at the end of 2008
Net assets per share attributable to shareholders of the Company	**3.54**	3.44	**2.91**	3.80

Non-recurring gains or losses

Item	*Unit: RMB'000* **2010**
Subsidy income	78,449
Amortization of deferred income	79,527
Losses on disposal non-current assets	(6,514)
Other net non-operating income and expenses	(5,800)
Other investment income	403
Change in fair value gains and losses of financial assets held-for-trading	(210)
Income tax effect	(34,163)
Non-recurring gains or losses attributable to minority shareholders	(9,531)
Total net non-recurring gains or losses	102,161

Items Accounted under the Fair Value Method

Unit: RMB'000

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

4 MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Table on share movements

Unit: Shares

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

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

4.2 Shareholdings of top ten shareholders and top ten 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 380,565 shareholders.

Shareholding of top ten shareholders

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

Shareholding of top ten 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	1,707,485,897	Overseas-listed foreign shares
中國建設銀行－上投摩根中國優勢證券投資基金	96,040,000	RMB-denominated ordinary shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	56,000,000	RMB-denominated ordinary shares
王勇	19,800,000	RMB-denominated ordinary shares
中國工商銀行－南方成份精選股票型證券投資基金	18,924,383	RMB-denominated ordinary shares
中國農業銀行－益民創新優勢混合型證券投資基金	17,823,409	RMB-denominated ordinary shares
中國銀行－華寶興業先進成長股票型證券投資基金	14,000,000	RMB-denominated ordinary shares
中國銀行－嘉實滬深300指數證券投資基金	13,683,680	RMB-denominated ordinary shares
中國工商銀行股份有限公司－華夏滬深300指數證券投資基金	9,800,000	RMB-denominated ordinary shares

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

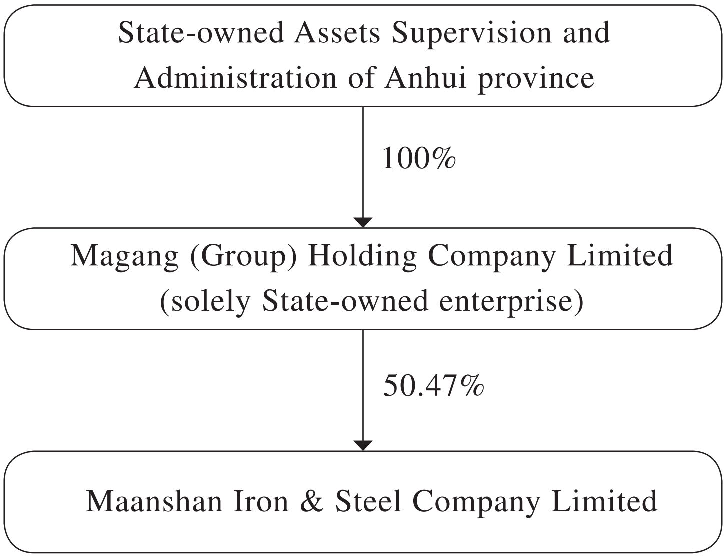
There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies (《上市公司收購管理辦法》). The Company is not aware of whether the above-mentioned shareholders had connected relationships 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. The Group had a registered capital of RMB6,298,290,000. Its operating scopes include: mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.

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: Number of exercisable shares	Number of shares exercised	Exercise price	Market price of shares as at the end of the reporting period	Emoluments/ allowance received from shareholders or other associates
Gu Jianguo	Chairman	M	58	2008.8.31-2011.8.31	3,886	3,886	–	898.1	–	–	–	–	No
Su Jiangang	Director and General Manager	M	56	2008.8.31-2011.8.31	3,886	3,886	–	897.9	–	–	–	–	No
Zhao Jianming	Director	M	57	2008.8.31-2011.8.31	0	0	–	–	–	–	–	—	Yes
Gao Haijian	Director, Deputy General Manager and Secretary to the Board	M	54	2008.8.31-2011.8.31	0	0	–	718.8	–	–	–	–	No
Hui Zhigang	Director, Deputy General Manager	M	57	2008.8.31-2011.8.31	0	0	–	718.9	–	–	–	–	No
Wong Chun Wa	Independent Director	M	37	2008.8.31-2011.8.31	0	0	–	100	–	–	–	–	No
Su Yong	Independent Director	M	56	2008.8.31-2011.8.31	0	0	–	100	–	–	–	–	No
Hui Leung Wah	Independent Director	M	48	2008.8.31-2011.8.31	0	0	–	100	–	–	–	–	No
Han Yi	Independent Director	M	47	2008.8.31-2011.8.31	0	0	–	100	–	–	–	–	No
Zhang Xiaofeng	Chairman of the Supervisory Committee	M	49	2008.8.31-2011.8.31	0	0	–	718.0	–	–	–	–	No
Fang Jinrong	Supervisor	M	47	2008.8.31-2011.8.31	0	0	–	–	–	–	–	–	Yes
Liu Xianli	Supervisor	M	56	2008.8.31-2011.8.31	0	0	–	295.4	–	–	–	–	No
Cheng Shaoxiu	Independent Supervisor	F	68	2008.8.31-2011.8.31	0	0	–	62.5	–	–	–	–	No
An Qun	Independent Supervisor	F	48	2008.8.31-2011.8.31	0	0	–	62.5	–	–	–	–	No
Shi Xiongliang	Deputy General Manager	M	58	2008.8.31-2011.8.31	0	0	–	719.0	–	–	–	–	No
Ding Yi	Deputy General Manager	M	47	2008.8.31-2011.8.31	0	0	–	718.0	–	–	–	–	No
Su Shihuai	Deputy General Manager and Chief Engineer	M	51	2010.1.1-2011.8.31	0	0	–	717.9	–	–	–	–	No
Total	–	–	–	–	7,772	7,772	–	6,927.0	–	–	–	–	–

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 DIRECTORS

6.1 Management Discussion and Analysis

(1) Business Environment

- **The Steel Product Market**

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

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

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

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

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

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

(2) ***Major Work***

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

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

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

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

(3) Results of the Group's Principal Operation for the Reporting Period Prepared under China Accounting Standards

The iron and steel segment accounted for 96.83% of the income from principal operations as well as accounting for 105.18% of the gross profit of income from principal operation.

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

(4) Assets and Liabilities of the Group as at the end of the Reporting Period Prepared under China Accounting Standards

- **Assets**

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

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

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

- **Liabilities**

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

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

(5) Expenses and Income Tax of the Group for the Reporting Period Prepared under China Accounting Standards

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

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

(6) ***Operating Results during the Reporting Period Prepared under China Accounting Standards***

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

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

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

(8) ***Account under Fair Value and its Gains and Losses***

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

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

(9) ***Major Suppliers and Customers***

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

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

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

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

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

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

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

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

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

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

- Anhui Masteel Holly Industries Co., Ltd. has a registered capital of RMB30 million, in which the Company holds a direct stake of 100%, respectively. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of on-site packaging services. Net profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB399 million and net assets of RMB143 million.

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

- Maanshan 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 RMB32 million. As at the end of the reporting period, it had total assets amounting to RMB908 million and net assets of RMB413 million.

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

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

(11) Project Constructions

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

(12) Financial Position and Exchange Risks

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

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

At present, all capital required for the Company's construction were Company owned cash. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB53,000 million.

As at 31 December 2010, the Group's cash and balances with financial institutions amounted to RMB6,383 million. Bills receivable amounted to RMB8,375 million. Deposits received for the coming month constituted a substantial part of the cash and 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 RMB to US dollar exchange rate appreciated continuously in 2010, an exchange gain of RMB134 million was resulted from the change in exchange rate during the year. Meanwhile, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB exchange rate has no adverse effect on the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of Euro and Japanese Yen exchange fluctuations on procurement payment was relatively small. Moreover, during the reporting period, while the borrowing rates of US loan were lower than that of RMB loan, in addition to the depreciation of US dollar, the Company has increased part of the US financing while reducing part of RMB financing.

(13) *Important Accounting Estimates and Their Impact on the Company's Financial Position and Operating Results*

The Group's inventories are calculated at the lower of the costs and net realisable values. Provisions are made for the declined value of inventories whose costs are higher than the net 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 re-assesses 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 RMB14 million was made for price decreases in spare parts, a write-off of approximately RMB0.66 million was made for price decreases in spare parts, and a write-off of approximately RMB33 million was made for price decreases in raw materials in 2010. Total provisions for price decreases in inventories amounted to approximately RMB14 million during the reporting period, and these provisions did not have a material impact on the Company's operating results in 2010.

(14) *Changes in the Production and Operating Environment and Coping Strategies in 2011*

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

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

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

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

- **Coping strategies of the Company**

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

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

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

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

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

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

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

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

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

(15) Long-term Strategies of the Company

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

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

6.2 Analysis of principal operation 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	61,040	57,486	5.82	26.61	25.15	increased by 1.1 percentage points
Product segment						
Steel plates	31,560	29,674	5.98	34.11	28.50	increased by 4.11 percentage points
Section steels	9,015	8,743	3.02	17.37	23.63	decreased by 4.91 percentage points
Wire rods	17,175	16,043	6.59	18.81	16.01	increased by 2.25 percentage points
Train wheels and rims	1,268	1,137	10.33	(9.23)	30.24	decreased by 27.18 percentage points

6.3 Geographical analysis of principal operation

Unit: RMB million

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

6.4 Projects financed by other than fundraising proceeds

Unit: RMB million

Project name	Total investment	Construction progress	Project income
CRH Train Wheel Steel Project	2,944	Hoisting of steel structure in the main factory building	Not applicable
Hydrogenation of Benzene Project at the Coke Plant	320	Construction in full operation	Not applicable
Recovered coal gas power generation project at the thermal power plant	220	Construction completed, preparatory stage of installing equipment	Not applicable
Energy Management Center Project of No.1 Energy Plant	91	Flat fielding completed, started construction	Not applicable
Newly Finished Wheel Machining and Inspection Line of Wheel Company	70	Preparatory stage	Not applicable
HVOF Spraying Project Of No.2 Machinery Company	56	Construction completed	Not applicable
Coal moisture controlling project at the Coke Plant	54	Under construction	Not applicable
No. 2 Iron Making Plant Comprehensive Utilisation of Converter Sludge Project	50	Construction in full operation	Not applicable
Mold alloy plating project at No. 2 machinery plant	45	Trial stage of thermal loads	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 2010 to be RMB0.05 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 guarantee amount for subsidiaries during the reporting period			(3,483)			
Balance of guarantees for subsidiaries at the end of the reporting period			374			
Total guarantee amount provided by the Company (including guarantees for subsidiaries)						
Total guarantee amount			374			
Total guarantee amount as a percentage of net assets of the Company			1.43%			
Including:						
Guarantee amount provided for shareholders, the de facto controller and connected parties			0			
Guarantee amount provided directly or indirectly for entities with gearing (assets-liabilities) ratio exceeding 70% *(Note)*			0			
Total guarantee amount exceeding 50% of net assets			0			
Total amount of the three guarantees mentioned above			0			

7.2 Material connected transactions

7.2.1 Connected transactions in the normal course of business

Unit: RMB'000

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	57	6	2,317	14
Other related parties	10	1	282	1.7
Total	67	7	2,599	15.7

Including: connected transactions of product sales or provision of services to the controlling shareholder and its subsidiaries by the Company amounting to RMB66,858 during the reporting period.

7.3 Other significant matters and their impact and analysis and explanation on relevant solutions

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

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

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

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

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

7.3.4 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	407	49%	(76.65)
2	Stock	601390	China Railway	158	33,000	145	18%	(63.03)
3	Stock	601898	China Coal	202	12,000	134	16%	(29.04)
4	Stock	601186	China Railway Construction	182	20,000	141	17%	(42)
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	–	827	100%	(210.72)

7.4 The Board has published a self-assessment report on the Company's internal control of 2010. For details, please refer to the full text of 2010 annual report.

7.5 The Company has published a corporate social responsibility report of 2010. For details, please refer to the full text of 2010 annual report.

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

In 2010, 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.

7.7 Pre-emptive rights

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions of the pre-emptive rights.

7.8 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 (the "Hong Kong Stock Exchange").

7.9 Auditors' remuneration

Ernst & Young Hua Ming and Ernst & Young were appointed as the PRC and the international auditors of the Group respectively for year 2010. 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 RMB4,535,000 in aggregate. Among the total remuneration, RMB3,950,000 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.

7.10 Audit Committee

During the reporting period, the Audit Committee of the Board comprised Mr. Wong Chun Wa, Mr. Su Yong, Mr. Hui Leung Wah and Mr. Han Yi, all Independent Directors.

The committee held four meetings and all the members attended each meeting. The committee was chaired by Mr. Wong Chun Wa and duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2009 annual accounts, the 2010 first quarterly accounts, the 2010 interim accounts and the 2010 third quarterly accounts of the Company and gave its independent opinion on the appointment of the auditors.

The 2010 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 and acquisitions, and disposal of assets did not harm the interests of either the Company or 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 Rules Governing the Listing of Securities of the Hong Kong Stock Exchange in 2010.

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 Rules Governing the Listing of Securities 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, income statement, cash flow statements and statement of changes in equity. (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 latest 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 latest financial report.

10.4 Significant account errors, adjusted amounts, reasons and impacts

Not applicable.

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

During the year, the Company has invested RMB1 million in establishing Auhui Jiangnan Steel Materials Quality Supervision and Inspection Company Limited with 100% equity interests. The Company has been consolidated into the Company's financial statements.

Save for the disclosed above, the consolidation scope of the Group's financial statements for the year has no change as compared to the latest financial report.

CONSOLIDATED BALANCE SHEET

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

ASSETS

	Group 2010	**Company 2010**	Group 2009	Company 2009
CURRENT ASSETS:				
Cash and bank balances	**6,382,691,015**	**3,087,223,561**	8,700,317,608	5,809,069,109
Financial assets held for trading	**826,640**	**826,640**	1,037,360	1,037,360
Bills receivable	**8,374,602,622**	**7,456,373,686**	4,421,189,686	4,183,146,951
Trade receivables	**1,097,779,220**	**2,350,835,807**	822,930,091	1,071,371,524
Dividends receivable	**118,800,000**	**197,494,579**	24,751,198	24,751,198
Prepayments	**1,377,143,617**	**1,278,962,474**	823,338,565	571,602,521
Other receivables	**711,812,863**	**73,786,134**	268,164,615	29,344,892
Inventories	**12,451,795,018**	**10,601,699,907**	8,988,794,051	7,729,440,621
Total current assets	**30,515,450,995**	**25,047,202,788**	24,050,523,174	19,419,764,176
NON-CURRENT ASSETS:				
Long term equity investments	**1,034,491,013**	**2,219,360,976**	999,403,592	2,181,564,626
Investment properties	**6,771,343**	**17,999,035**	4,727,175	18,404,084
Fixed assets	**34,405,603,226**	**32,075,219,828**	38,272,898,821	36,293,704,502
Construction materials	**281,058,134**	**252,574,410**	223,238,270	221,471,149
Construction in progress	**1,504,328,744**	**1,420,353,347**	1,797,954,642	1,505,126,557
Intangible assets	**1,863,353,636**	**1,215,033,032**	1,855,779,750	1,238,079,244
Deferred tax assets	**493,868,095**	**479,719,267**	779,581,081	767,989,564
Total non-current assets	**39,589,474,191**	**37,680,259,895**	43,933,583,331	42,226,339,726
TOTAL ASSETS	**70,104,925,186**	**62,727,462,683**	67,984,106,505	61,646,103,902

CONSOLIDATED BALANCE SHEET (Continued)

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

	Group 2010	**Company 2010**	Group 2009	Company 2009
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short term loans	**977,093,278**	**264,908,000**	1,173,245,805	–
Bills payable	**5,269,342,225**	**2,762,510,000**	5,400,287,600	3,057,932,063
Accounts payable	**5,550,236,792**	**4,730,311,762**	6,315,104,235	5,743,462,652
Deposits received	**8,127,236,452**	**6,832,999,783**	6,092,362,835	5,584,922,592
Payroll and benefits payable	**284,521,457**	**229,661,197**	275,489,773	208,145,931
Taxes payable	**(411,180,601)**	**(388,889,831)**	(85,807,517)	(66,882,101)
Interests payable	**58,185,998**	**58,022,621**	8,138,718	8,039,421
Dividends payable	**506,995,720**	**506,995,720**	701,538,763	701,538,763
Other payables	**946,266,361**	**895,353,523**	753,587,311	710,762,838
Non-current liabilities due within one year	**7,857,611,313**	**7,843,611,313**	816,000,000	816,000,000
Total current liabilities	**29,166,308,995**	**23,735,484,088**	21,449,947,523	16,763,922,159
NON-CURRENT LIABILITIES:				
Long term loans	**11,368,731,100**	**11,278,731,100**	13,603,960,000	13,577,000,000
Bonds payable	**997,833,200**	**997,833,200**	5,165,409,845	5,165,409,845
Deferred income	**573,288,652**	**540,572,623**	579,926,538	562,619,538
Total non-current liabilities	**12,939,852,952**	**12,817,136,923**	19,349,296,383	19,305,029,383
Total liabilities	**42,106,161,947**	**36,552,621,011**	40,799,243,906	36,068,951,542
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	**3,206,200,814**	**2,964,168,101**	3,057,920,649	2,873,596,445
Retained profits	**8,008,142,354**	**7,171,633,986**	7,350,273,452	6,664,516,330
Exchange fluctuation reserve	**40,704,768**	**–**	17,419,949	–
Equity attributable to equity holders of the parent	**27,294,087,521**	**26,174,841,672**	26,464,653,635	25,577,152,360
Minority interests	**704,675,718**	**–**	720,208,964	–
Total shareholder's equity	**27,998,763,239**	**26,174,841,672**	27,184,862,599	25,577,152,360
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**70,104,925,186**	**62,727,462,683**	67,984,106,505	61,646,103,902

CONSOLIDATED STATEMENT OF INCOME

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

	Group 2010	**Company 2010**	Group 2009	Company 2009
Revenue	**64,981,112,494**	**65,373,961,475**	51,859,969,514	52,577,803,993
Less: Cost of sales	**61,173,087,326**	**62,655,167,678**	49,106,658,380	50,682,172,839
Business taxes and surcharges	**265,952,521**	**236,987,944**	219,403,050	192,555,640
Selling expenses	**238,440,760**	**216,160,050**	229,232,917	211,682,235
Administrative expenses	**1,207,589,989**	**967,508,708**	1,138,339,300	902,399,740
Financial expenses	**732,400,757**	**509,092,010**	939,046,170	862,154,362
Assets impairment losses	**17,532,724**	**13,906,462**	57,598,030	57,810,860
Add: Gain/(loss) on fair value changes	**(210,720)**	**(210,720)**	224,110	224,110
Investment income	**219,550,777**	**401,763,634**	204,300,261	222,049,960
including: share of profits of associates and jointly-controlled entities	**204,748,955**	**208,619,071**	183,239,930	183,133,600
Operating profit	**1,565,448,474**	**1,176,691,537**	374,216,038	(108,697,613)
Add: Non-operating income	**159,047,930**	**110,771,981**	191,703,227	141,823,422
Less: Non-operating expenses	**13,384,684**	**8,476,662**	3,043,520	2,628,327
including: loss on disposal of non-current assets	**6,513,280**	**5,987,267**	–	–
Profit before tax	**1,711,111,720**	**1,278,986,856**	562,875,745	30,497,482
Less: Income tax	**519,502,407**	**373,270,297**	29,009,600	(60,258,920)
Net profit	**1,191,609,313**	**905,716,559**	533,866,145	90,756,402
Attributable to equity holders of the parent	**1,101,838,516**		392,475,316	
Minority interests	**89,770,797**		141,390,829	
EARNINGS PER SHARE:				
Basic	**14.30 cents**		5.10 cents	
Diluted	**N/A**		N/A	
Other comprehensive income	**23,284,819**	**–**	65,195,156	–
Total comprehensive income	**1,214,894,132**	**905,716,559**	599,061,301	90,756,402
Including:				
Total comprehensive income attributable to the parent	**1,125,123,335**		457,670,472	
Total comprehensive income attributable to the minority shareholders	**89,770,797**		141,390,829	

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

		2010	
		Group	**Company**
1.	**Cash flows from operating activities:**		
	Cash received from sale of goods or rendering of services	**76,923,056,450**	**73,226,450,977**
	Refunds of taxes	**1,638,844**	**–**
	Cash received relating to other operating activities	**78,592,586**	**33,372,000**
	Sub-total of cash inflows	**77,003,287,880**	**73,259,822,977**
	Cash paid for goods and services	**(68,938,506,167)**	**(67,455,646,935)**
	Cash paid to and on behalf of employees	**(3,968,017,755)**	**(3,614,583,500)**
	Cash paid for all taxes	**(3,140,704,020)**	**(2,629,543,400)**
	Cash paid relating to other operating activities	**(556,052,567)**	**(571,281,122)**
	Sub-total of cash outflows	**(76,603,280,509)**	**(74,271,054,957)**
	Net cash flows from operating activities	**400,007,371**	**(1,011,231,980)**
2.	**Cash flows from investing activities:**		
	Cash received from retrieval of investments	**–**	**–**
	Cash received from investment income	**198,621,207**	**278,245,265**
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	**27,314,670**	**12,344,916**
	Cash received due to decrease in pledged deposits, net	**2,199,744,370**	**2,049,545,713**
	Cash received relating to other investing activities	**74,889,566**	**57,428,300**
	Sub-total of cash inflows	**2,500,569,813**	**2,397,564,194**
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	**(2,091,321,539)**	**(1,735,416,651)**
	Cash paid for acquisitions of investments	**(39,900,000)**	**(35,000,000)**
	Cash paid for purchasing minority interests	**(32,790,825)**	**–**
	Cash paid due to increase in pledged deposits, net	**–**	**–**
	Sub-total of cash outflows	**(2,164,012,364)**	**(1,770,416,651)**
	Net cash flows from investing activities	**336,557,449**	**627,147,543**

CONSOLIDATED CASH FLOW STATEMENT (Continued)

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

		2010 Group	2010 Company
3.	**Cash flows from financing activities:**		
	Cash received from borrowings	**13,286,042,257**	**10,575,527,950**
	Cash received from capital contribution	**–**	**–**
	including: capital contribution by Minority shareholders received by subsidiaries	**–**	**–**
	Cash received from launching medium-term notes	**997,500,000**	**997,500,000**
	Sub-total of cash inflows	**14,283,542,257**	**11,573,027,950**
	Cash repayments of borrowings	**(14,559,651,522)**	**(10,791,303,200)**
	Cash paid for distribution of dividend or profits and for interest expenses	**(580,122,890)**	**(1,051,907,837)**
	including: dividend paid to Minority shareholders by subsidiaries	**(77,552,600)**	**–**
	Sub-total of cash outflows	**(15,139,774,412)**	**(11,843,211,037)**
	Net cash flows from financing activities	**(856,232,155)**	**(270,183,087)**
4.	**Effect of foreign exchange rate changes on cash**	**1,785,113**	**(18,032,311)**
5.	**Net increase/(decrease) in cash and cash equivalents**	**(117,882,222)**	**(672,299,835)**
	Add: Balance of cash and cash equivalents at beginning of year	**5,502,947,835**	**3,759,523,396**
6.	**Balance of cash and cash equivalents at end of year**	**5,385,065,613**	**3,087,223,561**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

	Attributable to equity holders of the Parent							
	Share Capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders equity
1. At 1 January 2010	7,700,681,186	8,338,358,399	3,057,920,649	7,350,273,452	17,419,949	26,464,653,635	720,208,964	27,184,862,599
2. Increase/(decrease) during the year								
(i) Net profit	-	-	-	1,101,838,516	-	1,101,838,516	89,770,797	1,191,609,313
(ii) Other comprehensive income	-	-	-	-	23,284,819	23,284,819	-	23,284,819
Sub-total (i) and (ii)	-	-	-	1,101,838,516	23,284,819	1,125,123,335	89,770,797	1,214,894,132
(iii) Capital contribution and withdrawal by shareholders								
(a) Capital contribution by shareholders	-	-	-	-	-	-	(32,790,825)	(32,790,825)
(b) Others	-	-	12,337,798	-	-	12,337,798	5,039,382	17,377,180
(iv) Profit appropriation								
(a) Transfer to surplus reserves	-	-	135,942,367	(135,942,367)	-	-	-	-
(b) Dividend paid	-	-	-	(308,027,247)	-	(308,027,247)	(77,552,600)	(385,579,847)
(v) Transfer within shareholders' equity	-	-	-	-	-	-	-	-
3. At 31 December 2010	7,700,681,186	8,338,358,399	3,206,200,814	8,008,142,354	40,704,768	27,294,087,521	704,675,718	27,998,763,239

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Prepared under China Accounting Standards for Business Enterprises)

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

STATEMENT OF CHANGES IN EQUITY

(Prepared under China Accounting Standards for Business Enterprises)

31 December 2010
Renminbi Yuan

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2010	**7,700,681,186**	**8,338,358,399**	**2,873,596,445**	**6,664,516,330**	**25,577,152,360**
2. Increase/(decrease) during the year					
(i) Net profit	–	–	–	**905,716,559**	**905,716,559**
(ii) Other comprehensive income	–	–	–	–	–
Sub-total (i) and (ii)	–	–	–	**905,716,559**	**905,716,559**
(iii) Capital contribution and withdrawal					
(a) Capital contribution by shareholders	–	–	–	–	–
(b) Others	–	–	–	–	–
(iv) Profit appropriation					
(a) Transfer to surplus reserves	–	–	**90,571,656**	**(90,571,656)**	–
(b) Dividend paid	–	–	–	**(308,027,247)**	**(308,027,247)**
(c) Others	–	–	–	–	–
(v) Transfers within shareholders' equity	–	–	–	–	–
3. At 31 December 2010	**7,700,681,186**	**8,338,358,399**	**2,964,168,101**	**7,171,633,986**	**26,174,841,672**

STATEMENT OF CHANGES IN EQUITY (Continued)

(Prepared under China Accounting Standards for Business Enterprises)

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 share holders' equity	–	–	–	–	–
3. At 31 December 2009	7,700,681,186	8,338,358,399	2,873,596,445	6,664,516,330	25,577,152,360

CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	4	**63,040,970**	50,411,554
Cost of sales		**(59,675,969)**	(47,674,579)
Gross profit		**3,365,001**	2,736,975
Other income and gains	4	**809,187**	307,770
Selling and distribution costs		**(504,393)**	(448,636)
Administrative expenses		**(1,232,657)**	(1,170,688)
Other expenses		**(17,222)**	(41,630)
Finance costs	6	**(913,553)**	(1,004,155)
Share of profits and losses of:			
Jointly-controlled entities		**83,213**	68,245
Associates		**121,536**	114,995
PROFIT BEFORE TAX	5	**1,711,112**	562,876
Income tax expense	7	**(519,502)**	(29,010)
PROFIT FOR THE YEAR		**1,191,610**	533,866
Attributable to:			
Owners of the parent		**1,101,839**	392,475
Non-controlling interests		**89,771**	141,391
		1,191,610	533,866
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**14.3 cents**	5.10 cents
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
(Prepared under Hong Kong Financial Reporting Standards)

31 December 2010

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

1. BASIS OF PREPARATION

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

Basis of consolidation

Basis of consolidation from 1 January 2010

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

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

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

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

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

Basis of consolidation prior to 1 January 2010

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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:

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

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

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

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

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

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:

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

Note:

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

5. PROFIT BEFORE TAX

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group

	2010		**2009**	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**1,711,111,112**		562,876	
Tax at the applicable tax rate	**427,778**	**25**	140,719	25
Effect of different tax rates for specific provinces or enacted by the local authority of subsidiaries	**(12,508)**	**(1)**	5,029	1
Expenses not deductible for tax	**122,981**	**7**	26,064	4
Adjustments in respect of current tax of previous periods	**80,086**	**5**	83,610	15
Tax concessions	**(36,603)**	**(2)**	(43,286)	(8)
Tax relief granted	**(16,544)**	**(1)**	(35,047)	(6)
Income not subject to tax	**(6,736)**	**–**	(17,461)	(3)
Profits and losses attributable to jointly-controlled entities and associates	**(51,187)**	**(3)**	(45,810)	(8)
Tax losses utilised	**(2,146)**	**–**	(86,887)	(15)
Tax losses not recognised	**14,285**	**–**	2,079	–
Effect of withholding tax at 5% on the dividend income from an associate of the Group in the PRC	**96**	**–**	–	–
Tax charge at the Group's effective rate	**519,502**	**30**	29,010	5

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

8. DIVIDEND

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

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

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 RMB1,101,839,000 (2009: RMB392,475,000), and the weighted average of 7,700,681,186 (2009: 7,700,681,186) ordinary shares in issue during the year.

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

Bills receivable will mature within one year.

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

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

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

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

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

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

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

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

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

As at 31 December 2010, certain of the Group's bills receivable of RMB52,582,000 (2009: RMB29,000,000) were pledged as securities for the Group's bank loans.

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

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

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

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

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 Boards
Gu Jianguo
Chairman

March 22, 2011
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