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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 00323)

SUMMARY OF 2012 INTERIM RESULTS ANNOUNCEMENT

1. IMPORTANT NOTICE

- 1.1 The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of Maanshan Iron & Steel Company Limited (the “Company”) warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

This summary of interim results has been extracted from the interim report. Investors should read carefully the full text of the interim report for details. The full text of the interim report can be found in the website of the Shanghai Stock Exchange and the company website.

- 1.2 Directors absent from the Board meeting shall be disclosed separately.

| Name of absent directors | Position of absent directors | Reason(s) for absence | Name of proxy |
|---------------------------------|-------------------------------------|------------------------------|----------------------|
| Wu Tat Man Damon Albert | Independent Director | Other business engagement | — |

- 1.3 The interim financial reports of the Company are unaudited but considered and approved by the Audit Committee of the Company.
- 1.4 There is no occupancy of non-operating funds by the controlling shareholder or its related parties.
- 1.5 The Company did not provide external guarantees which were in violation of stipulated decision-making procedures.
- 1.6 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.

2. COMPANY BASIC INFORMATION

2.1 Company profile

| | | |
|------------------------|---|---|
| Stock abbreviation | Magang Stock | Maanshan Iron & Steel |
| Stock code | 600808 | 323 |
| Places of listing | Shanghai Stock Exchange | The Stock Exchange of Hong Kong Limited |
| | 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 | mgfdms@magang.com.cn | mgfdms@magang.com.cn |

2.2 Major financial data and indicators

2.2.1 Major accounting data and financial 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 |
| Shareholders' equity | 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 |

2.2.2 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 | 43,517 |

3. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE

3.1 Table on movement in the Company's shareholding structure

| | Prior to the current movements | | Increase/(decrease) of current movements (+, -) | | | | | Unit: Shares After current movements | |
|--|-----------------------------------|------------|---|----------------|---------------------------------|----------|-----------|--|------------|
| | Number of shares | (%) | Issue of new shares | Bonus share | Transferred from reserves | Others | Sub-total | Number of shares | (%) |
| | | | | | | | | | |
| I. Shares subject to selling restrictions | - | - | - | - | - | - | - | - | - |
| 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 Jiengang.

3.2 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信托基金中國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信托基金中國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.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 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.

5. REPORT OF THE BOARD

1. Management discussion and analysis of overall operations during the reporting period

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.

3. Analysis of principal operation by Segment and by Product

| Business segment/ product segment | Operating income <i>(Unit: '000,000)</i> | Operating cost <i>(Unit: '000,000)</i> | Gross profit margin <i>(%)</i> | Year-on-year | Year-on-year | Year-on-year |
|--------------------------------------|--|--|--------------------------------------|--|---|---|
| | | | | increase/(decrease) of operating income <i>(±%)</i> | increase/(decrease) of operating cost <i>(±%)</i> | increase/(decrease) of gross profit margin <i>(±%)</i> |
| 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 |

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.

4. *Analysis of principal operation by Geographical Location (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 |

5. *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.

6. *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.

7. *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.

8. *Financial position and exchange risks*

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.

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.

9. 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 |

10. 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.

11. *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.

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;
- 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.

5.1 Funds other than proceeds raised

| Project name | Total investment | Unit: Million Currency: RMB | |
|--|------------------|-----------------------------|---|
| | | | 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 | | / |

5.2 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

| | | |
|--------------------------------|--|---|
| Result forecast | <input checked="" type="checkbox"/> Loss <input type="checkbox"/> Significant decrease over the same period last year | <input type="checkbox"/> Significant increase over the same period last year <input type="checkbox"/> Turnaround from loss |
| Information on result forecast | <p>Since the steel price remained low in general from July, it is expected that in the third quarter the steel market continued its recession with difficulty to rebound significantly. The Company may continue to suffer a loss. Accordingly, the Company expects that accumulated net profits would turn out to be losses from beginning of the year to end of the third quarter.</p> | |

6. SIGNIFICANT MATTERS

6.1 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.

6.2 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 |

6.3 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.

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

6.4.1 Securities Investment

| 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 (%) | Gain/loss 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 | | | <u>1,126,460</u> | <u>/</u> | <u>583,440</u> | <u>100</u> | <u>-24,540</u> |

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

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.

6.6 Pre-emptive rights

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

6.7 Public float

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

6.8 Code on corporate governance

The Company has complied with all the code provisions of the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the first half of 2012.

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

7. FINANCIAL ACCOUNTING REPORT

7.1 Financial Statements

7.2 During the reporting period, there was no change in accounting policy and accounting estimate.

7.3 Change in the scope of consolidation

In April 2012, Ma Steel (Hefei) Iron & Steel Co., Ltd., the controlling subsidiary of the Company, invested RMB1,200 million in establishing the Ma Steel (Hefei) Plates Co., Ltd., which was included in the scope of consolidation during the reporting period.

The Company and the Holding set up MASTEEL-Financial in September 2011. The percentage of equity of both parties was 49% and 51% respectively. MASTEEL-Financial is an associated company of the Company. On 9 February 2012, the Company and the Holding entered into an equity transfer agreement. The Holding agreed to transfer 42% equity interest in MASTEEL-Financial to the Company, at 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. On 5 April 2012, such equity transfer has been approved by the China Banking Regulatory Commission. Upon the completion of the equity transfer, the account of MASTEEL-Financial would be included in the scope of consolidation during the reporting period.

Apart from the above, there is no change in the Group's scope of consolidation compared to the latest annual financial report.

7.4. Comparative Data

Certain comparative figures have been restated to conform to the reporting period's disclosure requirements.

In April 2012, the Group acquired Masteel-Financial which is an entity under common control. In accordance with the CAS, the Group restated the comparative figures.

CONSOLIDATED AND COMPANY BALANCE SHEET

30 June 2012

Renminbi Yuan

| | | 30 June 2012 | 31 December 2011 | 30 June 2012 | 31 December 2011 |
|-----------------------------------|-------------|----------------------------|--------------------------------|------------------------------|---------------------|
| ASSETS: | <i>Note</i> | Group Unaudited | Group Audited (Restated) | Company Unaudited | Company Audited |
| CURRENT ASSETS: | | | | | |
| Cash and bank balances | | 9,186,193,392 | 10,611,862,099 | 4,789,155,427 | 4,768,791,715 |
| Financial assets held for trading | | 583,440 | 607,980 | 583,440 | 607,980 |
| Bills receivable | 3 | 8,487,960,146 | 9,034,711,272 | 6,128,229,076 | 6,866,227,009 |
| Trade receivables | 4 | 2,073,036,605 | 1,883,404,218 | 2,548,944,553 | 2,412,923,730 |
| Dividends payable | | 46,800,000 | 99,902,452 | 184,852,738 | 152,701,212 |
| Prepayments | 5 | 5,030,022,470 | 3,651,999,532 | 3,218,983,788 | 3,035,017,626 |
| Other receivables | | 851,578,186 | 694,493,241 | 280,220,446 | 87,210,086 |
| Inventories | | 14,084,984,985 | 14,132,127,677 | 10,289,056,023 | 10,433,971,452 |
| Other current assets | | 1,055,000,000 | 875,000,000 | – | – |
| Total current assets | | 40,816,159,224 | 40,984,108,471 | 27,440,025,491 | 27,757,450,810 |
| NON-CURRENT ASSETS: | | | | | |
| Loans and advances to customers | | 133,140,708 | 5,774,836 | – | – |
| Long term equity investments | | 1,262,887,087 | 1,113,949,039 | 6,908,920,228 | 5,408,814,497 |
| Investment properties | | 4,453,287 | 4,540,409 | 17,374,235 | 17,593,986 |
| Fixed assets | | 33,834,340,214 | 32,418,075,602 | 29,187,280,053 | 28,163,111,487 |
| Construction materials | | 393,988,641 | 265,351,474 | 335,419,515 | 282,303,496 |
| Construction in progress | | 4,005,695,072 | 4,672,053,374 | 2,634,527,230 | 3,415,642,243 |
| Intangible assets | | 1,974,064,551 | 2,002,437,828 | 1,166,914,358 | 1,182,953,916 |
| Deferred tax assets | | 619,867,110 | 626,426,316 | 594,159,523 | 597,145,110 |
| Total non-current assets | | 42,228,436,670 | 41,108,608,878 | 40,844,595,142 | 39,067,564,735 |
| TOTAL ASSETS | | 83,044,595,894 | 82,092,717,349 | 68,284,620,633 | 66,825,015,545 |

CONSOLIDATED AND COMPANY BALANCE SHEET (CONTINUED)

30 June 2012

Renminbi Yuan

| LIABILITIES AND SHAREHOLDERS' EQUITY: | 30 June 2012 Group Unaudited | 31 December 2011 Group Audited (Restated) | 30 June 2012 Company Unaudited | 31 December 2011 Company Audited |
|--|---------------------------------------|---|---|---|
| | <i>Note</i> | | | |
| CURRENT LIABILITIES: | | | | |
| Customer deposits | 434,958,155 | 697,944,982 | - | - |
| Repurchase agreements | - | 68,180,659 | - | - |
| Short term loans | 6,856,320,875 | 5,822,785,816 | 2,202,224,440 | 720,152,772 |
| Bills payable | 6,373,078,044 | 5,142,687,963 | 2,855,870,000 | 2,219,224,949 |
| Accounts payable | 8,619,248,959 | 7,030,282,017 | 7,841,249,026 | 6,868,767,357 |
| Deposits received | 7,375,502,213 | 7,028,115,939 | 4,973,700,997 | 5,644,238,568 |
| Payroll and benefits payable | 294,554,859 | 243,707,642 | 180,356,848 | 175,902,146 |
| Taxes payable | (311,140,878) | (325,437,540) | (221,638,676) | (388,139,010) |
| Interests payable | 468,685,148 | 218,784,755 | 465,173,688 | 215,949,993 |
| Dividends payable | 89,560,494 | 80,281,968 | 6,146,772 | 5,936,218 |
| Other payables | 1,028,269,501 | 731,863,459 | 757,103,831 | 564,693,699 |
| Non-current liabilities due within one year | 1,331,577,600 | 2,681,045,000 | 1,331,577,600 | 2,681,045,000 |
| Other current liabilities | 1,055,000,000 | 875,000,000 | - | - |
| Total current liabilities | <u>33,615,614,970</u> | <u>30,295,242,660</u> | <u>20,391,764,526</u> | <u>18,707,771,692</u> |
| NON-CURRENT LIABILITIES: | | | | |
| Long term loans | 13,141,852,600 | 12,506,772,000 | 15,505,277,100 | 12,838,172,000 |
| Bonds payable | 8,253,440,977 | 9,243,722,051 | 8,253,440,977 | 9,243,722,051 |
| Deferred income | 517,857,861 | 552,778,524 | 489,269,307 | 523,714,144 |
| Deferred tax liabilities | 49,852,832 | 44,328,987 | - | - |
| Total non-current liabilities | <u>21,963,004,270</u> | <u>22,347,601,562</u> | <u>24,247,987,384</u> | <u>22,605,608,195</u> |
| Total liabilities | <u>55,578,619,240</u> | <u>52,642,844,222</u> | <u>44,639,751,910</u> | <u>41,313,379,887</u> |
| SHAREHOLDERS' EQUITY: | | | | |
| Share capital | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 |
| Capital reserve | 8,329,067,663 | 8,758,358,399 | 8,338,358,399 | 8,338,358,399 |
| Surplus reserves | 3,448,406,894 | 3,444,264,492 | 2,964,168,101 | 2,964,168,101 |
| Retained profits | 5,567,810,074 | 7,460,489,084 | 4,641,661,037 | 6,508,427,972 |
| Including: Proposed cash dividend | - | - | - | - |
| Exchange fluctuation reserve | 9,991,466 | 16,483,680 | - | - |
| Equity attributable to equity holders of the parent | <u>25,055,957,283</u> | <u>27,380,276,841</u> | <u>23,644,868,723</u> | <u>25,511,635,658</u> |
| Minority interests | 2,410,019,371 | 2,069,596,286 | - | - |
| Total shareholder's equity | <u>27,465,976,654</u> | <u>29,449,873,127</u> | <u>23,644,868,723</u> | <u>25,511,635,658</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u><u>83,044,595,894</u></u> | <u><u>82,092,717,349</u></u> | <u><u>68,284,620,633</u></u> | <u><u>66,825,015,545</u></u> |

CONSOLIDATED INCOME STATEMENT (Unaudited)

For the six months ended 30 June 2012

Renminbi Yuan

| | Note | For the six months, ended 30 June | | For the six months, ended 30 June | |
|--|------|--------------------------------------|--------------------|--------------------------------------|--------------------|
| | | 2012 Group | 2011 Group | 2012 Company | 2011 Company |
| Revenue | 8 | 40,586,883,357 | 43,151,233,659 | 32,219,786,508 | 38,717,188,205 |
| Less: Cost of sales | 8 | 40,167,763,006 | 41,526,530,287 | 32,463,272,397 | 37,855,424,317 |
| Taxes and surcharges | | 90,417,990 | 131,323,578 | 58,940,625 | 105,760,655 |
| Selling expenses | | 180,209,788 | 125,975,922 | 136,633,545 | 113,305,306 |
| Administrative expenses | | 675,703,240 | 611,429,738 | 436,175,984 | 455,931,467 |
| Financial expenses | | 808,083,153 | 405,416,586 | 680,065,432 | 223,827,456 |
| Assets impairment losses | | 586,932,504 | – | 556,658,817 | – |
| Add: Loss on fair value changes | | (24,540) | (72,820) | (24,540) | (72,820) |
| Investment income | | 53,560,520 | 88,594,003 | 207,821,737 | 140,788,606 |
| including: share of profits of associates and jointly controlled entities | | 53,438,048 | 88,298,370 | 60,814,995 | 89,385,084 |
| Operating profit/(loss) | | (1,868,690,344) | 439,078,731 | (1,904,163,095) | 103,654,790 |
| Add: Non-operating income | | 67,465,313 | 53,904,419 | 41,182,979 | 42,003,511 |
| Less: Non-operating expenses | | 1,783,592 | 4,604,980 | 750,251 | 1,675,300 |
| including: net loss/(gain) on disposal of non-current assets | | (881,020) | 2,654,836 | (1,242,416) | (2,999,882) |
| Profit/(loss) before tax | | (1,803,008,623) | 488,378,170 | (1,863,730,367) | 143,983,001 |
| Less: Income tax | 9 | 71,724,968 | 118,045,237 | 3,036,568 | 17,683,580 |
| Net profit/(loss) | | <u>(1,874,733,591)</u> | <u>370,332,933</u> | <u>(1,866,766,935)</u> | <u>126,299,421</u> |
| Including: Net profit attributable to the acquiree prior to business combination under common control | | 11,496,395 | – | N/A | N/A |
| Less: Minority interests | | 17,945,419 | 60,280,517 | N/A | N/A |
| Net profit/(loss) attributable to equity holders of the parent | | <u>(1,892,679,010)</u> | <u>310,052,416</u> | <u>(1,866,766,935)</u> | <u>126,299,421</u> |
| EARNINGS PER SHARE: | 10 | | | | |
| Basic (cents) | | (24.58) | 4.03 | N/A | N/A |
| Diluted | | N/A | N/A | N/A | N/A |
| Other comprehensive income: | | | | | |
| Exchange fluctuation reserve | | (6,492,214) | 13,130,600 | – | – |
| Total comprehensive income | | <u>(1,881,225,805)</u> | <u>383,463,533</u> | <u>(1,866,766,935)</u> | <u>126,299,421</u> |
| Attributable to: | | | | | |
| Equity holders of the parent | | <u>(1,899,171,224)</u> | <u>323,183,016</u> | <u>(1,866,766,935)</u> | <u>126,299,421</u> |
| Minority interests | | <u>17,945,419</u> | <u>60,280,517</u> | <u>N/A</u> | <u>N/A</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2012

| | 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 | | |
| 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) |
| 3) 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 |
| 4) Profits appropriation | | | | | | | | |
| (i) Dividend declared to shareholders | - | - | - | - | - | - | - | - |
| (ii) Dividend declared to minority shareholders | - | - | - | - | - | - | (25,522,334) | (25,522,334) |
| 3. At 30 June 2012 | <u>7,700,681,186</u> | <u>8,329,067,663</u> | <u>3,448,406,894</u> | <u>5,567,810,074</u> | <u>9,991,466</u> | <u>25,055,957,283</u> | <u>2,410,019,371</u> | <u>27,465,976,654</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) (CONTINUED)

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2011

| | 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 | | |
| 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 |
| 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 | 49,671,614,097 | 51,262,760,314 |
| 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 agreement | (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 | (47,337,862,425) | (49,690,670,505) |
| Net cash flows from operating activities | 2,333,751,672 | 1,572,089,809 |
| 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 | 146,369,009 | 601,214,659 |
| 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 | (4,166,190,280) | (2,024,663,434) |
| Net cash flows from investing activities | (4,019,821,271) | (1,423,448,775) |

CONSOLIDATED 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 | 21,918,158,148 | 12,735,490,513 |
| Cash received from capital contribution including: capital contribution by minority shareholders received by subsidiaries | 348,000,000 348,000,000 | 37,500,000 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 including: dividend paid to minority shareholders by subsidiaries | (603,105,732) (16,454,362) | (1,018,667,332) (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 |

1. ACCOUNTING POLICES

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principals” and 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, 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 accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements ended 31 December 2011.

2. 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 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| 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> |

Geographical information

External principal operating income

| | For the six months ended 30 June | |
|----------|-------------------------------------|-----------------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| The PRC | 34,715,434,303 | 37,460,289,727 |
| Overseas | 1,841,452,464 | 654,994,144 |
| Total | <u>36,556,886,767</u> | <u>38,115,283,871</u> |

Non-current assets

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

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.

3. BILLS RECEIVABLE

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

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), 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).

4. 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 RMB | 31 December 2011 Audited RMB |
|-------------------------------|---|---------------------------------------|
| 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 |
| | <hr/> | <hr/> |
| | 2,088,381,570 | 1,898,886,303 |
| Less: Provision for bad debts | 15,344,965 | 15,482,085 |
| | <hr/> | <hr/> |
| Total | 2,073,036,605 | 1,883,404,218 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 RMB | 2011 Audited RMB |
| 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 | – | – |
| | <hr/> | <hr/> |
| Total | 280,000 | 307,896 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. PREPAYMENTS

The ageing of prepayment balance is analysed as follows:

| | 30 June 2012 | | 31 December 2011 | |
|--------------------|----------------------|------------|----------------------|------------|
| | Balance RMB | ratio (%) | Balance RMB | 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 trade payables) when the final inspection and settlement were completed.

6. ACCOUNTS PAYABLE

The ageing analysis of accounts payable as follows:

| | 30 June | 31 December |
|--------------------|----------------------|----------------------|
| | 2012 | 2011 |
| | Unaudited | Audited |
| | RMB | RMB |
| 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 |
| | <u>8,619,248,959</u> | <u>7,030,282,017</u> |

7. 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).

8. REVENUE AND COST OF SALES

Revenue is stated as follows:

| | For the six months ended 30 June | |
|----------------------------|-------------------------------------|-----------------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| 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 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| 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> |

9. INCOME TAX

| | For the six months ended 30 June | |
|---|-------------------------------------|--------------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| 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 | – | (93,015) |
| Current income expense in overseas | 24,704,759 | 15,080,553 |
| Total | <u>71,724,968</u> | <u>118,045,237</u> |

Relationship between income tax and profit before tax:

| | For the six months ended 30 June | |
|--|---|---------------------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| Profit/(loss) 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 | <u>71,724,968</u> | <u>118,045,237</u> |

(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.

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 the 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.

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax rates ranging 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 at the rate of 15%. 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. Other subsidiaries located elsewhere have been calculated at the tax rate of 30% prevailing in the countries, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

10. 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 weighted average number of shares from the date of their issue.

The calculations of basic earnings per share amounts are as follows:

| | For the six months ended 30 June | |
|--|---|---------------|
| | 2012 | 2011 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| Net profit attributable to Equity holders of the parent | (1,892,679,010) | 310,052,416 |
| Weighted average number of ordinary shares in issue during the period | 7,700,681,186 | 7,700,681,186 |
| Basic earnings per share (cents) | (24.58) | 4.03 |

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding.

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

11. BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

| | The basis for the judgment about the business combination under common control | The common controller | Revenue from the beginning of 2012 to the date of acquisition RMB | Net profit from the beginning of 2012 to the date of acquisition RMB |
|-------------------|---|----------------------------------|--|---|
| Masteel Financial | Controlled by the same parent company | The Holding | 18,933,214 | 11,496,935 |

| | Net cash flow from operating activities from the beginning of 2012 to the date of acquisition <i>RMB</i> | Net cash flow from investing activities from the beginning of 2012 to the date of acquisition <i>RMB</i> | Net cash flow from financing activities from the beginning of 2012 to the date of acquisition <i>RMB</i> |
|-------------------|--|--|--|
| Masteel Financial | <u>63,631,845</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 holding in Masteel Financial at a cost of RMB429,290,736, with its share holding reached 91%. Since the Company and Masteel Financial are both controlled by the Holding before and after this share transfer, and the controls are not temporary, this business combination is a business combination under common control. The acquisition date is determined at 5 April 2012.

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

| | Acquisition date <i>RMB</i> | | 31 December 2011 <i>RMB</i> |
|---|--------------------------------|------|--------------------------------|
| 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 | <u>2,666,031,264</u> | | <u>2,656,532,491</u> |
| 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 | <u>1,640,566,859</u> | | <u>1,642,565,020</u> |
| Total assets and liabilities | <u>1,025,464,405</u> | | <u>1,013,967,471</u> |
| Minority interests | 92,291,796 | | 91,257,072 |
| Interests in associates | 503,881,873 | (i) | 496,844,061 |
| | <u>429,290,736</u> | | <u>425,866,338</u> |
| Incorporating price difference (recorded in shareholder equity) | – | | |
| Consideration | <u>429,290,736</u> | (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 the Company newly acquired in the book value of Masteel Financial's net assets, and this acquisition is a business combination under common control, the capital reserve of the Group decreased by RMB429,290,736.

12. CONTINGENT LIABILITIES

(a) 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).

(b) Difference of corporate income tax

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).

13. NET CURRENT ASSETS

| | The Group | | The Company | |
|---------------------------|----------------------|-----------------------|----------------------|----------------------|
| | 30 June 2012 | 31 December 2011 | 30 June 2012 | 31 December 2011 |
| | Unaudited | Audited | Unaudited | Audited |
| | RMB | RMB | RMB | RMB |
| 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> |

14. TOTAL ASSETS LESS CURRENT LIABILITIES

| | The Group | | The Company | |
|---------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | 30 June 2012 | 31 December 2011 | 30 June 2012 | 31 December 2011 |
| | Unaudited | Audited | Unaudited | Audited |
| | RMB | RMB | RMB | RMB |
| 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 | 49,428,980,924 | 51,797,474,689 | 47,892,856,107 | 48,117,243,853 |

By order of the Board
Su Jiangang
Chairman

23 August 2012

Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:

Executive Directors: Su Jiangang, Qian Haifan, Ren Tianbao

Non-executive Director: Zhao Jianming

Independent Non-executive Directors: Qin Tongzhou, Yang Yada, Wu Tat Man Damon Albert