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Interim Report



MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Code: 00323

A Share Code: 600808

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I. IMPORTANT NOTICE

1. The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
2. If any Director fails to attend the Board meeting, his name shall be set out separately:

Name of Director not Attending	Position of Director not Attending	Reasons for the Absence of Director	Name of Proxy
Wu Tat Man Damon Albert	Independent Non-executive Director	Other business engagements	–

3. The interim financial reports of the Company are unaudited, but considered and approved by the Audit Committee of the Company.
4. Legal Representative of the Company
Person Overseeing the Accounting Operations
Head of Accounting Department
Su Jiangang
Qian Haifan
Zhang Qianchun
Mr. Su Jiangang, legal representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Zhang Qianchun, head of Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the interim report.
5. No appropriation of fund on a non-recurring basis by the controlling shareholder or its related parties was found in the Company.
6. There is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.

II. Basic Information of the Company

1. COMPANY PROFILE

Statutory Chinese Name of the Company	馬鞍山鋼鐵股份有限公司
Statutory Chinese Short Name of the Company	馬鋼股份
Statutory English Name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
Statutory English Short Name of the Company	MAS C.L.
Representative of the Company	Su Jiangan

2. CONTACT PERSONS

	Secretary to the Board	Representative for Securities Affairs
Name	Ren Tianbao	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. BASIC INFORMATION

Registered address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the registered address	243003
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the office address	243003
Company's website	http://www.magang.com.cn (A Shares); http://www.magang.com.hk (H Shares)
Email address	mggfdms@magang.com.cn

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for interim report publication	http://www.sse.com.cn
Location for inspection of interim report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

5. BRIEF INFORMATION OF THE SHARES OF THE COMPANY

Type of shares	Stock Exchange for listing of shares	Short name of stock	Stock code
A Shares	Shanghai Stock Exchange	馬鋼股份	600808
H Shares	The Stock Exchange of Hong Kong Limited	MAANSHAN IRON	00323

6. OTHER BASIC INFORMATION OF THE COMPANY

Maanshan Iron & Steel Company Limited (the "Company") is principally engaged in the manufacture and sale of iron and steel products. Currently, it is one of the largest iron and steel producers and marketers in the PRC. The manufacturing process primarily involves iron-making, steel-making and steel rolling. The Company's principal product is steel products which come in four major categories: steel plates, section steel, wire rods, train wheels and wheel rims, with a full range of models and specifications designed for a variety of applications. Over 90% of these products are sold in the domestic market.

II. Basic Information of the Company (Continued)

7. MAJOR FINANCIAL DATA AND INDICATORS

(1) Major Accounting Data and Indicators

Unit: '000 Currency: RMB

	As at the end of the reporting period	As at the end of the previous year	Increase/(decrease) at the end of the reporting period as compared to the end of the previous year (%)
Total assets	83,044,596	82,092,717	1.16
Equity attributable to equity holders of the Company	25,055,957	27,380,277	-8.49
Net assets per share attributable to shareholders of the Company (RMB/share)	3.254	3.556	-8.49
	Reporting period (January to June)	Corresponding period of the previous year	Increase/(decrease) at the reporting period as compared to the corresponding period of the previous year (%)
Operating profit	-1,868,690	439,079	-525.59
Total profit	-1,803,009	488,378	-469.18
Net profit attributable to shareholders of the Company	-1,892,679	310,052	-710.44
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	-1,936,196	274,290	-805.89
Basic earnings per share (RMB)	-0.246	0.040	-715.00
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	-0.251	0.036	-797.22
Return on net assets (weighted average) (%)	-7.22	1.13	decreased by 8.35 percentage points
Net cash flows from operating activities	2,333,752	1,572,090	48.45
Net cash flows per share from operating activities (RMB)	0.3031	0.2041	48.51

(2) **Items of non-recurring gains or losses**

Unit: '000 Currency: RMB

Items of non-recurring gains or losses	Amount
Net gains or losses on disposal of non-current assets	881
Subsidies income	24,053
Gain/loss on fair value changes of financial assets held for trading	-25
Except for the above item, other non-operating income and expense items	-1,042
Amortisation of deferred income	41,790
Other investment income	122
Income tax effect	-15,262
Effect of minority interests (After tax)	-7,000
Total	<u>43,517</u>

III. Movements in Share Capital and Shareholders

1. TABLE ON MOVEMENT IN THE COMPANY'S SHAREHOLDING

TABLE ON MOVEMENT IN THE COMPANY'S SHAREHOLDING STRUCTURE

Unit: Shares

	Prior to the		Increase/(decrease) of current movements (+, -)					After	
	current movements							current movements	
	Number of shares	(%)	Issue of new shares	Bonus share	Transferred from reserves	Others	Sub-total	Number of shares	(%)
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
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-denominated ordinary shares	5,967,751,186	77.50	-	-	-	-	-	5,967,751,186	77.50
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	22.50	-	-	-	-	-	1,732,930,000	22.50
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	<u>7,700,681,186</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,700,681,186</u>	<u>100</u>

Note: The above 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 by Chairman of the Company, Mr. Su Jiangan.

2. SHAREHOLDERS AND ACTUAL HOLDERS

(1) Number of shareholders and shareholding structure

Unit: Shares

Total number of shareholders at the end of the reporting period 360,871

Shareholding of the top ten shareholders

Name of shareholder	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholders	50.47	3,886,423,927	-	-
HKSCC (Nominees) Limited	Foreign shareholders	22.16	1,706,703,898	-	Unknown
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.58	45,000,000	-	Unknown
王勇	Others	0.27	20,700,000	-	Unknown
通用電氣資產管理公司－GEAM信託基金中國A股基金	Others	0.25	19,005,751	-	Unknown
中國建設銀行－上投摩根中國優勢證券投資基金	Others	0.11	8,327,206	-	Unknown
白計平	Others	0.10	7,709,900	-	Unknown
張俊英	Others	0.10	7,520,000	-	Unknown
鍾奇光	Others	0.09	6,900,000	-	Unknown
張武	Others	0.09	6,600,000	-	Unknown

Shareholding of the top ten shareholders without selling restrictions

Name of shareholder	Number of shares held without selling restrictions	Type and number of shares
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,706,703,898	Overseas-listed foreign shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	45,000,000	RMB-denominated ordinary shares
王勇	20,700,000	RMB-denominated ordinary shares
通用電氣資產管理公司－GEAM信託基金中國A股基金	19,005,751	RMB-denominated ordinary shares
中國建設銀行－上投摩根中國優勢證券投資基金	8,327,206	RMB-denominated ordinary shares
白計平	7,709,900	RMB-denominated ordinary shares
張俊英	7,520,000	RMB-denominated ordinary shares
鍾奇光	6,900,000	RMB-denominated ordinary shares
張武	6,600,000	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 above-mentioned shareholders, nor were they concerted parties. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.

III. Movements in Share Capital and Shareholders (Continued)

(1) The number of shareholders and shareholding structure (continued)

During the reporting period, no shares held by Holding were pledged, held in lien or placed in custody, but the Company is not aware whether or not shares held by other shareholders interested in 5% or more of the Company's shares were pledged, held in lien or placed in custody during the reporting period.

HKSCC (Nominees) Limited held 1,706,703,898 H shares of the Company on behalf of multiple clients.

(2) Save as disclosed above, details of the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 30 June 2012 were as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares owned or deemed owned (Shares)	Approximate percentage of the Company's issued H shares (%)
Morgan Stanley	Interests held by legal entities controlled by the substantial shareholder	89,550,501 (Long position)	5.17
		89,085,886 (Short position)	5.14
Principal Global Investors LLC	Investment Manager	100,093,847 (Long position)	5.78

(3) Change of substantial shareholders and actual holders

There is no change in substantial shareholders and actual holders during the reporting period.

IV. Directors, Supervisors and Senior Management

1. NEW APPOINTMENTS OR REMOVALS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the end of the reporting period, Chairman Mr. Su Jiangang held 3,886 shares in the Company. There were no changes during the reporting period. None of the remaining directors, supervisors or senior management held any shares of the Company.

Save as disclosed above, as at 30 June 2012, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance.

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

The Articles of Association of the Company has set out clearly the code of behaviour for the Company's directors, supervisors and senior management in dealing with the securities of the Company. All directors of the Company have confirmed in writing that during the reporting period, directors of the Company complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

There was no other new appointment or removal of directors, supervisors and senior management during the reporting period.

V. Report of the Directors

1. DISCUSSION AND ANALYSIS OF OVERALL OPERATION IN THE REPORTING PERIOD

(1) The macro environment for production and operation

The global economic recovery was weak in the first half of the year, as marked by the slackened economic growth and decelerated employment growth in the U.S., the economic downturn in the euro zone, the escalating debt crisis in Europe as well as the reduced growth momentum and acute structural problem in the emerging economies. Overseas demand for steel products was weak, and steel prices stayed low. The price index for global steel products stood at 186.1 at the end of June, down 10.7% year-on-year or down 5.49% compared to the end of March.

In the first half of the year, China's overall national economic performance remained steady with a declining growth rate. GDP grew by 7.8%, down 1.8 percentage points year-on-year; while fixed asset investment across the country grew by 20.4%, down 5.2 percentage points year-on-year.

The general oversupply situation in the Chinese domestic iron and steel industry remained unchanged, while the pace of growth in the major steel-consuming sectors decelerated significantly so that the demand intensity for steel products declined, leading to a downturn in the steel product market and a fall in steel prices. The domestic steel prices continued to fluctuate and stay at low levels in the beginning of the year, picked up shortly in the middle and the end of March, and then remained low from April. The consolidated price index for domestic steel products as at the end of June was 115.48, down 14.08% year-on-year or down 4.70% compared to the end of March.

As for imports and exports, according to customs statistics, exported steel products during the first half of 2012 amounted to 27,250,000 tonnes, a year-on-year increase of 12.1%, while imported steel products amounted to 6,960,000 tonnes, a year-on-year fall of 13.4%. Equivalent net export of crude steel amounted to 21,400,000 tonnes in the first half of 2012, a year-on-year increase of 25.6%.

Prices of externally purchased raw materials and fuels for iron and steel enterprises remained at high levels during the reporting period, causing increased pressure to the production and operation of iron and steel enterprises. In the first half of 2012, although the average CIF price of China's imported iron ore fell by 13.8% year-on-year to US\$138.7/tonne, it continued to stand at high level as a whole during the reporting period. The sector was able to make extremely low profits. Numerous enterprises were plunged into a loss.

(2) Production and operation of the Company

Under such challenging external situations, the Company remained “closely focused on the market and efficiency, accelerated its transformation and development and fully enhanced its competitiveness” as its business theme by stepping up its business efforts and vigorously implementing its business initiatives, thus having made some achievements. However, the principal iron and steel operations recorded significant losses as a result of further deterioration of market conditions.

During the reporting period, the Company’s major work included:

- Carried out potential unleashing and benchmarking in all aspects to strive to reduce the manufacturing costs of products. However, since the aggregate fall in the prices of steel products far exceeded the aggregate fall in the prices of raw materials and fuels during the reporting period, the iron and steel industry recorded significant losses. During the reporting period, the Group produced 8,500,000 tonnes of pig iron, 8,570,000 tonnes of crude steel and 8,150,000 tonnes of steel products, representing a year-on-year increase of 10.53%, 6.06% and 6.68% respectively (in which the Company produced 6,540,000 tonnes of pig iron, 6,600,000 tonnes of crude steel and 6,350,000 tonnes of steel products, representing a year-on-year decrease of 2.59%, 5.52% and 3.10% respectively).
- Made some achievement in product mix adjustment. Loading tests were being conducted on high-power automobile wheels; model products of electric multiple unit wheels have been sent to a third party for inspection. Trials of half of the varieties in the electric furnace mix were successful. In particular, the successful production of wheel steels and axle steels has laid a sound foundation for mass production. A breakthrough was made in the production of some key products. For example, sales of automobile plates and pipeline steels amounted to 371,800 tonnes in the first half. The product quality loss should decrease by 10% this year according to the Company’s requirements.
- Carried out in-depth study and analysis of the technology trends and characterized needs of key customers in their respective sectors to determine the direction of the adjustment of variety portfolio and the objective to increase the efficiency as a result of such adjustment, and grasped the market in a dynamic manner. As a result, orders placed for high value-added products continued to increase. During the reporting period, the Group’s total sales of steel products amounted to 8,180,000 tonnes, in which sales of steel plates, section steels, wire rods, train wheels and rims amounted to 3,500,000 tonnes, 1,270,000 tonnes, 3,300,000 tonnes and 110,000 tonnes respectively.

V. Report of the Directors (Continued)

(3) Results of the group's principal operating activities for the reporting period prepared under China Accounting Standards for Business Enterprises

- The iron and steel segment accounted for approximately 81% of operating income:

Business segment/ product segment	Operating income (Unit: '000,000)	Operating cost (Unit: '000,000)	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	33,056	34,266	-3.66	-9.10	-2.58	decreased by 6.95 percentage points
Product segment						
Steel plates	13,099	13,733	-4.84	-24.66	-22.67	decreased by 2.69 percentage points
Section steels	4,493	4,582	-1.98	-30.42	-25.80	decreased by 6.35 percentage points
Wire rods	11,761	11,616	1.23	13.39	20.71	decreased by 5.99 percentage points
Train wheels and wheels rims	793	659	16.90	4.34	-8.09	increased by 11.24 percentage points

- (i) The operating cost of the iron and steel segment excluded the impact from the written-off of provision for impairment of inventories amounting to RMB675 million that was accrued in the prior year.

The amount involving connected transactions which arose from the listed company's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB20.94 million during the reporting period.

- Geographical analysis of the Group's operating income (Unit: RMB million):

Region	Ratio (%)	Operating income	Increase/(decrease) in operating income as compared to the corresponding period of the previous year (±%)
Anhui	48.09	19,517	12.38
Jiangsu	16.21	6,577	6.05
Shanghai	10.51	4,266	1.19
Zhejiang	8.30	3,369	15.22
Guangdong	5.02	2,037	-16.58
Other PRC regions	7.21	2,928	-68.67
Exports	4.66	1,892	188.85

(4) Analysis of reasons for material changes in profitability of principal operating activities (gross profit margin) as compared to the previous year

The gross profit margins of steel plates, section steels and wire rods decreased as compared to the corresponding period of the previous year mainly because of decreases in prices of steel products during the reporting period as compared to the corresponding period of the previous year.

(5) Profit breakdown of the group during the reporting period under China Accounting Standards for business enterprises

Compared to the corresponding period of the previous year, the Group's operating income decreased by 6%, which was mainly due to decreases in price of steel products during the reporting period. Cost of sales decreased by 3%, which was mainly due to a decrease in prices of raw fuels during the reporting period. Operating tax and surcharges decreased by 31%, which was mainly due to decreases in construction taxes, education surcharges and local education surcharges as a result of a decrease in VAT payable year-on-year. Selling expenses increased 43% year-on-year, mainly due to the increase in shipping expenses rising from increased export sales and increased sales of Anhui Chang Jiang Steel. Administrative expenses increased by 11%, which was mainly due to increases in staff costs resulting from increased average salary during the reporting period. Financial expenses increased 99%, which was mainly due to increases of loans and bonds, and increase in loss from US dollar loan exchange rate which is resulting from the decreased degree of downward exchange rate in US dollar against Renminbi year-on-year. Operating profit, total profit and net profit attributable to equity holders of the Company decreased by 526%, 469% and 710% respectively, which was mainly due to decreases in prices of steel products sales larger than a decrease in prices of raw fuels during the reporting period.

The operating profit margin was 1.03%, a decrease of 2.73 percentage points as compared to the corresponding period of the previous year due to decreases in prices of steel products larger than a decrease in prices of raw fuels during the reporting period.

V. Report of the Directors (Continued)

(6) The operations of the group's major invested entities under China Accounting Standards for business enterprises

Maanshan BOC-Ma Steel Gases Company Limited, in which the Company holds a direct stake of 50%, is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the planning and construction of other industrial gas product projects. Net profit during the reporting period was RMB77.2 million.

Maanshan Harbor Group Co., Ltd, in which the Company holds a direct stake of 45%, is mainly engaged in stevedoring of materials at ports, freight agency, storage services, ocean-land cargo transit, assembly and disassembly business of containers, as well as providing integrated services and repair of engineering machinery and provision of spare parts to ships involved in domestic and foreign trade. Net profit for the reporting period amounted to approximately RMB3.1 million.

Jiyuan Shi JinMa Coke Co., Ltd, in which the Company holds a direct stake of 36%, is mainly engaged in the production and sales of coke, tar, benzene and coal gas. Net profit for the reporting period amounted to approximately RMB6.0 million.

Shenglong Chemical Co., Ltd, in which the Company holds a direct stake of 32%, is mainly engaged in production and sales of coke, tar, coal gas and coke chemical products; provision of ancillary logistics services and operation of economic and trade business. Net profit for the reporting period amounted to approximately RMB30.7 million.

Shanghai Iron and Steel Electronic Deal Center Co., Ltd., in which the Company holds a direct stake of 20%, is mainly engaged in the electronic trading of iron and steel products and the planning and setting up of the relevant ancillary services, as well as e-commerce technology and information services for iron and steel. Net profit for the reporting period amounted to approximately RMB7.21 million.

(7) Financial position and exchange risks

As at 30 June 2012, the debt ratio of the Group calculated based on the book value at the end of the reporting period was 67% (total liabilities/total assets).

As at 30 June 2012, the total amount of loans borrowed by the Group amounted to RMB20,330 million, including loans of RMB7,188 million for working capital and long-term loans of RMB13,142 million. Except for US dollar loans amounting to US\$1,781 million, all other loans were denominated in Renminbi. Except for US dollar loans with interest rates of LIBOR plus a fixed percentage, among the Renminbi loans of the Group, loans amounting to RMB8,247 million carried fixed interest rates and loans amounting to RMB3,637 million carried floating interest rates. Also, the Group issued corporate bonds of RMB5.5 billion in 2011, and issued mid-term notes of RMB3.8 billion in total in 2010 and 2011. 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.

At present, all capital required for the Company's construction were derived from self-owned cash, as well as expenses of self-owned cash substituted by financing of working capital. As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB63,334 million.

(7) Financial position and exchange risks (continued)

As at 30 June 2012, the Group's cash and balances with financial institutions amounted to RMB9,186 million. Bills receivable amounted to RMB8,488 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 mainly 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. To hedge against the potential risks associated with the appreciation of exchange rates of the U.S. dollar against Renminbi, the Company has embarked on studying a hedge plan and will take measures in due course to minimize the impact of U.S. dollar debt on exchange gains and losses. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payment was relatively small.

(8) Investments

During the reporting period, the Group's expenses on construction projects amounted to RMB2,497 million, representing a decrease of 9.69% over the previous year.

➤ Major Investment Projects Financed by Non-Fundraising Proceeds (Unit: RMB million)

Project name	Total investment)	Construction progress
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment installation stage
Slab continuous casting project at No.4 steel & rolling plant	1,008	Equipment installation stage
Hot-rolled pickling plate project at No.4 steel & rolling plant	348	Equipment installation
Converter and steel-refining project at No.4 steel & rolling plant	1,019	Completed in April 2012
CRH Train Wheel Steel Project	2,944	Completion of main electric furnaces in June 2012
Hydrogenation of Benzene Project for the Masteel Coke Making Plant	320	Completed in May 2012
Silicon steel project phase 2	1,494	Plant construction

V. Report of the Directors (Continued)

(9) Status of Internal Control

Pursuant to the “Basic Standards for Internal Control of Enterprises” jointly published by the Ministry of Finance in conjunction with the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission (the “five ministries and commissions”), the Company has established an internal control system that covers the whole process of production and operation management. The system ensures orderly conduct of various work of the Company and forms a regulated management system, giving effective identification and control over operating risks.

During the reporting period, the Company compiled and published the “Self-evaluation Report on Internal Control of Maanshan Iron & Steel Co., Ltd. for Year 2011”. The Company enhances control measures to improve the internal control policy; and continues to improve the internal control system to ensure its internal control always remains effective.

(10) The environment for production and operation and coping strategies

In the second half of the year, the global economic landscape will remain challenging and complex, and the weak recovery will persist in the short term. The debt crisis in Europe will continue to brew; economic growth in major economies will remain low and that in emerging economies will slow down, making downside pressure on the global economy continue to increase. Moreover, international financial markets and prices of bulk commodities continue to fluctuate; a variety of commodities is in a fragile state of balance; developed countries maintain their ultra-loose monetary policies; and inflation risks remain very uncertain. China will accelerate the transformation of economic development pattern as the main theme; continue to maintain the general tone of making progress while ensuring stability; place the maintenance of stable growth in a more important position; boost domestic demand; carry out the development of the real economy; and accelerate reform and innovation to achieve the fundamental purpose of safeguarding and improving the livelihood of residents.

The dilemma on overcapacity in the iron and steel industry will remain unresolved, and this situation will remain challenging in the second half. However, the central bank has cut the deposit reserve ratio and interest rate twice since the beginning of this year. This moderately loose monetary policy will help reduce the financing costs of enterprises, ensuring the availability of funds for accelerating the commencement of construction of key infrastructure projects in the second half. Moreover, the implementation of a new round of policies to subsidize household appliance and automobile purchases will also mitigate the imbalance between supply and demand to a certain extent. On the whole, the trend towards high production costs and low profits for iron and steel enterprises will continue in the short run.

A blue-tinted background image showing an industrial steel mill with various machinery, pipes, and structures.

(10) The environment for production and operation and coping strategies *(continued)*

In the second half, the Company's top priority is to reduce and cease profit losses as well as to turn losses into profits by devoting more efforts to external markets and internal management, accelerating the transformation of development and enhancing relative competitiveness. Its major initiatives are as follows:

- Step up product marketing efforts, strengthen market analysis and research, and optimize product sales strategies in a timely manner. Further improve the production and marketing coordination mechanism, set up specialized product sales teams for various steel-consuming sectors, establish a new marketing model, improve the services and functions of the regional processing center, and gradually strengthen the expansion functions in regional markets;
- Strengthen the management of the procurement of raw fuels to reduce procurement costs significantly. Strengthen the effective operation of the production and supply coordination mechanism; on the basis of having rational inventory composition, devise a unified coal and ore blending plan and carry out procurement in accordance with the plan; strengthen the quality control and inspection of raw materials, fuels and auxiliary materials as well as the inspection of spare parts before delivery to plants; and improve the system for compensation for substandard raw materials, fuels and auxiliary materials;
- Focus efforts on production planning, and strengthen stable and balanced production. By means of pushing forward the setup of a pre-steelmaking and strip simulated business unit, strengthen production arrangement and coordination, and stringently implement the plan for the balanced and stable production and management of blast furnaces, with a focus placed on strip mills to optimize production scheduling rules and to achieve a fulfillment rate of 100% for orders. Continue to exercise logistics control to reduce logistics costs; set up a weak equilibrium regular operation mode for power media such as gas and electricity; and study the relationship between energy power operation and production line and production process scheduling to optimize energy power supply in a dynamic manner to reduce operation costs;
- Strengthen product development and optimize the strategic planning for the products of the Company. Deepen the work mechanism for the coordination of design, procurement and production; and set up teams headed by the Company's chiefs for the development and marketing of key products, such as automobile plate, steel for engineering machinery, steel for marine engineering, silicon steel, wheel and steel products for electric furnaces, to achieve a breakthrough in the adjustment of product mix quickly;

V. Report of the Directors (Continued)

(10) The environment for production and operation and coping strategies (continued)

- Play an active technical supporting role in enhancing product quality. Focus on stepping up efforts to tackle difficulties in improving the technology in the smelting of clean steel, the production of non-defective casting blanks and the quality of the form and surface of strips. Using the quality process control project as a work platform, continue to improve product quality and further reinforce fundamental quality management. Improve fundamental measurement management by formulating a plan to rectify the weaknesses in the measurement process to raise the level of measurement management;
- Break down indicators at each level for executing responsibilities and strengthening implementation and evaluation. Establish an indicator system for individual responsibilities as well as consistency between rights and obligations, an accountability system and an evaluation system. By focusing on pushing forward the establishment of an accountability system and performance management for the middle management staff, conduct a stringent performance evaluation, strengthen work accountability and establish a more effective incentive mechanism for the management staff.

2. INVESTMENTS OF THE COMPANY

During the reporting period, the Group's expenses on construction projects amounted to RMB2,497 million, representing a decrease of 9.69% over the previous year.

➤ Major Investment Project Financed by Non-Fundraising Proceeds (RMB million)

Project name	Total investment	Construction progress
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment installation stage
Slab continuous casting project at No.4 steel & rolling plant	1,008	Equipment installation stage
Hot-rolled pickling plate project at No.4 steel & rolling plant	348	Equipment installation
Converter and steel-refining project at No.4 steel & rolling plant	1,019	Completed in April 2012
CRH Train Wheel Steel Project	2,944	Completion of main electric furnaces in June 2012
Hydrogenation of Benzene Project for the Masteel Coke Making Plant	320	Completed in May 2012
Silicon steel project phase 2	1,494	Plant construction
Total	10,083	/

Unit: Million Currency: RMB

A blue-tinted background image showing an industrial facility with various pipes, tanks, and structures.

3. WARNING AND EXPLANATION OF POSSIBLE SIGNIFICANT CHANGES IN FORECAST ON ACCUMULATED NET PROFIT FROM BEGINNING OF THE YEAR TO END OF NEXT REPORTING PERIOD AS COMPARED WITH THE CORRESPONDING PERIOD OF PREVIOUS YEAR

Given the overall steel prices have been remained low since July, the steel product market is expected to remain sluggish during the third quarter, and is difficult to rebound sharply. The Company is likely to continue to incur losses. Accordingly, the Company expects a loss of the accumulated net profit for the period from the beginning of the year to the end of the third quarter.

4. FORMULATION AND IMPLEMENTATION OF A CASH DIVIDEND POLICY DURING THE REPORTING PERIOD

The Company's profit distribution plan for 2011: the Company will not make any profit distribution including cash dividends or carry out any share capital increase from capital reserve fund. Upon approval by the Audit Committee, the plan was considered and approved at the ninth meeting of the seventh session of the Board on 28 March, and subsequently considered and approved at the Annual General Meeting on 6 June. Relevant details have been disclosed in the Shanghai Securities News and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange in accordance with regulations.

The formulation and implementation of the plan was in compliance with the provisions of the Articles of Association and the requirements in the resolution made at the Annual General Meeting. The decision-making process and mechanism were sound and complete, and the independent directors fulfilled their responsibilities and played their proper roles.

Pursuant to the relevant requirements of the CSRC and in line with the Company's situations, the Company has amended the terms of the Articles of Association in relation to profit distribution by specifying the conditions for and the percentage of cash dividends to ensure that minority shareholders have the opportunity to fully express their views and requests, thus having fully safeguarded their legitimate rights and interests. The amendments were considered and approved at the ninth meeting of the seventh session of the Board on 5 July, and approved at the shareholders' meeting on 23 August. The procedures for modifying the cash dividend policy were compliant and transparent.



VI. Significant Matters

1. CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance management system consisting of the Shareholders' General Meeting, the Board of Directors, the Supervisory Committee and the General Manager, among whom the division of work and responsibilities were clear and unambiguous.

The Company has, to the best knowledge of the Board of Directors, complied with the requirements of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on Hong Kong Stock Exchange during the reporting period, and no deviation from the code provisions was found.

2. IMPLEMENTATION OF THE PROFIT DISTRIBUTION PLAN DURING THE REPORTING PERIOD

On 6 June 2012, the 2011 profit distribution plan was reviewed and approved at the annual general meeting of the Company. Accordingly, profit distribution including cash dividends has not been implemented and no transfer to share capital from capital reserve fund would be conducted. The relevant details were disclosed on Shanghai Securities News and websites of Shanghai Stock Exchange and Hong Kong Stock Exchange pursuant to the respective requirements.

3. MATERIAL LITIGATIONS AND ARBITRATIONS

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

4. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

The Company had no insolvency or restructuring related matters during the reporting period.

5. EQUITY HELD BY THE COMPANY IN OTHER LISTED COMPANIES AND EQUITY INVESTMENT INSTITUTIONS

(1) Investments in Securities

Item no.	Securities code	Abbreviation	Initial investment amount (RMB)	Number of shares held (share)	Book value at the end of the reporting period (RMB)	Proportion of securities investment at the end of the reporting period (%)	Losses generated during the reporting period (RMB)
1	601857	PetroChina	584,500	35,000	316,750	54.29	-24,150
2	601898	China Coal Energy	201,960	12,000	92,880	15.92	-15,240
3	601186	China Railway Construction	181,600	20,000	89,000	15.25	13,200
4	601390	China Railway Group	158,400	33,000	84,810	14.54	1,650
Total			1,126,460	-	583,440	100	-24,540

6. TRADING OF ASSETS

(1) Acquisition of assets

The seventh session of the Board of the Company approved on 9 February 2012 the Company's acquisition of a 42% equity interest in Magang Group Finance Co. Ltd. from Magang (Group) Holding for RMB429 million. Upon completion of the acquisition, the Company holds a 91% equity interest in the finance company while Magang (Group) Holding owns 9%. The transaction was approved by the provincial branch of SASAC and the provincial branch of CBRC on 14 February and 5 April 2012 respectively. Payment for the price of the acquisition and the business transfer procedures were completed on 5 April 2012. The finalized date of the acquisition was 5 April 2012. From the date of acquisition until the end of the reporting period, the finance company contributed a net profit of RMB9.7 million to the Company.

VI. Significant Matters (Continued)

7. MATERIAL TRANSACTIONS IN THE REPORTING PERIOD

(1) Connected transactions related to normal operations

Unit: Million Currency: RMB

Connected party	Connected relation	Type of connected transaction	Details of connected transaction	Pricing principles of connection transaction	Amount of connected transaction	Proportion to amount of the transaction under the same category (%)
Holding and its subsidiaries	Holding company	Sale	Sale of steel coils and other products	Mutual agreement	-	-
Holding and its subsidiaries	Holding company	Sale	Collecting fees from providing facilities, services and other commodities	Mutual agreement	21	1
Holding and its subsidiaries	Holding company	Procurement	Procurement of iron ore, limestone and dolomite	Under "Sale and Purchase of Ore Agreement"	1,883	18
Holding and its subsidiaries	Holding company	Procurement	Procurement of fixed assets and construction fees	Mutual agreement	19	1
Holding and its subsidiaries	Holding company	Procurement	Disbursement of service fees	Mutual agreement	102	100
Holding and its subsidiaries	Holding company	Procurement	Rental expenses	Mutual agreement	24	100
Holding and its subsidiaries	Holding company	Procurement	Agency fee	Mutual agreement	7	100
Holding and its subsidiaries	Holding company	Sale	Interests on loans	Mutual agreement	3	100
Holding and its subsidiaries	Holding company	Procurement	Interests on loans	Mutual agreement	3	100
Holding and its subsidiaries	Holding company	Sale	Commission fee on loans	Mutual agreement	0.3	100
Tengzhou Shenglong Coke Co., Ltd	Associate	Procurement	Procurement of coke	Mutual agreement	59	23
Maanshan Harbour Group Co., Limited	Associate	Procurement	Loading expenses	Mutual agreement	13	2
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting rental fees	Mutual agreement	1	100
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting steam utility fees	Mutual agreement	1	100
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting public utility fees including providing electricity	Mutual agreement	135	95
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Procurement	Procurement of gases	Mutual agreement	261	100

8. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(1) Trusts, contracts and lease arrangements which contributed 10% or more of the total profit of the Company for the period

i. Entrustment

There had been no material entrustment, contract or lease made by the Company in relation to any assets of other companies, or vice versa, that took place during the reporting period or took place in previous periods but subsisted until the reporting period. There were no entrustments with any other parties made by the Company to implement cash assets management on its behalf that took place during the reporting period or took place in previous periods but subsisted until the reporting period.

ii. Contracting

The Company did not act as contractor during the Reporting Period.

iii. Leasing

The Company did not have lease arrangement during the Reporting Period.

(2) Guarantees

Unit: Million Currency: US\$

External guarantees provided by the Company (Excluding guarantees provided for controlled subsidiaries)	
Total guarantee amount during the reporting period	0
Total balance of guarantees at the end of the reporting period	0
Total guarantees provided for controlled subsidiaries by the Company	
Total guarantee amount provided for subsidiaries during the reporting period	0
Total balance of guarantees provided for subsidiaries at the end of the reporting period	55
Total guarantee amount provided by the Company (including guarantees for controlled subsidiaries)	
Total guarantee amount	55
Proportion of total guarantee amount to the Company's assets (%)	1.27
Including:	
Guarantee amount provided for shareholders, the de facto controller and connected parties	0
Guarantee amount provided directly or indirectly for entities with gearing ratio exceeding 70%	0
Total guarantee amount exceeding 50% of net assets	0
Total amount of the three guarantees mentioned above	0

At the end of the reporting period, all the Company's guarantees were provided to Maanshan Iron & Steel (HK) Limited, a wholly-owned subsidiary, amounting to RMB348 million. All the guarantees were approved by the Board of the Company beforehand.

VI. Significant Matters (Continued)

(3) Asset management on trust and entrusted loan

i. *Asset management on trust*

During the reporting period, the Company had no asset management on trust.

ii. *Entrusted Loan*

During the reporting period, the Company had no entrusted loan.

(4) Other material contract

During the reporting period, the Company had no other material contract.

9. PERFORMANCE OF UNDERTAKINGS

Undertakings by the company or shareholders with a shareholding of more than 5% during the reporting period or through the reporting period

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

i. There were no unimplemented results commitments as of the disclosure date of the interim report.

ii. There were no unimplemented assets injection or integration commitments as of the disclosure date of the interim report.

10. APPOINTMENT AND REMOVAL OF AUDITOR

The Company re-appointed Ernst & Young Hua Ming as the auditor of the Company. In accordance with the requirement of Article 2.1 of Appendix 16 to the Listing Rules of the Hong Kong Stock Exchange, the Company is not required to appoint an overseas auditor.

11. PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND THE DE FACTO CONTROLLER

During the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, the de facto controller, acquirer were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market, published reprimand or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges.

12. OTHER SIGNIFICANT EVENTS

As at 5 July 2012, the board of directors of the Company approved the resolution to issue short-term financing bonds bill. In order to improve the debt structure and reduce financing costs, the Company planned to issue short-term financing bonds with par value no more than RMB10 billion, in compliance with the laws, regulations and regulatory requirements.

During the first half of 2012, 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.

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

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 the 2012 interim results 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.

13. LIST OF INFORMATION DISCLOSURE

Matter	Publishing newspaper and page number	Date of publication	Website and path of publication
Results Warning for 2011 Annual Results of Maanshan Iron & Steel Company Limited	Page B12, Shanghai Securities News	31 January	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Connected Transaction of Maanshan Iron & Steel Company Limited	Page B47, Shanghai Securities News	10 February	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors	Page B47, Shanghai Securities News	10 February	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolution of the Eighth Meeting of the Seventh Session of the Supervisory Committee	Page B47, Shanghai Securities News	10 February	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page B262, Shanghai Securities News	29 March	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Ninth Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page B262, Shanghai Securities News	29 March	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page B47, Shanghai Securities News	12 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Tenth Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page B47, Shanghai Securities News	12 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Connected Transaction of Maanshan Iron & Steel Company Limited	Page B47, Shanghai Securities News	12 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page B19, Shanghai Securities News	19 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Eleventh Meeting of the Seventh Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page B19, Shanghai Securities News	19 April	http://www.sse.com.cn; http://www.hkex.com.hk
Notice of Annual General Meeting of Maanshan Iron & Steel Company Limited	Page B19, Shanghai Securities News	19 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on the tracking rating results of the Company bonds "11 Magang 01", "11 Magang 02" of Maanshan Iron & Steel Company Limited	Page B36, Shanghai Securities News	29 May	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions Passed At The 2011 Annual General Meeting of Maanshan Iron & Steel Company Limited	Page B10, Shanghai Securities News	7 June	http://www.sse.com.cn; http://www.hkex.com.hk

VII. Financial Statements

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Note: The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principals”, 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, and the application guidance, interpretations and other related regulations issued later on (collectively known as the “CAS”). The notes to the financial statements with “*” are disclosed in accordance with the rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Hong Kong Companies Ordinance.

Consolidated Balance Sheet

30 June 2012

Renminbi Yuan

ASSETS

	Note V	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
CURRENT ASSETS:			
Cash and bank balances	1	9,186,193,392	10,611,862,099
Financial assets held for trading		583,440	607,980
Bills receivable	2	8,487,960,146	9,034,711,272
Trade receivables	3	2,073,036,605	1,883,404,218
Dividends receivable		46,800,000	99,902,452
Prepayments	4	5,030,022,470	3,651,999,532
Other receivables	5	851,578,186	694,493,241
Inventories	6	14,084,984,985	14,132,127,677
Other current assets	7	1,055,000,000	875,000,000
Total current assets		40,816,159,224	40,984,108,471
NON-CURRENT ASSETS:			
Loans and advances to customers		133,140,708	5,774,836
Long term equity investments	9	1,262,887,087	1,113,949,039
Investment properties		4,453,287	4,540,409
Fixed assets	10	33,834,340,214	32,418,075,602
Construction materials		393,988,641	265,351,474
Construction in progress	11	4,005,695,072	4,672,053,374
Intangible assets	12	1,974,064,551	2,002,437,828
Deferred tax assets		619,867,110	626,426,316
Total non-current assets		42,228,436,670	41,108,608,878
TOTAL ASSETS		83,044,595,894	82,092,717,349

Consolidated Balance Sheet (Continued)

30 June 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note V	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
CURRENT LIABILITIES:			
Customer deposits	14	434,958,155	697,944,982
Repurchase agreements		–	68,180,659
Short term loans	15	6,856,320,875	5,822,785,816
Bills payable	16	6,373,078,044	5,142,687,963
Accounts payable	16	8,619,248,959	7,030,282,017
Deposits received		7,375,502,213	7,028,115,939
Payroll and benefits payable		294,554,859	243,707,642
Taxes payable	17	(311,140,878)	(325,437,540)
Interests payable		468,685,148	218,784,755
Dividends payable	18	89,560,494	80,281,968
Other payables		1,028,269,501	731,863,459
Non-current liabilities due within one year	19	1,331,577,600	2,681,045,000
Other current liabilities	7	1,055,000,000	875,000,000
Total current liabilities		33,615,614,970	30,295,242,660
NON-CURRENT LIABILITIES:			
Long term loans	20	13,141,852,600	12,506,772,000
Bonds payable	21	8,253,440,977	9,243,722,051
Deferred income		517,857,861	552,778,524
Deferred tax liabilities		49,852,832	44,328,987
Total non-current liabilities		21,963,004,270	22,347,601,562
Total liabilities		55,578,619,240	52,642,844,222

Consolidated Balance Sheet (Continued)

30 June 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)

	Note V	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
SHAREHOLDERS' EQUITY:			
Share capital	22	7,700,681,186	7,700,681,186
Capital reserve	23	8,329,067,663	8,758,358,399
Surplus reserves		3,448,406,894	3,444,264,492
Retained profits		5,567,810,074	7,460,489,084
including: Proposed cash dividend		-	-
Exchange fluctuation reserve		9,991,466	16,483,680
Equity attributable to equity holders of the parent		25,055,957,283	27,380,276,841
Minority interests		2,410,019,371	2,069,596,286
Total shareholders' equity		27,465,976,654	29,449,873,127
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		83,044,595,894	82,092,717,349

The financial statements are signed by the following persons

Company Representative:
Su Jiangang
23 August 2012

Chief Accountant:
Qian Haifan
23 August 2012

Head of Accounting:
Zhang Qianchun
23 August 2012

Consolidated Income Statement

For the six months ended 30 June 2012

Renminbi Yuan

		For the six months ended 30 June	
		2012 Unaudited	2011 Unaudited
	Note V		
Revenue	24	40,586,883,357	43,151,233,659
Less:			
Cost of sales	24	40,167,763,006	41,526,530,287
Taxes and surcharges		90,417,990	131,323,578
Selling expenses		180,209,788	125,975,922
Administrative expenses	25	675,703,240	611,429,738
Financial expenses	26	808,083,153	405,416,586
Assets impairment losses	27	586,932,504	–
Add:			
Loss on fair value changes		(24,540)	(72,820)
Investment income	28	53,560,520	88,594,003
including: share of profits of associates and jointly-controlled entities		53,438,048	88,298,370
Operating profit/(loss)		(1,868,690,344)	439,078,731
Add:			
Non-operating income		67,465,313	53,904,419
Less:			
Non-operating expenses		1,783,592	4,604,980
including: net loss/(gain) on disposal of non-current assets		(881,020)	2,654,836
Profit/(loss) before tax		(1,803,008,623)	488,378,170
Less:			
Income tax	29	71,724,968	118,045,237
Net profit/(loss)		(1,874,733,591)	370,332,933
Including: Net profit attributable to the acquiree prior to business combination under common control		11,496,935	–
Less:			
Minority interests		17,945,419	60,280,517
Net profit/(loss) attributable to the equity holders of the parent		(1,892,679,010)	310,052,416
EARNINGS PER SHARE	30		
Basic (cents)		(24.58)	4.03
Diluted		N/A	N/A
Other comprehensive income	31	(6,492,214)	13,130,600
Total comprehensive income		(1,881,225,805)	383,463,533
Attributable to:			
Equity holders of the parent		(1,899,171,224)	323,183,016
Minority interests		17,945,419	60,280,517

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2012 (Unaudited)

	Attributable to equity holders of the parent							
	Share capital (Note V.22)	Capital reserve (Note V.23)	Surplus reserves	Retained profits	Exchange	Sub-total	Minority interests	Total shareholders' equity
					fluctuation reserve			
At 31 December 2011	7,700,681,186	8,338,358,399	3,442,866,348	7,456,020,890	16,483,680	26,954,410,503	1,978,339,214	28,932,749,717
Business combination under common control	-	420,000,000	1,398,144	4,468,194	-	425,866,338	91,257,072	517,123,410
1. At 1 January 2012 (restated)	7,700,681,186	8,758,358,399	3,444,264,492	7,460,489,084	16,483,680	27,380,276,841	2,069,596,286	29,449,873,127
2. Increase/(decrease) during the period								
1) Net profit/(loss)	-	-	-	(1,892,679,010)	-	(1,892,679,010)	17,945,419	(1,874,733,591)
2) Other comprehensive income	-	-	-	-	(6,492,214)	(6,492,214)	-	(6,492,214)
3) Business combination under common control	-	(429,290,736)	-	-	-	(429,290,736)	-	(429,290,736)
Total comprehensive income	-	(429,290,736)	-	(1,892,679,010)	(6,492,214)	(2,328,461,960)	17,945,419	(2,310,516,541)
4) Capital contribution and withdrawal by shareholders								
(i) Capital contribution from minority shareholders	-	-	-	-	-	-	348,000,000	348,000,000
(ii) Others	-	-	4,142,402	-	-	4,142,402	-	4,142,402
5) Profits appropriation								
(i) Dividend declared to shareholders	-	-	-	-	-	-	-	-
(ii) Dividend declared to minority shareholders	-	-	-	-	-	-	(25,522,334)	(25,522,334)
3. At 30 June 2012	7,700,681,186	8,329,067,663	3,448,406,894	5,567,810,074	9,991,466	25,055,957,283	2,410,019,371	27,465,976,654

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2011 (Unaudited)

	Attributable to equity holders of the parent						Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total		
	(Note V.22)	(Note V.23)						
1. At 1 January 2011	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
2. Increase/(decrease) during the period								
1) Net profit	-	-	-	310,052,416	-	310,052,416	60,280,517	370,332,933
2) Other comprehensive income	-	-	-	-	13,130,600	13,130,600	-	13,130,600
Total comprehensive income	-	-	-	310,052,416	13,130,600	323,183,016	60,280,517	383,463,533
3) Capital contribution and withdrawal by shareholders								
(i) Capital contribution from minority shareholders	-	-	-	-	-	-	37,500,000	37,500,000
(ii) Acquisition of subsidiary	-	-	-	-	-	-	1,010,000,000	1,010,000,000
4) Profits appropriation								
(i) Dividend declared to shareholders	-	-	-	(385,034,059)	-	(385,034,059)	-	(385,034,059)
(ii) Dividend declared to minority shareholders	-	-	-	-	-	-	(26,292,014)	(26,292,014)
3. At 30 June 2011	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>3,206,200,814</u>	<u>7,933,160,711</u>	<u>53,835,368</u>	<u>27,232,236,478</u>	<u>1,786,164,221</u>	<u>29,018,400,699</u>

Consolidated Cash Flow Statement

For the six months ended 30 June 2012

Renminbi Yuan

		For the six months ended 30 June	
		2012 Unaudited	2011 Unaudited
	Note V		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	49,619,052,613	51,249,647,349
	Refund of taxes	19,881,502	-
	Cash received for interest charges, fees and commissions	27,841,752	-
	Cash received relating to other operating activities	4,838,230	13,112,965
	Sub-total of cash inflows	<u>49,671,614,097</u>	<u>51,262,760,314</u>
	Cash paid for goods and services	(43,319,324,235)	(45,921,354,410)
	Cash paid to and on behalf of employees	(2,296,665,938)	(2,028,933,393)
	Cash paid for all taxes	(847,823,821)	(1,339,367,646)
	Net increase in loans and advances to customers	(156,467,546)	-
	Net decrease in customer deposits	(262,986,827)	-
	Net decrease in repurchase agreements	(68,180,659)	-
	Cash paid for interest charges, fees and commissions	(4,992,995)	-
	Cash paid relating to other operating activities	(381,420,404)	(401,015,056)
	Sub-total of cash outflows	<u>(47,337,862,425)</u>	<u>(49,690,670,505)</u>
	Net cash flows from operating activities	<u>2,333,751,672</u>	<u>1,572,089,809</u>
2.	Cash flows from investing activities:		
	Cash received from returns on investments	130,768,685	136,981,908
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	7,390,324	52,250,555
	Cash received from decrease of pledged deposits	-	28,720,803
	Cash received relating to other investing activities	8,210,000	383,261,393
	Sub-total of cash inflows	<u>146,369,009</u>	<u>601,214,659</u>
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(2,475,435,589)	(1,534,663,434)
	Cash paid for investments	(95,500,000)	(490,000,000)
	Cash paid from decrease of pledged deposits	(1,165,963,955)	-
	Cash paid for the acquisition of a subsidiary	(429,290,736)	-
	Sub-total of cash outflows	<u>(4,166,190,280)</u>	<u>(2,024,663,434)</u>
	Net cash flows from investing activities	<u>(4,019,821,271)</u>	<u>(1,423,448,775)</u>

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June 2012

Renminbi Yuan

		For the six months ended 30 June	
		2012	2011
		Unaudited	Unaudited
	Note V		
3.	Cash flows from financing activities:		
	Cash received from borrowings	21,918,158,148	12,735,490,513
	Cash received from capital contribution	348,000,000	37,500,000
	including: capital contribution by minority shareholders received by subsidiaries	348,000,000	37,500,000
	Sub-total of cash inflows	22,266,158,148	12,772,990,513
	Cash repayments of borrowings	(22,586,648,594)	(8,468,907,717)
	Cash paid for distribution of dividend or profits and for interest expenses	(603,105,732)	(1,018,667,332)
	including: dividend paid to minority shareholders by subsidiaries	(16,454,362)	(18,872,243)
	Sub-total of cash outflows	(23,189,754,326)	(9,487,575,049)
	Net cash flows from financing activities	(923,596,178)	3,285,415,464
4.	Effect of foreign exchange rate changes on cash	18,033,115	(23,225,948)
5.	Net increase/(decrease) in cash and cash equivalents	(2,591,632,662)	3,410,830,550
	Add: Balance of cash and cash equivalents at the beginning of period	9,302,476,206	5,385,065,613
6.	Balance of cash and cash equivalents at the end of period	6,710,843,544	8,795,896,163

Company Balance Sheet

30 June 2012

Renminbi Yuan

ASSETS

		30 June 2012 Unaudited	31 December 2011 Audited
	Note XI		
CURRENT ASSETS:			
Cash and bank balances		4,789,155,427	4,768,791,715
Financial assets held for trading		583,440	607,980
Bills receivable		6,128,229,076	6,866,227,009
Trade receivables	1	2,548,944,553	2,412,923,730
Dividends receivable		184,852,738	152,701,212
Prepayments		3,218,983,788	3,035,017,626
Other receivables	2	280,220,446	87,210,086
Inventories		10,289,056,023	10,433,971,452
Total current assets		<u>27,440,025,491</u>	<u>27,757,450,810</u>
NON-CURRENT ASSETS:			
Long term equity investments		6,908,920,228	5,408,814,497
Investment properties		17,374,235	17,593,986
Fixed assets		29,187,280,053	28,163,111,487
Construction materials		335,419,515	282,303,496
Construction in progress		2,634,527,230	3,415,642,243
Intangible assets		1,166,914,358	1,182,953,916
Deferred tax assets		594,159,523	597,145,110
Total non-current assets		<u>40,844,595,142</u>	<u>39,067,564,735</u>
TOTAL ASSETS		<u><u>68,284,620,633</u></u>	<u><u>66,825,015,545</u></u>

Company Balance Sheet (Continued)

30 June 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY

	30 June 2012 Unaudited	31 December 2011 Audited
CURRENT LIABILITIES:		
Short term loans	2,202,224,440	720,152,772
Bills payable	2,855,870,000	2,219,224,949
Accounts payable	7,841,249,026	6,868,767,357
Deposits received	4,973,700,997	5,644,238,568
Payroll and benefits payable	180,356,848	175,902,146
Taxes payable	(221,638,676)	(388,139,010)
Interests payable	465,173,688	215,949,993
Dividends payable	6,146,772	5,936,218
Other payables	757,103,831	564,693,699
Non-current liabilities due within one year	1,331,577,600	2,681,045,000
Total current liabilities	20,391,764,526	18,707,771,692
NON-CURRENT LIABILITIES:		
Long term loans	15,505,277,100	12,838,172,000
Bonds payable	8,253,440,977	9,243,722,051
Deferred income	489,269,307	523,714,144
Total non-current liabilities	24,247,987,384	22,605,608,195
Total liabilities	44,639,751,910	41,313,379,887
SHAREHOLDERS' EQUITY:		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,338,358,399	8,338,358,399
Surplus reserves	2,964,168,101	2,964,168,101
Retained profits	4,641,661,037	6,508,427,972
Total shareholders' equity	23,644,868,723	25,511,635,658
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	68,284,620,633	66,825,015,545

Company Income Statement

For the six months ended 30 June 2012

Renminbi Yuan

		For the six months ended 30 June	
		2012	2011
		Unaudited	Unaudited
	Note XI		
Revenue	4	32,219,786,508	38,717,188,205
Less: Cost of sales	4	32,463,272,397	37,855,424,317
Taxes and surcharges		58,940,625	105,760,655
Selling expenses		136,633,545	113,305,306
Administrative expenses		436,175,984	455,931,467
Financial expenses		680,065,432	223,827,456
Assets impairment losses		556,658,817	–
Add: Loss on fair value changes		(24,540)	(72,820)
Investment income	5	207,821,737	140,788,606
including: share of profits of associates and jointly-controlled entities		60,814,995	89,385,084
Operating profit/(loss)		(1,904,163,095)	103,654,790
Add: Non-operating income		41,182,979	42,003,511
Less: Non-operating expenses		750,251	1,675,300
including: net loss/(gain) on disposal of non-current assets		(1,242,416)	(2,999,882)
Profit/(loss) before tax		(1,863,730,367)	143,983,001
Less: Income tax		3,036,568	17,683,580
Net profit/(loss)		(1,866,766,935)	126,299,421
Other comprehensive income		–	–
Total comprehensive income		(1,866,766,935)	126,299,421

Company Statement of Changes in Equity

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2012 (Unaudited)

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2012	7,700,681,186	8,338,358,399	2,964,168,101	6,508,427,972	25,511,635,658
2. Increase/(decrease) during the period					
1) Net loss	-	-	-	(1,866,766,935)	(1,866,766,935)
2) Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(1,866,766,935)	(1,866,766,935)
3) Capital contribution and withdrawal					
(i) Capital contribution by shareholders	-	-	-	-	-
(ii) Others	-	-	-	-	-
4) Profits appropriation					
(i) Transfer to surplus reserves	-	-	-	-	-
(ii) Dividends declared	-	-	-	-	-
5) Transfers within shareholders' equity	-	-	-	-	-
3. At 30 June 2012	7,700,681,186	8,338,358,399	2,964,168,101	4,641,661,037	23,644,868,723

Company Statement of Changes in Equity (Continued)

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2011 (Unaudited)

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2011	7,700,681,186	8,338,358,399	2,964,168,101	7,171,633,986	26,174,841,672
2. Increase/(decrease) during the period					
1) Net profit	-	-	-	126,299,421	126,299,421
2) Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	126,299,421	126,299,421
3) Capital contribution and withdrawal					
(i) Capital contribution by shareholders	-	-	-	-	-
(ii) Others	-	-	-	-	-
4) Profits appropriation					
(i) Transfer to surplus reserves	-	-	-	-	-
(ii) Dividends declared	-	-	-	(385,034,059)	(385,034,059)
5) Transfers within shareholders' equity	-	-	-	-	-
3. At 30 June 2011	<u>7,700,681,186</u>	<u>8,338,358,399</u>	<u>2,964,168,101</u>	<u>6,912,899,348</u>	<u>25,916,107,034</u>

Company Cash Flow Statement

For the six months ended 30 June 2012

Renminbi Yuan

		For the six months ended 30 June	
		2012	2011
		Unaudited	Unaudited
	Note XI		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	37,604,003,687	45,800,970,979
	Cash received relating to other operating activities	–	38,000
	Sub-total of cash inflows	37,604,003,687	45,801,008,979
	Cash paid for goods and services	(34,194,107,105)	(37,505,761,908)
	Cash paid to and on behalf of employees	(1,860,458,501)	(1,785,967,443)
	Cash paid for all taxes	(444,299,118)	(1,078,246,383)
	Cash paid relating to other operating activities	(337,093,846)	(198,377,029)
	Sub-total of cash outflows	(36,835,958,570)	(40,568,352,763)
	Net cash flows from operating activities	768,045,117	5,232,656,216
2.	Cash flows from investing activities:		
	Cash received from returns on investments	174,777,670	156,810,645
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	1,917,526	269,593,098
	Cash received from decrease of pledged deposits	–	–
	Cash received relating to other investing activities	6,760,000	–
	Sub-total of cash inflows	183,455,196	426,403,743
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(825,902,039)	(1,191,382,190)
	Cash paid for investments	(1,439,290,736)	(2,836,944,444)
	Cash paid due to increase in pledged deposits, net	–	(534,924)
	Sub-total of cash outflows	(2,265,192,775)	(4,028,861,558)
	Net cash flows from investing activities	(2,081,737,579)	(3,602,457,815)

Company Cash Flow Statement (Continued)

For the six months ended 30 June 2012

Renminbi Yuan

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	17,112,150,369	8,488,388,500
Sub-total of cash inflows	17,112,150,369	8,488,388,500
Cash repayments of borrowings	(15,337,101,519)	(7,243,411,000)
Cash paid for distribution of dividend or profits and for interest expenses	(473,044,172)	(892,036,582)
Sub-total of cash outflows	(15,810,145,691)	(8,135,447,582)
Net cash flows from financing activities	1,302,004,678	352,940,918
4. Effect of foreign exchange rate changes on cash	32,051,496	77,074,381
5. Net increase in cash and cash equivalents	20,363,712	2,060,213,700
Add: Balance of cash and cash equivalents at the beginning of period	4,768,791,715	3,087,223,561
6. Balance of cash and cash equivalents at the end of period	4,789,155,427	5,147,437,261

Notes to Interim Financial Statements

30 June 2012

Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People’s Republic of China (the “PRC”) on 1 September 1993. The registration number of the Company’s business licence is 340000400002545. The headquarter of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. The Company’s A shares and H shares were issued and listed in the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. The Company together with its subsidiaries (collectively known as the “Group”) are principally engaged in the manufacture and sale of iron and steel products and related by-products.

The original registered capital of the Company was RMB6,455,300,000, and the number of shares were 6,455,300,000, which included state-owned share with selling restrictions of 3,830,560,000 shares, domestic legal person share of 87,810,000 shares, domestic natural person share of 10,000 shares, ordinary A share of 803,990,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1.

During the years 2007, 2008 and 2009, among the total number of warrants of 1,265,000,000 attached to the Company’s bonds with warrants of 1,245,381,186 warrants were being exercised by certain holders in exchange for the Company’s ordinary A share. After the exercise, the Company’s registered capital became RMB7,700,681,186.

Up to 30 June 2012, the Company had issued 7,700,681,186 shares in total, including ordinary A share of 5,967,751,000 shares and ordinary H share of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are stated in Note V.22 to the financial statements.

The Company’s principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron and steel related businesses; extended processing of iron and steel products, production and sale of metallic products; steel framework production, equipment production and related services; maintenance of vehicles, recycle and processing of discarded vehicles (limited to the internal discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificates); rendering of technological services and consultancy services.

The parent company of the Group is Magang (Group) Holding Company Limited (the “Holding”), which is incorporated in the PRC.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. BASIS OF PREPARATION OF THE INTERIM FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principals, 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, and the application guidance, interpretations and other related regulations issued later on (collectively known as the “CAS”).

The financial statements are prepared based on an ongoing basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Provision for impairment is provided in accordance with related regulations when indications of impairment of assets noted.

2. Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS and presented truly and completely the financial position of the Company and the Group as of 30 June 2012 and the results of their operations and their cash flows for the six months then ended.

3. Accounting period

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

4. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group’s presentation and functional currency. All values are rounded to the nearest Renminbi Yuan (“RMB”) except when otherwise indicated.

The Group’s subsidiaries use their respective local currencies for presentation purposes in accordance with their own operating environments, and translate to Renminbi when preparing financial statements.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5 Business combination

Business combination represents a transaction or event where two, or more than two, separate entities became one reporting entity. Business combinations are classified as “Business combination involving entities under common control” and “Business combination involving entities not under common control”.

Business combination involving entities under common control

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under a business combination involving entities under common control, the combining entity obtains control of another involving entity being absorbed on the combination date. The combination date is the date on which the combining entity effectively obtains control of the entity being absorbed.

The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

Business combination involving entities not under common control

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree’s identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date of acquisition.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5 Business combination (continued)

Any excess of the sum of fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of fair value of considerations paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.

6 Consolidated financial statements

The scope of consolidated financial statements is determined by control basis, which consists of financial statements of the Company and its subsidiaries for the six months ended 30 June 2012. A subsidiary is a company or entity that is controlled by the Company.

The financial year and accounting policies of subsidiaries are applied consistently with the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealised gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Where the current loss assumed by minority shareholders of a subsidiary exceeds the minority interests of the beginning balance of equity, the balance offsets minority interests. Any changes in the minority interests without losing control is recognised as an equity transaction.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing consolidated financial statements, the adjustments shall be made to the subsidiaries' financial statement based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of combination period. In preparing consolidated financial statements, the adjustments shall be made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

8. Foreign operations and foreign currency translation

The Group translates foreign currencies into the presentation currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in other comprehensive income.

The Group translates functional currencies of overseas businesses into Renminbi when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained profits, is translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuation arising from the translation mentioned above is recognised as other comprehensive income, and is presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

The foreign currency cash flows and cash flows of a foreign subsidiary shall be translated at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents is presented separately in the cash flow statement.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognised when and only when:

- (1) The contractual rights to the cash flows from the financial asset expire; or
- (2) It transfers the contractual rights to receive the cash flows of the financial asset in a manner, or assumes a contractual obligation to pay the cash flows to one or more recipients in an “transfer arrangement” and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expired. If existing financial liabilities is replaced by the same debtor with a new financial liability, whose contractual stipulations are substantially different from that regarding the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulations as a new financial liability, and the difference is recognised in the income statement.

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

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and measurement of financial assets

The Group classifies its financial assets into four categories when recognised initially, including: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value initially. For financial assets at fair value through profit or loss, the directly associated transaction costs are charged to the income statement; for other financial assets, the directly associated transaction costs are recognised as initial investment cost.

The subsequent measurement of financial assets depends on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held for trading and those that are designated as at fair value through the income statement upon initial recognition. A financial asset is classified as held for trading if it is: 1) acquired principally for the purpose of selling it in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial assets are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

The financial assets are designated as financial assets at fair value through profit or loss, if one of the following criteria is satisfied:

- (1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different measurement bases of financial instruments.
- (2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.
- (3) Hybrid instruments which contains one or more embedded derivatives, unless the containing of embedded derivatives does not have substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from relevant hybrid instruments.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and measurement of financial assets (continued)

- (4) Hybrid instruments which contains embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

For the equity investment where is there is quoted market price from an active market or the fair value cannot be reliably measured, such equity investment shall not be designated as financial assets at fair value through profit or loss.

Upon the designation of a financial asset as a financial asset at fair value through profit and loss in initial recognition, it shall not be reclassified to other categories of financial asset. Also, assets from other categories of financial asset shall not reclassify to financial assets at fair value through profit and loss.

In accordance with the above conditions, the Group has designated these kinds of financial assets mainly includes the financial assets held for trading.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised, impaired, or amortised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised, impaired, or amortised.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are initially designated as available for sale or are not classified as the abovementioned other categories of financial instruments. Such available-for-sale financial assets are measured at fair value in subsequent measurement. The premium or discount is amortised using the effective interest method, with interests recognised as interest income or expense. The fair value changes of available-for-sale financial assets are recognised as other comprehensive income in capital reserves except for changes arising from impairment losses or foreign exchange conversion on non-Renminbi monetary financial assets. When the financial asset is derecognised or impaired, the accumulated gains or losses recognised in prior periods are transferred to the income statement. All dividends or interest income related to available-for-sale financial assets are recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Classification and measurement of financial liabilities

The Group classifies its financial liabilities, when recognised initially as: financial liabilities at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, its transaction costs are charged to the income statement; whereas other financial liabilities, its transaction cost are recognised as initial cost.

The subsequent measurement of financial liabilities depending on their classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise of financial liabilities held for trading and those that are designated as fair value through profit or loss upon initial recognition. A financial liability is classified as held for trading if it is: 1) incurred principally for the purpose of repurchasing in the near term; 2) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 3) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or is linked to and must be settled by delivery of such unquoted equity instruments in an active market, and whose fair value cannot be reliably measured). Such financial liabilities are measured under fair value method subsequently. All the realised and unrealised gains or losses are recognised in the income statement.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and measurement of financial liabilities (continued)

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value, but it does not belong to financial liabilities that are designated at fair value through profit or loss. It is subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation.

Bonds with warrants

The Group evaluates the terms of the issuance of bonds with warrants to determine whether it contains both a liability and an equity component. The bonds with warrants issued contain both a liability and an equity component. On initial recognition, it should be bifurcated the liability and equity component and accounted for them separately. In the bifurcation, the liability component shall be initially recognised and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised. The portion of the transaction costs relating to the liability components is recognised as part of the liability and amortised in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognised as part of the equity and is not remeasured in subsequent years.

The issuance of bonds with warrants contain both a liability component and an embedded derivative, that is the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognised as derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Fair value of financial instrument

The fair value of financial assets or financial liabilities traded in active markets is determined by reference to quoted market prices in active markets. For financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. These techniques include using price of a market transaction at arm's length; reference to the current market value of instrument which is substantially the same; a discounted cash flow analysis, and option pricing models, etc.

Impairment of financial assets

The Group assesses carrying amount of a financial asset at each balance sheet date and provides impairment provision when there is any objective evidence that the financial asset is impaired. Such objective evidence refers to events: occurred after the initial recognition of the financial asset; impacted on the estimated future cash flows of the financial asset; such impacts can be reliably measured.

Financial assets carried at amortised cost

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

For assets that are individually significant, impairment assessment is made on an individual basis, and an impairment loss is recognised in the income statement when objective evidence of impairment exists. Assets that are individually insignificant, the Group includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. For assets that have been individually assessed (including individually significant and individually insignificant), but for which there is no objective evidence of impairment, are included within a group of assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognised cannot be subject to a collective impairment assessment.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds when the amortised cost would have had the impairment not been recognised at the reversal date.

Available-for-sale financial assets

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income due to decline in the fair value shall be removed and recognised in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through the income statement. Increase in their fair value after impairment is recognised directly in other comprehensive income.

Financial assets carried at cost

If there is objective evidence that an impairment loss on the financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognised in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured at cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment are assessed under the above mentioned principles.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Transfer of financial assets

The Group transfers substantially all the risks and rewards or control of the asset; it shall derecognise the financial assets, whereas, if it retains substantially all the risks and rewards or control of the asset, it should not derecognise the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it should follow the below treatment: if the control over the financial asset is lost, it should derecognise the financial asset and recognise the related assets and liabilities incurred. If the control over the financial asset has not been lost, the Group recognises the financial asset to the extent of its continuing involvement of the financial asset and recognise an associated liability.

10. Receivables/Loans and advances to customers

- (1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the income statement.
- (2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognised as impairment loss and charged to the income statement.
- (3) Since loans and advances to customers have similar credit risk characteristic, it is managed as a group of financial assets, and the bad debt provision for them accrued at 1% of the balance as at the period end.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11 Inventories

Inventories include raw materials, work in progress, finished goods, construction contracts and spare parts.

Inventories are initially recognised at cost, which comprises of purchase cost, processing cost, and other costs. Cost of delivered inventories, other than construction contracts and spare parts, are determined on weighted average basis. Cost of spare parts, lower valued consumables and packing materials are charged to the income statement when issued.

Contract costs shall comprise direct materials, direct labour, utilisation expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognised gross profits (or recognised loss) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statement. Provision of impairment for construction contract is assessed at period end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognised in the income statement.

Inventories are accounted for using the perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and net realisable value. If the cost is in excess of amounts expected to be realised from their sale or use, provision for inventories is recognised in the income statement. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to the income statement.

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on category basis for raw materials, and on an individual basis for finished goods.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12 Long term equity investments

Long term equity investments consist of investments in subsidiaries, jointly-controlled entities, associates, and other equity investments which the Group cannot control the investees, or the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. Long term equity investments are initially recognised at initial investment cost on acquisition.

Long term investment shall be recognised at initial investment cost upon acquisition. For the long term investments that acquired through business combination involving entities under common control, the initial investment cost shall be the share in the carrying amount of the acquiree's equity. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (For those complete the business combination involving entities not under common control in various stages by means of numerous transactions, the initial investment cost is the sum of the carrying amount of the acquiree's equity investments held before the acquisition date and the new investment cost on the acquisition date), which is the sum of the fair value of assets paid, liabilities incurred or assumed and equity securities issued. In addition to the long term investment acquired through business combination, it should be treated as follows: for the transaction paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses. For the issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities. For the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in investment contract or agreement is not at fair value.

The cost method is applied for long term equity investments when the investee are neither jointly controlled nor significantly influenced by the Group, and no quoted market price in an active market so that whose fair value cannot be reliably measured. The cost method is applied for long term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the company.

When the cost method is adopted, long term equity investments are recorded at initial investment cost. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period, but such investment income is limited to proportionate distributions from accumulated profits after the date of acquisition. Also, it should consider whether there is impairment for the long term investment in accordance with the related asset provision policy.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12 Long term equity investments (continued)

The equity method is applied for long term equity investments when investees are jointly controlled or significantly influenced by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

When the equity method is adopted, the initial cost of investment that in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, by which the difference shall be charged to the income statement.

When the equity method is adopted, the investor recognises its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. The recognition of the investee's result should base on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. And the gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, it should be entirely recognised). The recognition should base on the adjusted income statement of the investee. With respect to the long term equity investment in associates and jointly controlled entities acquired before the first time adoption date, the remaining equity investment difference arising from the amortisation using the straight line method (if any) should be recognised as investment income or loss. The investor's share of profits distribution or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other substantially treated as equity interests to the investee is reduced to zero, except where the investor has extra obligation to assume the loss. For the changes of equity in investee other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

When long term equity investment are being disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under equity method, the amount recognised in the equity previously shall be transferred to the income statement upon its disposal.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12 Long term equity investments (continued)

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in note II.24. For the other long term investments which do not have quoted market price from active market, and whose fair value cannot be reliably measured, further details of their impairment assessment and measurement of provision for impairment are stated in note II.9.

13 Investment properties

Investment properties are interests in land and buildings (including land use rights and properties lent out under operating lease) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalised when and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; otherwise it is charged to the income statement.

The Group accounts for investment properties under cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over its estimated useful life, the period over which that future economic benefits will flow into the Group.

For the impairment assessment and measurement of provision for impairment of the investment properties adopting the cost model, further details are stated in note II.24.

14 Fixed assets

Fixed assets are recognised in situations when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognised; otherwise, is charged to the income statement.

Fixed assets are initially recorded at cost. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14 Fixed assets (continued)

Depreciation is provided on fixed assets using the straight-line method. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings and structures	10 – 20 years	3%	4.9 – 9.7%
Plant, machinery and equipment	13 years	3%	7.5%
Office equipment	10 years	3%	9.7%
Transportation vehicles and equipment	5 years	3%	19.4%

The components of fixed assets which have difference useful lives and generate difference kinds of benefits to the enterprise, it should have difference depreciation rate and method.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts them if appropriate, at least at each balance sheet date.

For the impairment assessment and measurement of provision for impairment of the fixed assets, further details are stated in note II.24.

15. Construction in progress

Construction in progress is recognised based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalised borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

For the impairment assessment and measurement of provision for impairment of the construction in progress, further details are stated in note II.24.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including interests, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs commences when:

- (1) Expenditures for the assets are being incurred;
- (2) Borrowing costs are incurred; and
- (3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are treated as an expense.

Within the capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by following methods:

- (1) For the specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during current period deducted by any temporary interest or investment income;
- (2) For the general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the excess of accumulated capital expenditures over the specific borrowings.

Capitalisation of borrowing costs is suspended during extended periods in which the acquisition or construction of a fixed asset is interrupted abnormally for more than three months until the acquisition or construction is resumed.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets

Intangible assets are recognised if and only if it is probably that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for intangible asset acquired in the business combination whose fair value can be reliably measured, it is separately recognised and measured at its fair value.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefit periods are classified as intangible assets with indefinite useful lives.

The useful lives of the Group's intangible assets are as follows:

	Useful life
Land use rights	50 years
Mining rights	25 years
Back-up roll technology	10 years

The Group accounts for its land use rights as intangible assets. The land use rights are measured as intangible assets that are separate from internally generated buildings measured as fixed assets. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, otherwise, the cost is wholly accounted for as fixed assets.

Intangible assets with finite useful lives are amortised over the useful lives on the straight-line basis. The Group reviews the useful lives and amortisation methods of intangible assets with finite useful lives, and adjusts them if appropriate, at least at each balance sheet date.

For the intangible assets with indefinite useful live, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, it should not be amortised and its useful live is reviewed at least at each financial year end. If there is indication that the useful live is finite, it should follow the accounting treatment of intangible assets with finite lives as mentioned above.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (continued)

The expenditures for internal research and development projects of the Group were classified into research expenditures and development expenditures. “Research” refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. “Development” refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

For the impairment assessment and measurement of provision for impairment of the intangible assets, further details are stated in note II.24.

18. Provisions

Except for contingent considerations or contingent liabilities assumed under a business combination, a provision is recognised if:

- (1) the obligation is a present obligation assumed by the Group;
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering factors such as risks, uncertainties and present value. Provisions shall be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

For the provision that is being acquired from business combination, it should be initially measured at fair value. After the initial recognition, the amount of provision should be subsequently measured at the higher of the amount being recognised and the initial recognised amount after deducting the accumulated amortisation in accordance with revenue recognition principal.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Repurchase agreements

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest method.

20. Revenue

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow into the Group and the relevant amounts of revenue can be measured reliably, as well as all the following conditions are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards in relation to ownership of the goods have been transferred to the buyer, the Group retains neither continuing management nor effective control over the goods sold; and the relevant amounts of costs can be measured reliably. The revenue from the sale of goods shall be determined by the amount received or receivable by the purchaser stipulated in the contract or agreement, unless the amount received or receivable stipulated in the contract or agreement is not at fair value. If the receivable method of the amount stated in the contract or agreement is made by deferred method and it contains the nature of financing, it should be determined by the fair value of the amount receivable as stated in the contract or agreement.

Revenue from the rendering of services

As at the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the percentage of completion method; otherwise, revenue is recognised only to the extent of the expenses recognised that are recoverable. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow into the Group; the stage of completion of the transaction can be measured reliably; the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. The stage of completion is determined by the proportion of costs incurred to date bear to the estimated total costs of the transaction. For the revenue from rendering of services, it is determined by the amount received or receivable from the party receiving the service as stated in the contract or agreement unless the amount received or receivable as stated in the contract or agreement is not at fair value.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Revenue from the rendering of services (continued)

When the Group enters in to contract or agreement with other parties which contains both sales of goods and rendering of services, if the portions of sale of goods and rendering of services can be separately measured, the portions of sale of goods and rendering of services are measured individually. If the portions of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot measured individually, it is deemed to be sales of goods.

Interest income

Interest income is recognised based on the time horizon of the use of the Group's cash by others and its effective interest rate.

Lease income

Lease income from operating lease is recognised over the lease terms on the straight-line basis. Contingent lease income is recognised when it incurred.

21. Government grants

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

22. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in the income statement, except to the extent that it arises from: tax adjustment goodwill arising from a business combination; tax arising from an item that has been recognised directly in equity, which recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Income tax (continued)

Based on the differences between the carrying amount of an asset or liability in the balance sheet and its tax base; and the differences between the carrying amount of some items that have a tax base but are not recognised as assets and liabilities and their tax base, the Group adopts liability method for provision of deferred tax.

A deferred tax liability is recognised in respect of all taxable temporary differences except those arising from:

- (1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to temporary differences associated with subsidiaries, jointly controlled entities and associates, the Group is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to deductible temporary differences associated with subsidiaries, jointly controlled entities and associates, a deferred tax asset is recognised to the extent that it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

At each balance sheet date, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realisation or liability settlement at the balance sheet date.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Income tax (continued)

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

23. Lease

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as a finance lease. All the other leases are termed as operating leases.

Operating lease as lessee

Rental payable under the operating leases are charged to the income statement or capitalised on the straight-line basis over the lease term, contingent rental payment is charged to the income statement when it incurs.

Operating lease as lessor

Rental receivable under operating leases are credited to the income statement over the lease terms on the straight-line basis.

24. Impairment of assets

The Group determines the impairment of assets according to following method, except for inventories, deferred tax assets, financial assets, and long term equity investment measured at cost method which do not have quoted market price in an active market and their fair value cannot be reliably measured.

The Group assessed whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows of the assets. The recoverable amount is calculated for an individual asset unless it is not applicable, in which case, the recoverable amount is determined for the asset groups to which the asset belongs. The asset group is recognised based on whether the cash inflows generated by the asset groups are largely independent to that of other assets or asset groups.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Impairment of assets (continued)

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to the income statement and an impairment allowance is provided.

As to the impairment test of goodwill, the carrying amount of goodwill arising from a business combination is allocated to associated asset groups based on reasonable approaches at the date of acquisition. When it is not applicable to allocate to associated asset groups, the goodwill is allocated to associated combination of asset groups. The associated asset groups or combination of asset groups represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and are not larger than a segment based on the Group's reporting format determined.

When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing goodwill, calculate the recoverable amount, compare it with the relevant carrying amount and recognise the corresponding impairment loss. Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing the goodwill, and compare the carrying amount of these asset groups or combinations of asset groups with the recoverable amount. Where the recoverable amount of the relevant assets or combinations of the asset groups is lower than the carrying amount thereof, the amount of the impairment loss shall first charge against the carrying amount of goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying amount of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

Impairment losses cannot be reversed in the prospective accounting periods.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the unpaid amount of employee benefits as a liability. An entity shall recognise the discounted amount of defined benefit obligations due after one year in the financial statements if differ materially from the undiscounted amounts at balance sheet date.

Expenditures for employees' social security contributions (e.g. endowment insurance, medical care insurance and unemployment insurance) and housing fund scheme managed by local government are capitalised in related assets or charged to the income statement.

In addition, employees also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain amount to the Annuity Plan. The Group pays fixed contribution into the Annuity Plan and charged to the income statement.

Termination benefits are recognised as liabilities and charged to the income statement when, and only when, the Group demonstrably commits itself to either terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy by having a detailed formal plan or voluntary redundancy advices which are without realistic possibility of withdrawal.

The Group accounts for the early retirement scheme in the same way as termination benefits. All salaries and social security contributions the Group committed to pay for the period from early retirement date to normal retirement date shall be recognised as employee benefits and charged to the income statement if the conditions on termination benefits are met.

26. Profit distribution

The cash dividend of the Company is recognised as a liability upon the approval at the annual general meeting.

27. Related parties

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Notes to Interim Financial Statements (Continued)

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II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Segment reporting

Reportable segments are identified and segments' information are disclosed based on operating segments which are determined based on the internal organisation structure, management requirements and internal reporting system.

An operating segment is a component of the Group meeting all the following conditions:

- (1) it may earn revenues and incur expense from business activities;
- (2) its operating results are reviewed regularly by the Company's management, to make decisions about the resources to be allocated to the segment and to assess its performance;
- (3) its financial information regarding financial position, operating results and cash flows are available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic feature.

29. Significant accounting judgements and estimates

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

Judgements

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

Operating lease – as lessor

The Group has entered into operating leases on its investment properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to lease contract.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Impairment of available-for-sale financial assets

The Group has classified certain assets into available for sale, and the change in fair value is recognised in the shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

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

Estimation of useful lives of fixed assets

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

Impairment of receivables/loans and advances from customers

The Group's management determines the provision for impairment of receivables/loans and advances from customers. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the estimation on each of the balance sheet date.

Estimation of inventories under net realisable value

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

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

Notes to Interim Financial Statements (Continued)

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III. TAX

1. The principal kinds of taxes and the related rates are as follows:

Value-added tax	The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulation, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refunds rates of 9% – 17%. A subsidiary of the Company adopted the “Levy first, refund afterwards” arrangements for VAT in its own export sales.
Business tax	Payable based on 3% – 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to corporate income tax rate at 25% on their assessable profit.
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
Real estate tax	Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

2. Tax benefits and approval documents

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rate ranged from 22% to 25% and enjoy the “Two years exempted and subsequent three years with 50% reduction” tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax rate at 15%. Other subsidiaries located in elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the countries, ranging from 16.5% to 30%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

Notes to Interim Financial Statements (Continued)

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III. TAX (CONTINUED)

3. Other notes

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

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

In response to the notice issued by relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

1. Subsidiaries (including subsidiaries indirectly held subsidiaries)

The details of subsidiaries are as follows:

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired by establishment or investment															
Ma Steel International Trade and Economic Corporation (*Ma Steel International Trade Corp.)	Public	Anhui, PRC	Lu Kecong	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	150608682	RMB 50,000,000	-	100	100	Y	-	-	
Anhui Masteel Engineering Technology Company Limited (*Masteel Engineering Technology)	Limited liability	Anhui, PRC	Fang Zhengfang	Service industry	RMB 100,000,000	Planning and design of metallurgical construction and environmental protection projects, construction supervision and contract services	732997248	RMB 8,500,000	-	66.82	66.82	Y	56,921,472	56,921,472	(i)
MG Control Technique Company Limited (*MG Control Technique)	Limited liability	Anhui, PRC	Yan Hua	Manufacturing	RMB 12,000,000	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	738900283	RMB 8,000,000	-	97.93	100	Y	761,388	761,388	
Anhui Masteel K. Wah New Building Materials Co., Ltd. (*Anhui Masteel K. Wah)	Sino-foreign joint venture	Anhui, PRC	Xu Ruijin	Manufacturing	USD 8,388,000	Production, sale and transportation of slag products and provision of related consultation services	743066876	USD 5,872,300	-	70	70	Y	40,019,142	40,019,142	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (*Ma Steel (Wuhu))	Sino-HK joint venture	Anhui, PRC	Zhu Jiman	Manufacturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	746769078	RMB 10,333,358	-	100	100	Y	-	-	
Ma Steel (Chu) Processing and Distribution Co., Ltd. (*Ma Steel (Chu))	Limited liability	Anhui, PRC	Zhu Jiman	Manufacturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	764791762	RMB 27,600,000	-	92	92	Y	3,495,261	3,495,261	

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Place of incorporation			Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
	Business Type	and registration	Legal representative												
Subsidiaries acquired by establishment or investment (Continued)															
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino-foreign joint venture	Guangdong, PRC	Zhu Jirnan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	751955545	RMB 80,000,000	-	66.7	66.7	Y	55,193,447	55,193,447	
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Wholly-owned subsidiary	Hong Kong, PRC	N/A	Manufacturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,800,000	-	100	100	Y	-	-	
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	754878645	RMB 30,000,000	-	100	100	Y	-	-	
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 900,000	-	90	90	Y	616,923	616,923	
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Zhu Jirnan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	773136073	RMB 90,000,000	-	75	75	Y	33,443,829	33,443,829	
MG Trading and Development GmbH ("MG Trading")	Wholly-owned subsidiary	Germany	N/A	Trading	EUR 153,388	Trading of equipment, iron and steel products and provision of technology services	N/A	EUR 153,388	-	100	100	Y	-	-	

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation		Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
		Business and registration	Legal representative												
Subsidiaries acquired by establishment or investment (Continued)															
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Limited liability	Australia	N/A	Mine production and sales	AUD 21,737,900	Production and sale of iron ores through an unincorporated joint venture	N/A	AUD 21,737,900	-	100	100	Y	-	-	
Ma Steel (Hebei) Iron & Steel Co., Ltd. ("Ma Steel (Hebei)")	Limited liability	Anhui, PRC	Qin Chang-rong	Manufacturing	RMB 1,700,000,000	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sales of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services and repair and maintenance of used	788567175	RMB 1,207,000,000	-	71	71	Y	710,355,377	710,355,377	(ii)
Ma Steel (Hebei) Processing and Distribution Co., Ltd. ("Ma Steel (Hebei) Processing")	Limited liability	Anhui, PRC	Zhu Jiman	Manufacturing	RMB 120,000,000	Processing and sale of hot rolled and cold rolled steel thin plate for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	793567946	RMB 106,800,000	-	89	89	Y	15,237,304	15,237,304	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Zhu Jiman	Manufacturing	RMB 150,000,000	Provision of storage and transportation services of automobiles related metal components, trading and processing steel products, provision of related consultancy services	670909619	RMB 106,500,000	-	71	71	Y	44,074,279	44,074,279	

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation		Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
		Business and registration	Legal representative												
Subsidiaries acquired by establishment or investment (Continued)															
Ma Steel United Electric Steel Roller Co. Ltd. ("Ma Steel Roller")	Limited liability	Anhui, PRC	Wang Xiaoguang	Manufacturing	USD 30,000,000	Developing, processing manufacturing and sale of steel roller, provision of after-sale services and technical consultancy services	667902117	USD 15,300,000	-	51	51	Y	86,451,120	86,451,120	
Maanshan Used Vehicle Trading Centre Co. Ltd. ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Zheng Minzhu	Trading	RMB 500,000	Trading of used automobiles, sale of automobiles and accessories, provision of after-sale services and leasing properties	664226184	RMB 500,000	-	100	100	Y	-	-	
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd. ("Jiangnan Iron and Steel")	Limited liability	Anhui, PRC	Zhang Mingru	Manufacturing	RMB 1,000,000	Monitoring and testing of steel materials and products, titanium alloy, thermostatic materials products, raw materials and fuels; provision of service of physical and chemical inspection technique; application, appraise and repair of physical and chemical devices	68570971X	RMB 1,000,000	-	100	100	Y	-	-	
Maanshan Masteel Electric Repair Co., Ltd. ("Masteel Electric Repair")	Limited liability	Anhui, PRC	Xu Yulin	Manufacturing	RMB 10,000,000	Technological service in energy saving, environment protection and construction projects; repair of electric facilities and machines	57571955-0	RMB 10,000,000	-	100	100	Y	-	-	
Maanshan Masteel Steel Structure Technology Co., Ltd. ("Masteel Steel Structure")	Limited liability	Anhui, PRC	Zhang Maohan	Manufacturing	RMB 530,000,000	Production of high level building steel structures, bridge steel structure, customised machines, sale of metals and construction materials	57571523-4	RMB 530,000,000	-	100	100	Y	-	-	
Maanshan Masteel Surface engineering Technology Co., Ltd. ("Masteel Surface engineering")	Limited liability	Anhui, PRC	Chen Hong	Manufacturing	RMB 275,000,000	Production, installation and repair of complete equipment and spare parts, application of surface engineering technology	57571990-5	RMB 275,000,000	-	100	100	Y	-	-	

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
Subsidiaries acquired by establishment or investment (Continued)															
Maanshan Masteel Equipment Installation Engineering Co., Ltd. ("Masteel Equipment Installation")	Limited liability	Anhui, PRC	Xia Huijing	Manufacturing	RMB 100,000,000	Production, installation and repair of pressure pipelines, boilers and pressure containers	57571843-5	RMB 100,000,000	-	100	100	Y	-	-	
Maanshan Masteel Resource Regeneration Co., Ltd. ("Masteel Resource Regeneration")	Limited liability	Anhui, PRC	Wang Kaiping	Trading	RMB 50,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 50,000,000	-	100	100	Y	-	-	
Maanshan (Shanghai) Industrial Trading Co., Ltd. ("Shanghai Trading")	Limited liability	Shanghai, PRC	Dai Huaqiang	Trading	RMB 60,000,000	Trading of metal materials, construction materials, tools and iron ore; storage service and trading information consultation	57273921-4	RMB 60,000,000	-	100	100	Y	-	-	
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Limited liability	Chongqing, PRC	Dai Huaqiang	Trading	RMB 250,000,000	Simple processing and delivery of steel products, and related services, storage and sale of metal products	57797482-X	RMB 175,000,000	-	70	70	Y	75,738,649	75,738,649	
Ma Steel (Hefei) steel plates Co., Ltd. ("Hefei Steel Plates")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 1,200,000,000	Smelting and processing of ferrous metals and sale of the products, by-products and semi-products; processing of iron and steel products and production and sale of metallic products; storage of iron and steel products and metallic products	59428146-X	RMB 1,200,000,000	-	100	100	Y	-	-	(ii)
Maanshan Masteel Yuyuan Logistics Co., Ltd. ("Masteel Yuyuan Logistics")	Limited liability	Anhui, PRC	Yan Hua	Trading	RMB 200,000,000	Sale of steel, processing of metallic products, storage service, agency of freight shipping and project tender	58723125-3	RMB 200,000,000	-	100	100	Y	-	-	
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 50,000,000	Production and sale of industrial water	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

The details of subsidiaries are as follows: (continued)

Name of investee	Business Type	Place of incorporation		Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constitute net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority shareholders	Amount in minority interests available for reduction share of loss of minority interest	Note
		Business and registration	Legal representative												
Subsidiaries acquired by establishment or investment (Continued)															
Shanghai Maanshan Iron & Steel Technology Co., Ltd. ("Shanghai Electrical and Mechanical Technology")	Limited liability	Shanghai, PRC	Fan Jun	Service industry	RMB 6,650,000	Electrical and mechanical technology in the field of technology development, technology consulting, technology transfer technical services, goods and technology import and export business the design of mechanical, and electrical equipment and accessories, sales, industrial automation systems integration, project management	58063033-1	RMB 6,650,000	-	100	100	Y	-	-	
Maanshan Iron & Steel Zhonglian Maritime Co., Ltd. ("Zhonglian Maritime")	Limited liability	Anhui, PRC	Yan Hua	Service industry	RMB 253,000,000	Domestic coastal, middle and lower reaches of the Yangtze River and Pearl River Delta	58152067-9	RMB 157,064,000	-	62	62	Y	98,204,684	98,204,684	
Subsidiaries acquired not under common control															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Zhu Jiman	Manufacturing	USD 20,000,000	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except dangerous chemical products)	75732471X	USD 20,000,000	-	71	71	Y	53,142,341	53,142,341	
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Limited liability	Anhui, PRC	Li Jianshe	Manufacturing	RMB 1,200,000,000	Production and sale of iron and steel products, trading of iron ore and scrap steel, import and export business	71983429-3	RMB 1,200,000,000	-	55	55	Y	1,043,201,367	1,043,201,367	
Subsidiaries acquired under common control															
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-Parking")	Limited liability	Anhui, PRC	Qiu Xiaogen	Manufacturing	USD 2,500,000	Development, production, and sale of vehicle automatic transmission products and related spare parts; provision of related design technique, equipment production and transportation services	758545127	USD 2,500,000	-	100	100	Y	-	-	
Masteel Group Financial Co., Ltd. ("Masteel Financial")	Limited liability	Anhui, PRC	Su Jian-gang	Financial services	RMB 1,000,000,000	Rendering of financing related consultation services, guarantee and bank acceptance bill discounting services, and entrusted loan services to member entities; providing borrowings to member entities and absorbing deposits from entities	583045103	RMB 910,000,000	-	91	91	Y	93,161,788	93,161,788	(iv)

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

1. Subsidiaries (including subsidiaries indirectly held subsidiaries) (continued)

- (i) The company was renamed as Anhui Masteel Engineering Technology Company Limited during the current period. Its original name was Design & Research Institute of Maanshan Iron & Steel company limited;
- (ii) As at 24 March 2012, the registered capital of Masteel (Hefei) was increased by RMB1.2 billion, including capital injection of RMB0.852 billion paid in by the Company, and capital injection of RMB0.348 paid in by Hefei industrial investment holding co., Ltd. Upon the completion of the capital injection, the registered capital of Masteel (Hefei) reached RMB1.7 billion, with the Company's shareholding unchanged;
- (iii) Hefei Steel Plates was established in April 2012.
- (iv) Masteel Financial was established in September 2011 by the Company and the Group, with the shareholding being 49% and 51%, respectively. The investment in Masteel Financial was accounted for as an associate by the Company. As at 9 February 2012, the Company and the Holding entered into a share transfer agreement. The Holding agreed to transfer 42% equity interest in Masteel Financial to the Company for a price of RMB429,290,736. The price was determined based on ordinary trading terms, with reference to the valuation report made by Anhui Guoxin Asset Valuation Limited Liability Company, an independent valuation agency. As at 5 April 2012, the approval for this share transfer from the China Banking Regulatory Commission was received by the company, resulting in the completion of this share transfer.

2. Change in the scope of consolidation

Except for the newly established subsidiaries during the current period and the statement in Note IV.4, the scope of financial statements consolidation is consistent with previous year.

3. Entities newly included in the consolidation scope in the current period

In the current period, the subsidiaries newly included in the consolidation scope are as follows:

	Net assets at 30 June 2012	Net profit from the date of incorporation to period end
Hefei Steel Plates	1,200,000,000	—

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

4. Business combination involving entities under common control

	The basis of judgment for the business combination under common control	The common controller	Revenue from the beginning of 2012 to the date of acquisition	Net profit from the beginning of 2012 to the date of acquisition
Masteel Financial	Controlled by the same parent company	The Holding	18,933,214	11,496,935
			<u> </u>	<u> </u>
	Net cash flow from operating activities from the beginning of 2012 to the date of acquisition	Net cash flow from investing activities from the beginning of 2012 to the date of acquisition	Net cash flow from financing activities from the beginning of 2012 to the date of acquisition	
Masteel Financial	63,631,845	-	-	
	<u> </u>	<u> </u>	<u> </u>	

Masteel Financial was originally a subsidiary of the Holding and an associate of the Company. In April 2012, the Company acquired a further 42% share in Masteel Financial at a cost of RMB429,290,736, resulting in shareholding reached 91%. Since the Company and Masteel Financial are both controlled by the Holding before and after this share transfer, and the control is not transitory, this business combination is a business combination under common control. The acquisition date is determined as 5 April 2012.

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

4. Business combination involving entities under common control (continued)

As at the acquisition date, the book values of Masteel Financial's assets and liabilities were as follows:

	Acquisition date		31 December 2012
Cash and bank balances	369,686,789		308,936,211
Other receivables	22,800		–
Other current assets	1,715,471,500		1,654,000,000
Loans and advances to customers	577,879,157		690,780,826
Fixed assets	2,956,997		2,815,454
Deferred tax assets	14,021		–
Total assets	2,666,031,264		2,656,532,491
Customer deposits	705,116,868		697,944,982
Repurchase agreements	26,012,588		68,180,659
Payroll and benefits payable	50,429		–
Taxes payable	2,847,420		717,029
Interest payable	776,985		652,240
Other payables	762,569		70,110
Other current liabilities	905,000,000		875,000,000
Total liabilities	1,640,566,859		1,642,565,020
Total assets and liabilities	1,025,464,405		1,013,967,471
Minority interests	92,291,796		91,257,072
Interests in associates	503,881,873	(i)	496,844,061
	429,290,736		425,866,338
Incorporating price difference (recorded in shareholder equity)	–		–
Consideration	429,290,736	(ii)	

(i) Masteel Financial was an associate of the Company before this business combination.

(ii) The consideration is a cash payment amounted to RMB429,290,736. Since the consideration is equal to the share of net assets of Masteel Financial attributable to the Company, and this acquisition is a business combination under common control, the capital reserve of the Group decreased by RMB429,290,736. For details please refer to note V.23

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

5. Business combination involving entities not under common control

As at 30 April 2011, the Company acquired 55% equity interest of Anhui Chang Jiang Iron and Steel for a cash consideration of RMB1.23 billion. The consideration of acquisition has been paid, and the procedures for the transfer of equity interest have been completed on 30 April 2011. The acquisition date was determined as 30 April 2011.

As at the acquisition date, the book values and fair values of Anhui Chang Jiang Iron and Steel's identifiable assets and liabilities were as follows:

	30 April 2011 Fair value	30 April 2011 Book value
Cash and bank balances	1,617,705,837	1,617,705,837
Bills receivable	237,227,698	237,227,698
Trade receivables	28,263,272	28,263,272
Other receivables	129,148,806	129,148,806
Inventories	738,602,646	738,602,646
Prepayments	230,946,667	230,946,667
Other current assets	110,206,256	110,206,256
Fixed assets	554,983,590	507,342,521
Construction in progress	1,806,572,096	1,691,535,897
Construction materials	1,881,611	1,881,611
Intangible assets	172,481,750	151,282,313
Deferred tax assets	19,717,664	19,717,664
Total assets	5,647,737,893	5,463,861,188
Current liabilities	380,000,000	380,000,000
Accounts payable	1,057,724,989	1,057,724,989
Bills payable	440,000,000	440,000,000
Deposits received	506,798,269	506,798,269
Payroll and benefits payable	25,874,209	25,874,209
Taxes payable	35,708,803	35,708,803
Other payables	26,837,045	26,837,045
Other current liabilities	74,345,750	74,345,750
Deferred tax liabilities	45,969,176	-
Long-term payables	2,723,770	2,723,770
Other non-current liabilities	807,311,438	807,311,438
Total liabilities	3,403,293,449	3,357,324,273
Net assets	2,244,444,444	2,106,536,915
Minority interests	1,010,000,000	947,941,612
	<u>1,234,444,444</u>	<u>1,158,595,303</u>
Goodwill	-	-
	<u>1,234,444,444 (i)</u>	

(i) The consideration of acquisition in the form of RMB1,234,444,444 in cash.

Notes to Interim Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

5. Business combination involving entities not under common control (continued)

The operating result and cash flows of Anhui Chang Jiang Iron and Steel during the period from the date of acquisition to 30 June 2011 are as follows:

	From 30 April 2011 to 30 June 2011
Revenue	921,350,063
Net profit	17,643,344
Net cash flows from operating activities	(391,627,000)
Net cash flows from investing activities	(9,194,393)
Net cash flows from financing activities	(769,597,750)

6. Exchange rates used to translate the statements of foreign operations

	Average rates		Closing rates	
	January to June 2012	January to June 2011	30 June 2012	31 December 2011
EUR	8.0168	9.0839	7.8710	8.1625
HKD	0.8130	0.8413	0.8152	0.8107
AUD	6.3784	6.8156	6.3474	6.4093

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	30 June 2012			31 December 2011 (Restated)		
	Original currency	Exchange rate	RMB equivalents Unaudited	Original currency	Exchange rate	RMB equivalents Audited
Cash on hand						
– RMB	-	-	1,472,544	-	-	381,411
Balances with financial institutions						
– RMB	-	-	4,512,754,164	-	-	6,323,861,012
– HKD	34,616	0.8152	28,219	958,695	0.8107	777,214
– USD	118,863,334	6.3249	751,798,701	371,044,630	6.3009	2,337,915,113
– EUR	44,358,408	7.8710	349,145,029	6,843,880	8.1625	55,863,168
– JPY	449,579,133	0.0796	35,786,499	53,048,740	0.0811	4,302,412
– AUD	73,569,976	6.3474	466,978,068	73,833,617	6.4093	473,221,799
			<u>6,116,490,680</u>			<u>9,195,940,718</u>
Other monetary assets						
– RMB	-	-	2,469,024,948	-	-	1,303,084,993
			<u>2,469,024,948</u>			<u>1,303,084,993</u>
Mandatory reserves with central banks						
– RMB	-	-	599,205,220	-	-	112,454,977
			<u>599,205,220</u>			<u>112,454,977</u>
Total			<u>9,186,193,392</u>			<u>10,611,862,099</u>

As at 30 June 2012, the Group's cash and bank balances amounting to RMB2,475,349,848 have been pledged to banks as securities (31 December 2011: RMB1,309,385,893), including an amount of RMB2,469,024,948 (31 December 2011: RMB1,281,984,993) pledged as securities for trade facilities and performance bonds, and time deposits amounting to USD1,000,000 (equivalent to RMB6,324,900) (31 December 2011: USD1,000,000, equivalent to RMB6,300,900) pledged to banks to issue letters of credit. In addition, as at 31 December 2011, other monetary assets RMB21,100,000 certificates of deposit were pledged to obtain bank borrowings amounting to RMB20,000,000.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash and bank balances (continued)

As at 30 June 2012, the Group had cash and bank balances amounting to RMB644,790,827 that have been deposited outside the PRC (31 December 2011: RMB588,084,729).

Cash deposited in current account earns interest at floating interest rates. Terms of time deposits ranged from 7 days, 1 month to 6 months, which are depended on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

2. Bills receivable

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Bank acceptance bills	8,481,325,628	9,028,311,927
Commercial acceptance bill	6,634,518	6,399,345
	8,487,960,146	9,034,711,272

As at 30 June 2012, certain of the Group's bank's acceptance bills amounting to RMB211,310,330 (31 December 2011: RMB440,265,525) were secured to the bank to obtain short-term loans of RMB218,000,000 (31 December 2011: RMB391,700,000) which is disclosed in note V.15, and certain of the Group's bank's acceptance bills amounting to RMB152,972,397 were secured to banks to issue bank acceptance bills to suppliers(31 December 2011: RMB81,302,740) which is disclosed in note V.16.

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Bills receivable (continued)

As at 30 June 2012 and 31 December 2011, there was no trade receivables transferred from bills receivable because of pledging or the drawers' inability to pay, and the top five largest bills receivable that were not expired but had been endorsed out were as follows:

30 June 2012

Issue entity	Issue date	Maturity date	Amount
Company 1	2012-06-01	2012-11-26	43,640,000
Company 2	2012-03-13	2012-07-02	40,000,000
Company 3	2012-03-13	2012-07-02	40,000,000
Company 4	2012-04-12	2012-07-06	40,000,000
Company 5	2012-04-28	2012-10-28	30,130,000
Total			<u>193,770,000</u>

31 December 2011

Issue entity	Issue date	Maturity date	Amount
Company 1	2011-11-24	2012-02-24	91,011,615
Company 2	2011-10-08	2012-01-08	50,000,000
Company 3	2011-10-21	2012-01-21	50,000,000
Company 4	2011-10-21	2012-01-21	50,000,000
Company 5	2011-09-21	2012-03-21	50,000,000
Total			<u>291,011,615</u>

At 30 June 2012, certain of the Group's short-term loans were acquired from discounted bills receivable amounted to RMB16,600,000 (31 December 2011: RMB11,000,000).

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables

The Group's trade receivables were interest-free with normal credit terms of 30 to 90 days.

The ageing of trade receivables is analysed below:

	30 June 2012 Unaudited	31 December 2011 Audited
Within one year	1,953,335,793	1,745,317,179
One to two years	85,311,393	101,189,924
Two to three years	14,881,844	21,741,448
Over three years	34,852,540	30,637,752
	2,088,381,570	1,898,886,303
Less: Provision for bad debts	15,344,965	15,482,085
Total	2,073,036,605	1,883,404,218

Trade receivables balance is analysed as follows:

	30 June 2012 Unaudited				31 December 2011 Audited			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant and assessed impairment individually	1,851,326,557	89	(6,927,040)	-	1,694,403,498	89	(6,927,040)	-
Other insignificant but assessed impairment individually	237,055,013	11	(8,417,925)	4	204,482,805	11	(8,555,045)	4
Total	2,088,381,570	100	(15,344,965)		1,898,886,303	100	(15,482,085)	

The movement of the provision for bad debts against trade receivables for the current period is disclosed in note V.13.

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables (continued)

An analysis of the amount of provisions for bad debts being written off in the current reporting period:

Reason	For the six months ended 30 June	
	2012 Unaudited	2011 Audited
Bankrupt or liquidated debtors	280,000	307,896
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	–	–
Less: Reversal of bad debts provisions written-off in prior year	–	–
Total	280,000	307,896

As at 30 June 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	177,436,742	Within one year	8
Company 2	Independent third party	131,100,116	Within one year	6
Company 3	Independent third party	125,146,000	Within one year	6
Company 4	Independent third party	116,409,207	Within one year	6
Company 5	Independent third party	87,341,540	Within one year	4
		637,433,605		30

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables (continued)

As at 31 December 2011, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	637,463,994	Within one year	32
Company 2	Independent third party	91,774,515	Within one year	5
Company 3	Independent third party	61,241,540	Within one year	3
Company 4	Independent third party	59,942,819	Within one year	3
Company 5	Independent third party	46,012,637	Within one year	2
		896,435,505		45

The following balances of trade receivables are denominated in foreign currencies:

	30 June 2012 Unaudited			31 December 2011 Audited		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	7,514,334	6.3249	47,527,413	2,160,613	6.3009	13,613,805
EUR	470,232	7.7810	3,701,193	51,058,590	8.1625	416,765,739
HKD	2,192,681	0.8125	1,787,473	-	0.8107	-
AUD	-	6.3474	-	1,790,711	6.4093	11,477,201
Total			53,016,079			441,856,745

As at 30 June 2012 and 31 December 2011, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 30 June 2012 and 31 December 2011, trade receivables due from either shareholders who hold 5% or above of the Company's equity interests or other related parties are stated in note VI.6 to the financial statements.

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments

The ageing of prepayment balance is analysed as follows:

	30 June 2012 Unaudited		31 December 2011 Audited	
	Balance	ratio(%)	Balance	ratio(%)
Within one year	4,712,135,830	94	3,577,858,961	98
One to two years	295,360,071	6	62,936,806	2
Two to three years	14,581,923	–	3,223,018	–
Over three years	7,944,646	–	7,980,747	–
Total	<u>5,030,022,470</u>	<u>100</u>	<u>3,651,999,532</u>	<u>100</u>

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects were not yet completed which resulted in the unsettlement of the corresponding prepayments. The above prepayments for construction projects will be written off against relevant estimated liabilities (recorded in account payables) when the final inspection and settlement were completed.

As at 30 June 2012, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for not yet settled
Company 1	Independent third party	514,207,844	2012	(i)
Company 2	Independent third party	284,399,010	2012	(i)
Company 3	Independent third party	210,754,161	2012	(i)
Company 4	Independent third party	210,006,250	2012	(i)
Company 5	Independent third party	163,501,362	2012	(i)
		<u>1,382,868,627</u>		

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Prepayments (continued)

As at 31 December 2011, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for not yet settled
Company 1	Independent third party	180,737,176	2011	(i)
Company 2	Independent third party	150,045,500	2011	(i)
Company 3	Independent third party	137,879,988	2011	(i)
Company 4	Independent third party	128,559,490	2011	(i)
Company 5	Independent third party	120,878,100	2011	(i)
		718,100,254		

(i): As at the balance sheet date, the unsettlement of the Group's top five largest prepayments was mainly attributable to the delay in supply of raw materials.

The following balances are denominated in foreign currencies:

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
JPY	697,468,140	0.0796	55,518,464	734,564,790	0.0811	59,575,408
USD	1,620,150	6.3249	10,247,287	576,000	6.3009	3,629,318
EUR	7,265,603	7.8710	57,187,561	9,365,370	8.1625	76,444,833
Total			122,953,312			139,649,559

As at 30 June 2012 and 31 December 2011, the balances of prepayment did not contain any amount due from shareholders who hold 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in note VI.6 to the financial statements.

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other receivables

The ageing of other receivables is analysed below:

	30 June 2012 Unaudited	31 December 2011 Audited
Within one year	778,573,093	629,236,865
One to two years	10,897,431	65,187,029
Two to three years	62,382,430	267,210
Over three years	6,795,729	6,872,634
	858,648,683	701,563,738
Less: Provision for bad debts	7,070,497	7,070,497
Total	851,578,186	694,493,241

The movement of the provision for bad debts against other receivables for the current period is disclosed in note V.13.

Other receivables balance is analysed as follows:

	30 June 2012 (Unaudited)				31 December 2011 (Audited)			
	Balance	ratio	Provision for bad debts	ratio	Balance	rate	Provision for bad debts	ratio
Individually significant and assessed impairment individually	782,238,766	91	(2,400,000)	-	591,166,267	84	(2,400,000)	-
Other insignificant but assessed impairment individually	76,409,917	9	(4,670,497)	6	110,397,471	16	(4,670,497)	4
Total	858,648,683	100	(7,070,497)		701,563,738	100	(7,070,497)	

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other receivables (continued)

As at 30 June 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio in other receivables (%)
Company 1	Independent third party	308,250,535	Within one year	48
Company 2	Independent third party	93,157,995	Within one year	14
Company 3	Independent third party	32,407,410	One to two years	5
Company 4	Independent third party	29,637,911	One to two years	4
Company 5	Independent third party	27,500,000	Within one year	5
		<u>490,953,851</u>		<u>76</u>

As at 31 December 2011, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio in other receivables (%)
Company 1	Independent third party	363,610,006	Within one year	51
Company 2	Independent third party	72,802,497	Within one year	9
Company 3	Independent third party	45,005,936	Within one year	6
Company 4	Independent third party	32,407,410	One to two years	5
Company 5	Independent third party	29,637,911	Within one year	5
		<u>543,463,760</u>		<u>76</u>

As at 30 June 2012 and 31 December 2011, there was no derecognition of other receivables of the Group due to the transfer of financial assets.

As at 30 June 2012 and 31 December 2011, the balance of other receivables did not contain any amount due from either shareholders who hold 5% or above of the Company's equity interests or other related parties.

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Inventories

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	8,890,794,877	(442,870,358)	8,447,924,519	9,264,801,568	(528,942,228)	8,735,859,340
Spare parts	2,113,476,809	(61,148,784)	2,052,328,025	2,127,045,170	(61,226,316)	2,065,818,854
Finished goods	1,628,235,055	(43,487,350)	1,584,747,705	1,333,503,797	(61,316,046)	1,272,187,751
Work in progress	1,847,342,413	(72,357,677)	1,774,984,736	1,972,118,447	(86,456,715)	1,885,661,732
Construction contract	225,000,000	-	225,000,000	172,600,000	-	172,600,000
Total	14,704,849,154	(619,864,169)	14,084,984,985	14,870,068,982	(737,941,305)	14,132,127,677

The movement of impairment provision against inventories for the current period is disclosed in note V.13.

At each balance sheet date, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the current period, there was no reversal of impairment provision against inventories.

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other current assets and other current liabilities

	Note	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Agency assets	(i)	1,055,000,000	875,000,000
Agency liabilities	(ii)	1,055,000,000	875,000,000

(i) Masteel Financial accept entrustment to provide entrust loan service for the Holding and its subsidiaries.

As at 30 June 2012 and 31 December 2011, the balances of other current assets and other current liabilities due from either shareholders who hold 5% or above of the Company's equity interests or other related parties are stated in note VI.6 to the financial statements.

8. Investments in jointly-controlled entities and associates

30 June 2012

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Jointly-controlled entities						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Qian Haifan	Servicing	RMB1,000,000	67890875X
Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration")	Sino-foreign joint venture	Anhui, PRC	Fang Zhengfang	Manufacturing	RMB10,000,000	553276621

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Investments in jointly-controlled entities and associates (continued)

30 June 2012 (continued)

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Associates						
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tianshang	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. (i) ("Shenglong Chemical")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Maanshan Harbour Group Co., Ltd ("Maanshan Harbour")	Limited liability	Anhui, PRC	Hui Zhigang	Transportation	RMB250,000,000	150502057
Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB50,000,000	786503901
Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour")	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	Limited liability	Anhui, PRC	Ding Yi	Servicing	RMB100,000,000	581537534
Magang Jinxi traffic equipment Co., Ltd. ("Jinxi Traffic")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909-5

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Investments in jointly-controlled entities and associates (continued)

30 June 2012 (continued)

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the period	Net profit/(loss) during the period
Jointly-controlled entities					
BOC-Ma Steel	800,575,647	63,607,991	736,967,656	288,272,005	77,235,540
MASTEEL-CMI	1,122,065	11,442	1,110,623	-	(15,051)
Sino-Japan Resource Regeneration	2,790,590	119,802	2,670,788	-	(1,700,228)
Associates					
Jiyuan JinMa Coke	1,661,115,043	1,214,847,010	446,268,033	2,007,986,956	6,018,187
Shenglong Chemical.	2,417,558,341	1,786,009,551	631,548,790	1,253,381,405	30,696,888
Shanghai Iron and Steel Electronic	658,571,824	453,024,953	205,546,871	16,643,687	7,212,202
Maanshan Harbour	1,052,043,555	622,827,401	429,216,154	100,321,833	3,114,294
All-monitor Transmission System	32,963,747	(518,226)	33,481,973	285,159	(68,822)
Zhengpu Harbour	100,898,552	911,455	99,987,097	-	-
Xinchuang Economize Resource	144,466,806	41,458,262	103,008,544	105,340,578	3,499,644
Jinxi Traffic	149,266,953	(218)	149,267,171	-	(732,829)

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Investments in jointly-controlled entities and associates (continued)

31 December 2011

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Jointly-controlled entities						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Qian Haifan	Servicing	RMB1,000,000	67890875X
Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration")	Sino-foreign joint venture	Anhui, PRC	Fang Zhengfang	Manufacturing	RMB10,000,000	553276621
Associates						
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Wang Tianshang	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. (i) ("Shenglong Chemical")	Limited liability	Shandong, PRC	Jiang Wei	Manufacturing	RMB208,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Maanshan Harbour Group Co., Ltd ("Maanshan Harbour")	Limited liability	Anhui, PRC	Hui Zhigang	Transportation	RMB250,000,000	150502057
Anhui All-monitor Automobile Transmission System Co., Ltd ("All-monitor Transmission System")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Zhang Guosheng	Manufacturing	RMB50,000,000	786503901
Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour")	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	Limited liability	Anhui, PRC	Ding Yi	Servicing	RMB100,000,000	581537534

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Investments in jointly-controlled entities and associates (continued)

31 December 2011 (continued)

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit/(loss) during the year
Jointly-controlled entities					
BOC-Ma Steel	764,993,781	105,249,179	659,744,602	552,457,590	174,348,827
MASTEEL-CMI	1,137,116	11,442	1,125,674	-	(45,304)
Sino-Japan Resource Regeneration	4,455,087	84,071	4,371,016	48,000	(3,679,864)
Associates					
Jiyuan JinMa Coke	1,686,708,063	1,239,642,245	447,065,818	3,810,022,297	102,370,318
Shenglong Chemical.	1,964,239,990	1,384,451,996	579,787,994	1,908,129,562	(63,476,445)
Shanghai Iron and Steel Electronic	852,846,068	654,611,338	198,234,730	122,297,147	51,817,472
Maanshan Harbour	991,065,903	564,964,043	426,101,860	226,362,141	26,622,365
All-monitor Transmission System	33,003,362	(547,433)	33,550,795	1,350,903	(541,903)
Zhengpu Harbour	101,156,963	1,169,867	99,987,096	-	(12,904)
Xinchuang Economize Resource	58,124,689	8,615,789	49,508,900	1,489,900	(491,100)

(i) Tengzhou Shenglong Coking Co., Ltd. was renamed to Shenglong Chemical Co., Ltd. in 2011.

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long term equity investments

30 June 2012

	Initial investment Cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the period	Cash dividend received during the period
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	329,872,302	38,617,770	-	368,490,072	50	50	-	-	-
MASTEEL-CMI	500,000	562,835	-	(7,526)	555,309	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	2,141,798	-	(833,112)	1,308,686	49	(i)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	160,943,695	2,166,548	-	163,110,243	36	36	-	-	-
Shenglong Chemical	66,776,000	185,532,159	9,823,004	-	195,355,163	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	1,442,440	-	41,089,385	20	20	-	-	-
Maanshan Harbour	112,500,000	191,745,837	1,401,432	-	193,147,269	45	45	-	-	-
All-monitor Transmission System	13,500,000	11,494,044	-	(30,970)	11,463,074	45	45	3,738,814	-	-
Zhengou Harbour	35,000,000	34,995,484	-	-	34,995,484	35	35	-	-	-
Xinchuang Economize Resource	35,000,000	17,401,780	18,724,876	-	36,126,656	35	35	-	-	-
Jinxi Traffic	75,000,000	-	75,000,000	(366,414)	74,633,586	50	(ii)	-	-	-
Cost method:										
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	-
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	-
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	-
China First Heavy Industries Ma'anshan Heavy Industry Co., Ltd.	15,000,000	15,000,000	-	-	15,000,000	15	15	-	-	-
Tongling Yuanda	17,600,000	15,840,000	-	-	15,840,000	18	18	-	-	-
China Steam (Beijing) Auto Lightweight Institute of Technology Co., Ltd.	3,000,000	-	3,000,000	-	3,000,000	6.90	6.90	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
Total	799,693,360	1,113,949,039	150,176,070	(1,238,022)	1,262,887,087			3,738,814	-	-

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long term equity investments (continued)

31 December 2011 (Restated)

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	325,807,282	87,174,414	(83,109,394)	329,872,302	50	50	-	-	(83,109,394)
MASTEEL-CMI	500,000	585,489	-	(22,854)	562,635	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	3,944,932	-	(1,803,134)	2,141,798	49	(i)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	125,091,931	35,851,764	-	160,943,695	36	36	-	-	-
Shenglong Chemical	66,776,000	205,852,171	-	(20,320,012)	185,532,159	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	35,281,697	10,365,248	(6,000,000)	39,646,945	20	20	-	-	(6,000,000)
Maanshan Harbour	112,500,000	182,417,451	11,128,386	(1,800,000)	191,745,837	45	45	-	-	(1,800,000)
All-monitor Transmission System	13,500,000	11,737,900	-	(243,856)	11,494,044	45	45	3,738,814	-	-
Zhengou Harbour	35,000,000	35,000,000	-	(4,516)	34,995,484	35	35	-	-	-
Xinchuang Economize Resource	17,500,000	-	17,500,000	(98,220)	17,401,780	35	35	-	-	-
Cost method:										
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	(11,102,452)
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	(1,010,894)
Shanghai Luoqing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	(8,830,842)
China First Heavy Industries Ma'anshan Heavy Industry Co., Ltd	15,000,000	-	15,000,000	-	15,000,000	15	15	-	-	-
Tongling Yuanda	17,600,000	-	17,600,000	(1,760,000)	15,840,000	18	18	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	(170,000)
Total	704,193,360	1,034,491,013	194,619,812	(115,161,786)	1,113,949,039			3,738,814	-	(112,023,582)

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long term equity investments (continued)

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

- (ii) As at the end of the reporting period, the Company holds a 50% equity interest of Jinxi Traffic. The chairman of the board of directors was appointed by the Company. Among the board of directors, two of the directors were appointed by the Company and three of the directors were appointed by Jinxi Traffic. According to the articles of association of Jinxi Traffic, the resolution of the financial and operating policies requires more than half of the votes of the directors. Thus, the Company can participate in business and financial decision, does not constitute joint control, so the Company accounted for Jinxi Traffic as an investment in associate under the equity method.

- * All investments in jointly-controlled entities and associates accounted for under equity method and other investments accounted for under cost method are investments in unlisted companies.

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets

30 June 2012

	Buildings and structures Unaudited	Plant, machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Office equipment Unaudited	Total Unaudited
Cost:					
At 1 January 2012 (restated)	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
Additions	167,311	9,790,967	80,855,667	1,640,114	92,454,059
Transferred from construction in progress (note 11)	1,289,134,290	1,736,373,661	-	8,973,810	3,034,481,761
Reclassifications	-	(1,477,524)	-	1,477,524	-
Disposal	(1,762,795)	(21,958,523)	(1,516,664)	(1,310,052)	(26,548,034)
At 30 June 2012	23,149,828,714	44,229,176,993	632,806,239	245,891,330	68,257,703,276
Accumulated depreciation:					
At 1 January 2012 (restated)	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Provided during the period	550,968,347	1,107,566,924	27,090,837	20,593,923	1,706,220,031
Reclassifications	-	(1,078,683)	-	1,078,683	-
Disposal	(481,545)	(19,796,334)	(1,084,846)	(734,132)	(22,096,857)
At 30 June 2012	9,533,830,047	24,245,724,962	418,756,101	137,197,216	34,335,508,326
Impairment:					
At 1 January 2012	5,252,400	82,602,336	-	-	87,854,736
Increase/(decrease)	-	-	-	-	-
30 June 2012	5,252,400	82,602,336	-	-	87,854,736
Net carrying amount:					
At 30 June 2012	13,610,746,267	19,900,849,695	214,050,138	108,694,114	33,834,340,214
At 1 January 2012 (restated)	12,873,694,263	19,264,813,021	160,717,126	118,851,192	32,418,075,602

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (continued)

31 December 2011 (Restated)

	Buildings and structures Unaudited	Plant machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Office equipment Unaudited	Total Unaudited
Cost:					
At 1 January 2011	21,417,742,775	40,817,547,190	443,930,297	216,538,384	62,895,758,646
Acquisition of a subsidiary	225,977,383	296,452,037	32,106,458	447,712	554,983,590
Additions	2,836,973	53,252,715	80,799,626	3,343,852	140,233,166
Transferred from construction in progress (Note 11)	890,321,691	1,493,171,007	1,908,507	14,779,986	2,400,181,191
Reclassifications	56,873,990	(57,138,234)	264,244	-	-
Disposal	(39,146,976)	(62,712,863)	(5,541,896)	-	(107,401,735)
Other decrease	(692,315,928)	(34,123,440)	-	-	(726,439,368)
At 31 December 2011	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
Accumulated depreciation:					
At 1 January 2011	7,868,179,121	20,085,760,235	368,517,725	79,843,603	28,402,300,684
Provided during the period	1,115,466,185	3,151,436,256	29,590,551	36,415,139	4,332,908,131
Reclassifications	21,949,933	(21,967,021)	17,088	-	-
Disposal	(22,251,994)	(56,196,415)	(5,375,254)	-	(83,823,663)
At 31 December 2011	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Impairment:					
At 1 January 2011	5,252,400	82,602,336	-	-	87,854,736
Increase/(decrease)	-	-	-	-	-
At 31 December 2011	5,252,400	82,602,336	-	-	87,854,736
Net carrying amount:					
At 31 December 2011	12,873,694,263	19,264,813,021	160,717,126	118,851,192	32,418,075,602
At 1 January 2011	13,544,311,254	20,649,184,619	75,412,572	136,694,781	34,405,603,226

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Fixed assets (continued)

As at 30 June 2012, the Group had no intention to dispose of any fixed assets or held any fixed assets that were being temporarily idle.

As at 30 June 2012, certificates of ownership in respect of 57 of the Group's buildings in the PRC, with an aggregate cost of RMB1,196.22 million (31 December 2011: approximately RMB880.04 million), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and it will not have significant adverse impact on the Group's operations.

At 30 June 2012, certain of the Group's production equipment with a net carrying amount of RMB41,615,243 (31 December 2011: RMB195,389,381) was pledged as security to acquire bank loans amounting to RMB15,000,000 (31 December 2011: RMB115,000,000). The detail is disclosed in note V.15.

11. Construction in progress

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Products quality project	2,707,608,751	-	2,707,608,751	3,690,968,753	-	3,690,968,753
Energy-saving and environment protection project	187,774,074	-	187,774,074	133,927,923	-	133,927,923
Equipment advancement and other modification projects	992,006,098	-	992,006,098	757,806,463	-	757,806,463
Other projects	118,306,149	-	118,306,149	89,350,235	-	89,350,235
Total	4,005,695,072	-	4,005,695,072	4,672,053,374	-	4,672,053,374

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (continued)

30 June 2012

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the period RMB	Transferred to fixed assets (Note 10) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Product quality project	10,076,898	3,690,968,753	1,924,809,600	(2,908,169,602)	2,707,608,751	Internally generated funds	27
2. Energy-saving and environment protection project	324,610	133,927,923	53,846,151	-	187,774,074	Internally generated funds	58
3. Equipment advancement and other modification projects	1,382,882	757,806,463	249,125,151	(14,925,516)	992,006,098	Internally generated funds	72
4. Other projects	N/A	89,350,235	140,342,557	(111,386,643)	118,306,149	Internally generated funds	N/A
		4,672,053,374	2,368,123,459	(3,034,481,761)	4,005,695,072		
Less: Impairment		-	-	-	-		
Total		4,672,053,374	2,368,123,459	(3,034,481,761)	4,005,695,072		

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Construction in progress (continued)

31 December 2011

Name of projects	Budget cost RMB'000	Opening	Additions	Transferred to	Closing	Source of fund	Average
		balance	during	fixed assets	balance		percentage of
		RMB	RMB	(Note 10)	RMB		completion
				RMB			%
1. Products quality project (i)	10,210,780	364,069,851	4,665,435,083	(1,338,536,181)	3,690,968,753	Internally generated funds	36
2. Energy-saving and environment protection project	715,925	154,180,398	241,948,468	(262,200,943)	133,927,923	Internally generated funds	19
3. Equipment advancement and other modification projects	963,366	902,103,098	460,973,777	(605,270,412)	757,806,463	Internally generated funds	79
4. Other projects	N/A	83,975,397	199,548,493	(194,173,655)	89,350,235	Internally generated funds	N/A
		<u>1,504,328,744</u>	<u>5,567,905,821</u>	<u>(2,400,181,191)</u>	<u>4,672,053,374</u>		
Less: Impairment		-	-	-	-		
Total		<u>1,504,328,744</u>	<u>5,567,905,821</u>	<u>(2,400,181,191)</u>	<u>4,672,053,374</u>		

(i): The acquisition of Anhui Chang Jiang Iron and Steel contributed an increase in product quality project amounted to RMB1,806,572,096. Details are disclosed in Note IV.5

The movement of impairment provision for construction in progress for the period is disclosed in note V.13.

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets

30 June 2012

	Back-up roll technology Unaudited	Land use rights Unaudited	Mining right Unaudited	Total Unaudited
Cost:				
At 1 January 2012	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Additions	-	66,151	3,909,842	3,975,993
Disposal	-	(2,399,876)	-	(2,399,876)
Exchange realignment	-	-	(1,462,671)	(1,462,671)
At 30 June 2012	45,082,836	2,305,627,688	151,931,781	2,502,642,305
Accumulated depreciation:				
At 1 January 2012	5,259,664	465,109,845	29,721,522	500,091,031
Provided during the period	2,254,142	24,264,723	2,609,314	29,128,179
Disposal	-	(341,749)	-	(341,749)
Exchange realignment	-	-	(299,707)	(299,707)
At 30 June 2012	7,513,806	489,032,819	32,031,129	528,577,754
Impairment:				
At 1 January 2012 and At 30 June 2012	-	-	-	-
Net carrying amount				
At 30 June 2012	37,569,030	1,816,594,869	119,900,652	1,974,064,551
At 1 January 2012	39,823,172	1,842,851,568	119,763,088	2,002,437,828

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Intangible assets (continued)

31 December 2011

	Back-up roll technology Audited	Land use rights Audited	Mining right Audited	Total Audited
Cost:				
At 1 January 2011	45,082,836	2,115,520,329	150,421,069	2,311,024,234
Acquisition of a subsidiary	–	172,481,750	–	172,481,750
Additions	–	17,536,683	6,027,840	23,564,523
Transferred from investment properties	–	2,422,651	–	2,422,651
Exchange realignment	–	–	(6,964,299)	(6,964,299)
At 31 December 2011	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Accumulated depreciation:				
At 1 January 2011	751,381	420,573,075	26,346,142	447,670,598
Provided during the period	4,508,283	44,160,942	4,679,277	53,348,502
Transferred from investment properties	–	375,828	–	375,828
Exchange realignment	–	–	(1,303,897)	(1,303,897)
At 31 December 2011	5,259,664	465,109,845	29,721,522	500,091,031
Impairment:				
At 1 January 2011 and At 31 December 2011	–	–	–	–
Net carrying amount				
At 31 December 2011	39,823,172	1,842,851,568	119,763,088	2,002,437,828
At 1 January 2011	44,331,455	1,694,947,254	124,074,927	1,863,353,636

The movement of impairment provision for intangible assets for the period is disclosed in note V.13.

At 30 June 2012, certain of the Group's land use rights with a net carrying amount of RMB124,877,226 (31 December 2011: RMB293,900,139) were pledged as security to acquire bank loans amounting to RMB70,000,000 (31 December 2011: RMB150,000,000). The detail is disclosed in note V.15.

* All land use rights belong to the Group and are located in Mainland China and held under medium term lease.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Assets impairment provisions

	For the six months ended 30 June 2012					Closing balance Unaudited
	Opening Balance Audited	Increase during the period Unaudited	Decrease during the period			
			Reversal Unaudited	Write-back Unaudited	Write-off Unaudited	
Provisions for bad debts	22,552,582	142,880	-	-	(280,000)	22,415,462
Including: Trade receivables	15,482,085	142,880	-	-	(280,000)	15,344,965
Other receivables	7,070,497	-	-	-	-	7,070,497
Provisions for inventories	737,941,305	557,687,950	-	(675,765,086)	-	619,864,169
Including: Raw materials	528,942,228	441,842,923	-	(527,914,793)	-	442,870,358
Work in progress	86,456,715	72,357,677	-	(86,456,715)	-	72,357,677
Finished products	61,316,046	43,487,350	-	(61,316,046)	-	43,487,350
Spare parts	61,226,316	-	-	(77,532)	-	61,148,784
Impairment of long term equity investments	3,738,814	-	-	-	-	3,738,814
Impairment of investment properties	-	-	-	-	-	-
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
Provision for loans and advances to customers	7,053,020	29,101,675	-	-	-	36,154,695
Total	859,140,457	586,932,505	-	(675,765,086)	(280,000)	770,027,876

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Assets impairment provisions (continued)

	For the year ended 31 December 2011					
	Opening Balance Audited	Increase during the year Audited	Decrease			Closing balance Audited
			during the year			
			Reversal	Write-back	Write-off	
		Audited	Audited	Audited	Audited	
Provisions for bad debts	22,860,478	-	-	-	(307,896)	22,552,582
Including: Trade receivables	15,789,981	-	-	-	(307,896)	15,482,085
Other receivables	7,070,497	-	-	-	-	7,070,497
Provisions for inventories	61,875,468	676,714,989	-	(649,152)	-	737,941,305
Including: Raw materials	-	528,942,228	-	-	-	528,942,228
Work in progress	-	86,456,715	-	-	-	86,456,715
Finished products	-	61,316,046	-	-	-	61,316,046
Spare parts	61,875,468	-	-	(649,152)	-	61,226,316
Impairment of held-to-maturity investments	-	-	-	-	-	-
Impairment of long term equity investments	3,738,814	-	-	-	-	3,738,814
Impairment of investment properties	-	-	-	-	-	-
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
Provision for loans and advances to customers	-	7,053,020	-	-	-	7,053,020
Total	176,329,496	683,768,009	-	(649,152)	(307,896)	859,140,457

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Customer deposits

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Demand deposits	364,958,155	647,944,982
Time deposits	70,000,000	50,000,000
Total	434,958,155	697,944,982

15. Short term loans

Types of loans	30 June 2012 (Unaudited)			31 December 2011 (Audited) (Restated)		
	Original currency	Closing exchange rate	RMB equivalents	Original currency	Closing exchange rate	RMB equivalents
Entrusted loans						
– RMB (i)	-	-	10,000,000	-	-	10,000,000
Guaranteed loans						
– RMB (ii)	-	-	70,000,000	-	-	50,000,000
Unsecured loans						
– RMB	-	-	1,685,264,000	-	-	766,504,500
– USD	365,646,788	6.3249	2,312,679,371	178,127,671	6.3009	1,122,364,644
Secured loans						
– RMB (iii)	-	-	85,000,000	-	-	265,000,000
Pledged loans						
– RMB (iv)	-	-	218,000,000	-	-	411,700,000
Trust receipt loans						
– USD	391,370,220	6.3249	2,475,377,504	581,715,857	6.3009	3,197,216,672
Total			6,856,320,875			5,822,785,816

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Short term loans (continued)

- (i) As at 30 June 2012, certain bank loans in aggregate of RMB10,000,000 were lent by Holding through entrust loan arrangement with the Industrial and Commercial Bank of China, with terms of one year at annual interest rate of 4.779% (31 December 2011: an amount of RMB10,000,000 with an interest rate of 4.779% per annum).
- (ii) As at 30 June 2012, the Group's guaranteed loans were guaranteed by two independent third parties.
- (iii) As at 30 June 2012, certain of the Group's short-term loans were secured by the pledge of manufacturing equipment and land use rights. The details are disclosed in note V.10 and V.12.
- (iv) As at 30 June 2012, the Group's short-term pledge loans were secured by bills receivable (31 December 2011: RMB391,700,000), which is detailed in note V.2. Besides, as at 31 December 2011, certain of the Group's short-term pledge loans amounting to RMB20,000,000 were secured by certificates of deposit, which is detailed in note V.1.

As at 30 June 2012, the interest rates of the above short-term loans were ranged from 1.97% to 8.64% (31 December 2011: 1.28%-8.64%).

As at 30 June 2012, the Group had no expired outstanding short term loans.

16. Bills payable and accounts payable

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Bank acceptance bills	6,163,078,044	5,142,687,963
Commercial acceptance bills	210,000,000	—
Total	6,373,078,044	5,142,687,963

The bills payable amounting to RMB6,373,078,044 (31 December 2011: RMB5,142,687,963) are due in the next accounting year. As at the balance sheet date, certain amount of the Group's bills payable were secured by certain amount of other monetary assets and bank acceptance bills. Please refer to note V.1 and note V.2 for details.

Notes to Interim Financial Statements (Continued)

30 June 2012

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Bills payable and accounts payable (continued)

As at 30 June 2012 and 31 December 2011, no bills payable were due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

* The ageing analysis of accounts payable as follows:

	30 June 2012 Unaudited	31 December 2011 Audited
Within one year	8,461,411,764	6,867,603,440
One to two years	64,849,436	96,479,369
Two to three years	42,717,254	27,701,072
Over three years	50,270,505	38,498,136
	8,619,248,959	7,030,282,017

The accounts payable are interest-free and are normally settled within three months.

As at 30 June 2012 and 31 December 2011, the amount due to either shareholders who hold 5% or above of the Company's equity interests or other related parties among the balance of accounts payable are stated in note VI.6 to the financial statements.

17. Taxes payable

	30 June 2012 Unaudited	31 December 2011 Audited
Value added tax	(73,488,882)	(198,382,338)
Corporate income tax	(254,467,480)	(161,449,561)
City construction and maintenance tax	7,615,512	13,047,670
Other taxes	9,199,972	21,346,689
Total	(311,140,878)	(325,437,540)

The basis of calculations and the applicable tax rates are disclosed in Note III to the financial statements.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Non-current liabilities due within one year (continued)

- (i) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by the Holding.

As at 30 June 2012, the Group had no expired outstanding long term loans.

As at 30 June 2012, non-current liabilities due within one year is as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2012 RMB equivalent	31 December 2011 RMB equivalent
Export-import bank of China	2011/6/13	2012/11/9	USD	(i)	316,245,000	315,045,000
Export-import bank of China	2005/8/26	2012/8/25	RMB	(ii)	16,000,000	16,000,000
					332,245,000	331,045,000

- (i) The borrowing rate of long term loans due within one year was 400 basis points above the London Interbank offered rate.
- (ii) The borrowing rate of long term loans due within one year was 3.78%.

20. Long term loans

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Guaranteed loans (i)	2,152,490,000	1,530,180,000
Unsecured loans	10,989,362,600	10,976,592,000
	13,141,852,600	12,506,772,000

- (i) As at balance sheet date, guaranteed loans were all guaranteed by the Holding.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Long term loans (continued)

As at 30 June 2012, the top five largest long term loans were as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2012 RMB equivalent	31 December 2011 RMB equivalent
China Development Bank	2011/9/29	2013/9/29	USD	note 3	632,490,000	630,090,000
Export-import bank of China	2012/2/09	2014/2/08	USD	note 2	569,241,000	567,081,000
Export-import bank of China	2012/3/21	2014/3/20	RMB	note 2	440,000,000	440,000,000
Export-import bank of China	2011/8/25	2013/8/24	USD	note 3	316,245,000	315,045,000
China Development Bank	2011/11/01	2013/11/01	USD	note 1	287,782,950	286,690,950
					2,245,758,950	2,238,906,950

Note 1 The borrowing rate of long term loans was floating by season and 4.61% over six months London Interbank Offered Rate.

Note 2 The borrowing rate of long term loans was the central bank benchmark rate.

Note 3 The borrowing rate of long term loans was floating by season and 4.8% over six months London Interbank Offered Rate.

As at 30 June 2012, the Group had no expired outstanding long term loans.

* Analysis of the expiry dates of the long term loans is as follows:

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
One to two years	12,182,652,600	11,738,172,000
Two to five years	959,200,000	768,600,000
	13,141,852,600	12,506,772,000

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Bonds payable

	Opening balance Audited	Increase Unaudited	Decrease Unaudited	Closing balance Unaudited
Medium-term note payable				
– 2010 first batch	998,832,800	22,688,841	(22,189,041)	999,332,600
Medium-term note payable				
– 2011 first batch	2,791,833,300	81,619,800	(80,220,000)	2,793,233,100
Corporate bond - 3 Years	3,133,590,316	93,419,729	(88,467,914)	3,138,542,131
Corporate bond - 5 Years	2,319,465,635	68,991,127	(66,791,016)	2,321,665,746
Total	9,243,722,051	266,719,497	(257,667,971)	9,252,773,577
Less: Transfer into non-current liabilities due within one year (note V.19)	–			999,332,600
	9,243,722,051			8,253,440,977

As at 30 June 2012, bonds payable balance (unaudited):

	Issuing date	Amount on offer	Opening interest payable	Current period accrued interest	Current period interest paid	Closing interest payable	Closing balance
Medium-term note payable – 2010 first batch	2010/2	1,000,000,000	40,232,877	22,189,041	44,500,000	17,921,918	999,332,600
Medium-term note payable – 2011 first batch	2011/11	2,800,000,000	14,707,000	80,220,000	–	94,927,000	2,793,233,100
Corporate bond – 3 Years	2011/8	3,160,000,000	62,705,279	88,467,913	–	151,173,192	3,138,542,131
Corporate bond – 5 Years	2011/8	2,340,000,000	47,340,885	66,791,016	–	114,131,901	2,321,665,746
		9,300,000,000	164,986,041	257,667,970	44,500,000	378,154,011	9,252,773,577

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Bonds payable (continued)

As at 31 December 2011, bonds payable balance (audited):

	Issuing date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Bonds with warrants	2006/11	5,500,000,000	13,050,950	63,949,050	77,000,000	-	-
Medium-term note payable – 2010							
first batch	2010/2	1,000,000,000	40,232,877	44,500,000	44,500,000	40,232,877	998,832,800
Medium-term note payable – 2011							
first batch	2011/11	2,800,000,000	-	14,707,000	-	14,707,000	2,791,833,300
Corporate bond – 3 Years	2011/8	3,160,000,000	-	62,705,279	-	62,705,279	3,133,590,316
Corporate bond – 5 Years	2011/8	2,340,000,000	-	47,340,885	-	47,340,885	2,319,465,635
		<u>14,800,000,000</u>	<u>53,283,827</u>	<u>233,202,214</u>	<u>121,500,000</u>	<u>164,986,041</u>	<u>9,243,722,051</u>

Medium-term note payable

In November 2009, the Company obtained the approval of National Association of Financial Market Institutional Investors, regarding the issuance of medium-term note with a registration amount of RMB3.8 billion, which will be expired within 2 years. The medium-term note is allowed to be issued by stages in its registration period of validity.

As at 4 February 2010, the Company issued the 2010 first batch medium-term note of RMB 1 billion (abbreviated as 10 馬鋼 MTN1). The issuance price is RMB100/note, and has a fixed rate of interest at 4.45% per annum. As at 25 November 2011, the Company issued the 2011 first batch medium-term note of RMB2.8 billion (abbreviated as 11 馬鋼 MTN1). The issuance price is RMB100/note, and has a fixed rate of interest at 5.73% per annum.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Bonds payable (continued)

Medium-term note payable (continued)

The RMB3.8 billion is circulating in the Chinese Inter-bank Bond Market. This medium-term note is repayable in three years.

Corporate bonds

Upon the approval of the China securities supervision and management committee, 【2011】 no. 1177, the Company issued corporate bonds amounted to RMB5.5 billion with a issue price of RMB100/note in August 2011, including RMB3.16 billion (abbreviated as 11馬鋼01) due within three years with a interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11馬鋼02) due within five years with a interest rate of 5.74%. These corporate bonds were secured by the Group. The net amount the Company received from this corporate bonds is RMB5,453,788,000.

The interest for medium-term notes and corporate bonds was included in interest payable.

22. Share capital

30 June 2012 (unaudited)

	At 1 January 2012		Increase/(decrease) during the period			At 30 June 2012	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total		-	-	-	-	-	-
B. Shares without selling restriction							
1. Ordinary A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. Ordinary H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Share capital (continued)

31 December 2011 (audited)	At 1 January 2011		Increase/(decrease) during the year			At 31 December 2011	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. Ordinary A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. Ordinary H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

* Other than H share dividend are paid in Hong Kong dollars, all shares, including A share and H share, have the same right to the Company's operating result and voting rights. The par value for each A share or H share is RMB1.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Capital reserve

30 June 2012

	Opening Balance Audited	Increase Unaudited	Decrease Unaudited	Closing balance Unaudited
Share premium	8,338,358,399	–	–	8,338,358,399
Other capital reserve	420,000,000	–	429,290,736	(9,290,736)
Total	<u>8,758,358,399</u>	<u>–</u>	<u>429,290,736</u>	<u>8,329,067,663</u>

31 December 2011 (restated)

	Opening balance Audited	Increase Audited	Decrease Audited	Closing balance Audited
Share premium	8,338,358,399	–	–	8,338,358,399
Other capital reserve	–	420,000,000	–	420,000,000
Total	<u>8,338,358,399</u>	<u>420,000,000</u>	<u>–</u>	<u>8,758,358,399</u>

During 2011 and the first six month of 2012, the variation of other capital reserve was due to the acquisition of a subsidiary under common control, Masteel Financial. The details are disclosed in note IV.4.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Principal operating income	36,556,886,767	38,115,283,871
Other operating income	4,029,996,590	5,035,949,788
Total	<u>40,586,883,357</u>	<u>43,151,233,659</u>

* Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Principal cost of sales	36,122,156,047	36,734,429,606
Other cost of sales	4,045,606,959	4,792,100,681
Total	<u>40,167,763,006</u>	<u>41,526,530,287</u>

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Revenue and cost of sales (continued)

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Sale of steel products	31,987,380,276	36,079,816,987
Sale of steel billets and pig iron	1,068,450,235	287,071,337
Sale of coke by-products	368,477,625	531,044,162
Others	3,132,578,631	1,217,351,385
Total	<u>36,556,886,767</u>	<u>38,115,283,871</u>

During the first half of 2012, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue(%)
Company 1	1,569,105,875	4
Company 2	1,293,024,523	3
Company 3	741,569,104	2
Company 4	734,387,746	2
Company 5	587,547,393	1
Total	<u>4,925,634,641</u>	<u>12</u>

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Revenue and cost of sales (continued)

During the first half of 2011, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue(%)
Company 1	2,415,413,238	6
Company 2	729,064,072	2
Company 3	625,731,325	1
Company 4	602,999,152	1
Company 5	556,547,842	1
	<hr/>	
Total	4,929,755,629	11
	<hr/> <hr/>	<hr/> <hr/>

25. Administrative expenses

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Depreciation	27,795,574	22,080,403
Employee benefits	287,480,548	199,477,281
Office expenses	176,178,921	171,080,324
*Auditors' remuneration	2,482,500	2,560,000
Other taxes	98,593,098	45,153,936
Others	83,172,599	171,077,794
	<hr/>	<hr/>
Total	675,703,240	611,429,738
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Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Financial expenses

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Interest expenses (i)	825,764,707	581,033,559
Less: Interest income	77,543,762	44,186,275
Exchange (gain)/loss, net	42,250,483	(164,239,615)
Others	17,611,725	32,808,917
Total	<u>808,083,153</u>	<u>405,416,586</u>

* (i) The Group's interest expenses include interests of bank loans, other loans, corporate bonds and medium-term notes which will be expired within 5 years.

27. Assets impairment loss

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Provision/(reversal of provision)		
for bad debts	142,880	—
Including: Trade receivables	142,880	—
Other receivables	—	—
Provision for inventories	557,687,950	—
Provision for loans and advances to customers	29,101,674	—
Provision for long term equity investments	—	—
Provision for investment properties	—	—
Provision for fixed assets	—	—
Provision for construction in progress	—	—
Provision for intangible assets	—	—
Total	<u>586,932,504</u>	<u>—</u>

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Investment income

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Long term investment income under equity method	53,438,048	88,298,370
Other investment income	122,472	295,633
Total	53,560,520	88,594,003

* During the current period, the Group's investment income from listed companies and unlisted companies are RMB6,594 and RMB53,553,971, respectively (during the six months ended 30 June 2011, the investment income from listed companies and unlisted companies was RMB10,301 and RMB88,583,702, respectively).

Among the long term equity investment income under equity method, the top 5 largest items are as follows:

	For the six months ended 30 June		Variation reason
	2012 Unaudited	2011 Unaudited	
BOC-Ma Steel	38,617,770	37,065,435	(i)
Jiyuan Jinma Coke Making	2,166,547	32,560,866	(ii)
Shanghai Iron and Steel Electronic	1,442,440	4,362,107	(ii)
Tengzhou Shenglong Coke	9,823,004	7,128,253	(i)
Maanshan Harbour	1,401,432	7,775,781	(ii)

(i) In the current period, the increase in investment income from the above entities under equity method was mainly due to the increase in net profits of the above invested entities.

(ii) In the current period, the decrease in investment income from the above entities under equity method was mainly due to the decrease in net profits of the above invested entities.

As at 30 June 2012, there was no significant restriction imposed upon the realisation of the Group's investment income.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Income tax

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
*The Mainland China:		
Current income expense	34,814,627	76,617,693
Adjustments in respect of current tax of previous periods	122,531	(30,910)
Deferred tax income	12,083,051	26,470,916
*Current income expense in HK (ii)	–	(93,015)
*Current income expense in overseas	24,704,759	15,080,553
Total	71,724,968	118,045,237

Relationship between income tax and profit before tax:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Profit before tax	(1,803,008,624)	488,378,170
Tax at the applicable tax rate of 25% (i)	(450,752,156)	122,034,475
Effect of different tax rates of subsidiaries	(52,870)	2,437,528
Expenses not deductible for tax	20,358,889	33,104,658
Adjustments in respect of current tax of previous periods	122,531	(30,910)
Other tax concessions	(5,468,489)	(10,636,822)
Income not subject to tax	(2,307,983)	(17,058,673)
Tax losses not recognised	524,774,310	12,083,114
Tax losses utilised	(14,104)	(1,541,862)
Profits and losses attributable to jointly-controlled entities and associates	(14,935,160)	(22,346,271)
Tax charge at the Group's effective rate	71,724,968	118,045,237

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Income tax (continued)

- (i) The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.
- (ii) Income tax for a subsidiary in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the year.

30. Earnings per share

Basic earnings per share shall be calculated by dividing net income attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the current reporting period. Shares are usually included in the calculation of the weighted average number of shares from the date of their issue.

For the numerator of calculating diluted earnings per share, an entity shall adjust net income attributable to ordinary equity holders of the parent entity by: (1) any interest recognised in the period related to dilutive potential ordinary shares; (2) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and (3) the tax effect.

For the denominator of calculating diluted earnings per share, the number of ordinary shares shall be the total of (1) the weighted average number of ordinary shares; plus (2) the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the purpose of calculating the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. Earnings per share (continued)

The calculations of basic and diluted earnings per share amounts are based on:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	(1,892,679,010)	310,052,416
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	7,700,681,186	7,700,681,186
Effect of dilution – weighted average number of ordinary shares:	N/A	N/A
Weighted average number of ordinary shares in issue after adjustment	N/A	N/A

During the current period, there was no diluted item to adjust the Company's basic earnings per share.

31. Other comprehensive income

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Exchange fluctuation reserve	(6,492,214)	13,130,600

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Notes to items of statement of cash flows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Cash received relating to other operating activities		
Specific subsidies granted by government	3,951,900	12,745,262
Others	886,330	367,703
	4,838,230	13,112,965
Cash paid relating to other operating activities		
Supporting services	84,237,842	54,840,500
Security expenses	44,329,126	43,560,521
Office expenses	98,093,881	125,222,838
Transportation expenses	31,847,944	101,078,265
Flooding prevention expenses	7,194,589	8,144,408
Environmental improvement fee	5,744,045	18,271,531
Research and development fee	6,188,559	4,285,957
Others	103,784,418	45,611,036
Total	381,420,404	401,015,056
Cash received relating to other investing activities		
Government subsidies granted for specific projects	8,210,000	-
Net cash inflows in acquisition of subsidiary	-	383,261,393
Cash received from the decrease of term deposits over three months	-	-
Total	8,210,000	383,261,393

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Cash flows from operating activities

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Net profit/(loss)	(1,892,679,010)	310,052,416
Add: Minority interests	17,945,419	60,280,517
Provision for bad debts	142,880	–
Provision for inventories	557,687,950	–
Depreciation of fixed assets	1,706,220,031	2,314,619,549
Provision for loans and advances to customers	29,101,674	–
Amortisation of investment properties	87,122	111,297
Amortisation of intangible assets	29,128,179	25,944,732
Amortisation of deferred income	(41,864,561)	(40,791,454)
Loss/(gain) on disposal of non-current assets	(881,020)	2,654,836
Safety production costs accrued but not yet used	971,870	–
Financial expenses	790,471,428	372,607,669
Investment income	(53,560,520)	(88,594,003)
Loss on fair value changes	24,540	72,820
Decrease in deferred tax assets	6,559,206	27,213,214
Increase/(decrease) in deferred tax liabilities	5,523,845	(742,297)
Increase in inventories	(510,545,257)	(959,636,274)
(Increase)/decrease in receivables		
from operating activities	189,195,363	(974,232,413)
Increase in payables from operating activities	1,500,222,533	522,529,200
Net cash flows from operating activities	2,333,751,672	1,572,089,809

Notes to Interim Financial Statements (Continued)

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V. MAJOR NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Cash and cash equivalents

Net movement of cash and cash equivalents

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Cash closing balance	6,710,843,544	9,302,476,206
Less: Cash opening balance	9,302,476,206	5,385,065,613
Add: Closing balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
	<hr/>	<hr/>
Net increase/(decrease) of cash and cash equivalents	<u>(2,591,632,662)</u>	<u>3,917,410,593</u>

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Cash		
Including: Cash on hand	1,472,544	381,411
Balances with financial institutions without restriction	6,709,371,000	9,302,094,795
Other balances without restriction	–	–
	<hr/>	<hr/>
Cash equivalents	<u>6,710,843,544</u>	<u>9,302,476,206</u>

*35. Dividend

The board of directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (30 June 2011: Nil).

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent company

Name of parent company	Business type	Registered place	Legal representative	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)	Organisation code
Holding	Limited liability	Anhui, PRC	Gu Jianguo	Manufacturing	6,298,290,000	50.47	50.47	15050914-4

As at the end of the reporting period, the registered and paid-in capital of the parent company remained unchanged.

2. Subsidiaries

The details of the subsidiaries of the Group are stated in Note IV to the financial statements.

3. Associates and jointly-controlled entities of the Group

Associates and jointly-controlled entities of the Group are stated in note V.8.

4. Other related parties

Name	Relationship with the Company	Organisation code
Maanshan Li Sheng Group Co., Ltd (i)	Controlled by Holding	711703722
Maanshan Gang Chen Industry Co., Ltd (ii)	Controlled by Holding	70492034x
Maanshan Steel Construction(Group) Co., Ltd (iii)	Controlled by Holding	733002281
An Hui Tian Kai Lu Qiao Co., Ltd (iv)	Controlled by Holding	733002273
Masteel Group Design and Research Institute Co., Ltd	Controlled by Holding	72850552x
Masteel Group Kang Tai Land Development Co., Ltd	Controlled by Holding	850512838
Maanshan Yu Tai Property Management Co., Ltd	Controlled by Holding	777366319
Masteel Group Kang Cheng Building and Installing Co., Ltd	Controlled by Holding	750993301
Masteel Shen Ma Metal Co., Ltd	Controlled by Holding	150509160
Anhui BOC & Masteel Weldmesh Co., Ltd	Controlled by Holding	754875970
Maanshan Jia Hua Commodity Concrete Co., Ltd	Controlled by Holding	750960780
Masteel Group Steel Scrap Integrated Utilization Co., Ltd	Controlled by Holding	733020252
Maanshan Shi Fa Metal Industry and Trading Co., Ltd	Controlled by Holding	713957507
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd	Controlled by Holding	728509803
Maanshan Bo Li Construction Supervising Co., Ltd	Controlled by Holding	711716304
Masteel Group Power and Machinery Installation Co., Ltd	Controlled by Holding	150510858
Masteel Group Mapping Co., Ltd	Controlled by Holding	677570144

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (continued)

Name	Relationship with the Company	Organisation code
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd	Controlled by Holding	150518286
Masteel Group Chu Jiang Holiday Tour Co., Ltd	Controlled by Holding	734975296
Huang Shan Tai Bai Shan	Controlled by Holding	704953862
Anhui Masteel Advanced Technician Institute	Controlled by Holding	485409479
Anhui Metal Technology Institute	Controlled by Holding	F10441773
Anhui Masteel Luo He Mining Co., Ltd	Controlled by Holding	783071808
Shenzhen Yue Hai Masteel Industry Co., Ltd	Controlled by Holding	192443796
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding	573045716

- (i) During this period, the company changed its name, formerly known as Masteel (Group) Li Sheng Co., Ltd.;
- (ii) During this period, the company changed its name, formerly known as Masteel (Group) Industry Development Company;
- (iii) During 2011 the company changed its name, formerly known as Maanshan Iron & Steel Group Construction Co., Ltd., and it has restructured during the period, and is no longer considered as a related party after August 18, 2011
- (iv) During 2011 the company changed its name, formerly known as Masteel Group Building Road & Bridge Co., Ltd, and it has restructured during the period, and is no longer considered as a related party after August 18, 2011.

5. The significant transactions carried out between the Group and its related parties

(1) Purchases of iron ore from related parties

		For the six months ended 30 June					
		2012 Unaudited		2011 Unaudited			
		Amount	Similar transaction	Amount	Similar transaction		
		RMB	%	RMB	%		
Note							
	Holding (i)	1,790,684,436	17	1,160,337,088	5		
	Anhui Masteel Luo He Mining Co., Ltd	92,390,665	1	–	–		
	Total	1,883,075,101	18	1,160,337,088	5		

- (i) The terms for the purchases of iron ore from Holding were established in accordance with an agreement dated 15 October 2009 entered into between the Company and the Holding.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(2) Fees paid for welfare, support services and other services to related parties

For the six months ended 30 June					
	Note	2012		2011	
		Unaudited		Unaudited	
		Amount	Similar	Amount	Similar
		RMB	transaction	RMB	transaction
			%		%
Holding	(ii)	30,824,579	30	52,760,558	52
Maanshan Li Sheng					
Group Co., Ltd	(ii)	9,539,241	9	10,083,306	10
Maanshan Steel					
Construction	(ii)				
(Group) Co., Ltd	(ii)	-	-	11,249,405	11
Maanshan Gang Chen					
Industry Co., Ltd	(ii)	9,869,417	10	16,693,944	17
Masteel Group Steel					
Scrap Integrated					
Utilization Co., Ltd	(ii)	-	-	1,411,735	1
Xinchuang Economize					
Resource	(ii)	40,953,216	40	-	-
Others	(ii)	10,833,677	11	8,424,208	9
Total		102,020,130	100	100,623,156	100

- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygienic services, maintenance of roads and landscaping services were conducted in accordance with services agreements entered into between the Company and the Holding.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(3) Agency fee paid to related parties

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
Note					
	Holding (iii)	391,059	5	1,409,103	16
	Masteel Shen Ma Metal Co., Ltd (iii)	585,220	8	759,300	8
	Maanshan Gang Chen Industry Co., Ltd (iii)	6,503,005	87	6,867,690	76
	Total	7,479,284	100	9,036,093	100

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

(4) Rental expenses paid to related party

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
Note					
	Holding (iii)	24,264,900	100	24,265,000	100

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(5) Purchases of fixed assets and construction services from related parties

		For the six months ended 30 June				
		2012 Unaudited		2011 Unaudited		
		Amount	Similar transaction	Amount	Similar transaction	
		RMB	%	RMB	%	
Note						
	Maanshan Gang Chen Industry Co., Ltd	(iii)	1,346,600	–	9,661,805	3
	Maanshan Li Sheng Group Co., Ltd	(iii)	3,624,887	–	–	–
	Maanshan Steel Construction (Group) Co., Ltd	(iii)	–	–	110,096,631	38
	Xinchuang Economize Resource	(iii)	12,369,721	1	–	–
	Others	(iii)	1,420,000	–	710,134	–
	Total		18,761,208	1	120,468,570	41

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(6) Fees received for the supply of utilities, services and other consumable goods from related parties

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
	Note				
Holding	(iii)	13,579,289	1	3,217,632	–
Maanshan Steel Construction (Group) Co., Ltd	(iii)	–	–	22,769,869	3
Maanshan Jia Hua Commodity Concrete Co., Ltd	(iii)	284,709	–	161,689	–
Maanshan Li Sheng Group Co., Ltd	(iii)	822,695	–	1,028,117	–
Masteel Group Steel Scrap Intergrated Utilization Co., Ltd	(iii)	161,671	–	7,203,117	1
Others	(iii)	6,088,155	–	2,360,929	–
Total		20,936,519	1	36,741,353	4

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(7) Sale of steel products and related by products to related parties

		For the six months ended 30 June				
		2012 Unaudited		2011 Unaudited		
		Amount	Similar transaction	Amount	Similar transaction	
		RMB	%	RMB	%	
Note						
	Maanshan Jiang Hua Commodity Concrete Co., Ltd	(iii)	-	-	186,521	-
	Maanshan Steel Construction (Group) Co., Ltd	(iii)	-	-	865,451	-
	Total		-	-	1,051,972	-

(iii) These transactions with the Holding and its subsidiaries were conducted on terms mutually agreed between the Company and the related parties.

(8) Financial service costs paid to related parties

		For the six months ended 30 June				
		2012 Unaudited		2011 Unaudited		
		Amount	Similar transaction	Amount	Similar transaction	
		RMB	%	RMB	%	
Note						
	Holding	(iv)	1,769,953	69	235,677	0.01
	Others	(iv)	783,672	31	-	-
	Total		2,553,625	100	235,677	0.01

(iv) Masteel Financial took deposit from the Holding and its subsidiaries, and paid interests to them at rates that were not higher than the benchmark interest rates issued by People's Bank of China.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(9) Financial service income received from related parties

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
Note					
	Holding	296,250	8	-	-
	Maanshan Gang Chen Industry Co., Ltd	3,463,114	91	-	-
	Maanshan Li Sheng Group Co., Ltd	37,500	1	-	-
	Total	3,796,864	100	-	-

(v) Masteel Financial obtained financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance bill discounting and entrusted loan.

(10) Purchases of coke from associates

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
Note					
	Shenglong Chemical	59,210,693	23	117,233,346	7

(vi) These transactions made between the Group and Shenglong Chemical and Maanshan Harbor were conducted in accordance with the terms mutually agreed between the parties.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(11) Loading expenses paid to associate

		For the six months ended 30 June			
		2012		2011	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
Maanshan Harbor	(vi)	12,731,693	2	78,040,061	15

(vi) These transactions made between the Group and Shenglong Chemical and Maanshan Harbor were conducted in accordance with the terms mutually agreed between the parties.

(12) Rental income from jointly-controlled entity

		For the six months ended 30 June			
		2012		2011	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	625,000	100	625,000	66

(vii) These transactions made between the Group and BOC-Ma Steel were conducted in accordance with the terms mutually agreed between them.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(13) Fee received for the supply of electricity from jointly-controlled entity

		For the six months ended 30 June			
		2012		2011	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	134,921,214	95	135,410,985	69

(vii) These transactions made between the Group and BOC-Ma Steel were conducted in accordance with the terms mutually agreed between them.

(14) Fees received for the provision of utilities and facilities from jointly-controlled entity

		For the six months ended 30 June			
		2012		2011	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	-	-	5,071,245	100

(vii) These transactions made between the Group and BOC-Ma Steel were conducted in accordance with the terms mutually agreed between the parties.

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. The significant transactions carried out between the Group and its related parties (continued)

(15) Fee received for supply of steam from jointly-controlled entity

		For the six months ended 30 June			
		2012 Unaudited		2011 Unaudited	
Note		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
BOC-Ma Steel	(vii)	260,991,818	100	260,020,641	100

(vii) These transactions made between the Group and BOC-Ma Steel were conducted in accordance with the terms mutually agreed between them.

The transactions (i) to (vii) above are the significant transactions carried out between the Group and its related parties during the period.

(16) Guarantee for related party

30 June 2012	Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding	(viii)	The Company	1.88 billion	2012.1	2013.7	No as at the signing date of the report
31 December 2011	Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding	(viii)	The Company	7.345 billion	2011.2	2016.8	No as at the signing date of the report

(viii) The Holding guaranteed certain bank loans of the Group amounting approximately to RMB1.88 billion (30 June 2011: approximately RMB1.618 billion) on 30 June 2012 at nil consideration. The Holding guaranteed bonds with warrants amounting approximately to RMB7.984 billion (31 December 2011: approximately RMB8.411 billion).

(17) Further details on balances with the Holding and its subsidiaries, and the Group's jointly-controlled entities and associates are set out in note VI.6 to the financial statement. These balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables from/payables to related parties

	30 June 2012 Unaudited	31 December 2011 Audited
Prepayments:		
Holding and its subsidiaries		
Holding	61,733,541	–
Masteel Group Design and Research Institute Co., Ltd	1,760,000	1,760,000
Other entities controlled by Holding	298,000	–
	<hr/>	<hr/>
Total	63,791,541	1,760,000
	<hr/> <hr/>	<hr/> <hr/>
Accounts payable:		
Holding and its subsidiaries		
Holding	724,227	1,718,318
Maanshan Li Sheng Group Co., Ltd	3,437,693	6,956,604
Masteel Group Steel Scrap Integrated Utilization Co., Ltd	505,209	3,066,029
Masteel Group Power and Machinery Installation Co., Ltd	–	466,010
Maanshan Gang Chen Industry Co., Ltd	5,796,025	5,253,282
Anhui Xinchuang Economize Resource Co., Ltd	17,797,582	–
Other entities controlled by Holding	2,865,896	3,861,199
	<hr/>	<hr/>
Total	31,126,632	21,321,442
	<hr/> <hr/>	<hr/> <hr/>
Associates and jointly-controlled entities of the Group		
BOC-Ma Steel	17,382,336	19,935,867
Jiyuan JinMa Coke	223,791	223,791
Maanshan Harbor	12,843,408	17,053,499
Shenglong Chemical	18,937,905	23,540,223
	<hr/>	<hr/>
Total	49,387,440	60,753,380
	<hr/> <hr/>	<hr/> <hr/>

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables from/payables to related parties (continued)

	30 June 2012 Unaudited	31 December 2011 Audited
Dividends payable:		
Holding	–	–
Dividends receivable:		
Associates and jointly-controlled entities of the Group		
Jiyuan JinMa Coke	46,800,000	88,800,000
Total	46,800,000	88,800,000
Trade receivables:		
Holding and its subsidiaries		
Holding	15,805,691	23,509,315
Masteel Group Steel Scrap Integrated Utilization Co., Ltd	17,982,919	17,982,919
Maanshan Li Sheng Group Co., Ltd	5,000	–
Other entities controlled by Holding	379,460	103,056
Total	34,173,070	41,595,290
Associates and Jointly-controlled entities of the Group		
Maanshan Harbor	64,589	68,643
BOC-Ma Steel	–	268,879
Total	64,589	337,522

Notes to Interim Financial Statements (Continued)

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables from/payables to related parties (continued)

	30 June 2012 Unaudited	31 December 2011 Audited
Deposits received:		
Holding and its subsidiaries		
Holding	31,469,450	–
Anhui BRC & Masteel Weldmesh Co., Ltd	12,308,777	12,895,660
Maanshan Gang Chen Industry Co., Ltd	322,302,253	274,943,072
Other entities controlled by Holding	3,911,823	4,036,070
	<hr/>	<hr/>
Total	369,992,303	291,874,802
	<hr/> <hr/>	<hr/> <hr/>
Associates and Jointly-controlled entities of the Group		
Jiyuan JinMa Coke	35,636	35,636
Shenglong Chemical	117,197	–
	<hr/>	<hr/>
Total	152,833	35,636
	<hr/> <hr/>	<hr/> <hr/>
Loans and advances to customers:		
Holding and its subsidiaries		
Maanshan Gang Chen Industry Co., Ltd	133,140,708	5,774,836
	<hr/> <hr/>	<hr/> <hr/>
Customer deposits:		
Holding and its subsidiaries		
Holding	357,410,169	446,857,182
Maanshan Li Sheng Group Co., Ltd	6,040,574	2,417,417
Maanshan Gang Chen Industry Co., Ltd	4,116,681	46,051,454
Other entities controlled by Holding	39,826,770	202,618,928
	<hr/>	<hr/>
Total	407,394,194	697,944,981
	<hr/> <hr/>	<hr/> <hr/>

Notes to Interim Financial Statements (Continued)

30 June 2012

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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables from/payables to related parties (continued)

	30 June 2012 Unaudited	31 December 2011 Audited (Restated)
Agency assets		
Holding and its subsidiaries		
Holding	150,000,000	–
Masteel Group Kang Tai Land Development Co., Ltd	625,000,000	625,000,000
Anhui Masteel Luo He Mining Co., Ltd	80,000,000	50,000,000
Maanshan Gang Chen Industry Co., Ltd	200,000,000	200,000,000
	<hr/>	<hr/>
Total	1,055,000,000	875,000,000
	<hr/> <hr/>	<hr/> <hr/>
Agency Liabilities		
Holding and its subsidiaries		
Holding	905,000,000	875,000,000
Maanshan Li Sheng Group Co., Ltd	150,000,000	–
	<hr/>	<hr/>
Total	1,055,000,000	875,000,000
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables and payables, agency assets and liabilities are unsecured, interest-free and have no fixed terms of repayment. Loans and advances to customers and customer deposits bore interest rates that are determined in finance service agreements. As at 30 June 2012 and 31 December 2011, there was no bad debt provision made for receivables due from related parties except for loans and advances to customers. The bad debt provision for loans and advances to customers was accrued at 1% of the total balance of it as at the period end.

7. The commitment of the Group with related parties

As at 30 June 2012, the Group did not have significant commitment in relation to related parties.

Notes to Interim Financial Statements (Continued)

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VII. CONTINGENT LIABILITIES

1. Guarantee

As at 30 June 2012, the Company granted guarantees amounting to approximately RMB0.348 billion (31 December 2011: approximately RMB0.347 billion) to banks in connection with facilities granted to its subsidiaries. * As at 30 June 2012, there were no facilities utilised (31 December 2011: Nil).

2. Difference of corporate income tax

As detailed in Note III. 3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

VIII. COMMITMENTS

1. The commitments of the Group as at the balance sheet date were as follows:

	30 June 2012 Unaudited RMB'000	31 December 2011 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	2,921,921	2,521,008
Contracted, but not provided for	5,162,338	5,431,956
Total	8,084,259	7,952,964
Investment commitments		
Authorised, but not contracted for	30,000	153,000
Contracted, but not provided for	75,000	67,500

Notes to Interim Financial Statements (Continued)

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VIII. COMMITMENTS (CONTINUED)

2. Share of the commitments of the entities jointly-controlled by the Group (not included in note 1 above) as at the balance sheet date was as follows:

	30 June 2012 Unaudited RMB'000	31 December 2011 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	70	111

IX. POST BALANCE SHEET EVENTS

As at 5 July 2012, the board of directors of the Company approved the resolution to issue short-term financing bonds bill. In order to improve the debt structure and reduce financing costs, the Company planned to issue short-term financing bonds with par value no more than RMB10 billion, in compliance with the laws, regulations and regulatory requirements.

X. OTHER SIGNIFICANT EVENTS

1. Leases

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from 2 to 18 years. The periodic rent is fixed during the operating lease periods.

	30 June 2012 Unaudited	31 December 2011 Audited
Remaining lease period		
Within 1 year, inclusive	1,750,000	1,750,000
1 to 2 years, inclusive	1,750,000	1,750,000
2 to 3 years, inclusive	1,250,000	1,250,000
Over 3 years	8,907,534	10,157,534
Total	13,657,534	14,907,534

Notes to Interim Financial Statements (Continued)

30 June 2012
Renminbi Yuan

X. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Assets at fair value

30 June 2012

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the period	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	607,980	(24,540)	-	-	583,440

31 December 2011

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	826,640	(218,660)	-	-	607,980

Notes to Interim Financial Statements (Continued)

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X. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Financial assets and liabilities at foreign currency

30 June 2012 (Unaudited)

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the period	Closing balance
Financial assets					
Cash and bank balances	2,872,079,706	-	-	-	1,603,736,516
Loans and trade receivables	441,856,745	-	-	-	53,016,079
Financial liabilities					
Borrowings	11,439,598,316	-	-	-	11,264,754,474
Account payables	43,167,573	-	-	-	47,746,473

31 December 2011 (Audited)
(Restated)

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Cash and bank Balances	707,636,029	-	-	-	2,872,079,706
Loans and trade receivables	340,383,976	-	-	-	441,856,745
Financial liabilities					
Borrowings	5,392,177,078	-	-	-	11,439,598,316
Account payables	57,546,804	-	-	-	43,167,573

Notes to Interim Financial Statements (Continued)

30 June 2012

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X. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Operating segment information

Based on the organisation structure, management requirement and internal reporting system, the operations of the group were divided into two categories:

- Production and sale of iron and steel products and related by-products: the Group and subsidiaries except for Masteel Financial;
- Financial service: Masteel Financial.

The Group did not consider Masteel Financial as an individual reportable segment, as its revenue, profit and assets are lower than 10% of the Group, and that it mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sales of steel and is unnecessary to disclose more detailed information.

The Group's information

Products and service information

External principal operating income

**For the six months
ended 30 June**

	2012 Unaudited RMB'000	2011 Unaudited RMB'000
Sale of steel products	31,987,380,276	36,079,816,987
Sale of steel billets and pig iron	1,068,450,235	287,071,337
Sale of coke by-products	368,477,625	531,044,162
Others	3,132,578,631	1,217,351,385
Total	36,556,886,767	38,115,283,871

Geographical information

External principal operating income

**For the six months
ended 30 June**

	2012 Unaudited RMB'000	2011 Unaudited RMB'000
The PRC	34,715,434,303	37,460,289,727
Overseas	1,841,452,464	654,994,144
Total	36,556,886,767	38,115,283,871

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

X. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Operating segment information (continued)

Geographical information (continued)

Total non-current assets

	30 June 2012 Unaudited RMB'000	31 December 2011 Audited RMB'000 (Restated)
The PRC	41,278,021,524	40,279,019,269
Overseas	197,407,328	197,388,457
Total	41,475,428,852	40,476,407,726

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

Major customer information

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

5. Comparative figures

Certain comparative figures have been restated in order to comply with the requirement of presentation. In April 2012, the Group acquired Masteel Financial which is under common control. In accordance with the CAS, the Group restated the comparative figure, please refer to note IV.4 for the details.

Notes to Interim Financial Statements (Continued)

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

The Company's trade receivables were interest-free with normal credit terms of 30 to 90 days.

The aging analysis of trade receivables is as follows:

	30 June 2012 Unaudited	31 December 2011 Audited
Within one year	2,461,780,228	2,205,528,263
One to two years	68,064,398	155,444,562
Two to three years	4,086,673	22,491,689
Over three years	28,395,457	42,841,419
	2,562,326,756	2,426,305,933
Less: Provision for bad debts	13,382,203	13,382,203
Total	2,548,944,553	2,412,923,730

Trade receivables balance is analysed as follows:

	30 June 2012 (Unaudited)				31 December 2011 (Audited)			
	Book Value		Provision for bad debts		Book Value		Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed impairment individually	1,518,075,606	59	(6,927,040)	-	1,424,379,952	59	(6,927,040)	-
Other insignificant but assessed impairment individually	1,044,251,150	41	(6,455,163)	-	1,001,925,981	41	(6,455,163)	-
Total	2,562,326,756	100	(13,382,203)	-	2,426,305,933	100	(13,382,203)	-

The movement of provision for bad debts against trade receivables for the current period is disclosed in note 3.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

The following balances are denominated in foreign currencies:

	30 June 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	7,329,815	6.3249	46,360,349	1,687,901	6.3009	10,635,294
EUR	278,247	7.8710	2,190,079	49,837,142	8.1625	406,795,668
			<u>48,550,428</u>			<u>417,430,962</u>

An analysis of the amount of provision for bad debts being written off in the current period:

Reason	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	—	—
Less: Reversal of bad debts provisions written-off in prior year	—	—
Total	<u>—</u>	<u>—</u>

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

As at 30 June 2012, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	381,860,939	within one year	15
Company 2	Subsidiary	226,889,515	within one year	9
Company 3	Independent third party	177,436,742	within one year	7
Company 4	Independent third party	131,100,116	within one year	5
Company 5	Independent third party	125,146,000	within one year	5
		<u>1,042,433,312</u>		<u>41</u>

As at 31 December 2011, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	637,463,994	within one year	26
Company 2	Independent third party	348,923,986	within one year	14
Company 3	Independent third party	91,943,154	within one year	4
Company 4	Independent third party	91,774,515	within one year	4
Company 5	Independent third party	61,980,439	within one year	3
		<u>1,232,086,088</u>		<u>51</u>

Notes to Interim Financial Statements (Continued)

30 June 2012
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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

The aging analysis of the other receivables is as follows:

	30 June 2012 Unaudited	31 December 2011 Audited
Within one year	244,473,370	53,878,811
One to two years	3,177,319	33,348,070
Two to three years	32,701,016	226,710
Over three years	6,799,654	6,687,408
	287,151,359	94,140,999
Less: Provision for bad debts	6,930,913	6,930,913
Total	280,220,446	87,210,086

Other receivables balance is analysed as follows:

	30 June 2012 Unaudited				31 December 2011 Audited			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Balance	rate (%)	Amount	rate (%)	Balance	rate (%)	Amount	rate (%)
Individually significant and assessed impairment								
Individually	223,622,297	78	(2,400,000)	1	41,538,083	44	(2,400,000)	6
Other insignificant but assessed impairment								
Individually	63,529,062	22	(4,530,913)	7	52,602,916	56	(4,530,913)	9
Total	287,151,359	100	(6,930,913)		94,140,999	100	(6,930,913)	

The movement of provision for bad debts against other receivables for the year is disclosed in note 3.

During the current period, there was no provision for bad debts against other receivables being written off.

Notes to Interim Financial Statements (Continued)

30 June 2012

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (continued)

As at 30 June 2012, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	32,407,410	One to two years	49
Company 2	Independent third party	2,400,000	Over three years	4
Company 3	Independent third party	1,288,268	Over three years	4
Company 4	Subsidiary	960,000	Over three years	2
Company 5	Independent third party	675,344	One to two years	1
		37,731,022		60

As at 31 December 2011, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	32,407,410	One to two years	34
Company 2	Independent third party	6,730,673	Within one year	7
Company 3	Independent third party	2,400,000	Over three years	3
Company 4	Independent third party	1,288,268	Over three years	1
Company 5	Subsidiary	960,000	Over three years	1
		43,786,351		46

Notes to Interim Financial Statements (Continued)

30 June 2012

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Assets impairment provisions

	For the six months ended 30 June 2012					
	Opening Balance Audited	Increase during the period Unaudited	Decrease during the period			Closing balance Unaudited
			Reversal	Write-back	Write-off	
			Unaudited	Unaudited	Unaudited	
Provision for bad debts	20,313,116	-	-	-	-	20,313,116
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	6,930,913	-	-	-	-	6,930,913
Provision for inventories	735,706,316	556,658,817	-	(674,557,532)	-	617,807,601
Including: Raw Materials	526,707,239	440,813,790	-	(526,707,239)	-	440,813,790
Semi-finished products	86,456,715	72,357,677	-	(86,456,715)	-	72,357,677
Finished products	61,316,046	43,487,350	-	(61,316,046)	-	43,487,350
Spare parts	61,226,316	-	-	(77,532)	-	61,148,784
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
Total	843,874,168	556,658,817	-	(674,557,532)	-	725,975,453

Notes to Interim Financial Statements (Continued)

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Assets impairment provisions (continued)

	2011					
	Opening Balance Audited	Increase during the year Audited	Decrease during the year			Closing balance Audited
			Reversal Audited	Write-back Audited	Write-off Audited	
Provisions for bad debts	20,313,116	-	-	-	-	20,313,116
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	6,930,913	-	-	-	-	6,930,913
Provisions for inventories	61,875,468	674,480,000	-	(649,152)	-	735,706,316
Including: Raw Materials	-	526,707,239	-	-	-	526,707,239
Semi-finished products	-	86,456,715	-	-	-	86,456,715
Finished products	-	61,316,046	-	-	-	61,316,046
Spare parts	61,875,468	-	-	(649,152)	-	61,226,316
Impairment of fixed assets	87,854,736	-	-	-	-	87,854,736
Including: Buildings and structures	5,252,400	-	-	-	-	5,252,400
Plant, machinery and equipment	82,602,336	-	-	-	-	82,602,336
Total	170,043,320	674,480,000	-	(649,152)	-	843,874,168

Notes to Interim Financial Statements (Continued)

30 June 2012

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Principal operating income	30,195,432,247	33,505,670,650
Other operating income	2,024,354,261	5,211,517,555
Total	<u>32,219,786,508</u>	<u>38,717,188,205</u>

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Principal cost of sales	30,349,140,993	32,857,491,901
Other cost of sales	2,114,131,404	4,997,932,416
Total	<u>32,463,272,397</u>	<u>37,855,424,317</u>

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Sale of steel products	27,206,689,770	32,259,041,292
Sale of steel billets and pig iron	359,854,432	282,856,568
Sale of coke by-products	393,157,039	442,635,589
Others	2,235,731,006	521,137,201
Total	<u>30,195,432,247</u>	<u>33,505,670,650</u>

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales (continued)

In the first half of 2012, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue (%)
Company 1	1,651,125,538	5
Company 2	1,569,105,875	5
Company 3	1,293,024,523	4
Company 4	970,085,990	3
Company 5	724,691,725	2
Total	<u>6,208,033,651</u>	<u>19</u>

In the first half of 2011, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue (%)
Company 1	2,415,413,238	6
Company 2	1,624,965,703	4
Company 3	1,084,324,761	3
Company 4	995,415,189	3
Company 5	924,035,626	2
Total	<u>7,044,154,517</u>	<u>18</u>

Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

5. Investment income

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Long term equity investment income under equity method	60,814,995	89,385,084
Long term equity investment income under cost method	147,000,193	51,193,432
Other investment income	6,549	210,090
Total	<u>207,821,737</u>	<u>140,788,606</u>

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

6. Cash flows from operating activities

	For the six months ended 30 June	
	2012 Unaudited	2011 Unaudited
Net profit/(loss)	(1,866,766,935)	126,299,421
Add: Provision for inventories	556,658,817	-
Depreciation of fixed assets	1,466,053,268	2,167,091,560
Amortisation of investment properties	219,751	34,453
Amortisation of intangible assets	16,039,558	16,039,558
Amortisation of deferred income	(39,938,736)	(38,965,629)
Net gain on disposal of non-current assets	(1,244,243)	(2,999,882)
Financial expenses	664,409,906	219,452,505
Investment income	(207,821,737)	(140,788,606)
Loss on fair value changes	24,540	72,820
Decrease in deferred tax assets	2,985,587	17,683,580
(Increase)/decrease in inventories	(411,743,388)	165,202,254
(Increase)/decrease in receivables from operating activities	(261,096,812)	475,636,581
Increase in payables from operating activities	850,265,541	2,227,897,601
Net cash flows from operating activities	768,045,117	5,232,656,216

Notes to Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

* XII. NET CURRENT ASSETS

	The Group		The Company	
	30 June 2012 Unaudited	December 31 2011 Audited (Restated)	30 June 2012 Unaudited	December 31 2011 Audited
Current assets	40,816,159,224	40,984,108,471	27,440,025,491	27,757,450,810
Less: Current liabilities	33,615,614,970	30,295,242,660	20,391,764,526	18,707,771,692
Net current assets	<u>7,200,544,254</u>	<u>10,688,865,811</u>	<u>7,048,260,965</u>	<u>9,049,679,118</u>

* XIII. TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group		The Company	
	30 June 2012 Unaudited	December 31 2011 Audited (Restated)	30 June 2012 Unaudited	December 31 2011 Audited
Total assets	83,044,595,894	82,092,717,349	68,284,620,633	66,825,015,545
Less: Current liabilities	33,615,614,970	30,295,242,660	20,391,764,526	18,707,771,692
Total assets less current liabilities	<u>49,428,980,924</u>	<u>51,797,474,689</u>	<u>47,892,856,107</u>	<u>48,117,243,853</u>

XV. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 August 2012.

Supplementary Information to the Interim Financial Statements

30 June 2012
Renminbi Yuan

1. NON-RECURRING GAINS OR LOSSES ITEMS

	For the six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
Items of non-recurring gains or losses		
Gain/(loss) on disposal of non-current assets	881,020	(2,654,836)
Subsidies income	24,053,402	12,745,262
Amortisation of deferred income	41,789,561	40,791,454
Other non-operating income and expense items	(1,042,262)	(1,582,440)
Loss on fair value changes	(24,540)	(72,820)
Other investment income	122,471	295,632
	<u>65,779,652</u>	<u>49,522,252</u>
Less: Income tax effect on items of non-recurring gains or losses	15,262,021	11,887,491
Non-recurring gains or losses attributable to minority shareholders	7,000,824	1,872,619
	<u>43,516,807</u>	<u>35,762,142</u>
Net profit/(loss) attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit/(loss) attributable to ordinary equity holders of the parent	(1,892,679,010)	310,052,416
Less: Net effect of non-recurring gains or losses	43,516,807	35,762,142
	<u>(1,936,195,817)</u>	<u>274,290,274</u>

The calculation of non-recurring gains or losses is in accordance with the notice of No.43 【2008】 “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” issued by CSRC.

Supplementary Information to the Interim Financial Statements (Continued)

30 June 2012
Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2012 (Unaudited)

	Weighted average return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit/(loss) attributable to equity holders of the parent	(7.22)	(0.246)	N/A
Net profit/(loss) attributable to equity holders of the parent excluding non-recurring gains or losses	(7.38)	(0.251)	N/A

For the six months ended 30 June 2011 (unaudited)

	Weighted average return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to equity holders of the parent	1.13	0.040	N/A
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	1.00	0.036	N/A

The above return on net assets and earnings per share are calculated based on the formula stipulated in the notice of No.9 【2010】 “Regulation for the Preparation of Information Disclosure for Listed Securities Companies No.9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (2010 revised) issued by the CSRC.

Supplementary Information to the Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

3. VARIANCE ANALYSIS

According to the requirement of Information Disclosure Rules of Companies which Publicly Issue Securities No. 15-General Rules on Financial Statements (amended in 2010), an analysis for the financial statement items either with fluctuation over 30% compared with the comparative period, or accounted for over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

- (1) Dividends receivable balances amounted to RMB46,800,000, an decrease of 53% over the previous year, which was mainly attributable to the receipt of dividend declared by associate Jiyuan JinMa Coke and Henan Long Energy Co., Ltd in previous years.
- (2) Prepayments amounted to RMB5,030,022,470, an increase of 38% over the previous year, which was mainly attributable to the increased in purchase for the raw material and steel production resulted from the expanded commercial business.
- (3) Construction materials amounted to RMB393,988,641, an increase of 48% over the previous year, which was mainly attributable to the increase in construction materials for products quality projects that are purchased but not yet used.
- (4) Interest payable amounted to RMB468,685,148, an increase of 114% over the previous year, which was mainly attributable to the increase in the interest accrued for medium note and bank loans.
- (5) Other payable amounted to RMB1,028,269,501, an increase of 41% over the previous year, which was mainly attributable to the increase in amount of sales price difference accrued but not yet paid, resulting from the decreased price of steel product.
- (6) Non-current liabilities due within one year amounted to RMB1,331,577,600, a decrease of 50% over the previous year, which was mainly attributable to the repayment of bank loans.
- (7) Exchange fluctuation reserve amounted to RMB9,991,466, a decrease of 39% over the previous year, which was mainly attributable to the depreciation of functional currencies of certain overseas subsidiaries against Renminbi.
- (8) Revenue amounted to RMB40,586,883,357, a decrease of 6% over the previous comparative period, which was mainly attributable to the decrease in the selling price of steel products.

Supplementary Information to the Interim Financial Statements (Continued)

30 June 2012

Renminbi Yuan

3. VARIANCE ANALYSIS (continued)

- (9) Cost of sales amounted to RMB40,167,763,006, a decrease of 3% over the previous comparative period, which was mainly attributable to the decrease in the price of raw materials.
- (10) Business taxes and surcharges was amounted to RMB90,417,990, a decrease of 31% over the previous comparative period, which was mainly attributable to the decrease in value added tax generated in the current period as a result of the decreasing gross profit ratio of steel products, leading to the decrease in the city maintenance and construction tax and educational surcharges.
- (11) Selling expenses amounted to RMB180,209,788, an increase of 43% over the previous comparative period, which was mainly attributable to the increase in transportation fee for the increased sales of Anhui Chang Jiang Iron and Steel and export sales..
- (12) Administrative expenses amounted to RMB675,703,240, an increase of 11% over the previous comparative year, which was mainly attributable to the increase in the labour costs due to the increased average salary.
- (13) Financial expenses amounted to RMB808,083,153, an increase of 99% over the previous comparative period, which was mainly attributable to the increase in the amounts of bank loans, corporation bonds and exchange loss resulted from the decrease in the exchange rate of the US dollar to Renminbi.
- (14) Investment income amounted to RMB53,560,520, a decrease of 40% over the previous comparative year, which was mainly attributable to the decrease in profits of associates due to the depression of iron and steel industry.
- (15) Non-operating expenses amounted to RMB1,783,592, a decrease of 61% over the previous comparative year, which was mainly attributable to the decrease in the disposal loss of fixed assets.
- (16) Income tax amounted to RMB71,724,968, a decrease of 39% over the previous comparative year, which was mainly attributable to the decrease in profit for the current period.
- (17) Share of profit or loss of minority interest amounted to RMB17,945,419, a decrease of 70% over the previous comparative year, which was mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.

A blue-tinted background image showing an industrial facility with large storage tanks and piping.

VIII. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;
2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;
3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;
4. The Company's Articles of Association;
5. Interim report disclosed in other securities market;
6. Other related information.

Maanshan Iron & Steel Company Limited

Su Jiangan

Chairman

23 August 2012

Maanshan City, Anhui Province, the PRC