

# 2013 Interim Report

H Share Code: 323  
A Share Code: 600808



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## 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. Absence of Director

<b>Position of Director not Attending</b>	<b>Name of Director not Attending</b>	<b>Reasons for the Absence of Director</b>	<b>Name of Proxy</b>
Director	Su Shihuai	Other business engagements	Ding Yi

3. The interim financial reports of the Company are unaudited.

4. Mr. Ding Yi, 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.

# I. Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings:

## Definitions of common terms

The Company or Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	The Company and its subsidiaries
Holding	means	Magang (Group) Holding Company Limited
Board	means	the Board of Directors of the Company
Directors	means	the directors of the Company
Supervisory Committee	means	the Supervisory Committee of the Company
Supervisors	means	the supervisors of the Company
Hong Kong Stock Exchange	means	The Stock Exchange of Hong Kong Limited
SSE	means	Shanghai Stock Exchange
A shares	means	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB.
H shares	means	the foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars.
SD&C Shanghai Branch	means	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi
CSRC	means	China Securities Regulatory Commission
CBRC	means	China Banking Regulatory Commission
CISA	means	China Iron and Steel Association
Ernst & Young Hua Ming	means	Ernst & Young Hua Ming LLP
Logistics Company	means	Maanshan Masteel Yuyuan Logistics Co., Ltd.
MASTEEL-Financial	means	Magang Group Finance Company Limited
Ma Steel Gases	means	Maanshan BOC-Ma Steel Gases Company Limited
Articles of Association	means	the Articles of Association of Maanshan Iron and Steel Company Limited

## II. Company Introduction

### (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.
Legal representative of the Company	Ding Yi

### (2) CONTACT PERSONS

	<b>Secretary to the Board</b>	<b>Representative for Securities Affairs</b>
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	<a href="http://www.magang.com.cn">http://www.magang.com.cn</a> (A shares); <a href="http://www.magang.com.hk">http://www.magang.com.hk</a> (H shares)
Email address	mggfdms@magang.com.cn



## II. Company Introduction (Continued)

### (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	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 ON 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) COMPANY REPORT REGISTRATION CHANGES DURING THE PERIOD

Date of registration	1 September 1993
Location of registration	Anhui Administration for Industry & Commerce
Registration number of the Company's business licence	340000400002545
Tax registration number	340504610400837
Organisation code	61040083-7

### (7) OTHER RELATED INFORMATION

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.

# III. Summary of Accounting and Financial Indicators

## (1) THE COMPANY'S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

### 1. Major accounting data

*Unit: RMB'000*

Major accounting data	Reporting period	Corresponding	Increase/ (decrease)
	(January to June)	period of the	at the reporting
		previous year	period as compared
			to the corresponding
			period of the
			previous year (%)
Operating revenue	36,952,562	40,586,883	-8.95
Net profit attributable to shareholders of the Company	-332,823	-1,892,679	-
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	-393,338	-1,936,196	-
Net cash flows from operating activities	3,758,529	2,333,752	61.05

  

	As at the end of	As at the end of	Increase/ (decrease)
	the reporting period	the previous year	at the end of the
			reporting period as
			compared to the
			end of the previous
			year (%)
Net assets attributable to shareholders of the Company	22,698,903	23,126,644	-1.85
Total assets	77,184,572	76,011,164	1.54

### 2. Major Financial Data

Major financial indicators	Reporting period	Corresponding	Increase/ (decrease)
	(January to June)	period of the	at the reporting
		previous year	period as compared
			to the corresponding
			period of the
			previous year
Basic earnings per share (RMB/share)	-0.043	-0.246	-
Diluted earnings per share (RMB/share)	-0.043	-0.246	-
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	-0.051	-0.251	-
Return on net assets (weighted average) (%)	-1.45	-7.22	Increase by 5.77 percentage point
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	-1.72	-7.38	Increase by 5.66 percentage point

### III. Summary of Accounting and Financial Indicators (Continued)

#### (2) ITEMS OF NON-RECURRING GAINS OR LOSSES

*Unit: RMB'000*

<b>Items of non-recurring gains or losses</b>	<b>Amount</b>
Gains/ (losses) from disposal of non-current assets	-1,702
Subsidy income	33,575
Amortization of deferred income	45,787
Non-operating income and expenses other than the above items	4,115
Fair value gains/ (losses) of financial assets held for trading	-98
Other investment income	7,278
Impact of income tax	-17,917
Impact of minority interests (After tax)	-10,523
Total	<u>60,515</u>

## IV. Report of the Board

### (1) BOARD'S DISCUSSION AND ANALYSIS OF OVERALL OPERATIONS DURING THE REPORTING PERIOD

#### 1. The macro environment for production and operation

The global economic recovery was weak in the first half of the year. There was moderate economic recovery with an unemployment rate continuing to stay at the 7.6% high level in the U.S.; the economy has shrunk for four consecutive quarters in the euro zone with deteriorating employment; while there was a general slowdown in economic growth rate in the emerging economies, resulting in high price rises. Overseas demand for steel products was weak, and steel prices stayed low. The price index for global steel products stood at 163.6 at the end of June, down 12.10% year-on-year or down 9.06% 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 7.6%, down 0.2 percentage point year-on-year; while fixed asset investment across the country grew by 20.1%, down 0.3 percentage point year-on-year.

The general oversupply situation in the Chinese domestic iron and steel industry became intense, while the pace of growth in the major steel-consuming sectors decelerated so that the demand intensity for steel products declined, leading to a fall in steel prices. The domestic steel prices continued to fluctuate and stay at high levels in the beginning of the year, then stayed on a downward trend from March after reaching 112.12 in the end of February. The consolidated price index for domestic steel products as at the end of June was 98.52, down 14.69% year-on-year or down 7.97% compared to the end of March.

As for imports and exports, according to customs statistics, exported steel products during the first half of 2013 amounted to 30,690,000 tonnes, a year-on-year increase of 12.8%, while imported steel products amounted to 6,830,000 tonnes, a year-on-year fall of 1.8%. Equivalent net export of crude steel amounted to 25,080,000 tonnes in the first half of 2013, a year-on-year increase of 17.5%.

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 2013, although the average CIF price of China's imported iron ore fell by 4.0% year-on-year to US\$133.2/tonne, the decline was far less than that in steel prices. According to CISA's statistics, their member companies' average rate of return on sales was only 0.13% in the first half of the year, yet the lowest level in the industrial sector. The scale of loss was 41.0%, up 3.79 percentage points year-on-year.

## IV. Report of the Board (Continued)

### 2. Production and operation of the Company

Under such challenging external situations, the Company's strategy was to focus on innovation and transformation to spare no efforts in narrowing losses, thus having made some achievements. The amount of loss was decreasing month by month under an unfavorable situation where steel prices continued to go down.

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

- Carried out in-depth potential unleashing and benchmarking 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 continued to record losses. During the reporting period, the Group produced 8,790,000 tonnes of pig iron, 8,990,000 tonnes of crude steel and 8,700,000 tonnes of steel products, representing a year-on-year increase of 3.41%, 4.90% and 6.75%, respectively (in which the Company produced 6,710,000 tonnes of pig iron, 6,940,000 tonnes of crude steel and 6,620,000 tonnes of steel products, representing a year-on-year increase of 2.60%, 5.15% and 4.25%, respectively).
- Made every effort to seize orders for increasing the ratio of direct and self marketing; and strengthened the production-marketing linked mechanism for improving customer satisfaction. During the reporting period, the Group's total sales of steel products amounted to 8,671,000 tonnes, in which sales of steel plates, section steels, wire rods, train wheels and rims amounted to 3,747,000 tonnes, 1,289,000 tonnes, 3,550,000 tonnes and 85,000 tonnes, respectively.

### 3. Financial position and exchange risks

As at 30 June 2013, the total amount of loans borrowed by the Group amounted to RMB19,358 million, including loans of RMB14,215 million for working capital and long-term loans of RMB5,143 million. Except for foreign currency loans amounting to US\$487 million and HKD7,001 million, among which US\$172 million and HKD7,001 million were import bill advance, all other loans were denominated in Renminbi. Except for US dollar loans amounting to US\$245 million with interest rates of LIBOR plus a fixed percentage, among the Renminbi loans of the Group, loans amounting to RMB5,854 million carried fixed interest rates and loans amounting to RMB4,918 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. During the reporting period, the Group has paid RMB1 billion for the mid-term notes that was issued in 2010. The amounts of all the Group's loans varied according to the scale of production and construction projects. Other than the short-term loans of RMB30 million of the Group's subsidiary, Maanshan (Shanghai) Industrial Trading Co., Ltd. were overdue, the Group had no overdue loans.

At present, all capital required for the Company's construction were derived from self-generated cash. As at the end of the reporting period, banking facilities provided by banks to the Group amounted to approximately RMB52,250 million.

As at 30 June 2013, the Group's cash and balances amounted to RMB8,309 million. Bills receivable amounted to RMB8,992 million. Proceeds of sales received constituted a substantial part of the cash and bank 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. During the reporting period, the purchase amount of equipment in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payment was relatively small.

#### **4. 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 2012". 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.

#### **5. The environment for production and operation and coping strategies**

In the second half of the year, the global economic landscape will remain complex with an unbalanced recovery trend in major economies. The U.S. economy and employment have improved, but the negative impact of the fiscal spending cuts on economic growth may increase; there was slight improvement in the Japanese economy, but domestic demand remains weak; the situation in the euro zone looks more difficult as the size of debts is increasing further. Moreover, the increased expectation for America's exit from the quantitative easing policy has rendered the global economic trend more variable.



## IV. Report of the Board (Continued)

China will plan to maintain steady growth, adjust structure, promote reform and aggressively boost effective demand, with focus on pushing forward transformation and upgrade to continue deepening the reform and opening-up policy, as well as on safeguarding and improving people's livelihood. The State Council's plan to push for revamping the regime for railway investment and financing to accelerate the construction of railways in the middle and western parts as well as in poverty-stricken areas will help fuel economic growth. The implementation of MIIT's "Regulatory Requirements for the Iron and Steel Industry" and an array of increasingly stringent environmental policies will help eliminate obsolete production capacity and ease the imbalance between supply and demand to a certain extent. However, there is currently still a significant overcapacity in the domestic iron and steel industry, and iron and steel enterprises will continue to encounter a challenging production and operations situation.

In the second half, the Company's top priority is to reduce and make profits, continue to maintain low inventory, make every effort to seize orders, carry out production at full capacity, improve customer satisfaction and upgrade comprehensive cost reduction and efficiency enhancement initiatives. Its major initiatives are as follows:

- Seize market opportunities and improve the level of operations and efficiency. Strengthen the analysis, research and judgment of market tracking to swiftly and accurately respond to market changes, and timely modify marketing and procurement strategies. With respect to procurement, seize the opportunity to make procurement in off-season periods, continuously improve bargaining power for procurement, increase the proportion of categories for tender invitations, flexibly make use of fund payment methods, regulate the management of vendors and vigorously reduce the procurement prices. As to sales, after stabilizing the existing marketing channels and superior categories, strive to open up new channels (including overseas markets), step up the development of direct supply customers and key projects to continuously increase direct supply ratio, and improve the level of planning and setting of the prices of products through research on market segments and analysis of competitors to continuously narrow the price gaps with competitors;
- Strengthen fundamental management, maintain a stable order in production and consolidate the basis for cost reduction and efficiency enhancement. Maintain balanced, stable and smooth long-period operation of the pre-iron making system and steel rolling system; push forward a flexible overhaul mechanism and carry out zero-failure operation of equipment to ensure zero accidents and failures for key engine sets and production lines.
- Step up the tackling of technical problems regarding quality to improve customer satisfaction. Take effective measures in the management, technical and operational aspects to accurately diagnose the root causes of instability in product quality; understand customers' needs for the use of products; improve product technical designs; build up a technology research platform to step up efforts to tackle repetitive quality problems for continuous improvement of product quality and manufacturing standards.

## (2) ANALYSIS OF PRINCIPAL OPERATION

### (i) Analysis of the change in items of the financial statements

Unit: RMB'000

Items	Amount of the current period	Amount of the corresponding period of the previous year	Change (%)
Revenue	36,952,562	40,586,883	-8.95
Cost of sales	35,243,795	40,167,763	-12.26
Selling expenses	183,696	180,210	1.93
Administrative expenses	683,662	675,703	1.18
Financial expenses	625,836	808,083	-22.55
Net cash flows from operating activities	3,758,529	2,333,752	61.05
Net cash flows from investing activities	-2,891,839	-4,019,821	-
Net cash flows from financing activities	-1,819,516	-923,596	-
Research and development expenditure	223,816	302,570	-26.03

Revenue decreased by 8.95% year-on-year, which was mainly attributable to the decrease in the selling price of steel products. Cost of sales decreased by 12.26% over the previous comparative period, while operating margin amounted to 4.62%, up 3.59 percentage points, which is mainly attributable to the year-on-year decline in the prices of raw materials and fuels as well as the Company's control of the operating costs.

In the consolidated financial statements, when compared to the same period of the previous year, the changes in some related items and the reasons therefor were as follows:

- Business tax and surcharges increased by 49.21% year-on-year, mainly attributable to the increase in gross margins of products, resulting in the increase in payable VAT, thereby making surtax increases.
- Financial expenses decreased by 22.55% year-on-year, mainly attributable to the decrease in interest expenses.
- Asset impairment losses decreased by 18.59% year-on-year, mainly attributable to the decrease in the provisions for price falls in inventory.
- Losses from fair value changes increased by 297.60% year-on-year, mainly attributable to the fall in the prices of underlying shares of tradable financial assets.

## IV. Report of the Board (Continued)

### (i) Analysis of the change in items of the financial statements (Continued)

- Investment income increased by 29.54% year-on-year, mainly attributable to receipt of dividends by long-term equity investment enterprises.
- Non-operating expenses increased by 71.34% year-on-year, mainly attributable to the increase in the loss on disposal of fixed assets.
- Minority interest income decreased by 46.53% year-on-year, mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.
- Net loss attributable to shareholders of the parent company decreased by 82.42%, mainly attributable to the increase in gross profit margins during the period.
- Net cash inflow from operating activities increased by 61.05% year-on-year, mainly attributable to the increase in the deposits taken and the decrease in cash paid for purchase of goods during the period.
- Net cash outflow from investing activities decreased by 28.06% year-on-year, mainly attributable to the decrease in other cash which was monetary funds subject to restricted use during the period.
- Net cash outflow from financing activities increased by 97.00% year-on-year, mainly attributable to the decrease in cash received from borrowings during the period.
- Impact of exchange rate changes on cash and cash equivalents resulted in an increase of 1,141.65% in cash outflow year-on-year, mainly attributable to the devaluation of foreign currencies held by the Company against Renminbi during the period.

In the consolidated financial statements, when compared with the end of last year, the changes in some related items and the reasons therefor were as follows:

- Interests receivable decreased 71.09%, mainly attributable to the decrease in interest income withheld by Finance Company at the end of the period.
- Prepayments decreased by 31.51%, mainly attributable to the change of method for settlement of some coal purchases from prepayment to settlement on credit.
- Other receivables increased by 44.02%, mainly attributable to the increase in prepaid import duties and VAT security deposits.
- Investment real estate decreased by 76.51%, mainly attributable to the decrease in investment real estate resulting from the disposal of subsidiary Anhui Magang Stereoscopic Auto-Parking Equipment Co., Ltd. during the period.
- Projects under construction increased by 54.51%, mainly attributable to the increase in quality-related projects as a result of production and development of new varieties.
- Deposits taken increased by 114.25%, mainly attributable to the deposit of funds in Finance Company raised from the issue of RMB1 billion medium-term notes by the Group Company during the period.
- Short-term borrowings increased by 31.91%, mainly attributable to the increased proportion of the use of settlement by letter of credit on behalf of overseas parties for purchases of imported ore by the Company during the period.

**(i) Analysis of the change in items of the financial statements (Continued)**

- Notes payable increased by 34.31%, mainly attributable to the increase in purchases of raw materials by the Company during the period.
- Payroll payable increased by 30.69%, mainly attributable to the increase in the Company's provision for bonuses during the period.
- Interests payable increased by 135.92%, mainly attributable to the payment of corporate bond interests in August of each year, resulting in the increase in interests payable as at 30 June compared with the end of the year.
- Long-term borrowings decreased by 48.12%, mainly attributable to the repayment of some long-term loans for turnover purposes, the switch to increased use of credit settlement for the ore import business, resulting in the decrease in long-term borrowings due to changes in financing methods during the period.
- Exchange fluctuation reserve decreased by 299.38%, mainly attributable to the devaluation in the functional currencies of some overseas subsidiaries against Renminbi.



## IV. Report of the Board (Continued)

### (3) ANALYSIS BY OPERATION OF INDUSTRY, PRODUCTS OR REGIONS

#### (i) Principal operation by industry and products

In the first half of 2013, the Group's revenue amounted to RMB36,953 million, of which RMB30,046 million were income from the iron and steel business, accounting for 81% of the income from the principal business.

*Unit: RMB Million*

Business segment/ product segment	Revenue	Cost of sales	Gross profit margin (%)	Year-on- year increase/ decrease		Year-on-year increase/ decrease of gross profit margin
				decrease of revenue (±%)	of cost of sales (±%)	
Iron and steel	30,046	29,182	2.88	-9.11	-14.84	Increase by 6.54 percentage points
<b>Product segment</b>						
Steel plates	13,505	12,724	5.78	3.10	-7.35	Increase by 10.62 percentage points
Section steels	4,286	4,247	0.91	-4.61	-7.31	Increase by 2.89 percentage points
Wire rods	11,086	11,112	-0.23	-5.74	-4.34	Decrease by 1.46 percentage points
Train wheels and wheel rims	804	650	19.15	1.39	-1.37	Increase by 2.25 percentage points

The connected transactions which arose from the Group's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB60.35 million during the reporting period.

Gross margins of steel plates, section steel, train wheels and wheel rims increased year-on-year mainly attributable to the Company's control of cost of sales.

(ii) Analysis of principal operation by region

Unit: RMB Million

Region	Ratio (%)	Revenue	Increase/ (decrease) in revenue as compared to the corresponding period of the previous year (±%)
Anhui	50.13	18,524	-5.09
Jiangsu	12.35	4,565	-30.59
Shanghai	9.22	3,408	-20.11
Zhejiang	5.68	2,098	-37.73
Guangdong	4.52	1,670	-18.02
Other PRC regions	15.76	5,824	98.91
Exports	2.34	864	-54.33

(4) ANALYSIS BY INVESTMENT

(i) General analysis of external equity investment

- Securities investment

Item no	Securities code	Abbreviation	Initial investment amount (RMB)	Numbers of shares held (share)	Book value	Proportion	Gains/Loss in the reporting period (RMB)
					at the end of the reporting period (RMB)	of securities investments at the end of the reporting period	
1	601857	PetroChina	584,500	35,000	266,350	54.41	-16,450
2	601186	China Railway Construction	181,600	20,000	84,000	17.16	-49,200
3	601390	China Railway Group	158,400	33,000	80,520	16.44	-19,800
4	601898	China Coal Energy	201,960	12,000	58,680	11.99	-12,120
Total			1,126,460	/	489,550	100	-97,570

## IV. Report of the Board (Continued)

### (ii) Entrusted financial management and derivatives investment of non-financial companies

- *Entrusted financial management*

The Company had no entrusted financial management during the reporting period.

- *Entrusted loans*

The Company had no entrusted loans during the reporting period

### (iii) Use of raised proceeds

During the reporting period, the Company had no proceeds raised or proceeds, raised in the previous reporting period and used in the reporting period.

### (iv) Analysis of the Group's major subsidiaries and investees

- Ma Steel (Hefei) Iron & Steel Co., Ltd., in which the Company holds a direct stake of 71%, is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB15.5 million.
- Anhui Changjiang Steel Co., Ltd, in which the Company holds a direct stake of 55%, is mainly engaged in ferrous metal smelting, the production and sales of screw-threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. Net profit for the reporting period amounted to approximately RMB4.6 million.
- 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 amounted to RMB70.8 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 RMB34.6 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 RMB17.3 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 RMB 6.6 million.

(v) **Projects financed by other than fundraising proceeds**

*Unit: RMB Million*

<b>Project name</b>	<b>Project amount</b>	<b>Project progress</b>
1,580mm hot rolling project at No.4 steel & rolling plant	2,950	Equipment assembling and debugging stage
Hot-rolled pickling plate project at No.4 steel & rolling plant	1,008	Equipment assembling and debugging stage
Silicon steel project phase 2	1,494	Pre-production stage
Total	5,452	/

During the reporting period, the Group spent a total of RMB2,946 million on projects under construction, an increase of 17.98% year-on-year.

(5) **THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION**

1. **Formulation, Implementation and Adjustment of a Cash Dividend Policy during the reporting period**

The Company's profit distribution plan for 2012 was considered and approved at the Annual General Meeting on 14 June 2013: the Company will not make any profit distribution including cash dividends or carry out any share capital increase from capital reserve fund. 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.

(6) **OTHER INFORMATION DISCLOSURE MATTERS**

1. **A significant changes of profit alert and explanation from the Company who expects a loss in accumulative net profit during the period from the beginning of the year to the end of the third quarter when compare with the same period of last year.**

The Company expects a loss in accumulative net profit during the period from the beginning of the year to the end of the third quarter mainly because of a greater increase in the prices of raw materials despite a rise in the prices of steel products from July, and the Company's upgrade in cost reduction and efficiency enhancement initiatives. Moreover, the Company was still at a loss as at the end of the reporting period.

2. **The Board and the Supervisory Committee's Explanation for the Accounting Firm's "Non-Standard Audit Report"**

✓ Not applicable

## V. Significant Matters

### (1) MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

#### 1. Major Litigation and Arbitration Cases and Media Controversies already disclosed in the Temporary Announcements and without New Development

<b>Summary of the case and type of controversy</b>	<b>Information source</b>
Board of Directors was informed of litigation brought by Logistics Company over trade dispute with suppliers. To recover the outstanding goods and payment, Logistics Company already instituted civil proceedings before the Intermediate People's Court at Maanshan city on 21 September 2012.	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Board of Directors approved Logistics Company of filing an application for bankruptcy liquidation to the court, and carrying out the liquidation as led by the court.	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
The court accepted Logistics Company's case for bankruptcy liquidation.	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

### (2) INSOLVENCY OR RESTRUCTURING RELATED MATTERS

No insolvency or restructuring related matters during the reporting period.

### (3) ASSET TRANSACTIONS AND MERGER OF COMPANIES

<b>Summary and type of the case</b>	<b>Information source</b>
To dispose to parent company of some assets not related to the principal iron and steel business	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
To enter into an Equity and Asset Disposal Agreement and related continuing connected transaction agreements	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>

### (4) THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

✓ Not applicable

## (5) SIGNIFICANT CONNECTED TRANSACTIONS IN THE REPORTING PERIOD

### 1. Connected transactions related to normal operations

Unit: Million Currency: RMB

Connected party	Connected relations	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	14	1
Holding and its subsidiaries	Holding company	Sale	Collecting fees from providing facilities services and other commodities	Mutual agreement	36	5
Holding and its subsidiaries	Holding company	Procurement	Procurement of iron ore limestone and dolomite	Under "Sale and Purchase of Ore Agreement"	1,643	18
Holding and its subsidiaries	Holding company	Procurement	Procurement of fixed assets and construction fees	Mutual agreement	39	1
Holding and its subsidiaries	Holding company	Procurement	Disbursement of service fees	Mutual agreement	200	100
Holding	Holding company	Procurement	Rental expenses	Mutual agreement	24	100
Holding and its subsidiaries	Holding company	Procurement	Agency fee	Mutual agreement	15	100
Holding and its subsidiaries	Holding company	Procurement	Interests on deposits	Under "Financial Services Agreement"	6	100
Holding and its subsidiaries	Holding company	Sale	Income from financial service	Under "Financial Services Agreement"	11	100
Shenglong Chemical Co., Ltd.	Associate	Procurement	Procurement of coke	Mutual agreement	28	3
Maanshan Harbour Group Co., Limited	Associate	Procurement	Loading expenses	Mutual agreement	70	12
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 public utility fee and usage of facility fee	Mutual agreement	6	100
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting public utility fees including providing electricity	Mutual agreement	133	91
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Procurement	Procurement of gases	Mutual agreement	270	100
					2,496	

## V. Significant Matters (Continued)

### (6) MATERIAL CONTRACTS AND PERFORMANCE THEREOF

#### 1. Trusts, contracts and lease arrangements

✓ Not applicable

#### 2. Guarantees

Unit: Million Currency: US\$

<b>External guarantees provided by the Company (Excluding guarantees provided for controlled subsidiaries)</b>	
Total guarantee amount during the reporting period	0
Total balance of guarantees at the end of the reporting period	0
<b>Total guarantees provided for controlled subsidiaries by the Company</b>	
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
<b>Total guarantee amount provided by the Company (including guarantees for controlled subsidiaries)</b>	
Total guarantee amount	55
Proportion of total guarantee amount to the Company's assets (%)	1.63
<b>Including:</b>	
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 RMB340 million. All the guarantees were approved by the Board of the Company beforehand.

#### 3. Other significant events

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

## **(7) PERFORMANCE OF UNDERTAKINGS**

✓ Not applicable

## **(8) 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.

## **(9) PUNISHMENT AND RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% OF SHAREHOLDING, DE FACTO CONTROLLER AND ACQUIRER**

During the year, none of the Company and its directors, supervisors, senior management, the Company's shareholders with more than 5% of shareholding, the de facto controller, acquirer were investigated by the CSRC, subjected to administrative punishment, published reprimand or publicly reprimanded by securities exchanges.

## **(10) 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.



# VI. Movements in Share Capital and Shareholders

## (1) SHARE MOVEMENTS

### 1. Table on Share Movements

*Unit: Share*

	Prior to the current movements		Increase/(decrease) of current movements (+, -)					After current movements	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Transferred from reserves	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
including:									
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Foreign owned shares	-	-	-	-	-	-	-	-	-
including:									
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB-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>

## (2) SHAREHOLDER AND ACTUAL HOLDERS

### 1. The number of shareholders and shareholding structure

Unit: Shares

**Total number of shareholders at the end of the reporting period** 348,607

Shareholding of the top ten shareholders					
Name of shareholder	Type of shareholders	As		Number of shares held with selling restrictions	Number of pledged or frozen shares
		a Percentage of shares held (%)	Total number of shares held		
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,423,927	0	0
HKSCC (Nominees) Limited	Foreign shareholder	22.17	1,707,063,898	0	Unknown
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.58	52,999,969	0	Unknown
張沐城	Others	0.27	23,000,000	0	Unknown
王勇	Others	0.25	20,950,000	0	Unknown
何文華	Others	0.11	11,983,587	0	Unknown
張武	Others	0.10	9,000,000	0	Unknown
白計平	Others	0.10	8,209,900	0	Unknown
張俊英	Others	0.09	7,520,000	0	Unknown
肖國文	Others	0.07	5,695,758	0	Unknown

## VI. Movements in Share Capital and Shareholders (Continued)

### 1. The number of shareholders and shareholding structure (Continued)

#### Shareholding of top ten shareholders without selling restrictions

<u>Name of shareholder</u>	<u>Number of shares held without selling restrictions</u>	<u>Type and number of shares</u>
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,707,063,898	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	52,999,969	RMB-denominated ordinary shares
張沐城	23,000,000	RMB-denominated ordinary shares
王勇	20,950,000	RMB-denominated ordinary shares
何文華	11,983,587	RMB-denominated ordinary shares
張武	9,000,000	RMB-denominated ordinary shares
白計平	8,209,900	RMB-denominated ordinary shares
張俊英	7,520,000	RMB-denominated ordinary shares
肖國文	5,695,758	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the abovementioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties as defined in the Measures on Management of Acquisition for Listed Companies. The Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerned parties.

### 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.

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 60 June 2013 were as follows:

<b>Name of shareholder</b>	<b>Capacity as holder or deemed holder of interests</b>	<b>Number of shares interested or deemed interested (Shares)</b>	<b>Approximate percentage of the Company's issued H shares (%)</b>
Deutsche Bank Group	Beneficial owner	88,317,077 (Long position)	5.10
		74,889,716 (Short position)	4.32
		1,620,300 (Lendable)	0.09

### (3) SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS

No substantial shareholders and actual holders changes during the reporting period.



## VII. Directors, Supervisors and Senior Management

### (1) CHANGES IN SHAREHOLDING

#### 1. Changes in Shareholding held by Existing Directors, Supervisors and Senior Management in the reporting period

No changes in Shareholding held by Existing Directors, Supervisors and Senior Management in the reporting period.

### (2) MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Position</u>	<u>Movement</u>	<u>Reasons of movement</u>
Ding Yi	Chairman	Election	
Su Jiangang	Chairman	Resignation	Working need
Su Shihuai	Director	Election	
Gao Haichao	Senior Management	Appointment	

### (3) OTHER NOTES

On 5 February 2013, Mr. Su Shihuai was elected as a director of the Company; On 17 February, Mr. Gao Haichao was appointed as a senior management member; and on 9 August, Mr. Su Jiangang resigned as the director and chairman of the Company, and Mr. Ding Yi was elected as a director and the chairman of the Company.

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 2013, 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.

# VIII. Financial Statements

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Note: 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 2013

Renminbi Yuan

## ASSETS

	Note V	30 June 2013 Unaudited	31 December 2012 Audited
<b>CURRENT ASSETS:</b>			
Cash and bank balances	1	8,309,393,100	9,782,424,115
Financial assets held for trading	2	489,550	587,120
Bills receivable	3	8,992,037,467	8,060,760,260
Trade receivables	4	1,448,141,906	1,411,927,109
Dividends receivable		46,800,000	46,800,000
Interest receivable		1,400,935	4,846,087
Prepayments	5	1,395,699,427	2,037,721,944
Other receivables	6	675,444,442	469,008,747
Inventories	7	12,385,138,272	11,250,937,262
Loans and advances to customers	8	158,937,879	215,562,806
<b>Total current assets</b>		<b>33,413,482,978</b>	<b>33,280,575,450</b>
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments	9,10	1,221,232,090	1,210,311,409
Investment properties		1,033,585	4,400,618
Fixed assets	11	30,518,511,082	32,478,798,396
Construction materials		472,387,050	673,731,960
Construction in progress	12	8,803,628,940	5,697,669,676
Intangible assets	13	2,061,473,572	1,963,421,181
Deferred tax assets		692,822,285	702,255,349
<b>Total non-current assets</b>		<b>43,771,088,604</b>	<b>42,730,588,589</b>
<b>TOTAL ASSETS</b>		<b>77,184,571,582</b>	<b>76,011,164,039</b>

# Consolidated Balance Sheet (Continued)

30 June 2013

Renminbi Yuan

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
	Note V		
<b>CURRENT LIABILITIES:</b>			
Customer deposits	15	1,210,898,981	565,167,982
Repurchase agreements	16	540,120,812	494,753,998
Short term loans	17	12,897,262,098	9,777,449,423
Bills payable	18	6,844,859,656	5,096,302,242
Accounts payable	19	7,279,480,609	7,029,326,670
Deposits received		6,364,365,441	6,122,954,555
Payroll and benefits payable		298,108,917	228,107,066
Taxes payable	20	(419,830,980)	(331,007,320)
Interest payable		484,275,080	205,268,222
Dividends payable	21	81,392,794	80,492,522
Other payables		1,113,491,942	1,058,965,107
Non-current liabilities due within one year	22	1,317,965,700	1,335,542,400
<b>Total current liabilities</b>		<b>38,012,391,050</b>	<b>31,663,322,867</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long term loans	23	5,143,470,300	9,914,180,000
Bonds payable	24	8,270,544,430	8,261,992,704
Deferred income		584,595,222	618,997,012
Deferred tax liabilities		38,757,833	40,614,884
<b>Total non-current liabilities</b>		<b>14,037,367,785</b>	<b>18,835,784,600</b>
<b>Total liabilities</b>		<b>52,049,758,835</b>	<b>50,499,107,467</b>

# Consolidated Balance Sheet (Continued)

30 June 2013

Renminbi Yuan

## LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)

	Note V	30 June 2013 Unaudited	31 December 2012 Audited
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	25	7,700,681,186	7,700,681,186
Capital reserve	26	8,329,067,663	8,329,067,663
Special reserve		11,193,433	14,768,610
Surplus reserve		3,750,928,170	3,750,928,170
General reserve		55,650,161	55,650,161
Retained profits		2,912,214,895	3,245,037,973
Exchange fluctuation reserve		(60,832,960)	30,510,424
		<hr/>	<hr/>
Equity attributable to owners of the parent		22,698,902,548	23,126,644,187
		<hr/>	<hr/>
Minority interests		2,435,910,199	2,385,412,385
		<hr/>	<hr/>
Total shareholders' equity		25,134,812,747	25,512,056,572
		<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		77,184,571,582	76,011,164,039
		<hr/> <hr/>	<hr/> <hr/>

The financial statements are signed by the following persons

Company Representative:

Ding Yi

22 August 2013

Chief Accountant:

Qian Haifan

22 August 2013

Head of Accounting:

Zhang Qianchun

22 August 2013

# Consolidated Income Statement

For the six months ended 30 June 2013

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
	Note V	<b>2013 Unaudited</b>	2012 Unaudited
Revenue	27	<b>36,952,562,339</b>	40,586,883,357
Less: Cost of sales	27	<b>35,243,795,361</b>	40,167,763,006
Taxes and surcharges		<b>134,915,427</b>	90,417,990
Selling expenses	28	<b>183,696,105</b>	180,209,788
Administrative expenses	29	<b>683,662,180</b>	675,703,240
Financial expenses	30	<b>625,836,335</b>	808,083,153
Assets impairment losses	31	<b>477,830,557</b>	586,932,504
Loss on fair value changes		<b>97,570</b>	24,540
Add: Investment income	32	<b>69,382,866</b>	53,560,520
including: share of profits of associates and jointly-controlled entities		<b>49,520,681</b>	53,438,048
Operating loss		<b>(327,888,330)</b>	(1,868,690,344)
Add: Non-operating income		<b>84,830,273</b>	67,465,313
Less: Non-operating expenses		<b>3,055,983</b>	1,783,592
including: net loss/(gain) on disposal of non-current assets		<b>1,702,335</b>	(881,020)
Loss before tax		<b>(246,114,040)</b>	(1,803,008,623)
Less: Income tax	33	<b>77,113,128</b>	71,724,968
Net loss		<b>(323,227,168)</b>	(1,874,733,591)
Including: Net profit attributable to the acquiree prior to business combination under common control		–	11,496,935
Less: Minority interests		<b>9,595,910</b>	17,945,419
Net loss attributable to the equity holders of the parent		<b>(332,823,078)</b>	(1,892,679,010)
EARNINGS PER SHARE	34		
Basic		<b>(4.32) cents</b>	(24.58) cents
Diluted		<b>(4.32) cents</b>	(24.58) cents
Other comprehensive income	35	<b>(91,343,384)</b>	(6,492,214)
Total comprehensive income		<b>(414,570,552)</b>	(1,881,225,805)
Attributable to:			
Equity holders of the parent		<b>(424,166,462)</b>	(1,899,171,224)
Minority interests		<b>9,595,910</b>	17,945,419

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

Renminbi Yuan

**30 June 2013 (Unaudited)**

	Attributable to equity holders of parent								Total shareholders' equity	
	Share capital	Capital reserve	Special reserve	Surplus reserve	General reserve	Retained profits	Exchange fluctuation reserve	Minority interests		
	(Note V 25)	(Note V 26)					Sub-total			
1. At 1 January 2013	7,700,681,186	8,329,067,663	14,768,610	3,750,928,170	55,650,161	3,245,037,973	30,510,424	23,126,644,187	2,385,412,385	25,512,056,572
2. Increase/(decrease) during the period										
1) Net profit/(loss)	-	-	-	-	-	(332,823,078)	-	(332,823,078)	9,595,910	(323,227,168)
2) Other comprehensive income	-	-	-	-	-	-	(91,343,384)	(91,343,384)	-	(91,343,384)
Total comprehensive income	-	-	-	-	-	(332,823,078)	(91,343,384)	(424,166,462)	9,595,910	(414,570,552)
3) Capital contribution and withdrawal by shareholders										
(i) Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	49,000,000	49,000,000
(ii) Others	-	-	-	-	-	-	-	-	-	-
4) Profits appropriation										
(i) Distribution to the minority shareholders	-	-	-	-	-	-	-	-	(8,098,096)	(8,098,096)
5) Special reserve										
(i) Additions	-	-	34,535,364	-	-	-	-	34,535,364	-	34,535,364
(ii) Used	-	-	(38,110,541)	-	-	-	-	(38,110,541)	-	(38,110,541)
3. At 30 June 2013	7,700,681,186	8,329,067,663	11,193,433	3,750,928,170	55,650,161	2,912,214,895	(60,832,960)	22,698,902,548	2,435,910,199	25,134,812,747

# 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 parent								Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Special reserve	Surplus reserve	General reserve	Retained profits	Exchange fluctuation reserve	Sub-total		
	(Note V 25)	(Note V 26)	reserve	reserve	reserve	profits	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	-	1,271,040	127,104	11,392,935	-	432,791,079	91,257,072	524,048,151
1. At 1 January 2012 (Restated)	7,700,681,186	8,758,358,399	-	3,444,137,388	127,104	7,467,413,825	16,483,680	27,387,201,582	2,069,596,286	29,456,797,868
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) Adjustment to 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 by minority shareholders	-	-	-	-	-	-	-	-	348,000,000	348,000,000
(ii) Others	-	-	-	4,142,402	-	-	-	4,142,402	-	4,142,402
5) Profits appropriation										
(i) Distribution to the minority shareholders	-	-	-	-	-	-	-	-	(25,522,334)	(25,522,334)
6) Special reserve										
(i) Additions	-	-	42,808,024	-	-	-	-	42,808,024	-	42,808,024
(ii) Used	-	-	(42,808,024)	-	-	-	-	(42,808,024)	-	(42,808,024)
3. At 30 June 2012	7,700,681,186	8,329,067,663	-	3,448,279,790	127,104	5,574,734,815	9,991,466	25,062,882,024	2,410,019,371	27,472,901,395





# Company Balance Sheet

30 June 2013

Renminbi Yuan

## ASSETS

	Note XI	30 June 2013 Unaudited	31 December 2012 Audited
<b>CURRENT ASSETS:</b>			
Cash and bank balances		5,992,135,810	6,359,785,755
Financial assets held for trading		489,550	587,120
Bills receivable		5,181,294,439	5,001,092,227
Trade receivables	1	2,032,106,675	1,785,315,692
Dividends receivable		64,889,303	66,475,194
Interest receivable		–	5,159,705
Prepayments		1,195,527,842	1,044,242,745
Other receivables	2	445,964,139	279,377,529
Inventories		7,903,322,302	8,172,351,955
Total current assets		22,815,730,060	22,714,387,922
<b>NON-CURRENT ASSETS:</b>			
Long term equity investments		6,716,083,963	6,708,697,609
Investment properties		16,783,888	17,188,937
Fixed assets		26,124,881,279	27,725,274,143
Construction materials		312,048,922	350,239,732
Construction in progress		5,249,033,767	4,115,011,626
Intangible assets		1,132,975,319	1,148,988,370
Deferred tax assets		662,169,377	679,495,010
Total non-current assets		40,213,976,515	40,744,895,427
<b>TOTAL ASSETS</b>		<b>63,029,706,575</b>	<b>63,459,283,349</b>

# Company Balance Sheet (Continued)

30 June 2013

Renminbi Yuan

## LIABILITIES AND SHAREHOLDERS' EQUITY

	30 June 2013 Unaudited	31 December 2012 Audited
<b>CURRENT LIABILITIES:</b>		
Short term loans	4,308,934,249	4,970,468,532
Bills payable	3,151,649,000	1,552,887,366
Accounts payable	11,581,029,049	7,982,070,150
Deposits received	4,309,901,712	4,595,208,580
Payroll and benefits payable	207,951,358	119,617,400
Taxes payable	(159,879,583)	(217,257,558)
Interests payable	481,975,197	207,613,733
Dividends payable	6,296,662	6,146,772
Other payables	778,645,861	809,058,988
Non-current liabilities due within one year	1,317,965,700	1,335,542,400
Total current liabilities	25,984,469,205	21,361,356,363
<b>NON-CURRENT LIABILITIES:</b>		
Long term loans	7,356,163,800	11,817,407,500
Bonds payable	8,270,544,430	8,261,992,704
Deferred income	557,748,554	592,659,282
Total non-current liabilities	16,184,456,784	20,672,059,486
Total liabilities	42,168,925,989	42,033,415,849
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,338,358,399	8,338,358,399
Special reserve	-	-
Surplus reserve	2,964,168,101	2,964,168,101
Retained profits	1,857,572,900	2,422,659,814
Total shareholders' equity	20,860,780,586	21,425,867,500
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>63,029,706,575</b>	<b>63,459,283,349</b>

# Company Income Statement

For the six months ended 30 June 2013

Renminbi Yuan

**For the six months  
ended 30 June**

	Note XI	<b>2013</b> <b>Unaudited</b>	2012 Unaudited
Revenue	4	<b>28,406,184,227</b>	32,219,786,508
Less: Cost of sales	4	<b>27,397,270,636</b>	32,463,272,397
Taxes and surcharges		<b>108,379,714</b>	58,940,625
Selling expenses		<b>108,402,129</b>	136,633,545
Administrative expenses		<b>442,659,437</b>	436,175,984
Financial expenses		<b>540,654,229</b>	680,065,432
Assets impairment losses		<b>478,376,386</b>	556,658,817
Loss on fair value changes		<b>97,570</b>	24,540
Add: Investment income	5	<b>78,815,095</b>	207,821,737
including: share of profits of associates and jointly-controlled entities		<b>51,466,354</b>	60,814,995
Operating loss		<b>(590,840,779)</b>	(1,904,163,095)
Add: Non-operating income		<b>44,958,231</b>	41,182,979
Less: Non-operating expenses		<b>1,857,411</b>	750,251
including: net loss/(gain) on disposal of non-current assets		<b>1,412,016</b>	(1,242,416)
Loss before tax		<b>(547,739,959)</b>	(1,863,730,367)
Less: Income tax		<b>17,346,955</b>	3,036,568
Net loss		<b>(565,086,914)</b>	(1,866,766,935)
Other comprehensive income		<b>—</b>	—
Total comprehensive income		<b>(565,086,914)</b>	(1,866,766,935)

# Company Statement of Changes in Equity

For the six months ended 30 June 2013

Renminbi Yuan

## 30 June 2013 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2013	7,700,681,186	8,338,358,399	-	2,964,168,101	2,422,659,814	21,425,867,500
2. Increase/(decrease) during the period						
1) Net loss	-	-	-	-	(565,086,914)	(565,086,914)
2) Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(565,086,914)	(565,086,914)
3) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	-	-	-	-	-	-
(ii) Others	-	-	-	-	-	-
4) Profits appropriation						
(i) Transfer to surplus reserve	-	-	-	-	-	-
(ii) Dividends declared	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
5) Special reserve						
(i) Additions	-	-	28,353,092	-	-	28,353,092
(ii) Used	-	-	(28,353,092)	-	-	(28,353,092)
3. At 30 June 2013	7,700,681,186	8,338,358,399	-	2,964,168,101	1,857,572,900	20,860,780,586

# Company Statement of Changes in Equity

For the six months ended 30 June 2012

Renminbi Yuan

30 June 2012 (Unaudited)

	Share capital	Capital reserve	Special reserve	Surplus reserve	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 reserve	-	-	-	-	-	-
(ii) Dividends declared	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
5) Special reserve						
(i) Additions	-	-	26,591,781	-	-	26,591,781
(ii) Used	-	-	(26,591,781)	-	-	(26,591,781)
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 Cash Flow Statement

For the six months ended 30 June 2013

Renminbi Yuan

		<b>For the six months ended 30 June</b>	
		<b>2013</b>	2012
		<b>Unaudited</b>	Unaudited
	Note XI		
1.	Cash flows from operating activities:		
	Cash received from sale of goods or rendering of services	32,418,203,649	37,604,003,687
	Cash received relating to other operating activities	5,426,696	-
	Sub-total of cash inflows	32,423,630,345	37,604,003,687
	Cash paid for goods and services	(22,687,329,255)	(34,194,107,105)
	Cash paid to and on behalf of employees	(1,877,402,240)	(1,860,458,501)
	Cash paid for all taxes	(899,453,250)	(444,299,118)
	Cash paid relating to other operating activities	(374,525,794)	(337,093,846)
	Sub-total of cash outflows	(25,838,710,539)	(36,835,958,570)
	Net cash flows from operating activities	6,584,919,806	768,045,117
2.	Cash flows from investing activities:		
	Cash received from investment income	163,593,339	174,777,670
	Net cash received from disposal of fixed assets, intangible assets and other long term assets	1,288,925	1,917,526
	Cash received from decrease of pledged deposits	348,738,000	-
	Cash received relating to other investing activities	11,560,000	6,760,000
	Sub-total of cash inflows	525,180,264	183,455,196
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets	(1,658,613,425)	(825,902,039)
	Cash paid for acquisitions of investments	(53,000,000)	(1,439,290,736)
	Sub-total of cash outflows	(1,711,613,425)	(2,265,192,775)
	Net cash flows from investing activities	(1,186,433,161)	(2,081,737,579)

# Company Cash Flow Statement (Continued)

For the six months ended 30 June 2013

Renminbi Yuan

**For the six months  
ended 30 June**

	<b>2013</b>	2012
	<b>Unaudited</b>	Unaudited
3. Cash flows from financing activities:		
Cash received from borrowings	<b>6,865,902,630</b>	17,112,150,369
Sub-total of cash inflows	<b>6,865,902,630</b>	17,112,150,369
Cash repayments of borrowings	<b>(11,981,155,790)</b>	(15,337,101,519)
Cash paid for distribution of dividend or profits and for interest expenses	<b>(298,828,892)</b>	(473,044,172)
Sub-total of cash outflows	<b>(12,279,984,682)</b>	(15,810,145,691)
Net cash flows from financing activities	<b>(5,414,082,052)</b>	1,302,004,678
4. Effect of foreign exchange rate changes on cash	<b>(3,316,538)</b>	32,051,496
5. Net increase/(decrease) in cash and cash equivalents	<b>(18,911,945)</b>	20,363,712
Add: Balance of cash and cash equivalents at the beginning of period	<b>5,559,785,755</b>	4,768,791,715
6. Balance of cash and cash equivalents at the end of period	<b>5,540,873,810</b>	4,789,155,427

# Notes to Interim Financial Statements

30 June 2013

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 from 2007 to 2009, among the total number of warrants of 1,265,000,000 attached to the Company’s bonds with warrants, 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.

As at 30 June 2013, 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.25 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.

The financial statements were approved by the board of directors on August 22, 2013.

# Notes to Interim Financial Statements (Continued)

30 June 2013

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”).

As at 30 June 2013, the Group’s current liabilities exceeded current assets by approximately RMB 4.6 billion. The directors of the board had fully considered available financial sources of the Group, including but not limited to the banking facilities of RMB 36.7 billion that the Group had obtained but not used as at 30 June 2013. Based on the assessment, the directors of the Company believed that the Group has sufficient resources to keep on operating on the ongoing basis in the foreseeable future in no less than 12 months after the approval of the financial statements. Therefore, the board of directors prepared the financial statements for the six months ended 30 June 2013 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 are 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 2013 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 2013

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 2013

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 2013. 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 2013

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 2013

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;
- (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 2013

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)

30 June 2013

Renminbi Yuan

## 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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## 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)

*Financial assets carried at amortised cost (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.

The objective evidence of the available-for-sale equity instrument investment is impaired, includes a dramatically or non-temporarily decrease in fair value. Professional judgment is involved as to recognize the difference between “dramatically” and “non-temporarily”. “Dramatically” is measured by the extent of fair value under the cost, “Non-temporarily” is measured by the length of duration when fair value was under the cost. 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.

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.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instruments (continued)

#### *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.

#### 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. And for the inventories sold, the carrying amount of the inventory should be recognized as an expense in the period in which revenue was recognized, and the inventory provision should be written back accordingly, and reverse the current period's cost of sales.

# 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 of 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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## 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.25. 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.25.

### 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	10 – 13 years	3%	7.5 – 9.7%
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.25.

### 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.25.

# 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;
- (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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## 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:

	<b>Useful life</b>
Land use rights	50 years
Mining rights	25 years
Back-up roll technology	10 years
Concession assets	25 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.

The useful life of concession assets is defined in the concession arrangement signed between the Group and the granting authority.

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.25.

### 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.

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.

# Notes to Interim Financial Statements (Continued)

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Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 20. Revenue (continued)

#### 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. Constructing the infrastructure for public services by 'Build-Operate-Transfer' (BOT) service concession arrangement

When the Group enters into 'Build-Operate-Transfer' (BOT) service concession arrangement with government to construct the infrastructure for public services, in which the construction service is outsourced to third party and the Group does not provide construction service in substance, the Group recognizes an intangible assets or a financial assets according to the terms included in the BOT service concession arrangement (including but not limited to the amount of payment for the construction service), and no revenue from construction is recognized.

Once the underlying infrastructure of the concession arrangement has been completed, the Group receives a right to charge users of public service in specified operating period. If the amount is determinable, assets are classified as financial assets. If the amount is not determinable, assets are classified as intangible assets.

According to the BOT service concession arrangement, the Group have contractual obligations to remain the infrastructure to a specified level of serviceability before the asset transfer, related estimated expenditure is recognized provision under CAS 13 "Provisions".

### 22. 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.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 23. 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.

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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Renminbi Yuan

## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 23. 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.

### 24. 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.

### 25. 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)

### 25. 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)

### 26. 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.

### 27. Profit distribution

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

### 28. 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)

### 29. 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.

### 30. Safety production reserve

Safety production reserve set aside in compliance with relevant regulations, is included in the cost of relevant products or recognized in profit or loss for the period, and credited to special reserve at the same time. When safety production reserve is utilized, it is accounted for based on whether fixed asset is generated or not: if the costs incurred can be categorized as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up fixed assets, the costs should be charged to construction in progress, and reclassified to fixed assets when the projects reach the status ready for intended use. Meantime, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognized at the same amount.

### 31. General reserve

According to the relevant policy of the MOF, the financial company accrues general reserve from after-tax net profit as profit distribution. After July 1, 2012, the balance of general reserve should not be less than 1.5% of the balance of risk assets.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 32. 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.

#### *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.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 32. Significant accounting judgements and estimates (continued)

#### 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 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.

#### *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*

The Group's management determines the provision for impairment of receivables. 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.

# Notes to Interim Financial Statements (Continued)

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## II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 32. Significant accounting judgements and estimates (continued)

#### *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.

## 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 6% or 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.

# Notes to Interim Financial Statements (Continued)

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## III. TAX (CONTINUED)

### 2. Tax benefits and approval documents

Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax rate at 15%. The income tax of overseas subsidiaries located in Hong Kong and elsewhere 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.

### 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)

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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment</b>															
Ma Steel International Trade and Economic Corporation (*Ma Steel International Trade Corp.)	Public	Anhui, PRC	Ye Yi	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	150508682	RMB 50,000,000	-	100	100	Y	-	-	
Anhui Masteel Engineering Technology company Limited (*Masteel Engineering Technology)	Limited liability	Anhui, PRC	Fang Zheng-fang	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	57,545,165	3,253,380	(i)
MG Control Technique Company Limited (*MG Control Technique)	Limited liability	Anhui, PRC	Liang Yueyong	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	1,184,977	-	
Anhui Masteel K.Wah New Building Materials Co., Ltd. (*Anhui Masteel K. Wah)	Sino-foreign joint venture	Anhui, PRC	Pu Daoqin	Manufacturing	USD 8,389,000	Production, sale and transportation of slag products and provision of related consultation services	743065876	USD 5,872,300	-	70	70	Y	41,343,608	-	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. (*Ma Steel (Wuhu))	Sino-HK joint venture	Anhui, PRC	Dai Huaqiang	Manufacturing	RMB 36,000,000	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 (Chihu) Processing and Distribution Co., Ltd. (*Ma Steel (Chihu))	Limited liability	Anhui, PRC	Dai Huaqiang	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	3,460,590	90,179	
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. (*Ma Steel (Guangzhou))	Sino-foreign joint venture	Guangdong, PRC	Dai Huaqiang	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	56,615,327	-	
Maershan 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	-	-	

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held) (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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Sino-HK 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	816,613	3,976	
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Dai Huaqiang	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	773138073	RMB 90,000,000	-	75	75	Y	35,947,088	-	
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	-	-	
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 (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Limited liability	Anhui, PRC	Qin Changrong	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	719,788,765	4,487,730	(i)

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held) (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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Masteel (Hefei) Processing")	Limited liability	Anhui, PRC	Dai Huaqiang	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	-	69	89	Y	15,906,584	-	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Dai Huaqiang	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	44,289,968	-	
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	78,736,306	2,278,167	
Maanshan Used Vehicle Trading Centre Co. Ltd. ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Qian Shihua	Service industry	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	69570971X	RMB 1,000,000	-	100	100	Y	-	-	
Maanshan Masteel Electric Repair Co., Ltd. ("Masteel Electric Repair")	Limited liability	Anhui, PRC	Tian Jun	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	-	-	



# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held) (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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
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	-	-	
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 Scrap Steel Co., Ltd. ("Masteel Scrap Steel")	Limited liability	Anhui, PRC	Yang Zhen	Manufacturing	RMB 100,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 100,000,000	-	100	100	Y	-	-	(i)
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	Manufacturing	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	76,009,436	-	
Maanshan Masteel Yuyuan Logistics Co., Ltd. ("Masteel Yuyuan Logistics")	One person limited liability	Anhui, PRC	Yan Hua	Trading	RMB 270,000,000	Sale of steel, processing of metallic products, storage service, agency of freight shipping and project tender	58723125-3	RMB 270,000,000	-	100	100	Y	-	-	(j)
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) (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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired by establishment or investment (continued)</b>															
Shanghai Maanshan Iron & Steel Electrical and Mechanical 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	Yang Junguo	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	-	-	(i)
Hefei Diantu River Port Co., Ltd. ("Diantu River")	Limited liability	Anhui, PRC	Fang Xiaoyun	Service industry	RMB 60,000,000	Cargo handling, warehousing services: land and sea cargo transport transshipment, Provision of comprehensive services to foreign ships	5145082-9	RMB 18,000,000	-	50	50	N	-	-	(iii)
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	58428146-X	RMB 1,200,000,000	-	100	100	Y	-	-	(ii)
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Other limited liability	Anhui, PRC	Zhang Jian	Manufacturing	RMB 100,000,000	Materials of automobile, home appliance, mechanical or related industry research: Laser welding plate, stamping parts and products research and development, production and sales; steel and product processing, storage and services	5149916-3	RMB 70,000,000	-	70	70	Y	29,985,690	14,724	(ii)
Ma Steel Powder Metallurgy Co., Ltd. ("Masteel Powder Metallurgy")	Limited liability	Anhui, PRC	Huang Chao Wu	Manufacturing	RMB 100,000,000	Production and marketing sponge iron and reduced iron powder, the water atomized iron powder, powder products and their by-products; mechanical equipment manufacture and installation; metal product production; and processing; technical consultation	5573654-2	RMB 51,000,000	-	51	51	Y	50,195,635	-	(ii)



# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 1. Subsidiaries (including subsidiaries indirectly held) (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 interests	Amount in minority interests available for reduction share of loss of minority interests	Note
<b>Subsidiaries acquired under common control</b>															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Dai Huanjiang	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	54,123,433	-	
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	71993429-3	RMB 660,000,000	-	55	55	Y	1,064,371,770	2,258,390	
<b>Subsidiaries acquired not under common control</b>															
Masteel Group Financial Co., Ltd. ("Masteel Financial")	Limited liability	Anhui, PRC	Su Jiangan	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	105,579,204	-	(iv)

(i) The two companies were renamed in year 2012. The original name of Mastel Engineering Technology was Design & Research Institute of Maanshan Iron & Steel Company Limited, and the original name of Masteel Scrap Steel was Maanshan Masteel Resource Regeneration Company Limited.

(ii) As at 24 March 2012, the registered capital of Ma steel (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 billion paid in by Hefei Industrial Investment Holding Co., Ltd. Upon the completion of the capital injection, the registered capital of Ma steel (Hefei) reached RMB1.7 billion, with the Company's shareholding unchanged.

(iii) The above subsidiaries were established during the year 2012.

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

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

The details of subsidiaries are as follows: (continued)

- (iv) Masteel Financial was established in September 2011 by the Company and the Holding, 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 a 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.
- (v) Since the issuance of verdict by the court on 12 October 2012 that accepts the restructuring application of Masteel Yuyuan Logistics, the Company had lost the control over the financial and operating policies of Masteel Yuyuan Logistics and its subsidiaries (Zhonglian Maritime and Dianfu River). Therefore, Masteel Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation since 12 October 2012.

### 2. Change in the scope of consolidation

Except for the statement in Note IV.5, the scope of financial statements consolidation is consistent with previous year.

### 3. 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
	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	-	-	-

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 were both controlled by the Holding before and after this share transfer, and the control was not transitory, this business combination was a business combination under common control. The acquisition date was determined as 5 April 2012.

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 3. 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 2011
Cash and bank balances	369,686,789	308,936,211
Other receivables	22,800	–
Other current assets	810,471,500	779,000,000
Loans and advances to customers	577,879,157	690,780,826
Fixed assets	2,956,998	2,815,454
Deferred tax assets	14,021	–
<b>Total assets</b>	<b>1,761,031,265</b>	<b>1,781,532,491</b>
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
<b>Total liabilities</b>	<b>735,566,859</b>	<b>767,565,020</b>
Shareholders' equity	1,025,464,406	1,013,967,471
Minority interests (9%)	92,291,797	91,257,072
Interests in associates (49%) (i)	503,881,873	496,844,061
Interests of acquisitions (42%)	429,290,736	425,866,338
Incorporating price difference (recorded in shareholder equity)	–	–
<b>Consideration (ii)</b>	<b>429,290,736</b>	

(i) Masteel Financial was an associate of the Company before this business combination took place in 2012.

(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.26

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 4. Reduction of subsidiaries due to loss of control in 2012

			The date of losing control	The method of profit and loss recognition	
Masteel Yuyuan Logistics			12 October 2012		(i)
	Place of registration	Type of business	Total shareholding ratio of the Group	Total voting right ratio of the Group	Reason of not being a subsidiary
Masteel Yuyuan Logistics	China Anhui	Trading	100%	100%	(i)

(i) Since the issuance of verdict by the court on 12 October 2012 that accepts the restructuring application of Masteel Yuyuan Logistics, the company had lost the control over the financial and operating policies of Masteel Yuyuan Logistics and its subsidiaries. Therefore, Masteel Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation. The relevant information about Masteel Yuyuan Logistics is as follows:

	12 October 2012 Book value	31 December 2011 Book value
Current assets	178,236,949	225,896,085
Non-current assets	162,550,999	70,680,000
Current liabilities	708,579,325	366,500
Non-current liabilities	—	—
	<b>(367,791,377)</b>	<b>296,209,585</b>
Minority interests	116,318,272	96,266,000
Fair value of residual equity	—	—
Gain from deemed disposal	484,109,649	—
Consideration of deemed disposal	—	—
		<b>From 1 January 2012 to 10 October 2012</b>
Revenue		91,170,953
Cost of sales		74,481,209
Net loss attributable to the parent company		754,053,234

# Notes to Interim Financial Statements (Continued)

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## IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION (CONTINUED)

### 5. Reduction of subsidiaries due to loss of control in the current period

	Place of registration	Type of business	Total shareholding ratio of the Group	Total voting right ratio of the Group	Reason of not being a subsidiary
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited	Anhui, PRC	Manu- facturing	100%	100%	(i)

- (i) Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited (“Masteel Auto-parking”) was an indirectly held subsidiary of the Company, in which Holly Industrial and Ma Steel (HK) owned share holding of 75% and 25%, respectively. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party (“the Transferee”) with a consideration of RMB14.46 million, and the disposal date was 9 April 2013. The net assets of Masteel Auto-parking on the disposal date was RMB9.95 million, and its net loss from the beginning of the year to the disposal date was RMB0.38 million. After the completion of the disposal, Ma Steel (HK)’s share holding in Masteel Auto-parking remained at 25%. According to Masteel Auto-parking’s new Article of Association, its board of directors contains 3 directors, one of which was appointed by Ma Steel (HK), and the other two were appointed by the Transferee, as a result the Transferee had gained control over Masteel Auto-parking. Therefore, Masteel Auto-parking was changed into an associate of the Group on 9 April 2013.

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

	Average rates		Closing rates	
	January to June 2013	January to June 2012	30 June 2013	31 December 2012
European Dollar (“EUR”)	8.1856	8.0168	8.0536	8.3176
Hong Kong Dollar (“HKD”)	0.8037	0.8130	0.7966	0.8108
Australia Dollar (“AUD”)	6.1212	6.3784	5.7061	6.5363

# Notes to Interim Financial Statements (Continued)

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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank balances

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
Cash on hand						
– RMB	564,410	1	564,410	191,349	1	191,349
Balances with financial institutions						
– RMB	3,089,816,739	1	3,089,816,739	4,506,914,313	1	4,506,914,313
– HKD	6,866,184	0.7966	5,469,602	423,113	0.8108	343,060
– USD	238,423,116	6.1787	1,473,144,905	244,726,397	6.2855	1,538,227,770
– EUR	5,204,611	8.0536	41,915,857	10,311,193	8.3176	85,764,375
– JPY	102,093	0.0626	6,391	103,329	0.0730	7,543
– AUD	89,068,912	5.7061	508,236,116	77,210,642	6.5363	504,671,922
			<u>5,118,589,610</u>			<u>6,635,928,983</u>
Other						
– RMB	1,872,943,705	1	1,872,943,705	2,142,360,204	1	2,142,360,204
Mandatory reserves with central bank						
– RMB	1,317,295,375	1	1,317,295,375	1,003,943,579	1	1,003,943,579
			<u>8,309,393,100</u>			<u>9,782,424,115</u>

As at 30 June 2013, the Group's cash and bank balances amounting to RMB3,196,452,560 have been pledged to banks as securities (31 December 2012: RMB3,152,628,023), including an amount of RMB1,872,943,705 (31 December 2012: RMB2,142,360,204) pledged as securities for trade facilities and performance bonds, and time deposits amounting to USD1,000,000 (equivalent to RMB6,213,480) (31 December 2012: USD1,000,000, equivalent to RMB6,324,240) pledged to banks to issue letters of credit, and mandatory reserves with central bank of RMB1,317,295,375 (31 December 2012: RMB 1,003,943,579).

# Notes to Interim Financial Statements (Continued)

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

### 1. Cash and bank balances (continued)

As at 30 June 2013, the Group had cash and bank balances amounting to RMB634,393,263 that have been deposited outside the PRC (31 December 2012: RMB624,291,473).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months to one year, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates.

### 2. Financial assets held for trading

	30 June 2013 Unaudited	31 December 2012 Audited
Equity instruments held for trading	489,550	587,120

The above equity instruments were all listed on the Shanghai or Shenzhen Stock Exchange. There is no material restriction on the realisation of these investments as at the balance sheet date.

### 3. Bills receivable

	30 June 2013 Unaudited	31 December 2012 Audited
Bank acceptance bills	8,988,854,472	8,054,237,399
Commercial acceptance bill	3,182,995	6,522,861
	<u>8,992,037,467</u>	<u>8,060,760,260</u>

Certain of the Group's bank acceptance bills amounting to RMB58,480,165 were secured to banks to issue bank acceptance bills to suppliers (31 December 2012: RMB152,972,397), which are disclosed in note V.18.

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 3. Bills receivable (continued)

As at 30 June 2013 and 31 December 2012, there were no trade receivables transferred from bills receivable because of the drawers' inability to pay, and the top five largest endorsed undue bills receivable were as follows:

#### 30 June 2013

Issue entity	Issue date	Maturity date	Amount
Company 1	2013-4-10	2013-7-08	80,000,000
Company 2	2013-6-13	2013-9-04	70,000,000
Company 3	2013-5-31	2013-11-28	60,000,000
Company 4	2013-6-13	2013-9-14	60,000,000
Company 5	2013-6-13	2013-9-14	60,000,000
			<hr/>
			330,000,000
			<hr/> <hr/>

#### 31 December 2012

Issue entity	Issue date	Maturity date	Amount
Company 1	2012-8-21	2013-2-21	77,477,764
Company 2	2012-11-06	2013-2-9	50,000,000
Company 3	2012-11-06	2013-2-9	50,000,000
Company 4	2012-11-06	2013-2-9	50,000,000
Company 5	2012-11-06	2013-2-9	50,000,000
			<hr/>
			277,477,764
			<hr/> <hr/>

As at 30 June 2013, certain of the Group's short-term loans were acquired from discounted bills receivable amounted to RMB74,440,000 (31 December 2012: RMB67,890,000).

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 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:

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Within one year	<b>1,310,287,720</b>	1,322,714,407
One to two years	<b>128,739,319</b>	66,792,389
Two to three years	<b>12,958,751</b>	7,233,443
Over three years	<b>10,243,980</b>	30,263,476
	<b>1,462,229,770</b>	1,427,003,715
Less: Provision for bad debts	<b>14,087,864</b>	15,076,606
	<b>1,448,141,906</b>	1,411,927,109

Trade receivables balance is analysed as follows:

	30 June 2013 (Unaudited)				31 December 2012 (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	1,291,577,586	88	(6,927,040)	1	1,308,181,141	92	(6,927,040)	1
Other insignificant but assessed impairment individually	170,652,184	12	(7,160,824)	4	118,822,574	8	(8,149,566)	7
	<b>1,462,229,770</b>	<b>100</b>	<b>(14,087,864)</b>		<b>1,427,003,715</b>	<b>100</b>	<b>(15,076,606)</b>	

The movement of the provision for bad debts against trade receivables for the current period is disclosed in note V.14.

# Notes to Interim Financial Statements (Continued)

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

### 4. Trade receivables (continued)

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

Reason	30 June 2013 Unaudited	31 December 2012 Audited
Bankrupt or liquidated debtors	988,742	455,560

As at 30 June 2013, the top five largest customers were as follows:

	Relationship with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	136,804,399	Within one year	9
Company 2	Independent third party	99,809,558	Within one year	7
Company 3	Independent third party	75,831,524	Within one year	5
Company 4	Independent third party	58,440,339	Within one year	4
Company 5	Independent third party	43,469,954	Within one year	3
		<u>414,355,774</u>		<u>28</u>

As at 31 December 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	117,802,696	Within one year	8
Company 2	Independent third party	90,587,673	Within one year	6
Company 3	Independent third party	85,974,880	Within one year	6
Company 4	Independent third party	51,792,584	Within one year	4
Company 5	Independent third party	43,515,751	Within one year	3
		<u>389,673,584</u>		<u>27</u>

# Notes to Interim Financial Statements (Continued)

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

### 4. Trade receivables (continued)

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

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	21,695,474	6.1787	134,049,828	21,369,915	6.2855	134,320,599
EUR	551,665	8.0536	4,442,889	545,508	8.3176	4,537,314
HKD	3,425,121	0.7966	2,728,451	34,785,722	0.8108	28,204,263
AUD	3,692,589	5.7061	21,070,283	3,004,417	6.5363	19,637,771
			162,291,451			186,699,947

As at 30 June 2013 and 31 December 2012, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 30 June 2013 and 31 December 2012, 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.

### 5. Prepayments

The ageing of prepayment balance is analysed as follows:

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Balance	ratio (%)	Balance	ratio (%)
Within one year	1,276,185,541	91	1,680,045,765	83
One to two years	87,394,759	6	306,432,163	15
Two to three years	25,261,466	2	42,159,100	2
Over three years	6,857,661	1	9,084,916	–
	1,395,699,427	100	2,037,721,944	100

# Notes to Interim Financial Statements (Continued)

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

### 5. Prepayments (continued)

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 accounts payable) when the final inspection and settlement were completed.

As at 30 June 2013, 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	193,740,937	2013	(i)
Company 2	Independent third party	164,627,526	2013	(i)
Company 3	Independent third party	153,250,000	2013	(i)
Company 4	Independent third party	142,041,401	2013	(i)
Company 5	Independent third party	128,925,899	2013	(i)
		<u>782,585,763</u>		

As at 31 December 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	333,763,307	2012	(i)
Company 2	Independent third party	183,761,146	2012	(i)
Company 3	Independent third party	176,734,606	2012	(i)
Company 4	Independent third party	168,879,041	2012	(i)
Company 5	Independent third party	155,507,000	2012	(i)
		<u>1,018,645,100</u>		

- (i) As at the balance sheet date, the unsettlement of the Group's top five largest prepayments was mainly attributable to the suppliers had not yet delivered the raw materials.

# Notes to Interim Financial Statements (Continued)

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

### 5. Prepayments (continued)

The following balances are denominated in foreign currencies:

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
JPY	-	0.0626	-	240,139,644	0.0730	17,530,194
EUR	232,241	8.0536	1,870,379	5,892,096	8.3176	49,008,098
USD	28,192,283	6.1787	174,191,658	150,700	6.2855	947,225
			176,062,037			67,485,517

As at 30 June 2013 and 31 December 2012, prepayment due from 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.

### 6. Other receivables

The ageing of other receivables is analysed below:

	30 June 2013 Unaudited	31 December 2012 Audited
Within one year	917,352,764	883,993,632
One to two years	265,435,906	131,021,845
Two to three years	39,005,998	711,697
Over three years	6,930,913	6,890,630
	1,228,725,581	1,022,617,804
Less: Provision for bad debts	553,281,139	553,609,057
	675,444,442	469,008,747

# Notes to Interim Financial Statements (Continued)

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

### 6. Other receivables (continued)

Other receivables balance is analysed as follows:

	30 June 2013 (Unaudited)				31 December 2012 (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	973,258,701	79	(546,892,668)	56	979,541,235	96	(548,592,667)	56
Other insignificant but assessed impairment individually	255,466,880	21	(6,388,471)	3	43,076,569	4	(5,016,390)	12
	<u>1,228,725,581</u>	<u>100</u>	<u>(553,281,139)</u>		<u>1,022,617,804</u>	<u>100</u>	<u>(553,609,057)</u>	

In the current period, the movement of provision for bad debts against other receivables is disclosed in note V.14.

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

Reason	30 June 2013 Unaudited	31 December 2012 Audited
Bankrupt or liquidated debtors	<u>354,059</u>	<u>4,500</u>

In the first half of 2013, bad-debt provision for other receivables amounting to RMB1,701,299 were reversed due to collection.

# Notes to Interim Financial Statements (Continued)

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

### 6. Other receivables (continued)

As at 30 June 2013, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio in other receivables (%)
Company 1	Independent third party	198,638,846	Within one year	15
Company 2	Independent third party	153,324,000	One to two years	11
Company 3	Independent third party	141,286,434	One to two years	11
Company 4	Independent third party	127,685,368	One to two years	10
Company 5	Independent third party	76,821,224	One to two years	7
		<u>697,755,872</u>		<u>54</u>

As at 31 December 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio in other receivables (%)
Company 1	Independent third party	153,324,000	Within one year	15
Company 2	Independent third party	141,286,434	Within one year	14
Company 3	Independent third party	127,685,368	Within one year	12
Company 4	Independent third party	76,821,224	Within one year	8
Company 5	Independent third party	72,802,497	One to two years	7
		<u>571,919,523</u>		<u>56</u>

As at 30 June 2013 and 31 December 2012, there was no derecognition of other receivables of the Group due to the transfer of financial assets.

As at 30 June 2013 and 31 December 2012, 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. Inventories

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	7,028,379,846	(137,794,480)	6,890,585,366	6,069,329,562	(221,378,174)	5,847,951,388
Spare parts	1,714,509,417	(60,580,673)	1,653,928,744	1,804,057,674	(60,651,928)	1,743,405,746
Finished goods	1,838,455,768	(41,871,087)	1,796,584,681	1,581,472,127	(18,434,509)	1,563,037,618
Work in progress	2,065,415,694	(21,376,213)	2,044,039,481	2,140,176,911	(49,634,401)	2,090,542,510
Construction contract	-	-	-	6,000,000	-	6,000,000
	<b>12,646,760,725</b>	<b>(261,622,453)</b>	<b>12,385,138,272</b>	<b>11,601,036,274</b>	<b>(350,099,012)</b>	<b>11,250,937,262</b>

The movement of impairment provision against inventories for the current period is disclosed in note V.14.

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 and the year of 2012, there was no reversal of impairment provision against inventories.

### 8. Loans and advances to customers

	30 June 2013 Unaudited	31 December 2012 Audited
Loans	150,000,000	165,000,000
Discounted bills	10,543,312	52,740,209
	<b>160,543,312</b>	<b>217,740,209</b>
Less: Bad debt provision for loans and advances	<b>1,605,433</b>	<b>2,177,403</b>
	<b>158,937,879</b>	<b>215,562,806</b>

The customers of loans and advances to customers are mainly the Group and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 1% of its closing balance. As at 30 June 2013 and 31 December 2012, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 30 June 2013 and 31 December 2012 are stated in note VI.6 to the financial statements.

# Notes to Interim Financial Statements (Continued)

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

### 9. Investments in jointly-controlled entities and associates

30 June 2013

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Jointly-controlled entities</b>						
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	Jiang Yuxiang	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	RMB12,000,000	553276621
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	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 Zhengpu Harbour Co., Ltd. ("Zhengpu Harbour")	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863
Anhui Xinchuang Limited 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
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-Parking")	Limited liability	Anhui, PRC	Qiu Xiaogen	Manufacturing	USD2,500,000	75854512-7

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

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

#### 30 June 2013 (continued)

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the period	Net profit/(loss) during the period
<b>Jointly-controlled entities</b>					
BOC-Ma Steel	599,864,886	52,400,678	547,464,208	274,385,475	70,777,863
MASTEEL-CMI	1,113,833	11,442	1,102,391	–	–
Sino-Japan Resource Regeneration	1,914,776	(11,200)	1,925,976	–	(1,114,415)
<b>Associates</b>					
Jiyuan JinMa Coke	1,665,192,284	1,106,043,476	559,148,808	1,620,555,392	34,598,703
Shenglong Chemical	2,646,371,689	2,087,927,975	558,443,714	2,540,383,866	17,264,319
Shanghai Iron and Steel Electronic	754,369,453	556,781,299	197,588,154	13,147,916	6,592,516
Maanshan Harbour	1,048,802,113	608,638,989	440,163,124	232,384,350	2,939,615
Zhengpu Harbour	211,081,405	11,096,483	199,984,922	–	–
Xinchuang Economize Resource	310,432,240	191,654,621	118,777,619	134,801,423	9,218,590
Jinxi Traffic	169,759,496	1,032,950	168,726,546	55,046,513	11,463
Jiyuan Jinyuan Chemical	100,000,000	–	100,000,000	–	–
Anhui Masteel Stereoscopic Auto-parking Equipments	38,888,351	29,471,130	9,417,221	3,873,199	530,598

#### 31 December 2012

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Jointly-controlled entities</b>						
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	Jiang Yuxiang	Service industry	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	RMB12,000,000	553276621

# Notes to Interim Financial Statements (Continued)

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

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

31 December 2012 (continued)

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
<b>Associates</b>						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	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	Qiu Xiaogen	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
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui,	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563

# Notes to Interim Financial Statements (Continued)

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

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

31 December 2012 (continued)

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit/(loss) during the year
<b>Jointly-controlled entities</b>					
BOC-Ma Steel	685,796,670	52,995,654	632,801,016	568,534,729	153,056,413
MASTEEL-CMI	1,113,833	11,442	1,102,391	-	(23,283)
Sino-Japan Resource Regeneration	2,103,829	43,438	2,060,391	171,327	(3,330,625)
<b>Associates</b>					
Jiyuan JinMa Coke	1,709,301,960	1,132,844,810	576,457,150	3,638,895,809	56,352,076
Shenglong Chemical	2,677,150,680	2,075,971,285	601,179,395	3,936,653,571	327,494
Shanghai Iron and Steel Electronic	622,715,055	432,881,575	189,833,480	122,940,760	11,511,095
Maanshan Harbour	1,037,306,107	604,963,545	432,342,562	203,302,362	14,868,157
All-monitor Transmission System	-	-	-	285,159	(68,822)
Zhengpu Harbour	111,081,405	11,096,483	99,984,922	-	(2,175)
Xinchuang Economize Resource	315,428,765	205,869,737	109,559,028	350,992,582	10,050,129
Ma Steel Jinxi Rail	179,026,191	10,311,108	168,715,083	1,249,777	18,715,083
Jiyuan Jinyuan Chemical	50,000,000	-	50,000,000	-	-

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 10. Long term equity investments

30 June 2013 (Unaudited)

	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:										
<b>Jointly-controlled entities</b>										
BOC-Ma Steel	234,000,000	315,052,064	35,388,832	78,000,000	272,440,996	50	50	-	-	78,000,000
MASTEEL-CMI	500,000	551,193	-	-	551,193	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	509,792	980,000	496,134	993,658	49	(i)	-	-	-
<b>Associates</b>										
Jiyuan JinMa Coke	80,000,000	162,150,444	13,106,434	19,080,000	156,176,878	36	36	-	-	19,080,000
Shenglong Chemical	66,776,000	181,852,159	-	776,034	181,076,125	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	37,949,164	334,712	-	38,283,876	20	20	-	-	-
Maanshan Harbour	112,500,000	193,936,508	641,619	-	194,578,127	45	45	-	-	-
Zhengpu Harbour	70,000,000	34,994,723	35,000,000	-	69,994,723	35	35	-	-	-
Xinchiang Economize Resource	35,000,000	38,345,660	3,455,384	-	41,801,044	35	35	-	-	-
Jinxi Traffic	75,000,000	84,357,542	11,463	-	84,369,005	50	(iii)	-	-	-
Jinyuan Chemical	36,000,000	18,000,000	18,000,000	-	36,000,000	36	36	-	-	-
Stereoscopic Auto-parking	4,500,000	-	4,500,000	2,145,695	2,354,305	25	33	-	-	-
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 Luoqing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	12,583,740
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	-	-	-
<b>Total</b>	<b>861,693,360</b>	<b>1,210,311,409</b>	<b>111,418,544</b>	<b>100,497,863</b>	<b>1,221,232,090</b>			<b>-</b>	<b>-</b>	<b>109,663,740</b>

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 10. Long term equity investments (continued)

31 December 2012 (Audited)

	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:										
<b>Jointly-controlled entities</b>										
BOC-Ma Steel	234,000,000	329,872,302	75,179,762	90,000,000	315,052,064	50	50	-	-	90,000,000
MASTEEL-CMI	500,000	562,835	-	11,642	551,193	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	2,141,798	-	1,632,006	509,792	49	(i)	-	-	-
<b>Associates</b>										
Jiyuan JinMa Coke	80,000,000	160,943,695	20,286,749	19,080,000	162,150,444	36	36	-	-	19,080,000
Shenglong Chemical	66,776,000	185,532,159	-	3,680,000	181,852,159	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	2,302,219	4,000,000	37,949,164	20	20	-	-	4,000,000
Maanshan Harbour	112,500,000	191,745,837	6,690,671	4,500,000	193,936,508	45	45	-	-	4,500,000
All-monitor Transmission System(ii)	13,500,000	11,494,044	-	11,463,074	-	(ii)	(ii)	-	-	-
Zhengou Harbour	35,000,000	34,995,484	-	761	34,994,723	35	35	-	-	-
Xinchuang Economize Resource	35,000,000	17,401,780	20,943,880	-	38,345,660	35	35	-	-	-
Ma Steel Jinxi Rail	75,000,000	-	84,357,542	-	84,357,542	50	(iii)	-	-	-
Jinyuan Chemical	18,000,000	-	18,000,000	-	18,000,000	36	36	-	-	-
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	-	-	1,461,060
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	13,395,251
China First Heavy Industries Ma'anshan Heavy Industry Co., Ltd.	15,000,000	15,000,000	-	-	15,000,000	15	15	-	-	-
Tongling Yuanda	17,800,000	15,840,000	-	-	15,840,000	18	18	-	-	-
National Auto Lightweight Technologies Institute	3,000,000	-	3,000,000	-	3,000,000	6.90	6.90	-	-	150,000
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
	<u>817,693,360</u>	<u>1,113,949,039</u>	<u>230,760,823</u>	<u>134,398,453</u>	<u>1,210,311,409</u>			<u>-</u>	<u>-</u>	<u>132,586,311</u>

# Notes to Interim Financial Statements (Continued)

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

### 10. 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) All-monitor Automobile completed the dissolution of liquidation and cancelled its commercial registration in year 2012.
- (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.

There was no material restriction on the realisation of long term investments as at the balance sheet date.

- \* 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Fixed assets

#### 30 June 2013 (Unaudited)

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2013	22,078,823,006	45,627,111,276	476,865,160	256,050,073	68,438,849,515
Acquisition	255,029	26,656,003	2,865,332	673,941	30,450,305
Transfer from construction in progress (note V.12)	8,145,919	30,276,634	383,200	2,652,885	41,458,638
Reclassifications	(19,082,175)	25,019,021	(6,990,900)	454,054	-
Reduction	(4,052,324)	(8,340,511)	(5,511,458)	(12,116)	(17,916,409)
Disposal of subsidiary	(6,793,061)	(3,518,440)	(214,271)	-	(10,525,772)
Other transfer out	(85,444,834)	(50,368,841)	(967,804)	-	(136,781,479)
At 30 June 2013	21,971,851,560	45,647,435,142	466,429,259	259,818,837	68,345,534,798
Accumulated depreciation:					
At 1 January 2013	9,772,176,608	25,627,960,183	405,533,948	154,380,380	35,960,051,119
Provided during the period	596,054,334	1,239,155,526	34,239,805	18,864,752	1,888,314,417
Reclassifications	(14,183,891)	12,281,525	1,242,075	660,291	-
Reduction	(2,863,873)	(6,119,224)	(4,790,735)	(8,443)	(13,782,275)
Disposal of subsidiary	(1,434,173)	(1,989,582)	(144,457)	-	(3,568,212)
Other transfer out	(1,691,094)	(1,993,768)	(306,471)	-	(3,991,333)
At 30 June 2013	10,348,057,911	26,869,294,660	435,774,165	173,896,980	37,827,023,716
Impairment:					
At 1 January 2013	-	-	-	-	-
Write-back	-	-	-	-	-
At 30 June 2013	-	-	-	-	-
Net carrying amount:					
At 30 June 2013	11,623,793,649	18,778,140,482	30,655,094	85,921,857	30,518,511,082
At 1 January 2013	12,306,646,398	19,999,151,093	71,331,212	101,669,693	32,478,798,396

# Notes to Interim Financial Statements (Continued)

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

### 11. Fixed assets (continued)

31 December 2012 (Audited)

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2012	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
Acquisition	12,484,711	34,544,654	87,439,220	2,024,368	136,492,953
Transfer from construction in progress (note V.12)	1,534,583,650	2,027,947,537	-	17,995,962	3,580,527,149
Reclassifications	(1,243,071,796)	1,241,178,010	741,882	1,151,904	-
Reduction	(87,463,467)	(182,875,712)	(19,165,646)	-	(289,504,825)
Deemed disposal of subsidiary	-	(131,625)	(145,617,532)	(232,095)	(145,981,252)
At 31 December 2012	22,078,823,006	45,627,111,276	476,865,160	256,050,073	68,438,849,515
Accumulated depreciation:					
At 1 January 2012	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Provided during the year	1,148,540,413	2,285,373,140	36,088,919	37,761,379	3,507,763,851
Reclassifications	(328,431,083)	327,517,377	523,940	389,766	-
Reduction	(31,275,967)	(143,939,519)	(17,468,959)	(3,306)	(192,687,751)
Deemed disposal of subsidiary	-	(23,870)	(6,360,062)	(26,201)	(6,410,133)
At 31 December 2012	9,772,176,608	25,627,960,183	405,533,948	154,380,380	35,960,051,119
Impairment:					
At 1 January 2012	5,252,400	82,602,336	-	-	87,854,736
Write-back	(5,252,400)	(82,602,336)	-	-	(87,854,736)
31 December 2012	-	-	-	-	-
Net carrying amount:					
At 31 December 2012	12,306,646,398	19,999,151,093	71,331,212	101,669,693	32,478,798,396
At 1 January 2012	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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. Fixed assets (continued)

As at 30 June 2013, 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 2013, certificates of ownership in respect of 51 of the Group's buildings in mainland china, with an aggregate cost of RMB1,241.93 million (31 December 2012: approximately RMB1,241.93 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 2013, certain of the Group's production equipment with a net carrying amount of RMB47,037,778 (31 December 2012: Nil) was pledged as security to acquire bank loans amounting to RMB15,000,000. The detail is disclosed in note V.17.

The movement of impairment provision for fixed assets for the first half of 2013 is disclosed in note V.14.

### 12. Construction in progress

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Products quality project	6,249,085,576	-	6,249,085,576	3,708,314,376	-	3,708,314,376
Energy-saving and Environment protection project	299,210,101	-	299,210,101	277,581,357	-	277,581,357
Equipment advancement and other modification projects	1,401,236,176	-	1,401,236,176	1,219,449,377	-	1,219,449,377
Other projects	854,097,087	-	854,097,087	492,324,566	-	492,324,566
Total	8,803,628,940	-	8,803,628,940	5,697,669,676	-	5,697,669,676

# Notes to Interim Financial Statements (Continued)

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

### 12. Construction in progress (continued)

#### 30 June 2013 (Unaudited)

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the period RMB	Transferred to fixed assets (note V.11) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Product quality projects	13,204,990	3,708,314,376	2,541,878,890	(1,107,690)	6,249,085,576	Internally generated funds	65%
2. Energy-saving and environment protection projects	397,300	277,581,357	24,414,983	(2,786,239)	299,210,101	Internally generated funds	77%
3. Equipment advancement and other modification projects	3,082,529	1,219,449,377	212,176,241	(30,389,442)	1,401,236,176	Internally generated funds	88%
4. Other projects	N/A	492,324,566	368,947,788	(7,175,267)	854,097,087	Internally generated funds	N/A
		5,697,669,676	3,147,417,902	(41,458,638)	8,803,628,940		
Less: Impairment		-	-	-	-		
		5,697,669,676	3,147,417,902	(41,458,638)	8,803,628,940		

#### 31 December 2012 (Audited)

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (note V.11) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	11,713,592	3,691,218,753	2,929,710,392	(2,912,614,769)	3,708,314,376	Internally generated funds	57%
2. Energy-saving and environment protection projects	388,200	133,927,924	143,653,433	-	277,581,357	Internally generated funds	73%
3. Equipment advancement and other modification projects	4,049,918	757,806,463	591,837,522	(130,194,608)	1,219,449,377	Internally generated funds	79%
4. Other projects	N/A	89,100,234	940,942,104	(537,717,772)	492,324,566	Internally generated funds	N/A
		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		
Less: Impairment		-	-	-	-		
		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		

# Notes to Interim Financial Statements (Continued)

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

### 13. Intangible assets

#### 30 June 2013 (Unaudited)

	Back-up roll technology	Land use rights	Mining rights	Concession assets(i)	Total
Cost:					
At 1 January 2013	45,082,836	2,307,910,575	170,813,411	-	2,523,806,822
Additions	-	12,393	19,431,939	136,781,479	156,225,811
Deductions	-	(3,751,253)	-	-	(3,751,253)
Exchange realignment	-	-	(23,013,400)	-	(23,013,400)
At 30 June 2013	45,082,836	2,304,171,715	167,231,950	136,781,479	2,653,267,980
Accumulated amortization:					
At 1 January 2013	9,767,947	515,457,568	35,160,126	-	560,385,641
Provided during the period	2,254,142	27,321,756	2,638,941	4,396,704	36,611,543
Deductions	-	(557,999)	-	-	(557,999)
Exchange realignment	-	-	(4,644,777)	-	(4,644,777)
At 30 June 2013	12,022,089	542,221,325	33,154,290	4,396,704	591,794,408
Impairment:					
At 1 January 2013 and At 30 June 2013	-	-	-	-	-
Net carrying amount:					
At 30 June 2013	33,060,747	1,761,950,390	134,077,660	132,384,775	2,061,473,572
At 1 January 2013	35,314,889	1,792,453,007	135,653,285	-	1,963,421,181

- (i) The concession assets is owned by the subsidiary, Hefei Water Supply. On 18 May 2011, Hefei Water Supply obtained concession right by signing "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with Administrative Committee of Hefei Circle Economy Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to charge water fee from water users in the Park by providing principal services including: industrial water supply, design, construct, occupy, operate and maintain the industrial water treatment plant, water abstraction and pipe networks. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement for no incremental consideration and with no operating issues.

# Notes to Interim Financial Statements (Continued)

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

### 13. Intangible assets (continued)

31 December 2012 (Audited)

	Back-up roll technology	Land use rights	Mining rights	Total
Cost:				
At 1 January 2012	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Additions	–	5,031,151	18,188,337	23,219,488
Deductions	–	(5,081,989)	–	(5,081,989)
Exchange realignment	–	–	3,140,464	3,140,464
At 31 December 2012	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Accumulated amortization:				
At 1 January 2012	5,259,664	465,109,845	29,721,522	500,091,031
Provided during the year	4,508,283	51,485,156	4,802,559	60,795,998
Deductions	–	(1,137,433)	–	(1,137,433)
Exchange realignment	–	–	636,045	636,045
At 31 December 2012	9,767,947	515,457,568	35,160,126	560,385,641
Impairment:				
At 1 January 2012 and At 31 December 2012	–	–	–	–
Net carrying amount:				
At 31 December 2012	35,314,889	1,792,453,007	135,653,285	1,963,421,181
At 1 January 2012	39,823,172	1,842,851,568	119,763,088	2,002,437,828

At 30 June 2013, none of the Group's land use rights were pledged as security to acquire bank loans (31 December 2012: Nil).

\* 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)

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

### 14. Assets impairment provisions

At 30 June 2013 (Unaudited)

	Opening Balance	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	570,863,066	1,727,440	2,273,269	-	1,342,801	568,974,436
Including: Trade receivables	15,076,606	-	-	-	988,742	14,087,864
Other receivables	553,609,057	1,727,440	1,701,299	-	354,059	553,281,139
Loans and advances to Customers	2,177,403	-	571,970	-	-	1,605,433
Provisions for inventories (ii)	350,099,012	478,376,386	-	566,852,945	-	261,622,453
Including: Raw materials	221,378,174	352,098,508	-	435,682,202	-	137,794,480
Work in progress	49,634,401	41,114,860	-	69,373,048	-	21,376,213
Finished products	18,434,509	85,163,018	-	61,726,440	-	41,871,087
Spare parts	60,651,928	-	-	71,255	-	60,580,673
Impairment of long term equity investments	-	-	-	-	-	-
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>920,962,078</u>	<u>480,103,826</u>	<u>2,273,269</u>	<u>566,852,945</u>	<u>1,342,801</u>	<u>830,596,889</u>

# Notes to Interim Financial Statements (Continued)

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

### 14. Assets impairment provisions (continued)

At 31 December 2012 (Audited)

	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	22,680,861	1,305,620,921	312,735	756,665,921	460,060	570,863,066
Including: Trade receivables	15,482,085	362,816	312,735	-	455,560	15,076,606
Other receivables (i)	7,070,497	1,303,208,981	-	756,665,921	4,500	553,609,057
Loans and advances to Customers	128,279	2,049,124	-	-	-	2,177,403
Provisions for inventories (ii)	737,941,305	1,417,177,552	-	1,805,019,845	-	350,099,012
Including: Raw materials	528,942,228	1,171,366,200	-	1,478,930,254	-	221,378,174
Work in progress	86,456,715	126,770,303	-	163,592,617	-	49,634,401
Finished products	61,316,046	119,041,049	-	161,922,586	-	18,434,509
Spare parts	61,226,316	-	-	574,388	-	60,651,928
Impairment of long term equity investments	3,738,814	-	-	3,738,814	-	-
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	-	-
	<u>852,215,716</u>	<u>2,722,798,473</u>	<u>312,735</u>	<u>2,653,279,316</u>	<u>460,060</u>	<u>920,962,078</u>

(i) In 2012, the write back of bad debt provision for other receivable is attributable to the deemed disposal of a subsidiary.

(ii) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

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

### 15. Customer deposits

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Demand deposits	232,000,000	369,167,982
Time deposits	978,898,981	196,000,000
	<b>1,210,898,981</b>	<b>565,167,982</b>

The information of customer deposits for shareholders who held 5% or more of voting shares and the related party at 30 June 2013 and 31 December 2012 is disclosed in note VI.6.

### 16. Repurchase agreements

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Bills	540,120,812	494,753,998

The repurchase agreements are bills that are discounted by Masteel Financial from the People's Bank of China based on repurchase agreements.

# Notes to Interim Financial Statements (Continued)

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

### 17. Short term loans

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Closing exchange rate	RMB equivalents	Original currency	Closing exchange rate	RMB equivalents
Types of loans						
Unsecured loans						
– RMB	2,491,963,322	1	2,491,963,322	2,417,172,000	1	2,417,172,000
– USD	35,196,921	6.1787	217,471,218	79,622,708	6.2855	500,468,532
Short-term financing bonds (i)						
– RMB	3,500,000,000	1	3,500,000,000	3,500,000,000	1	3,500,000,000
Pledged loans (ii)						
– RMB	48,500,000	1	48,500,000	–	–	–
Trust receipt loans						
– USD	171,991,217	6.1787	1,062,682,131	522,907,904	6.2855	3,286,737,632
– EUR	–	–	–	6,529,153	8.3176	54,306,879
– JPY	–	–	–	257,046,301	0.0730	18,764,380
– HKD	7,000,559,160	0.7966	5,576,645,427	–	–	–
			<u>12,897,262,098</u>			<u>9,777,449,423</u>

(i) As at 23 August 2012, the Group signed the contract with CITIC Securities, and Industrial and Commercial Bank of China (“ICBC”) which arranged to issue short-term financing bonds of RMB10,000,000,000 in the next three years and installment issuance is allowed. The first bond (12 馬鋼 CP001) was issued on 25 October 2012, amounting to RMB3,500,000,000 with the interest rates of 4.71% per annum and a maturity of one year.

(iii) As at 30 June 2013, the Group’s short-term pledge loans were loans secured by production equipments of Anhui Masteel K.Wah and loans secured by inventories of Shanghai Trading (31 December 2012: Nil). Details are disclosed in notes V.11.

As at 30 June 2013, the interest rates of the above short-term loans ranged from 1.591% to 7.000% (31 December 2012: 1.269%-8.64%).

As at 30 June 2013, the Group’s expired outstanding short term loans were as follows:

	Borrowing Amount	Expired Nature	Expired time	Annual interest rate	Borrowing Purpose	Reason for Expired outstanding	Expected repayment date
Bank of Nanjing, Shanghai Xuhui branch	29,823,322	Overdue principal	6 May 2013	6.56%	Operating loan	financial strain	In negotiation for extension

The above expired short term loan is the unsecured loan borrowed by Shanghai Trading, a subsidiary of the Company. By the signing date of the report, Shanghai Trading was in the process of negotiating loan extension with the bank.

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 18. Bills payable

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Bank acceptance bills	6,399,859,656	4,573,802,242
Commercial acceptance bills	445,000,000	522,500,000
	<hr/> <b>6,844,859,656</b> <hr/>	<hr/> <b>5,096,302,242</b> <hr/>

As at 30 June 2013 and 31 December 2012, the ageing of the Group's bills payable were within 6 months.

The bills payable amounting to RMB6,844,859,656 (31 December 2012: RMB5,096,302,242) are due in the next accounting year. As at the balance sheet date, certain amount of the Group's bills payable were secured by other monetary funds and bank acceptance bills. Please refer to note V.1 and note V.3 for details.

As at 30 June 2013 and 31 December 2012, no bills payable were due to either shareholders who hold 5% or above of the Company's equity interests or other related parties.

### 19. Accounts payable

\* The ageing analysis of accounts payable as follows:

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Within one year	6,985,063,856	6,585,456,835
One to two years	170,485,538	341,987,841
Two to three years	44,282,633	38,302,737
Over three years	79,648,582	63,579,257
	<hr/> <b>7,279,480,609</b> <hr/>	<hr/> <b>7,029,326,670</b> <hr/>

# Notes to Interim Financial Statements (Continued)

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

### 19. Accounts payable (continued)

The following balances were denominated in foreign currencies:

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
USD	2,355,700	6.1787	14,555,164	2,355,700	6.2855	14,806,752
EUR	6,520,230	8.0536	52,511,324	6,512,649	8.3176	54,169,607
AUD	67,090	5.7061	382,822	48,514	6.5363	317,100
JPY	516,030,260	0.0626	32,307,106	240,139,650	0.0730	17,541,961
			99,756,416			86,835,420

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

As at 30 June 2013 and 31 December 2012, 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.

Note: The Group's accounts payables aged over one year are mainly attributable to the balances of purchasing equipment and construction projects whose settlement periods beyond one year.

### 20. Taxes payable

	30 June 2013 Unaudited	31 December 2012 Audited
Value added tax	(173,703,957)	(121,923,402)
Corporate income tax	(267,910,215)	(249,003,819)
City construction and maintenance tax	8,154,963	5,914,564
Other taxes	13,628,229	34,005,337
	(419,830,980)	(331,007,320)

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

# Notes to Interim Financial Statements (Continued)

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

### 21. Dividends payable

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited	Unpaid reason for over 1 year
Other shareholders	<b>81,392,794</b>	80,492,522	Unpaid

As at 30 June 2013 and 31 December 2012, 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 dividends payable are stated in Note VI.6 to the financial statements.

### 22. Non-current liabilities due within one year

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Long term loans due within one year	<b>1,317,965,700</b>	335,710,000
Bonds payable due within one year (note V.24)	–	999,832,400
	<b>1,317,965,700</b>	1,335,542,400

  

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Long term loans due within one year		
Guaranteed loans (i)	<b>511,787,000</b>	135,710,000
Unsecured loans	<b>806,178,700</b>	200,000,000
	<b>1,317,965,700</b>	335,710,000

- (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 2013, the Group had no expired outstanding long term loans.

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

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

As at 30 June 2013, the top five largest non-current liabilities due within one year is as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2013 RMB equivalent	31 December 2012 RMB equivalent
Export-import bank of China	2012/3/21	2014/3/20	RMB	(i)	440,000,000	-
China Construction Bank	2010/12/10	2013/12/9	RMB	(ii)	200,000,000	200,000,000
Agricultural Bank of China	2011/1/17	2014/1/16	RMB	(iii)	200,000,000	-
Agricultural Bank of China	2011/2/1	2014/1/31	RMB	(iv)	200,000,000	-
Bank of China	2011/2/1	2014/2/1	RMB	(v)	200,000,000	-
					<b>1,240,000,000</b>	<b>200,000,000</b>

(i) The above borrowing rates of long term loans were export seller's credit interest rates offered by the central bank, which was adjusted every quarter.

(ii) The above borrowing rates of long term loans due within one year were 10% below the 1-3 year benchmark rate offered by the central bank and were adjusted every 12 months (The first time period rate was 5.04%).

(iii) The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank, which was adjusted every year.

(iv) The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank, which was adjusted every quarter.

(v) The above borrowing rates of long term loans due within one year were 10% below the three-year term loan benchmark rate offered by the central bank, which was adjusted every six months.

# Notes to Interim Financial Statements (Continued)

30 June 2013

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

### 23. Long term loans

	30 June 2013 Unaudited	31 December 2012 Audited
Entrusted loan (i)	–	10,000,000
Guaranteed loans (ii)	3,241,348,300	3,395,650,000
Unsecured loans	1,402,122,000	6,508,530,000
Pledged loans (iii)	500,000,000	–
	<u>5,143,470,300</u>	<u>9,914,180,000</u>

(i) As at 31 December 2012, certain bank loans in aggregate of RMB10,000,000 were lent by the Holding through an entrust loan arrangement with the ICBC, with terms of three years at annual interest rate of 6.42%. In the first half of 2013, the Group transferred 75% of its shares in Masteel Auto-parking to third parties, therefore Masteel Auto-parking is no longer a subsidiary of the Group. The details were disclosed in note IV. 5

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

(iii) As at balance sheet date, pledged loans were secured by bank acceptance bills of the Company amounting to RMB1.12 billion.

As at 30 June 2013, the top five largest long term loans were as follows:

	Starting date	Termination date	Currency	Rate (%)	30 June 2013 RMB equivalent	31 December 2012 RMB equivalent
	yy/mm/dd	yy/mm/dd				
Export-import bank of China	2013/1/9	2015/1/8	RMB	note 1	490,000,000	–
Export-import bank of China	2013/3/4	2015/3/1	RMB	note 1	480,000,000	–
Export-import bank of China	2013/3/8	2016/3/7	RMB	note 2	470,000,000	–
Export-import bank of China	2012/2/27	2015/2/6	RMB	note 1	210,000,000	210,000,000
Export-import bank of China	2013/1/16	2015/1/12	RMB	note 2	200,000,000	–
					<u>1,850,000,000</u>	<u>210,000,000</u>

Note 1: The above borrowing rates of long term loans was the central bank benchmark rate, which were adjusted every three months.

Note 2: The above borrowing rates of long term loans was the central bank benchmark rate, which were adjusted every year.

# Notes to Interim Financial Statements (Continued)

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

### 23. Long term loans (continued)

As at 30 June 2013, the Group had no expired outstanding long term loans.

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

	30 June 2013	31 December 2012
Within one year	1,317,965,700	335,710,000
One to two years (Including two years)	4,663,470,300	8,904,180,000
Three to five years (Including five years)	480,000,000	1,010,000,000
	<hr/>	<hr/>
	<b>6,461,436,000</b>	<b>10,249,890,000</b>
	<hr/> <hr/>	<hr/> <hr/>

### 24. Bonds payable

#### 30 June 2013 (Unaudited)

	Opening balance	Increase	Decrease	Closing balance
Medium-term note payable				
– 2010 first batch	998,832,800	3,875,933	1,003,708,333	–
Medium-term note payable				
– 2011 second batch	2,794,632,900	82,056,672	80,656,872	2,796,032,700
Corporate bond – 3 Years	3,143,493,948	93,174,687	88,222,872	3,148,445,763
Corporate bond – 5 Years	2,323,865,856	68,806,127	66,606,016	2,326,065,967
	<hr/>	<hr/>	<hr/>	<hr/>
	9,261,825,104	247,913,419	1,239,194,093	8,270,544,430
Less: Transfer into				
non-current liabilities due				
within one year (note V.22)	999,832,400			–
	<hr/>			<hr/>
	<b>8,261,992,704</b>			<b>8,270,544,430</b>
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# Notes to Interim Financial Statements (Continued)

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

### 24. Bonds payable (continued)

31 December 2012 (Audited)

	Opening balance	Increase	Decrease	Closing balance
Medium-term note payable				
– 2010 first batch	998,832,800	45,621,518	44,621,918	999,832,400
Medium-term note payable				
– 2011 second batch	2,791,833,300	163,239,600	160,440,000	2,794,632,900
Corporate bond – 3 Years	3,133,590,316	187,811,632	177,908,000	3,143,493,948
Corporate bond – 5 Years	2,319,465,635	138,716,221	134,316,000	2,323,865,856
	<u>9,243,722,051</u>	<u>535,388,971</u>	<u>517,285,918</u>	<u>9,261,825,104</u>
Less: Transfer into non-current liabilities due within one year (note V.22)				<u>999,832,400</u>
	<u>9,243,722,051</u>			<u>8,261,992,704</u>

As at 30 June 2013, bonds payable balance was stated as below:

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	40,354,795	4,145,205	44,500,000	-	-
Medium-term note payable – 2011 second batch	2011/11 2,800,000,000	14,707,000	80,220,000	-	94,927,000	2,796,032,700
Corporate bond – 3 Years	2011/8 3,160,000,000	62,705,279	88,222,871	-	150,928,150	3,148,445,763
Corporate bond – 5 Years	2011/8 2,340,000,000	47,340,885	66,606,016	-	113,946,901	2,326,065,967
	<u>9,300,000,000</u>	<u>165,107,959</u>	<u>239,194,092</u>	<u>44,500,000</u>	<u>359,802,051</u>	<u>8,270,544,430</u>

# Notes to Interim Financial Statements (Continued)

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

### 24. Bonds payable (continued)

As at 31 December 2012, bonds payable balance was stated as below:

	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	44,621,918	44,500,000	40,354,795	999,832,400
Medium-term note payable							
- 2011 second batch	2011/11	2,800,000,000	14,707,000	160,440,000	160,440,000	14,707,000	2,794,632,900
Corporate bond - 3 Years	2011/8	3,160,000,000	62,705,279	177,908,000	177,908,000	62,705,279	3,143,493,948
Corporate bond - 5 Years	2011/8	2,340,000,000	47,340,885	134,316,000	134,316,000	47,340,885	2,323,865,856
		<u>9,300,000,000</u>	<u>164,986,041</u>	<u>517,285,918</u>	<u>517,164,000</u>	<u>165,107,959</u>	<u>9,261,825,104</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 second 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. The RMB3.8 billion is circulating in the Chinese Inter-bank Bond Market. This medium-term note is repayable in three years, and the 2010 first batch medium-term note had been matured and repaid in the first half of 2013.

#### 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.

# Notes to Interim Financial Statements (Continued)

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

### 25. Share capital

30 June 2013 (Unaudited)	At 1 January 2013		Increase/(decrease) during the period			At 30 June 2013	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
<b>Registration issued and fully paid</b>							
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	-	-	-	7,700,681,186	100
C. Total	7,700,681,186	100	-	-	-	7,700,681,186	100

# Notes to Interim Financial Statements (Continued)

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

### 25. Share capital (continued)

31 December 2012 (Audited)	At 1 January 2012		Increase/(decrease) during the year			At 31 December 2012	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
Registration issued and fully paid							
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)

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

### 26. Capital reserve

#### 30 June 2013 (Unaudited)

	Opening Balance	Increase	Decrease	Closing balance
Share premium	8,338,358,399	–	–	8,338,358,399
Other capital reserve	(9,290,736)	–	–	(9,290,736)
<b>Total</b>	<b>8,329,067,663</b>	<b>–</b>	<b>–</b>	<b>8,329,067,663</b>

#### 31 December 2012 (Audited)

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

During the year 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.3.

# Notes to Interim Financial Statements (Continued)

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

### 27. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Principal operating income	31,902,024,533	36,556,886,767
Other operating income	5,050,537,806	4,029,996,590
	<u>36,952,562,339</u>	<u>40,586,883,357</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	
	2013 Unaudited	2012 Unaudited
Principal cost of sales	30,242,742,825	36,122,156,047
Other cost of sales	5,001,052,536	4,045,606,959
	<u>35,243,795,361</u>	<u>40,167,763,006</u>

# Notes to Interim Financial Statements (Continued)

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

### 27. Revenue and cost of sales (continued)

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Sale of steel products	29,680,878,570	31,987,380,276
Sale of steel billets and pig iron	364,639,204	1,068,450,235
Sale of coke by-products	468,415,809	368,477,625
Others	1,388,090,950	3,132,578,631
	<u>31,902,024,533</u>	<u>36,556,886,767</u>

During the first half of 2013, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	1,004,511,114	3
Company 2	927,593,649	3
Company 3	856,413,470	2
Company 4	763,372,962	2
Company 5	696,126,820	2
	<u>4,248,018,015</u>	<u>12</u>

# Notes to Interim Financial Statements (Continued)

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

### 27. Revenue and cost of sales (continued)

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
	<hr/>	
	4,925,634,641	12
	<hr/> <hr/>	

### 28. Selling expenses

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Employee benefits	16,770,334	20,780,998
Transportation fees	144,503,501	135,223,328
Insurance premium	7,572,804	10,988,755
Others	14,849,466	13,216,707
	<hr/>	
	183,696,105	180,209,788
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# Notes to Interim Financial Statements (Continued)

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

### 29. Administrative expenses

	For the six months ended 30 June	
	2013	2012
	Unaudited	Unaudited
Depreciation	29,435,142	27,795,574
Employee benefits	287,203,064	287,480,548
Office expenses	184,982,115	176,178,921
*Auditors' remuneration	2,348,330	2,482,500
Other taxes	93,278,485	98,593,098
Others	86,415,044	83,172,599
	<hr/>	<hr/>
	683,662,180	675,703,240
	<hr/> <hr/>	<hr/> <hr/>

### 30. Financial expenses

	For the six months ended 30 June	
	2013	2012
	Unaudited	Unaudited
Interest expenses (i)	650,833,648	825,764,707
Less: Interest income	19,143,879	77,543,762
Exchange (gain)/loss, net	(24,205,762)	42,250,483
Others	18,352,328	17,611,725
	<hr/>	<hr/>
	625,836,335	808,083,153
	<hr/> <hr/>	<hr/> <hr/>

\*(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.

# Notes to Interim Financial Statements (Continued)

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

### 31. Assets impairment loss

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Provision/(reversal of provision) for bad debts	(545,829)	29,244,554
Including: Trade receivables	–	142,880
Other receivables	26,141	–
Loans and advances	(571,970)	29,101,674
Provision for inventories (i)	478,376,386	557,687,950
	<u>477,830,557</u>	<u>586,932,504</u>

(i) In the first half of 2013, the Group had made impairment provision for inventory amounting to RMB280 million and RMB198 million as at 31 March 2013 and 30 June 2013, respectively.

### 32. Investment income

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Long term investment income under equity method	49,520,681	53,438,048
Long term investment income under cost method	12,583,740	–
Other investment income (i)	7,278,445	122,472
	<u>69,382,866</u>	<u>53,560,520</u>

(i) During the first half of 2013, other investment income is generated from the disposal of the investment in Masteel Auto-parking by Holly Industrial, the subsidiary of the Company.

\* During the current period, the Group's investment income from listed companies and unlisted companies are RMB2,520 and RMB69,380,346, respectively (during the six months ended 30 June 2012, the investment income from listed companies and unlisted companies was RMB6,549 and RMB53,553,971, respectively).

# Notes to Interim Financial Statements (Continued)

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

### 32. Investment income (continued)

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
	2013 Unaudited	2012 Unaudited	
BOC-Ma Steel	35,388,932	38,617,770	(i)
Jiyuan Jinma Coke Making	13,106,433	2,166,547	(ii)
Xinchuang Economize Resource	3,455,384	1,224,876	(ii)
Maanshan Harbour	641,619	1,401,432	(i)
Shanghai Iron and Steel Electronic	334,712	1,442,440	(i)
	<u>52,927,080</u>	<u>44,853,065</u>	

(i) In the first half of 2013, 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.

(ii) In the first half of 2013, 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.

As at 30 June 2013, 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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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. Income tax

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
*The Mainland China:		
Current income expense	43,247,408	34,814,627
Adjustments in respect of current tax of previous periods	(6,317,977)	122,531
Deferred tax expense	7,576,012	12,083,051
*Current income expense in HK (ii)	7,873,632	–
*Current income expense in overseas	24,734,053	24,704,759
	<u>77,113,128</u>	<u>71,724,968</u>

Relationship between income tax and loss before tax:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Loss before tax	(246,114,040)	(1,803,008,624)
Tax at the applicable tax rate of 25% (i)	(65,363,084)	(450,752,156)
Effect of different tax rates of subsidiaries	81,084	(52,870)
Expenses not deductible for tax	10,892,403	20,358,889
Adjustments in respect of current tax of previous periods	(6,317,977)	122,531
Other tax concessions	(5,000,852)	(5,468,489)
Income not subject to tax	(759,401)	(2,307,983)
Unrecognised deductible temporary difference and tax losses	167,819,165	524,774,310
Tax losses utilised	(9,206,195)	(14,104)
Profits and losses attributable to jointly-controlled entities and associates	(12,866,589)	(14,935,160)
Tax charge at the Group's effective rate	<u>77,113,128</u>	<u>71,724,968</u>

# Notes to Interim Financial Statements (Continued)

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

### 33. 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 period.

### 34. 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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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. Earnings per share (continued)

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

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Net loss attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	<u>(332,823,078)</u>	<u>(1,892,679,010)</u>
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	<u>7,700,681,186</u>	<u>7,700,681,186</u>

During the first half of 2013 and the first half of 2012, there was no diluted item to adjust the Company's basic earnings per share.

### 35. Other comprehensive income

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Exchange fluctuation reserve	<u>(91,343,384)</u>	<u>(6,492,214)</u>

# Notes to Interim Financial Statements (Continued)

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

### 36. Notes to items of statement of cash flows:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Cash received relating to other operating activities:		
Specific subsidies granted by government	2,873,710	3,951,900
Others	5,468,686	886,330
	<u>8,342,396</u>	<u>4,838,230</u>

Cash paid relating to other operating activities:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Office expenses	160,976,467	182,331,723
Security expenses	36,388,501	44,329,126
Transportation expenses	10,723,343	31,847,944
Flooding prevention expenses	14,073,064	7,194,589
Environmental improvement fee	14,456,485	5,744,045
Research and development fee	9,472,829	6,188,559
Others	150,345,403	103,784,418
	<u>396,436,092</u>	<u>381,420,404</u>

Cash received relating to other investing activities

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Government subsidies granted for specific projects	12,212,013	8,210,000

# Notes to Interim Financial Statements (Continued)

30 June 2013  
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## V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. Supplements to cash flows

(1) Reconciliation from net loss to cash flows from operating activities:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Net loss	(332,823,078)	(1,892,679,010)
Add: Minority interests	9,595,910	17,945,419
Provision/(reversal of provision) for bad debts	26,141	142,880
Provision/(write-back of provision) for inventories	(88,476,559)	(118,077,136)
Provision/(reversal of provision) for loans and advances to customers	(571,970)	29,101,674
Depreciation of fixed assets	1,888,314,417	1,706,220,031
Amortisation of investment properties	34,453	87,122
Amortisation of intangible assets	36,611,543	29,128,179
Amortisation of deferred income	(45,786,977)	(41,864,561)
Loss/(gain) on disposal of non-current assets	1,702,335	(881,020)
Increase/(decrease) in special reserves	(3,575,177)	971,870
Financial expenses	607,484,007	790,471,428
Investment income	(69,382,866)	(53,560,520)
Loss on fair value changes	97,570	24,540
Decrease in deferred tax assets	9,433,064	6,559,206
Increase/(decrease) in deferred tax liabilities	(1,857,051)	5,523,845
(Increase)/decrease in inventories	(1,053,652,792)	165,219,829
Decrease in receivables from operating activities	149,754,728	189,195,363
Increase in payables from operating activities	2,651,601,123	1,500,222,533
Net cash flows from operating activities	<b>3,758,528,821</b>	<b>2,333,751,672</b>

# Notes to Interim Financial Statements (Continued)

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

### 37. Supplements to cash flows (continued)

(2) Information of the disposal of subsidiaries

	<b>For the six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>Unaudited</b>	Unaudited
Price of the subsidiaries disposed	14,459,300	–
Cash and cash equivalents received from the disposal of subsidiaries	8,000,000	–
Less: Cash and cash equivalents of the subsidiaries disposed	901,934	–
Net cash and cash equivalents received from the disposal of subsidiaries	7,098,066	–
Net assets of subsidiaries disposed	9,947,736	–
Current assets	20,886,738	–
Non-current assets	13,308,787	–
Current liabilities	14,247,789	–
Non-current liabilities	10,000,000	–

### 38. Cash and cash equivalents

Net movement of cash and cash equivalents

	<b>30 June</b>	30 June
	<b>2013</b>	2012
	<b>Unaudited</b>	Unaudited
Cash closing balance	6,436,449,395	6,710,843,544
Less: Cash opening balance	7,577,117,817	9,302,476,206
Add: Closing balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
Net decrease of cash and cash equivalents	<b>(1,140,668,422)</b>	<b>(2,591,632,662)</b>

The above opening balance and closing balance of cash include Masteel Financial's mandatory reserves with central bank.

# Notes to Interim Financial Statements (Continued)

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

### 38. Cash and cash equivalents (continued)

	30 June 2013 Unaudited	30 June 2012 Unaudited
Cash		
Including: Cash on hand	564,410	1,472,544
Balances with financial institutions without restriction	6,435,884,985	6,709,371,000
Other balances without restriction	-	-
	<hr/>	<hr/>
Cash equivalents	<u>6,436,449,395</u>	<u>6,710,843,544</u>

### \*39. Dividend

The board of directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (30 June 2012: 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	Gao Haijina(note)	Manufacturing	6,298,290,000	50.47	50.47	150509144

Note: In the board of directors meeting held in 24 June 2013, the board of directors of the Holding has agreed to the resignation of Mr. Gu Jianguo as the chairman of the board of directors of the Holding as he has reached retirement age, and Mr. Gao Haijian was elected as the chairman of the board of directors of the Holding.

In the first half of 2013, the registered and paid-in capital of the parent 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.9 and note V.10.

### 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	Controlled by Holding	70492034x
Masteel Group Design and Research Institute Co., Ltd	Controlled by Holding	72850552x
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding	55781951-5
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(iii)	Controlled by Holding	733020252
Maanshan Shi Fa Metal Industry and Trading Co., Ltd(ii)	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(iv)	Controlled by Holding	734975296
Huang Shan Tai Bai Shan(iv)	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
Xinchuang Economize Resource	Controlled by Holding and Associate	581537534

- (i) During the first half of 2013, the Holding's share in this company was decreased to 9.99%, and the Holding had lost the control over this company. This company was no longer a related party of the Group since 7 March 2013.
- (ii) This company was cancelled during 2012.
- (iii) This company entered into liquidation during 2012. As at 30 June 2013, the liquidation was not completed.
- (iv) These companies were subsidiaries of Maanshan Li Sheng Group Co., Ltd. and they were no longer considered as related parties after 7 March 2013.

### 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			
		2013 Unaudited		2012 Unaudited	
Note		Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(i)	1,643,467,810	18	1,790,684,436	17
Anhui Masteel Luo He Mining Co., Ltd ("Luo He Mining")	(i)	-	-	92,390,665	1
Total		1,643,467,810	18	1,883,075,101	18

- (i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 12 October 2012 entered into between the Company and the Holding. A subsidiary of the Group purchase iron ore from Luo He Mining, the price terms of which are negotiated.

# 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					
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
	Holding (ii)	58,893,580	29	30,824,579	30
	Maanshan Li Sheng Group Co., Ltd (ii)	213,600	-	9,539,241	9
	Maanshan Gang Chen Industry Co., Ltd (ii)	9,010,863	5	9,869,417	10
	Xinchuang Economize Resource (ii)	104,138,925	52	40,953,216	40
	Others (ii)	28,055,712	14	10,833,677	11
	<b>Total</b>	<b>200,312,680</b>	<b>100</b>	<b>102,020,130</b>	<b>100</b>

- (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 and its subsidiaries.

# 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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
	Holding	148,285	1	391,059	5
	Masteel Shen Ma Metal Co., Ltd	9,226,065	60	585,220	8
	Maanshan Gang Chen Industry Co., Ltd	6,044,513	39	6,503,005	87
	<b>Total</b>	<b>15,418,863</b>	<b>100</b>	<b>7,479,284</b>	<b>100</b>

(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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
	Holding	24,264,900	100	24,264,900	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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
	Holding	5,024,087	–	–	–
	Xinchuang Economize Resource	21,767,907	1	12,369,721	1
	Maanshan Gang Chen Industry Co., Ltd	–	–	1,346,600	–
	Maanshan Li Sheng Group Co., Ltd	638,038	–	3,624,887	–
	Masteel Group Kang Cheng Building and Installing Co., Ltd.	2,091,000	–	–	–
	Maanshan Jia Hua Commodity Concrete Co., Ltd	9,331,957	–	1,420,000	–
	<b>Total</b>	<b>38,852,989</b>	<b>1</b>	<b>18,761,208</b>	<b>1</b>

(ii) 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)

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

		For the six months ended 30 June			
		2013 Unaudited		2012 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
		RMB	%	RMB	%
	Note				
Holding	(iii)	14,572,712	2	13,579,289	1
Maanshan Gang Chen Industry Co., Ltd	(iii)	5,934,598	1	-	-
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	312,532	-	284,709	-
Masteel Group Steel Scrap Intergrated Utilization Co., Ltd.	(iii)	-	-	161,671	-
Xinchuang Economize Resource	(iii)	2,276,507	-	711,558	-
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	7,547,155	1	-	-
Maanshan Li Sheng Group Co., Ltd.	(iii)	1,233,198	-	822,695	-
Others	(iii)	3,788,749	1	5,376,597	-
<b>Total</b>		<b>35,665,451</b>	<b>5</b>	<b>20,936,519</b>	<b>1</b>

(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				
		2013 Unaudited		2012 Unaudited		
		Amount	Similar transaction	Amount	Similar transaction	
Note		RMB	%	RMB	%	
	Maanshan Gang Chen Industry Co., Ltd	(iii)	14,057,575	1	-	-
	<b>Total</b>		<b>14,057,575</b>	<b>1</b>	<b>-</b>	<b>-</b>

(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				
		2013 Unaudited		2012 Unaudited		
		Amount	Similar transaction	Amount	Similar transaction	
Note		RMB	%	RMB	%	
	Holding	(iv)	4,370,536	72	1,769,953	69
	Xinchuang Economize Resource	(iv)	397,360	7	-	-
	Maanshan Gang Chen Industry Co., Ltd	(iv)	744,258	12	-	-
	Others	(iv)	572,307	9	783,672	31
	<b>Total</b>		<b>6,084,461</b>	<b>100</b>	<b>2,553,625</b>	<b>100</b>

(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)

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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)

#### (9) Financial service income received from related parties

		For the six months ended 30 June			
		2013 Unaudited		2012 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
Holding	(v)	3,960,248	37	296,250	8
Maanshan Gang Chen Industry Co., Ltd	(v)	4,541,829	43	3,463,114	91
Others	(v)	2,129,332	20	37,500	1
Total		<u>10,631,409</u>	<u>100</u>	<u>3,796,864</u>	<u>100</u>

(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. The lending rate were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

#### (10) Purchases of coke from associates

		For the six months ended 30 June			
		2013 Unaudited		2012 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
Shenglong Chemical	(vi)	28,000,000	3	59,210,693	23

(vi) These transactions made between the Group and Shenglong Chemical 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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
Maanshan Harbor	(vi)	69,838,154	12	12,731,693	2

(vi) These transactions made between the Group 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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	1,250,000	100	625,000	100

(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			
		2013 Unaudited		2012 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	132,866,813	91	134,921,214	95

(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			
		2013 Unaudited		2012 Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	5,685,347	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			
		2013		2012	
		Unaudited		Unaudited	
		Amount	Similar transaction	Amount	Similar transaction
Note		RMB	%	RMB	%
BOC-Ma Steel	(vii)	270,235,956	100	260,991,818	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 transactions carried out between the Group and its related parties during the first half of 2013.

(16) Guarantee from related party

31 December 2012	Note	Guarantee name	Guarantee amount	Start date	End date	Is guarantee mature
Holding	(viii)	The Company	3.381 billion	2012.8	2016.8	No as at the signing date of the report

(viii) In the six months ended 30 June 2013, the Holding did not offer extra guarantee for the Group's bank loans (the first half of 2012: approximately RMB1.88 billion). The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB9.283 billion as at 30 June 2013 (December 31 2012: part of the Group's bank loans and bonds with warrants amounting approximately to RMB10.607 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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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Receivables from/payables to related parties

	30 June 2013 Unaudited	31 December 2012 Audited
<b>Trade receivables:</b>		
Holding and its subsidiaries		
Holding	3,519,015	4,473,542
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	17,982,919	17,982,919
Xinchuang Economize Resource	6,680,000	2,083,550
Maanshan Jia Hua Commodity Concrete Co., Ltd.	1,207,327	1,062,101
Other entities controlled by Holding	795,336	734,684
	<u>30,184,597</u>	<u>26,336,796</u>
Associates and jointly-controlled entities of the Group		
Maanshan Harbor	477	25,269
BOC-Ma Steel	54,141	-
	<u>54,618</u>	<u>25,209</u>
<b>Prepayments:</b>		
Holding and its subsidiaries		
Holding	28,044,509	500,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	-	406,803
Xinchuang Economize Resource	45,138,342	29,412,642
	<u>73,182,851</u>	<u>30,319,445</u>
<b>Dividends receivable:</b>		
Associates and jointly-controlled entities of the Group		
Jiyuan JinMa Coke	46,800,000	46,800,000

# Notes to Interim Financial Statements (Continued)

30 June 2013

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## VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

	30 June 2013 Unaudited	31 December 2012 Audited
<b>Accounts payable:</b>		
Holding and its subsidiaries		
Holding	138,504	2,664,945
Xinchuang Economize Resource	55,016,457	44,634,163
Maanshan Li Sheng Group Co., Ltd.	–	5,025,226
Masteel Group Steel Scrap Integrated Utilisation Co., Ltd.	5,241,160	505,209
Maanshan Gang Chen Industry Co., Ltd.	6,855,319	8,148,736
Others entities controlled by Holding	5,647,363	4,651,378
	<u>72,898,803</u>	<u>65,629,657</u>
Associates and Jointly-controlled entities of the Group		
BOC-Ma Steel	18,869,320	21,888,952
Maanshan Harbor	65,392	14,396,430
Shenglong Chemical	2,654,308	24,191,225
	<u>21,589,020</u>	<u>60,476,607</u>
<b>Deposits received:</b>		
Holding and its subsidiaries		
Holding	4,557,185	12,315,708
Anhui BRC & Masteel Weldmesh Co., Ltd	15,502,647	6,863,688
Maanshan Gang Chen Industry Co., Ltd	344,733,940	300,397,188
Other entities controlled by Holding	4,041,235	2,749,015
	<u>368,835,007</u>	<u>322,325,599</u>
Associates and Jointly-controlled entities of the Group		
Jiyuan JinMa Coke	56,992	23,235
Ma Steel Jinxi Rail	588,670	18,539
Shenglong Chemical	358,756	247,827
	<u>1,004,418</u>	<u>289,601</u>

All the trade receivable, prepayment, dividend receivable, account payable and deposits received have no interest, no pledge and do not have fixed payment date.



# 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)

\* As at June 30 2013, among the current assets and current liabilities, the Company's receivables from and payables to subsidiaries are RMB1,058,611,681(December 31 2012:RMB851,504,789) and RMB5,936,340,519 (December 31 2012:RMB 2,538,569,796) respectively. All these receivables and payables have no interest, unpledged and will pay in the future.

	30 June 2013 Unaudited	31 December 2012 Audited
<b>Loans and advances to customers:</b>		
Holding and its subsidiaries		
Holding	49,432,171	149,085,000
Anhui Masteel Luo He Mining Co., Ltd	79,091,474	50,000,000
Other entities controlled by Holding	19,772,868	18,655,209
	<u>148,296,513</u>	<u>217,740,209</u>
<b>Customer deposits:</b>		
Holding and its subsidiaries		
Holding	945,563,761	251,729,915
Maanshan Li Sheng Group Co., Ltd.	–	3,324,327
Maanshan Gang Chen Industry Co., Ltd.	40,014,823	85,595,196
Other entities controlled by Holding	114,807,337	224,518,544
	<u>1,100,385,921</u>	<u>565,167,982</u>
Associates of the Group		
Ma Steel Jinxi Rail	<u>5,001,230</u>	<u>–</u>

### 7. The commitment of the Group with related parties

As at 30 June 2013 and 31 December 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

### 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:

	<b>30 June 2013 Unaudited RMB'000</b>	31 December 2012 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	<b>2,216,869</b>	2,513,081
Contracted, but not provided for	<b>4,749,592</b>	5,414,877
Total	<b>6,966,461</b>	7,927,958
Investment commitments		
Authorised, but not contracted for	–	–
Contracted, but not provided for	<b>90,000</b>	108,980

# 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 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Capital commitments		
Authorised, but not contracted for	—	—

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## IX. POST BALANCE SHEET EVENTS

As at 18 July 2013, “The Resolution of the Possible Disposal of Some of the Company’s Assets Not Related to the Principal Iron and Steel Operations (the “Possible Disposal”) to Magang (Group) Holding Company Limited” was considered and approved by the board of the Company. The assets to be disposed include subsidiary’s equity and some branch companies’ assets which are not related to the principal iron and steel operations. The total net assets to be disposed are not anticipated to exceed 20% of the net asset of the Group’s audited consolidated financial statement for the most recent financial year.

## 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 2013 Unaudited	31 December 2012 Audited
Remaining lease period		
Within 1 year, inclusive	1,250,000	1,750,000
1 to 2 years, inclusive	1,250,000	1,250,000
2 to 3 years, inclusive	1,250,000	1,250,000
Over 3 years	8,282,534	8,907,534
	<u>12,032,534</u>	<u>13,157,534</u>

# Notes to Interim Financial Statements (Continued)

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## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. Assets at fair value

#### 30 June 2013 (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					
Financial assets at fair value through profit or loss	587,120	(97,570)	-	-	489,550

#### 31 December 2012 (Audited)

	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	607,980	(20,860)	-	-	587,120

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 3. Financial assets and liabilities at foreign currency

30 June 2013 (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					
Loans and trade receivables	175,318,454	-	-	-	186,460,194
Financial liabilities					
Borrowings	3,618,962,623	-	-	-	8,586,834,776
Accounts payable	86,835,420	-	-	-	99,756,416

31 December 2012 (Audited)

	Opening balance	Fair value gains or loss through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Loans and trade receivables	441,856,745	-	-	-	175,318,454
Financial liabilities					
Borrowings	11,439,598,316	-	-	-	3,618,962,623
Accounts payable	43,167,573	-	-	-	86,835,420

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. Operating segment information

#### *Operating segment*

The Group divides the operation services into three operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for Masteel Financial, Ma Steel International Trade Corp. and Shanghai Trading.
- Trading of steel, iron ores and raw materials: Ma Steel International Trade Corp. and Shanghai Trading.
- Financial service: Masteel Financial.

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

#### *Other information*

#### **Products and service information**

External principal operating income

	<b>For the six months ended 30 June</b>	
	<b>2013 Unaudited</b>	2012 Unaudited
Sale of steel products	<b>29,680,878,570</b>	31,987,380,276
Sale of steel billets and pig iron	<b>364,639,204</b>	1,068,450,235
Sale of coke by-products	<b>468,415,809</b>	368,477,625
Others	<b>1,388,090,950</b>	3,132,578,631
Total	<b>31,902,024,533</b>	36,556,886,767

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 4. Operating segment information (continued)

#### Geographical information

External principal operating income

For the six months  
ended 30 June

	2013 Unaudited	2012 Unaudited
The PRC	31,038,470,291	34,715,434,303
Overseas	863,554,242	1,841,452,464
Total	<u>31,902,024,533</u>	<u>36,556,886,767</u>

Non-current assets

	30 June 2013 Unaudited	31 December 2012 Audited
The PRC	42,869,390,827	41,815,111,602
Overseas	208,875,492	213,221,638
Total	<u>43,078,266,319</u>	<u>42,028,333,240</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.

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## X. OTHER SIGNIFICANT EVENTS (CONTINUED)

### \*5. Other financial information

	The Group		The Company	
	30 June 2013 Unaudited	December 31 2012 Audited	30 June 2013 Unaudited	December 31 2012 Audited
Current assets	33,413,482,978	33,280,575,450	22,815,730,060	22,714,387,922
Less: Current liabilities	38,012,391,050	31,663,322,867	25,984,469,205	21,361,356,363
Net current assets/(liabilities)	<u>(4,598,908,072)</u>	<u>1,617,252,583</u>	<u>(3,168,739,145)</u>	<u>1,353,031,559</u>

	The Group		The Company	
	30 June 2013 Unaudited	December 31 2012 Audited	30 June 2013 Unaudited	December 31 2012 Audited
Total assets	77,184,571,582	76,011,164,039	63,029,706,575	63,459,283,349
Less: Current liabilities	38,012,391,050	31,663,322,867	25,984,469,205	21,361,356,363
Net total assets minus liabilities	<u>39,172,180,532</u>	<u>44,347,841,172</u>	<u>37,045,237,370</u>	<u>42,097,926,986</u>

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## 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.

An aged analysis of trade receivables is as follows:

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Within one year	1,799,055,206	1,603,053,558
One to two years	202,833,372	138,711,163
Two to three years	13,285,034	9,126,501
Over three years	30,315,266	47,806,673
	<b>2,045,488,878</b>	1,798,697,895
Less: Provisions for bad debts	<b>13,382,203</b>	13,382,203
	<b>2,032,106,675</b>	1,785,315,692

Trade receivables balance is analysed as follows:

	30 June 2013 (Unaudited)				31 December 2012 (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	1,978,641,480	97	(6,927,040)	-	1,732,379,310	96	(6,927,040)	-
Other insignificant but assessed impairment individually	66,847,398	3	(6,455,163)	10	66,318,585	4	(6,455,163)	10
	<b>2,045,488,878</b>	<b>100</b>	<b>(13,382,203)</b>		<b>1,798,697,895</b>	<b>100</b>	<b>(13,382,203)</b>	

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

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

### 1. Trade receivables (continued)

The following balances are denominated in foreign currencies:

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
EUR	–	8.0536	–	34,627	8.3176	288,015
USD	21,303,576	6.1787	131,628,405	19,185,749	6.2855	120,592,024
			<u>131,628,405</u>			<u>120,880,039</u>

As at 30 June 2013, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	99,809,558	within one year	5
Company 2	Independent third party	75,831,524	within one year	4
Company 3	Independent third party	43,469,954	within one year	2
Company 4	Independent third party	36,061,996	within one year	2
Company 5	Independent third party	35,892,620	within one year	2
		<u>291,065,652</u>		<u>15</u>

As at 31 December 2012, the top five largest customers were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	197,223,710	Within one year	11
Company 2	Subsidiary	174,524,790	Within one year	10
Company 3	Subsidiary	104,840,889	Within one year	6
Company 4	Independent third party	90,587,673	Within one year	5
Company 5	Subsidiary	85,974,880	Within one year	5
		<u>653,151,942</u>		<u>37</u>

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables

The aging analysis of the other receivables is as follows:

	<b>30 June 2013 Unaudited</b>	31 December 2012 Audited
Within one year	<b>744,575,345</b>	610,939,620
One to two years	<b>33,714,854</b>	915,370
Two to three years	<b>455,624</b>	447,251
Over three years	<b>6,930,913</b>	6,787,885
	<b>785,676,736</b>	619,090,126
Less: Provision for bad debts	<b>339,712,597</b>	339,712,597
	<b>445,964,139</b>	279,377,529

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

Other receivables balance is analysed as follows:

	<b>30 June 2013 (Unaudited)</b>				31 December 2012 (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	773,959,312	99	(335,181,684)	42	537,794,033	87	(335,181,684)	62
Other insignificant but assessed impairment								
Individually	11,717,424	1	(4,530,913)	39	81,296,093	13	(4,530,913)	6
	<b>785,676,736</b>	<b>100</b>	<b>(339,712,597)</b>		<b>619,090,126</b>	<b>100</b>	<b>(339,712,597)</b>	

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 2. Other receivables (continued)

During the first half of 2013, there was no provision for bad debts against other receivables being written off or reversed.

As at 30 June 2013, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	198,638,846	Within one year	25
Company 2	Independent third party	153,324,000	One to two years	20
Company 3	Independent third party	141,286,434	One to two years	18
Company 4	Independent third party	127,685,368	One to two years	16
Company 5	Independent third party	66,625,132	One to two years	8
		<b>687,559,780</b>		<b>87</b>

As at 31 December 2012, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	153,324,000	Within one year	25
Company 2	Independent third party	141,286,434	Within one year	23
Company 3	Independent third party	127,685,368	Within one year	21
Company 4	Independent third party	66,625,132	Within one year	11
Company 5	Independent third party	37,464,000	Within one year	6
		<b>526,384,934</b>		<b>86</b>

# Notes to Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. Asset impairment provisions

	30 June 2013 (Unaudited)					Closing balance
	Opening Balance	Increase during the period	Decrease during the period			
			Reversal	Write-back	Write-off	
Provisions for bad debts	353,094,800	-	-	-	-	353,094,800
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	339,712,597	-	-	-	-	339,712,597
Provisions for inventories (i)	347,352,609	478,376,386	-	566,771,746	-	258,957,249
Including: Raw materials	219,713,336	352,098,509	-	435,682,201	-	136,129,644
Semi-finished products	49,553,203	41,114,860	-	69,291,850	-	21,376,213
Finished products	17,434,142	85,163,017	-	61,726,440	-	40,870,719
Spare parts	60,651,928	-	-	71,255	-	60,580,673
Provisions for long term investments	330,000,000	-	-	-	-	330,000,000
Including: Subsidiary	330,000,000	-	-	-	-	330,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	<u>1,030,447,409</u>	<u>478,376,386</u>	<u>-</u>	<u>566,771,746</u>	<u>-</u>	<u>942,052,049</u>

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 3. Asset impairment provisions (continued)

	31 December 2012 (Audited)					Closing balance
	Opening Balance	Increase during the year	Decrease during the year			
			Reversal	Write-back	Write-off	
Provisions for bad debts	20,313,116	332,781,684	-	-	-	353,094,800
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	6,930,913	332,781,684	-	-	-	339,712,597
Provisions for inventories (i)	735,706,316	1,414,882,827	-	1,803,236,534	-	347,352,609
Including: Raw materials	526,707,239	1,170,153,040	-	1,477,146,943	-	219,713,336
Semi-finished products	86,456,715	126,689,105	-	163,592,617	-	49,553,203
Finished products	61,316,046	118,040,682	-	161,922,586	-	17,434,142
Spare parts	61,226,316	-	-	574,388	-	60,651,928
Provisions for long term investments	-	330,000,000	-	-	-	330,000,000
Including: Subsidiary	-	330,000,000	-	-	-	330,000,000
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	-	-
	<u>843,874,168</u>	<u>2,077,664,511</u>	<u>-</u>	<u>1,891,091,270</u>	<u>-</u>	<u>1,030,447,409</u>

- (i) Generally, the provision for inventories is assessed and made at the end of each quarter. The provision for inventories will be written back and credited to the cost of sales upon the sale of corresponding inventories.

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## 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	
	2013 Unaudited	2012 Unaudited
Principal operating income	26,729,294,346	30,195,432,247
Other operating income	1,676,889,881	2,024,354,261
	<u>28,406,184,227</u>	<u>32,219,786,508</u>

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Principal cost of sales	25,650,641,557	30,349,140,993
Other cost of sales	1,746,629,079	2,114,131,404
	<u>27,397,270,636</u>	<u>32,463,272,397</u>

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Sale of steel products	25,159,685,534	27,206,689,770
Sale of steel billets and pig iron	353,555,330	359,854,432
Sale of coke by-products	451,401,872	393,157,039
Others	764,651,610	2,235,731,006
	<u>26,729,294,346</u>	<u>30,195,432,247</u>

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 4. Revenue and cost of sales (continued)

In the first half of 2013, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue (%)
Company 1	1,444,756,667	5
Company 2	1,379,935,812	5
Company 3	1,168,198,725	4
Company 4	1,004,511,114	4
Company 5	927,593,649	3
	<hr/>	<hr/>
	5,924,995,967	21
	<hr/> <hr/>	<hr/> <hr/>

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
	<hr/>	<hr/>
	6,208,033,651	19
	<hr/> <hr/>	<hr/> <hr/>

# Notes to Interim Financial Statements (Continued)

30 June 2013

Renminbi Yuan

## XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

### 5. Investment income

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Long term equity investment income under equity method	51,466,354	60,814,995
Long term equity investment income under cost method	27,346,221	147,000,193
Other investment income	2,520	6,549
	<u>78,815,095</u>	<u>207,821,737</u>

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

### 6. Cash flows from operating activities

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
Net loss	(565,086,914)	(1,866,766,935)
Add: Provision/(write-back of provision) for inventories	(88,395,360)	(119,106,268)
Depreciation of fixed assets	1,631,975,294	1,466,053,268
Amortisation of investment properties	405,049	219,751
Amortisation of intangible assets	16,013,051	16,039,558
Amortisation of deferred income	(44,691,240)	(39,938,736)
(Gain)/loss on disposal of non-current assets	1,412,016	(1,244,243)
Financial expenses	522,927,626	664,409,906
Investment income	(78,815,095)	(207,821,737)
Loss on fair value changes of financial assets held for trading	97,570	24,540
Decrease in deferred tax assets	17,325,633	2,985,587
Decrease in inventories	357,425,014	264,021,697
Increase in receivables from operating activities	(468,791,104)	(261,096,812)
Decrease in payables from operating activities	5,283,118,266	850,265,541
Net cash flows from operating activities	<u>6,584,919,806</u>	<u>768,045,117</u>

# Supplementary Information to the Interim Financial Statements

30 June 2013  
Renminbi Yuan

## 1. NON-RECURRING GAINS OR LOSSES ITEMS

	For the six months ended 30 June	
	2013 Unaudited	2012 Unaudited
<b>Non-recurring gains or losses items</b>		
Profit/(loss) on disposal of non-current assets	(1,702,335)	881,020
Subsidy income	33,574,610	24,053,402
Amortisation of deferred income	45,786,977	41,789,561
Other non-operating income and expense items	4,115,037	(1,042,262)
Loss on fair value changes of financial assets held for trading	(97,570)	(24,540)
Other investment income	7,278,445	122,471
	88,955,164	65,779,652
Less: Income tax impact of non-recurring gains or losses Non-recurring gains or losses attributable to minority shareholders	17,917,210	15,262,021
	10,523,250	7,000,824
Net impact of non-recurring gains or losses	60,514,704	43,516,807
<b>Net loss attributable to equity holders of the parent excluding non-recurring gains or losses</b>		
Net loss attributable to equity holders of the parent	(332,823,078)	(1,892,679,010)
Less: Net effect of non-recurring gains or losses	60,514,704	43,516,807
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	(393,337,782)	(1,936,195,817)

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 2013  
Renminbi Yuan

## 2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2013 (unaudited)

	Weighted average return on net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net loss attributable to equity holders of the parent	(1.45)	(0.043)	(0.043)
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	(1.72)	(0.051)	(0.051)

For the six months ended 30 June 2012(unaudited)

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

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 2013  
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) Interest receivable balances amounted to RMB1,400,935, a decrease of 71% over the previous year, which was mainly attributable to the decrease in interest income accrued by Masteel Financial in the end of this period.
- (2) Prepayments amounted to RMB1,395,699,427, a decrease of 32% over the previous year, which was mainly attributable to the change of way in coal procurement from advance payment to purchase on credit in a certain proportion.
- (3) Other receivable balances amounted to RMB675,444,442, an increase of 44%, which was mainly attributable to the increase of prepayments of import tariff and deposit for value-added tax in the current period.
- (4) Investment properties amounted to RMB1,033,585, a decrease of 77% over the previous year, which was mainly attributable to the disposal of Masteel Auto-parking in the first half of 2013.
- (5) Construction materials amounted to RMB472,387,050, a decrease of 30% over the previous year, which was mainly attributable to the increase in construction in progress with more consumption of construction materials than the purchase of materials.
- (6) Construction in progress amounted to RMB8,803,628,940 an increase of 55% over the previous year, which was mainly attributable to the increase in products quality projects.
- (7) Customer deposits amounted to RMB1,210,898,981, an increase of 114% over the previous year, which was mainly attributable to the issuance of medium-term notes amounting to RMB 1billion by the Holding which has been deposited in Masteel Financial in this period.
- (8) Short term loans amounted to RMB12,897,262,098, an increase of 32% over the previous year, which was mainly attributable to the increase in the settlement by refinancing letter of credit when the Company import iron ore.
- (9) Bills payable amounted to RMB6,844,859,656, an increase of 34% over the previous year, which was mainly attributable to increase in material purchase.
- (10) Payroll and benefits payable amounted to RMB298,108,917, an increase of 31% over the previous year, which was mainly attributable to the increase in accrued bonus.
- (11) Interest payable amounted to RMB484,275,080, an increase of 136% over the previous year, which was mainly attributable to the increase of accrued interest on corporate bonds as the payment date of the corporate bonds interest will be in August.

# Supplementary Information to the Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## 3. VARIANCE ANALYSIS (continued)

- (12) Long-term loans amounted to RMB5,143,470,300, a decrease of 48% over the previous year which was mainly attributable to the change of financing model, by repayment of some long term loans for operating and increase the usage of letter of credit within the credit limit.
- (13) Exchange fluctuation reserve amounted to negative RMB60,832,960, a decrease of 299% over the previous year, which was mainly attributable to the depreciation of functional currencies of certain overseas subsidiaries against Renminbi.
- (14) Revenue amounted to RMB36,952,562,339, a decrease of 9% over the previous comparative period, which was mainly attributable to the decrease in the average unit sales price of steel products.
- (15) Cost of sales amounted to RMB35,243,795,361, a decrease of 12% over the previous comparative period, which was mainly attributable to the decrease in the price of raw materials and the effective control over the cost by the Company.
- (16) Business taxes and surcharges was amounted to RMB134,915,427, an increase of 49% over the previous comparative period, which was mainly attributable to the increase of surcharges(mainly including city maintenance and construction tax and educational surcharges), due to the more value added tax paid as a result of higher gross margin in current period.
- (17) Financial expenses amounted to RMB625,836,335, a decrease of 23% over the previous comparative period, which was mainly attributable to the decrease in interest expenses.
- (18) Asset impairment losses amounted to RMB477,830,557, a decrease of 19% over the previous comparative period, which was mainly attributable to the decrease in the provision for inventories.
- (19) Loss on fair value changes amounted to RMB97,570, an increase of 298% over the previous comparative period, which was mainly attributable to the drop of the invested enterprise's stock price.
- (20) Investment income amounted to RMB69,382,866, an increase of 30% over the previous comparative period, which was mainly attributable to the more dividend received from long-term equity investment measured in the cost method.
- (21) Non-operating expenses amounted to RMB3,055,983, an increase of 71% over the previous comparative period, which was mainly attributable to the increase in the disposal loss of fixed assets.
- (22) Net profit attributable to minority interests amounted to RMB9,595,910, a decrease of 47% over the previous comparative period, which was mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.

# Supplementary Information to the Interim Financial Statements (Continued)

30 June 2013  
Renminbi Yuan

## 3. VARIANCE ANALYSIS (continued)

- (23) Net loss attributable to the equity holders of the parent amounted to RMB332,823,078, a decrease of 82% over the previous comparative period, which was mainly attributable to the increase in gross profit margin, which resulted in the decrease of operating loss in the current period.
- (24) Cash inflows from operating activities amounted to RMB3,758,528,821, an increase of 61% over the previous comparative period, which was mainly attributable to the increase in customer deposits and the decrease in the cash paid for purchasing goods.
- (25) Cash outflows from investing activities amounted to RMB2,891,838,748, a decrease of 28% over the previous comparative period, which was mainly attributable to the cash received due to decrease in pledged deposits, net.
- (26) Cash outflows from financing activities amounted to RMB1,819,516,482, an increase of 97% over the previous comparative period, which was mainly attributable to the decrease in cash received from borrowings.
- (27) Effect of foreign exchange rate changes on cash amounted to RMB187,842,013, an increase of 1,142% over the previous comparative period, which was mainly attributable to the depreciation of Company's functional currencies against Renminbi.



## IX. 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**

**Ding Yi**

*Chairman*

23 August 2013

Maanshan City, Anhui Province, the PRC