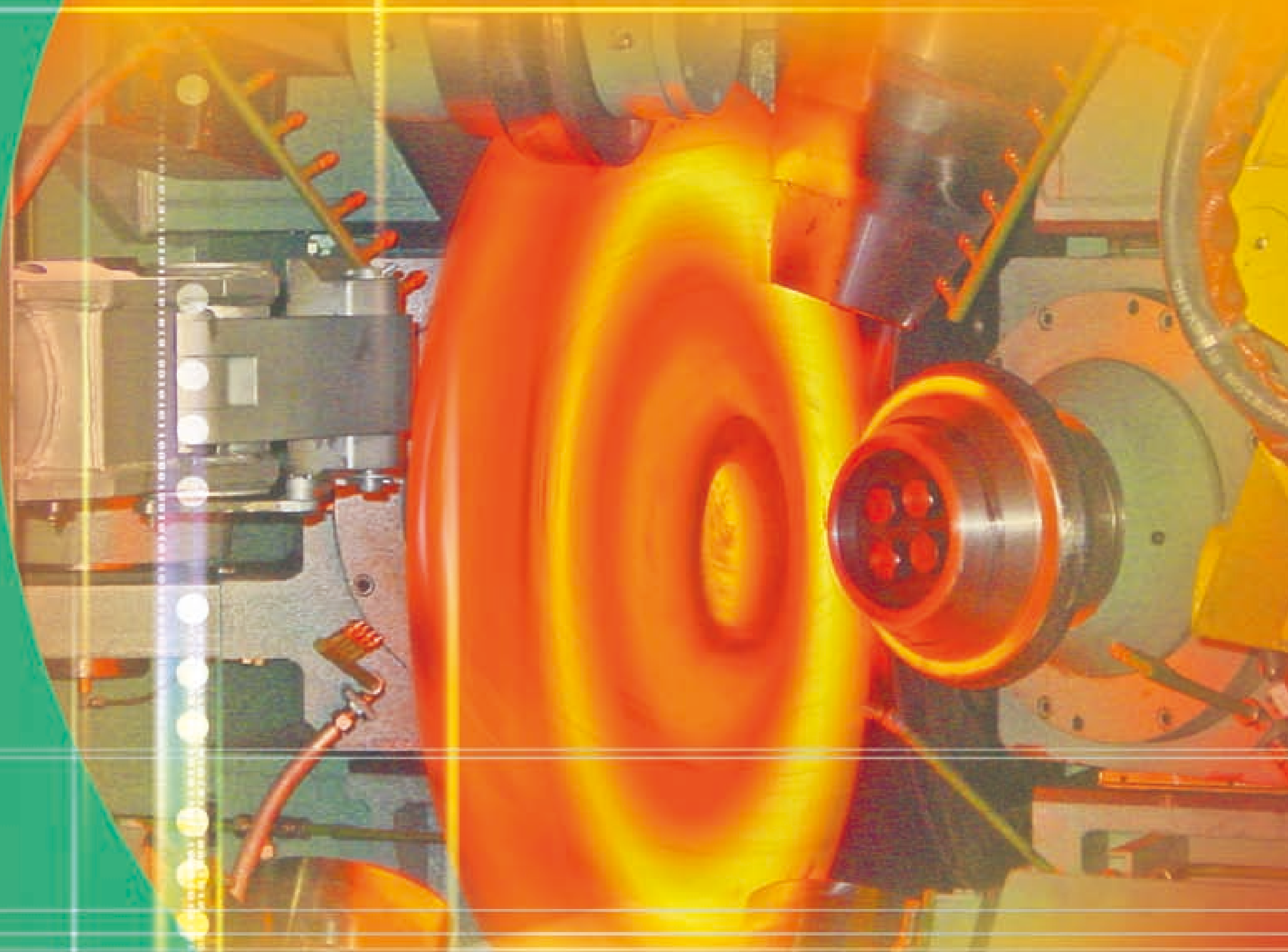
2011

Interim Report



MAANSHAN IRON & STEEL COMPANY LIMITED

H Share Code: 00323
A Share Code: 600808

Contents

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. All directors of the Company attended the Board meeting.
3. The interim financial statements of the Company are unaudited.
4. Legal Representative of the Company — Su Jiangang
   Person Overseeing the Accounting Operations — Qian Haifan
   Head of Accounting Department — Zhang Qianchun
   Mr. Su Jiangang, legal representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Zhang Qianchun, head of Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the interim report.
5. There is no occupancy of non-operating funds by the substantial shareholders nor related parties.
6. There is no violation of regulations, decisions or procedures in relation to provision of external guarantees.

I. Basic Information of the Company

1. COMPANY PROFILE

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

2. CONTACT PERSONS

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

3. BASIC INFORMATION

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

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

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

5. BRIEF INFORMATION 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. OTHER BASIC INFORMATION OF THE COMPANY

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

7. MAJOR FINANCIAL DATA AND INDICATORS

(1) Major financial data and indicators

Unit: thousand Currency: RMB

	As at the end of the reporting period	**As at the end of the previous year**	**Increase/(decrease) at the end of the reporting period as compared to the end of the previous year** (%)
Total assets	79,712,712	70,104,925	13.7
Owners' equity (or shareholders' equity)	27,232,236	27,294,087	–0.23
Net assets per share attributable to shareholders of the Company (RMB/share)	3.536	3.544	–0.23

	Reporting period (January to June)	**Corresponding period of the previous year**	**Increase/(decrease) at the reporting period as compared to the corresponding period of the previous year** (%)
Operating profit	439,079	1,388,799	–68.4
Total profit	488,378	1,469,660	–66.8
Net profit attributable to shareholders of the Company	310,052	1,041,639	–70.2
Net profit excluding non-recurring gains or losses attributable to shareholders of the Company	274,290	972,098	–71.8
Basic earnings per share (RMB)	0.0403	0.1353	–70.2
Net cash flows from operating activities	1,572,090	–514,205	N/A
Net cash flows per share from operating activities (RMB)	0.2041	–0.0667	N/A

(2) Items of non-recurring gains or losses

Unit: thousand Currency: RMB

Items of non-recurring gains or losses	Amount	Details
Net gains/(losses) from disposal of non-current assets	–2,655	
Government subsidies recognized in current period gains and losses (excluding those closely related to the Company's normal operations and granted under the state's policies according to a certain quota of amount or volume)	53,536	Subsidies granted by the government in the current year and subsidies previously granted by the government but amortized in the current period
Gains/(losses) from contingency items unrelated to the normal business operations of the Company	–1,840	Donations for charity and sponsor expenses
Gains/(losses) from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except for effective hedging activities related to the Company's normal operations	223	
Except for the above items, other non-operating income and expenses	258	
Income tax effect	–11,887	
Effect on minority interests (after tax)	–1,873	
Total	35,762	

II. Movements in Share Capital and Shareholders

1. TABLE ON MOVEMENT OF SHAREHOLDING

TABLE ON MOVEMENT IN THE COMPANY'S SHAREHOLDING STRUCTURE

Unit: Shares

	Prior to the current movements		Increase/(decrease) in current movements (+, -)					After current movements	
	Number of shares	Ratio (%)	Issue of new shares	Bonus shares	Transferred from reserves	Others	Sub-total	Number of shares	Ratio (%)
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	7,700,681,186	100	–	–	–	–	–	7,700,681,186	100

Note: The above shares being not subject to selling restrictions include 55,863,927 A shares held by Holding, the controlling shareholder, due to the shares acquisition plan and 3,886 A shares held respectively by directors of the Company each, Mr. Gu Jianguo and Mr. Su Jiangang.

2. SHAREHOLDERS AND ACTUAL HOLDERS

(1) The number of shareholders and shareholding structure

Total number of shareholders at the end of the reporting period	383,295

Unit: Shares

Shareholding of the top ten shareholders

Name of shareholder	Type of shareholders	As a percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,423,927	–	–
HKSCC (Nominees) Limited	Foreign shareholder	22.15	1,705,977,897	–	Unknown
中國建設銀行－上投摩根中國優勢證券投資基金	Others	1.06	81,787,315	–	Unknown
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.58	45,000,000	–	Unknown
中國農業銀行－益民創新優勢混合型證券投資基金	Others	0.33	25,152,946	–	Unknown
王勇	Others	0.27	20,520,000	–	Unknown
中國銀行－嘉實滬深300指數證券投資基金	Others	0.16	12,575,380	–	Unknown
通用電氣資產管理公司－GEAM信託基金中國A股基金	Others	0.15	11,191,809	–	Unknown
中國工商銀行－華夏滬深300指數證券投資基金	Others	0.12	8,870,000	–	Unknown
中銀國際－中行－第一生命保險相互會社	Others	0.10	7,770,834	–	Unknown

Shareholding of the top ten shareholders without selling restrictions

Name of shareholder	Number of shares held without selling restrictions	Type of shares
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares
HKSCC (Nominees) Limited	1,705,977,897	Overseas-listed foreign shares
中國建設銀行－上投摩根中國優勢證券投資基金	81,787,315	RMB-denominated ordinary shares
中國建設銀行－鵬華價值優勢股票型證券投資基金	45,000,000	RMB-denominated ordinary shares
中國農業銀行－益民創新優勢混合型證券投資基金	25,152,946	RMB-denominated ordinary shares
王勇	20,520,000	RMB-denominated ordinary shares
中國銀行－嘉實滬深300指數證券投資基金	12,575,380	RMB-denominated ordinary shares
通用電氣資產管理公司－GEAM信託基金中國A股基金	11,191,809	RMB-denominated ordinary shares
中國工商銀行－華夏滬深300指數證券投資基金	8,870,000	RMB-denominated ordinary shares
中銀國際－中行－第一生命保險相互會社	7,770,834	RMB-denominated ordinary shares

Description of any connected relationships or concerted actions among the above-mentioned shareholders	There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted 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 of whether or not shares held by other shareholders owning 5% interest or more in the Company's share capital were pledged, held in lien or placed in custody during the reporting period.

HKSCC (Nominees) Limited held 1,705,977,897 H shares of the Company on behalf of multiple clients.

(2) Save as disclosed above, details about the holders of the Company's H shares required to be disclosed pursuant to Section 336 of the Securities and Futures Ordinance as at 30 June 2011 were as follows:

Name of shareholder	Capacity as holder or deemed holder of interests	Number of shares owned or deemed owned (Shares)	Approximate percentage of the Company's issued H shares (%)
Morgan Stanley	Interests held by legal entities controlled by the substantial shareholder	93,856,206 (Long position)	5.42
		98,915,412 (Short position)	5.71

(3) Change of substantial shareholders and actual holders

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

3. BONDS WITH WARRANTS

Holders and the guarantor of bonds with warrants during the reporting period

Guarantor of bonds with warrants of the Company	**Magang (Group) Holding Company Limited**

Name of holder of bonds with warrants	**Number of bonds with warrants held at the end of the reporting period** (RMB)
中國太平洋人壽保險股份有限公司	549,146,000
中國平安保險(集團)股份有限公司	404,975,000
中國人壽再保險股份有限公司	383,595,000
中船重工財務有限責任公司	336,830,000
中國大地財產保險股份有限公司	300,000,000
全國社保基金三零四組合	280,884,000
全國社保基金三零五組合	272,536,000
全國社保基金三零六組合	241,727,000
中國工商銀行－南方避險增值基金	180,000,000
生命人壽保險股份有限公司	162,196,000

III. Directors, Supervisors and Senior Management

1. CHANGES OF SHAREHOLDING HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no change of shareholding held by directors, supervisors and senior management.

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

As at the end of the reporting period, directors Mr. Gu Jianguo and Mr. Su Jiangang held 3,886 shares each 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 2011, 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 was there any exercising of such rights by any of such persons. Neither the Company, the Company's subsidiaries, Holding nor any of Holding's subsidiaries had taken part in any arrangements that allowed 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.

At the twenty-third meeting of the sixth session of the Board of the Company held on 14 July 2011, the resignations of Mr. Gu Jianguo as Chairman, director and member of the Nomination Committee of the Board; Mr. Su Jiangang as General Manager; Mr. Gao Haijian, Mr. Hui Zhigang, Mr. Shi Xiongliang and Mr. Ding Yi as Deputy General Managers; and Mr. Su Shihuai as Deputy General Manager and Chief Engineer were approved. At the meeting, Mr. Su Jiangang was elected as Chairman; Mr. Qian Haifan was appointed as General Manager; and Mr. Ren Qiang, Mr. Ren Tianbao, Mr. Yan Hua and Mr. Lu Kecong were appointed as Deputy General Managers according to Mr. Qian's nominations. Save as disclosed herein, there was no other new appointment or removal of directors, supervisors and senior management during the reporting period.

IV. Report of the Directors

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

(1) The macro environment for production and operation

The global economy was overall on the road to a moderate recovery in the first half of the year. In the first quarter, the accelerated pace of recovery of major economies and the improved economy of the US and the nations in the euro zone provided impetus for the growth in global demand for iron and steel, resulting in rising steel prices. In the second quarter, as the momentum of the US economic recovery began to slacken, the US domestic demand was substantially restrained due to inflationary pressure. Added on top were rising prices of commodities in the euro zone, bitterly divided opinions among member countries of the euro zone, and the tendency of the European debt crisis to gradually spread to the core countries in the euro zone. All these led to falling overseas demand for iron and steel as well as declining steel prices. The price index for global steel products stood at 208.3 at the end of June, up 4.99% year-on-year, but down 6.76% compared to the end of March.

In the first half of the year, China's national economy maintained steady and relatively fast growth. GDP grew by 9.6% in the first half of the year, down 1.5 percentage points year-on-year; while society-wide fixed asset investment grew by 25.6%, down 0.6 percentage point year-on-year.

The oversupply problem in the steel product market remained acute because of overcapacity and high output of the domestic iron and steel industry as well as slackened growth of major steel consuming industries and their weakened demand for steel products. Prices of steel products in the domestic market fluctuated upward within a narrow range during April and May. Steel prices fell slightly in June after capacity was significantly released and the demand for steel products was subsided, compounded with a decline in exports. The consolidated price index for domestic steel products as at the end of June was 134.40, up 17.15% year-on-year but up only 1.86% compared with the end of March.

As for imports and exports, according to customs statistics, exported steel products during the first half of 2011 amounted to 24,330,000 tonnes, a year-on-year increase of 3.16%, while imported steel products amounted to 8,030,000 tonnes, a year-on-year fall of 4.79%. Equivalent net export of crude steel amounted to 17,060,000 tonnes in the first half of 2011, a year-on-year increase of 6.85%.

Meanwhile, prices of externally purchased raw materials and fuels for iron and steel enterprises remained at high levels in the first half of 2011, causing relatively great difficulties to the production and operation of iron and steel enterprises. In the first half of 2011, the average CIF price of China's imported iron ore rose by 46.4% year-on-year to a record high level of US$160.9/tonne. The room for iron and steel enterprises to make profits was squeezed further, resulting in low sales margins in the industry. Sales margins of member enterprises of the China Iron and Steel Association in the first half of 2011 was 3.14%, decreased by 0.4 percentage point year-on-year.

(2) Production and operation of the Company

Faced with such challenging external situations, the Company remained closely focused on "strengthening management innovation, further cost reduction and efficiency enhancement" as its business theme by stepping up its business efforts and vigorously implementing its business initiatives to overcome various difficulties, thus having ensured that production, operation, construction, reform and development progressed smoothly.

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

➢ Unleashed potential further by means of benchmarking and boosting cost reduction and efficiency enhancement. The Company reduced the manufacturing costs of products by fully unleashing potential by means of benchmarking in various aspects such as adjustment of product mix, internal similar furnaces and production lines, procurement and marketing systems as well as economic operation of energy power. During the reporting period, the Group produced 7,690,000 tonnes of pig iron, 8,080,000 tonnes of crude steel and 7,640,000 tonnes of steel products, representing year-on-year increases of 3.87%, 2.33% and 0.79% respectively (in which the Company produced 6,710,000 tonnes of pig iron and 6,990,000 tonnes of crude steel, representing year-on-year increases of 2.30% and 0.52% respectively; and the Company produced 6,550,000 tonnes of steel products, representing a year-on-year decrease of 1.16%).

➢ Improved product mix and increased the proportion of key products. The Company managed to meet market demand on a timely basis by accelerating the development of strategically-guided products, carrying out mass production as soon as possible and increasing and enhancing the production of products with better profitability. With "research, production and marketing" as a platform, the Company accelerated the pace of product variety development and quality improvement, and increased the output of key products such as automobile plates, electrical steel and annealing-free cold heading steel so that capacity was created for carrying out mass production of a number of new products.

➢ Enhanced quality and improved the quality management system. During the reporting period, the Company continued to carry out a special project for rectifying auxiliary materials used in steelmaking. By rationalising management processes, focusing on process control, strengthening fundamental management and striving to make technological breakthrough, the Company was able to consolidate and improve the effectiveness of cost reduction for the management of auxiliary materials used in steelmaking. Moreover, the Company also devised and implemented a set of measures for professional quality management assessment, conducted ongoing professional quality management assessment in various aspects such as quality control of key products, product innovation and excellence awards and certification, management system operation and day-to-day quality management, thereby further improving the Company's quality management system.

(2) Production and operation of the Company *(continued)*

➢ Monitored the market closely and adapted to market changes. The Company placed emphasis on the market trends for fuels, raw materials and steel products, carried out researches on such trends, and revised its marketing and procurement strategies as well as its product mix and fuel and raw materials portfolios in a timely manner. During the reporting period, the Group's total sales of steel products amounted to 7,640,000 tonnes, in which sales of steel plates, section steels, wire rods, train wheels and rims amounted to 3,690,000 tonnes, 1,300,000 tonnes, 2,550,000 tonnes and 100,000 tonnes respectively.

➢ Strengthened energy conservation and consumption reduction, and improved the standards of economic operation. By stepping up the tasks in three aspects, namely energy conservation through management, energy conservation through technologies and energy conservation through restructuring, the Company made full use of the role of the energy control centre and improved integrated energy utilisation efficiency. In the first half of 2011, overall energy consumption per tonne of steel amounted to 646 kg of standard coal, fresh water consumption per tonne of steel amounted to 4.43 cubic meters and self-generated power accounted for 71.92% of total power consumption.

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

➢ The iron and steel segment accounted for approximately 95% of income from principal operation, as well as accounted for approximately 87% of the gross profit from the principal operation (RMB million):

Business segment/ product segment	Operating income	Operating cost	Gross profit margin (%)	Increase/(decrease) in operating income as compared to the corresponding period of the previous year (±%)	Increase/(decrease) in operating cost as compared to the corresponding period of the previous year (±%)	Gross profit margin as compared to the corresponding period of the previous year
Business segment						
Iron and steel	36,367	35,172	3.29	25.39	32.94	decreased by 5.49 percentage points
Product segment						
Steel plates	17,836	17,760	0.43	15.48	28.55	decreased by 10.12 percentage points
Section steels	6,457	6,175	4.37	40.89	42.05	decreased by 0.78 percentage points
Wire rods	10,372	9,623	7.22	26.83	26.85	decreased by 0.02 percentage points
Train wheels and wheels rims	760	717	5.66	40.74	46.63	decreased by 3.79 percentage points

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

The amount involving connected transactions which arose from the Company's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB38 million during the reporting period.

The gross profit margins of steel plates, section steels, wire rods and train wheels and wheel rims decreased as compared to the corresponding period of the previous year mainly because of increases in prices of raw materials and fuels during the reporting period as compared to the corresponding period of the previous year.

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

Region	Ratio (%)	Operating income	Increase/(decrease) in operating income as compared to the corresponding period of the previous year (±%)
Anhui	40.25	17,367	23.75
Jiangsu	14.37	6,202	35.11
Shanghai	9.77	4,216	37.79
Zhejiang	6.78	2,924	2.96
Guangdong	5.66	2,442	–9.33
Other PRC regions	21.65	9,346	21.47
Exports	1.52	655	–33.15

(4) Profit breakdown of the Group during the reporting period under China Accounting Standards for Business Enterprises

Compared to the corresponding period of the previous year, the Group's operating income increased by 36.22%, which was mainly due to increases in sales volume and average price of steel products during the reporting period. Cost of sales increased by 42.66%, which was mainly due to increase in steel sale volume and increases in prices of raw materials and fuels during the reporting period. Operating tax and surcharges decreased by 24.48%, which was mainly due to decreases in city maintenance and construction taxes and education tax payable as a result of decrease in VAT payable because of decreases in sales profit margin. Selling expenses had no material changes. Administrative expenses increased by 14.16%, which was mainly due to increases in staff costs and property taxes during the reporting period. Financial expenses had no material changes. Operating profit, total profit and net profit attributable to equity holders of the Company decreased by 68.38%, 66.77% and 70.23% respectively, which was mainly due to increases in prices of raw materials and fuels during the reporting period.

The operating profit margin was 3.77%, a decrease of 4.34 percentage points as compared to the corresponding period of the previous year due to increases in prices of raw materials and fuels during the reporting period.

(5) The operations of the Group's major invested entities under China Accounting Standards for Business Enterprises

Maanshan BOC-Ma Steel Gases Company Limited, in which the Company holds a direct stake of 50%, is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the planning and construction of other industrial gas product projects. Net profit during the reporting period was RMB74.1 million.

Maanshan Harbor Group Co., Ltd, in which the Company holds a direct stake of 45%, is mainly engaged in stevedoring of materials at ports, freight agency, storage services, ocean-land cargo transit, assembly and disassembly business of containers, as well as providing integrated services and repair of engineering machinery and provision of spare parts to ships involved in domestic and foreign trade. Net profit for the reporting period amounted to approximately RMB17.3 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 RMB90.5 million.

Tengzhou Shenglong Coke 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 RMB22.3 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 RMB21.8 million.

(6) Financial position and exchange risks

As at 30 June 2011, the total amount of loans borrowed by the Group amounted to RMB20,114 million, including loans of RMB9,491 million for working capital and long-term loans of RMB10,623 million. Except for foreign currency loans amounting to US$1,493 million, all other loans were denominated in Renminbi. Except for US dollar loans with interest rates of LIBOR plus a fixed percentage, all other loans of the Group carried interest calculated at fixed interest rates. The amounts of all the Group's loans varied according to the scale of production and construction projects. No overdue loans have been recorded so far.

As at 30 June 2011, in accordance with China Accounting Standards for Business Enterprises, the Group's gearing ratio (total liabilities/total assets) was 63.60%, about 2 percentage points lower than the industry average.

(6) Financial position and exchange risks *(continued)*

As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB55,123 million.

As at 30 June 2011, the Group's cash and balances with financial institutions amounted to RMB9,765 million. Bills receivable amounted to RMB8,701 million (of which bankers' acceptance bills due within three months amounted to RMB5,948 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the exchange rate of RMB to US dollar appreciated in the first half of 2011, a small amount of exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB has no direct adverse impact on the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payment was relatively small. During the reporting period, as the borrowing rates of US loan were lower than that of RMB borrowing rates, along with the depreciation of US dollar, the Company increased the part of the US financing while reducing the part of RMB financing. As a result, even though the finance costs of large and medium iron and steel enterprises in China increased by 33.79% year-on-year in the first half of 2011, the Group's finance cost decreased by 5.30%.

(7) Investments

During the reporting period, the Group's expenses on construction projects amounted to RMB2,765 million, representing an increase of 887.38% over the previous year.

➢ Major Investment Projects Financed by Non-Fundraising Proceeds (RMB million)

Project name	Total investment	Construction progress
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Under construction
Converter and steel-refining project at No.4 steel & rolling plant	1,019	Under construction
Slab continuous casting project at No.4 steel & rolling plant	1,008	Under construction
Hot-rolled pickling plate project at No.4 steel & rolling plant	348	Under construction
CRH Train Wheel Steel Project	2,944	Equipment installation
Hydrogenation of Benzene Project for Masteel Coke Making Plant	320	Main equipment installation
Coal Moisture Controlling Project at the Coke Plant	54	Equipment testing

(8) 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 devised an internal control and audit plan; modified and improved the Company's internal control flow chart in line with the operation of the internal control system and the changes in the functions and organisation of the Company; and established a performance appraisal and accountability system for the Company's middle and senior management. In the second half of 2011, the Company will continue improving the internal control system pursuant to the requirements of the "Internal Control Guidelines for Enterprises" and "Internal Control Manual" issued by the five ministries and commissions on 15 April 2010 in combination with the actual circumstances of the Company, so as to ensure that the internal control system of the Company remains effective all the time.

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

In the second half of 2011, the international financial and economic landscape will become more complex and volatile, as there will be greater volatility in the global financial market and significantly decelerating growth in the global economy. The whole situation is still worsening. Amid high unemployment rates in developed countries, rising risks of U.S. debts, enlarging risk of the spread of the European sovereign debt crisis and mounting global inflationary pressures, China will continue to take stabilizing the general price levels as the top priority of the macro-economic control initiatives. The State will adhere to the basic orientation to these initiatives and improve the pertinence, flexibility and foresightedness of its policies in line with changes in the situations, accurately mastering the intensity, pace and focus of these initiatives.

With respect to the iron and steel industry, the market for construction steel products will see robust demand, a demand driven by the commencement of construction of massive low-rent housing projects as well as large-scale hydraulic projects in the second half of 2011. The slackened growth of the shipbuilding, automobile, mechanical engineering and other sectors will result in an acute structural imbalance of products, overcapacity of strip steel plates, and intense competition among homogeneous products. The increase in electricity tariffs will further affect the cost of iron and steel enterprises, and the State will roll out a new pricing mechanism for refined oil products as well as other reform measures on the pricing of resource products such as cascaded electricity tariffs. On the whole, the trend of high production costs and low profits for iron and steel enterprises will continue in the short run.

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

In the second half of 2011, the Company will strive to accomplish various objectives for the year by taking the enhancement of profitability as the top priority, cost reduction and efficiency enhancement as a theme, and structural adjustment as a focus. Its major initiatives are as follows:

- ➢ Break down and implement the product mix adjustment plan in the second half of the year; in line with the changes in market demand and product mix adjustments, seize market shares and orders for products with high profit margins; increase outputs of key products, thereby improving the overall competitiveness.

- ➢ Reduce the procurement costs of fuels and raw materials through optimising logistics operation, strengthening the procurement of fuels and raw materials following price comparisons, reducing the procurement costs of spare parts and materials, and providing more methods for the recycling of waste and used spare parts.

- ➢ Continue to carry out the specific project of rectifying auxiliary materials used in steelmaking; conduct bulk purchases; supply some varieties of auxiliary materials used in steelmaking that meet the established requirements; establish a mechanism for the exit of auxiliary materials used in steelmaking; and ensure the quality of deliveries.

- ➢ Optimise coal blending, ore proportioning and materials portfolio for blast furnaces to minimise costs.

- ➢ Enhance quality control during the production process; implement a quality accountability system and a system for the pursuance of quality liability, so as to ensure profitability with quality and improve the Company's brand with quality.

- ➢ Carry out a campaign for benchmarking management and potential unleashing further by including secondary work units into the campaign, with an aim to upgrade the overall indicator level of the Company on an ongoing basis.

2. INVESTMENTS OF THE COMPANY

(1) Use of funds from proceeds raised

During the reporting period, the Company had no proceeds raised or funds brought forward from previous periods.

(2) Use of funds other than proceeds raised

Unit: Million Currency: RMB

Project name	Total investment	Construction progress
1580mm hot rolling project at No.4 steel & rolling plant	2,950	Under construction
Converter and steel-refining project at No.4 steel & rolling plant	1,019	Under construction
Slab continuous casting project at No.4 steel & rolling plant	1,008	Under construction
Hot-rolled pickling plate project at No.4 steel & rolling plant	348	Under construction
CRH Train Wheel Steel Project	2,944	Equipment installation
Hydrogenation of Benzene Project for Masteel Coke Making Plant	320	Main equipment installation
Coal Moisture Controlling Project at the Coke Plant	54	Equipment testing
Total	8,643	

(3) The Company's liabilities, changes in credit standing and cash arrangements for debt repayments in coming years

The Company intends to issue no more than RMB5.5 billion corporate bonds for repaying the convertible bonds (Magang Bonds 06) to be due in November 2011. On 29 July, the Company already received the "Reply on Approving Maanshan Iron & Steel Company Limited of the Public Issue of Corporate Bonds" (CSRC Approval (2011) No. 1177) from the China Securities Regulatory Commission, which has approved the Company to issue corporate bonds with a par value of no more than RMB5.5 billion to the public.

There was no significant change in the Company's liabilities or credit standing.

V. Significant Matters

1. CORPORATE GOVERNANCE

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

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

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

On 15 June 2011, the 2010 profit distribution plan was reviewed and approved at the annual general meeting of the Company. Accordingly, the Company has distributed cash dividends of RMB0.05 (tax inclusive) per share to all shareholders and H share's dividend that will be paid in Hong Kong dollars. The relevant details were disclosed on Shanghai Securities News and websites of Shanghai Stock Exchange and Hong Kong Stock Exchange pursuant to the respective requirements. On 18 July 2011, A share's dividend was transferred and the cheques for H share's dividend were sent by post to all H share shareholders.

3. CASH DIVIDEND POLICY OF THE COMPANY AND IMPLEMENTATION DURING THE REPORTING PERIOD

(1) Cash dividend policy of the Company

According to sub-clause (4) in the article 184 of the Articles of Association of the Company, supporting the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, dividends will be distributed to shareholders in proportion to their shareholdings and the Company's cash dividend policy should be maintained on a continuous and stable basis.

(2) The Company did not implement profit distribution including cash dividends for the first half of 2011 and no transfer to share capital from capital reserve fund was conducted.

4. MATERIAL LITIGATIONS AND ARBITRATIONS

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

5. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

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

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

(1) Investments in Securities

Item no.	Securities code	Abbreviation	Initial investment amount (RMB)	Number of shares held (share)	Book value at the end of the reporting period (RMB)	Proportion of securities investment at the end of the reporting period (%)	Losses generated during the reporting period (RMB)
1	601857	PetroChina	584,500	35,000	381,150	50.56	–25,900
2	601390	China Railway Group	158,400	33,000	131,670	17.47	–13,200
3	601186	China Railway Construction Corporation Limited	181,600	20,000	121,000	16.05	–19,800
4	601898	China Coal	201,960	12,000	120,000	15.92	–13,920
Total			1,126,460	–	753,820	100	–72,820

7. TRADING OF ASSETS

(1) Acquisition of assets

At the meeting of the Sixth Session of the Board of the Company on 27 April 2011, it was approved that the Company will contribute approximately RMB1.234 billion in cash for the purchase of 660 million non-public offered shares of Changjiang Steel, representing 55% of the total number of shares after the capital increase and share capital enlargement by Changjiang Steel. Payment for the consideration of acquisition of shares and the procedures for industry and commence registration transfer were completed on 30 April 2011. The acquisition date was confirmed as 30 April 2011. On the acquisition date, the net asset fair value of Changjiang Steel amounted to RMB2,244 million. From the date of the purchase to the end of the reporting period, Changjiang Steel contributed to the Company a net profit of RMB17.6 million, representing 4.76% of the net profit of the Group.

8. MATERIAL TRANSACTIONS IN THE REPORTING PERIOD

(1) Connected transactions related to normal operations

Unit: Million Currency: RMB

Connected party	Connected relation	Type of connected transaction	Details of connected transaction	Pricing principles of connection transaction	Amount of connected transaction	Proportion to amount of the transaction under the same category (%)
Holding and its subsidiaries	Holding company	Sale	Sale of steel coils and other products	Mutual agreement	1	–
Holding and its subsidiaries	Holding company	Sale	Collecting fees from providing facilities, services and other commodities	Mutual agreement	37	4.08
Holding and its subsidiaries	Holding company	Procurement	Procurement of iron ore, limestone and dolomite	Under "Sale and Purchase of Ore Agreement"	1,160	5.37
Holding and its subsidiaries	Holding company	Procurement	Procurement of fixed assets and construction fees	Mutual agreement	120	41.59
Holding and its subsidiaries	Holding company	Procurement	Disbursement of service fees	Mutual agreement	101	100.00
Holding and its subsidiaries	Holding company	Procurement	Rental expenses	Mutual agreement	24	100.00
Holding and its subsidiaries	Holding company	Procurement	Agency fee	Mutual agreement	9	100.00
Holding and its subsidiaries	Holding company	Procurement	Interest on loans	Mutual agreement	0.2	0.01
Tengzhou Shenglong Coke Co., Ltd	Associate	Procurement	Procurement of coke	Mutual agreement	117	7.00
Maanshan Harbour Group Co., Limited	Associate	Procurement	Loading expenses	Mutual agreement	78	14.85
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting rental fees	Mutual agreement	1	65.79
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting public utility and facility utility fees	Mutual agreement	5	100.00
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Sale	Collecting public utility fees including providing electricity	Mutual agreement	135	69.08
Maanshan BOC-Ma Steel Gases Company Limited	Jointly controlled company	Procurement	Procurement of gases	Mutual agreement	260	100.00

9. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

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

i. Entrustment

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

ii. Contracting

The Company did not act as contractor during the reporting period.

iii. Leasing

The Company did not have lease arrangement during the reporting period.

(2) Guarantees

Unit: million Currency: US$

Guarantees provided by the Company to subsidiaries	
Total guarantee amount provided to subsidiaries during the reporting period	0
Balance of guarantees provided to subsidiaries at the end of the reporting period	55
Total guarantee amount provided by the Company (including guarantees for subsidiaries)	
Total guarantee amount	55
Including:	
Guarantee amount provided to shareholders, the de facto controller and connected parties	0
Guarantee amount provided directly or indirectly to entities with gearing (assets–liabilities) ratio exceeding 70%	0
Total guarantee amount exceeding 50% of net assets	0
Total amount of the three guarantees mentioned above	0

(2) Guarantees *(continued)*

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 RMB356 million. All the guarantees were approved by the Board of the Company beforehand.

(3) Asset management on trust and entrusted loans

i. *Asset management on trust*

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

ii. *Entrusted loans*

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

(4) Other material contracts

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

10. PERFORMANCE OF UNDERTAKINGS

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

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

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

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

11. 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.

12. PUNISHMENT AND RECTIFICATION ON THE COMPANY ANG ITS DIRECTORS, SUPERVIOSRS, SENIOR MANAGEMENT, SHAREHOLDERS AND THE DE FACTO CONTROLLER

During the reporting period, none of the Company and its directors, supervisors, senior management, the Company's shareholders, the de facto controller, acquirer were investigated by authorities, imposed with mandatory measures by disciplinary authorities, handed over to the judiciary or charged with criminal liabilities, investigated by the CSRC, subjected to administrative punishment, prohibited from securities market, published reprimand or deemed an inappropriate person by the CSRC, punished by other administrative authorities, or publicly reprimanded by securities exchanges. The CSRC and its delegated institutions did not inspect the Company and did not make any corrective suggestions to the Company either.

13. OTHER SIGNIFICANT EVENTS

During the reporting period, the Company had no other significant events.

14. LIST OF INFORMATION DISCLOSURE

Matter	Publishing newspaper and page number	Date of publication	Website and path of publication
Announcement on Estimated Improvement in Results for the Y ear of 2010 Maanshan Iron & Steel Company Limited	Page B20, Shanghai Securities News	18 January	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement of Maanshan Iron & Steel Company Limited	Page 71, Shanghai Securities News	26 February	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page B61, Shanghai Securities News	23 March	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Sixteenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page B61, Shanghai Securities News	23 March	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Board of Directors of Maanshan Iron & Steel Company Limited	Page B15, Shanghai Securities News	28 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions of the Seventeenth Meeting of the Sixth Session of the Supervisory Committee of Maanshan Iron & Steel Company Limited	Page B15, Shanghai Securities News	28 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on External Investment of Maanshan Iron & Steel Company Limited	Page B15, Shanghai Securities News	28 April	http://www.sse.com.cn; http://www.hkex.com.hk
Notice of 2010 Annual General Meeting of Maanshan Iron & Steel Company Limited	Page B15, Shanghai Securities News	28 April	http://www.sse.com.cn; http://www.hkex.com.hk
Announcement on Resolutions Passed at the 2010 Annual General Meeting of Maanshan Iron & Steel Company Limited	Page B12, Shanghai Securities News	16 June	http://www.sse.com.cn; http://www.hkex.com.hk

VI. Financial Statements

Contents

Note: The note 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 2011
Renminbi Yuan

ASSETS	Note V	30 June 2011 Unaudited	31 December 2010 Audited
CURRENT ASSETS:			
Cash and bank balances	1	**9,764,800,762**	6,382,691,015
Financial assets held for trading		**753,820**	826,640
Bills receivable	2	**8,700,994,746**	8,374,602,622
Trade receivables	3	**1,173,253,540**	1,097,779,220
Dividends receivable		**109,409,394**	118,800,000
Prepayments	4	**4,017,199,272**	1,377,143,617
Other receivables	5	**1,072,643,109**	711,812,863
Inventories	6	**14,150,033,938**	12,451,795,018
Total current assets		**38,989,088,581**	30,515,450,995
NON-CURRENT ASSETS:			
Long term equity investments	8	**1,039,679,988**	1,034,491,013
Investment properties		**6,660,046**	6,771,343
Fixed assets	9	**33,628,839,592**	34,405,603,226
Construction materials		**262,340,546**	281,058,134
Construction in progress	10	**3,281,132,764**	1,504,328,744
Intangible assets	11	**2,018,597,884**	1,863,353,636
Deferred tax assets		**486,372,545**	493,868,095
Total non-current assets		**40,723,623,365**	39,589,474,191
TOTAL ASSETS		**79,712,711,946**	70,104,925,186

Consolidated Balance Sheet (Continued)

30 June 2011
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	30 June 2011 Unaudited	31 December 2010 Audited
CURRENT LIABILITIES:			
Short term loans	13	**5,124,692,013**	977,093,278
Bills payable	14	**6,480,283,121**	5,269,342,225
Accounts payable		**7,568,414,651**	5,550,236,792
Deposits received		**8,027,859,222**	8,127,236,452
Payroll and benefits payable		**341,254,128**	284,521,457
Taxes payable	15	**(450,166,380)**	(411,180,601)
Interest payable		**40,172,506**	58,185,998
Dividends payable	16	**463,862,599**	506,995,720
Other payables		**1,077,575,077**	946,266,361
Non-current liabilities due within one year	17	**9,821,161,176**	7,857,611,313
Total current liabilities		**38,495,108,113**	29,166,308,995
NON-CURRENT LIABILITIES:			
Long term loans	18	**10,623,362,800**	11,368,731,100
Bonds payable	19	**998,333,000**	997,833,200
Deferred income		**532,280,455**	573,288,652
Deferred tax liabilities		**45,226,879**	–
Total non-current liabilities		**12,199,203,134**	12,939,852,952
Total liabilities		**50,694,311,247**	42,106,161,947
SHAREHOLDERS' EQUITY:			
Share capital	20	**7,700,681,186**	7,700,681,186
Capital reserve		**8,338,358,399**	8,338,358,399
Surplus reserves		**3,206,200,814**	3,206,200,814
Retained profits		**7,933,160,711**	8,008,142,354
including: Proposed cash dividend		**–**	385,034,059
Exchange fluctuation reserve		**53,835,368**	40,704,768
Equity attributable to equity holders of the parent		**27,232,236,478**	27,294,087,521
Minority interests		**1,786,164,221**	704,675,718
Total shareholders' equity		**29,018,400,699**	27,998,763,239
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**79,712,711,946**	70,104,925,186

The financial statements are signed by the following persons:

Company Representative:	Chief Accountant:	Head of Accounting:
Su Jiangang	Qian Haifan	Zhang Qianchun
18 August 2011	18 August 2011	18 August 2011

Consolidated Income Statement

For the six months ended 30 June 2011
Renminbi Yuan

	Note V	For the six months ended 30 June 2011 Unaudited	2010 Unaudited
Revenue	21	**43,151,233,659**	31,676,470,966
Less: Cost of sales	21	**41,526,530,287**	29,108,534,376
Taxes and surcharges		**131,323,578**	173,895,391
Selling expenses		**125,975,922**	115,262,315
Administrative expenses	22	**611,429,738**	535,595,837
Financial expenses	23	**405,416,586**	428,089,275
Assets impairment losses		**–**	13,906,462
Add: Loss on fair value changes		**(72,820)**	(87,920)
Investment income	24	**88,594,003**	87,699,598
including: share of profits of associates and jointly-controlled entities		**89,385,084**	82,901,417
Operating profit		**439,078,731**	1,388,798,988
Add: Non-operating income		**53,904,419**	81,279,445
Less: Non-operating expenses		**4,604,980**	418,009
including: net loss/(gain) on disposal of non-current assets		**2,654,836**	(2,118,190)
Profit before tax		**488,378,170**	1,469,660,424
Less: Income tax	25	**118,045,237**	390,186,567
Net profit		**370,332,933**	1,079,473,857
Less: Minority interests		**60,280,517**	37,834,362
Net profit attributable to the equity holders of the parent		**310,052,416**	1,041,639,495
EARNINGS PER SHARE	26		
Basic (cents)		**4.03**	13.53
Diluted		**N/A**	N/A
Other comprehensive income	27	**13,130,600**	(19,277,392)
Total comprehensive income		**383,463,533**	1,060,196,465
Attributable to:			
Equity holders of the parent		**323,183,016**	1,022,362,103
Minority interests		**60,280,517**	37,834,362

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011
Renminbi Yuan

30 June 2011

	Attributable to equity holders of the parent							
	Share capital (Note V.20)	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2011	7,700,681,186	8,338,358,399	3,206,200,814	8,008,142,354	40,704,768	27,294,087,521	704,675,718	27,998,763,239
2. Increase/(decrease) during the period								
1) Net profit	-	-	-	310,052,416	-	310,052,416	60,280,517	370,332,933
2) Other comprehensive income	-	-	-	-	13,130,600	13,130,600	-	13,130,600
Total comprehensive income	-	-	-	310,052,416	13,130,600	323,183,016	60,280,517	383,463,533
3) Capital contribution and withdrawal by shareholders								
(i) Capital contribution from minority shareholders	-	-	-	-	-	-	37,500,000	37,500,000
(ii) Acquisition of subsidiary	-	-	-	-	-	-	1,010,000,000	1,010,000,000
4) Profits appropriation								
(i) Dividend declared to shareholders	-	-	-	(385,034,059)	-	(385,034,059)	-	(385,034,059)
(ii) Dividend declared to minority shareholders	-	-	-	-	-	-	(26,292,014)	(26,292,014)
3. At 30 June 2011	7,700,681,186	8,338,358,399	3,206,200,814	7,933,160,711	53,835,368	27,232,236,478	1,786,164,221	29,018,400,699

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2011
Renminbi Yuan

30 June 2010

	Attributable to equity holders of the parent							
	Share capital (Note V.20)	Capital reserve	Surplus reserves	Retained profits	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2010	7,700,681,186	8,338,358,399	3,057,920,649	7,350,273,452	17,419,949	26,464,653,635	720,208,964	27,184,862,599
2. Increase/(decrease) during the period								
1) Net profit	–	–	–	1,041,639,495	–	1,041,639,495	37,834,362	1,079,473,857
2) Other comprehensive income	–	–	–	–	(19,277,392)	(19,277,392)	–	(19,277,392)
Total comprehensive income	–	–	–	1,041,639,495	(19,277,392)	1,022,362,103	37,834,362	1,060,196,465
3) Capital contribution and withdrawal by shareholders								
(i) Acquisition of minority interests	–	–	–	–	–	–	(32,790,825)	(32,790,825)
(ii) Others	–	–	12,337,798	–	–	12,337,798	5,039,382	17,377,180
4) Profits appropriation								
(i) Dividend declared to shareholders	–	–	–	(308,027,247)	–	(308,027,247)	–	(308,027,247)
(ii) Dividend declared to minority shareholders	–	–	–	–	–	–	(73,234,870)	(73,234,870)
3. At 30 June 2010	7,700,681,186	8,338,358,399	3,070,258,447	8,083,885,700	(1,857,443)	27,191,326,289	657,057,013	27,848,383,302

Consolidated Cash Flow Statement

For the six months ended 30 June 2011
Renminbi Yuan

		Note V	For the six months ended 30 June 2011 Unaudited	For the six months ended 30 June 2010 Unaudited
1.	Cash flows from operating activities:			
	Cash received from sale of goods or rendering of services		**51,249,647,349**	37,201,460,117
	Cash received relating to other operating activities	28	**13,112,965**	39,305,498
	Sub-total of cash inflows		**51,262,760,314**	37,240,765,615
	Cash paid for goods and services		**(45,921,354,410)**	(33,621,163,366)
	Cash paid to and on behalf of employees		**(2,028,933,393)**	(1,833,031,852)
	Cash paid for all taxes		**(1,339,367,646)**	(1,933,595,981)
	Cash paid relating to other operating activities	28	**(401,015,056)**	(367,179,070)
	Sub-total of cash outflows		**(49,690,670,505)**	(37,754,970,269)
	Net cash flows from operating activities	29	**1,572,089,809**	(514,204,654)
2.	Cash flows from investing activities:			
	Cash received from returns on investments		**136,981,908**	116,572,507
	Net cash received from disposal of fixed assets, intangible assets and other long term assets		**52,250,555**	20,013,991
	Cash received from decrease of pledged deposits		**28,720,803**	1,319,849,124
	Cash received relating to other investing activities	28	**383,261,393**	49,432,000
	Sub-total of cash inflows		**601,214,659**	1,505,867,622
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(1,534,663,434)**	(778,669,720)
	Cash paid for investments		**(490,000,000)**	(4,900,000)
	Sub-total of cash outflows		**(2,024,663,434)**	(783,569,720)
	Net cash flows from investing activities		**(1,423,448,775)**	722,297,902

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June 2011
Renminbi Yuan

		Note V	For the six months ended 30 June 2011 Unaudited	2010 Unaudited
3.	Cash flows from financing activities:			
	Cash received from borrowings		**12,735,490,513**	6,386,977,124
	Cash received from capital contribution		**37,500,000**	–
	including: capital contribution by minority shareholders received by subsidiaries		**37,500,000**	–
	Sub-total of cash inflows		**12,772,990,513**	6,386,977,124
	Cash repayments of borrowings		**(8,468,907,717)**	(6,571,617,805)
	Cash paid for distribution of dividend or profits and for interest expenses		**(1,018,667,332)**	(502,017,320)
	including: dividend paid to minority shareholders by subsidiaries		**(18,872,243)**	(25,566,752)
	Sub-total of cash outflows		**(9,487,575,049)**	(7,073,635,125)
	Net cash flows from financing activities		**3,285,415,464**	(686,658,001)
4.	Effect of foreign exchange rate changes on cash		**(23,225,948)**	(61,318,195)
5.	Net increase/(decrease) in cash and cash equivalents		**3,410,830,550**	(539,882,948)
	Add: Balance of cash and cash equivalents at the beginning of period		**5,385,065,613**	5,502,947,835
6.	Balance of cash and cash equivalents at the end of period	30	**8,795,896,163**	4,963,064,887

Company Balance Sheet

30 June 2011
Renminbi Yuan

ASSETS	Note XI	30 June 2011 Unaudited	31 December 2010 Audited
CURRENT ASSETS:			
Cash and bank balances		5,147,972,185	3,087,223,561
Financial assets held for trading		753,820	826,640
Bills receivable		6,867,716,673	7,456,373,686
Trade receivables	1	1,734,041,957	2,350,835,807
Dividends receivable		205,389,698	197,494,579
Prepayments		3,918,662,717	1,278,962,474
Other receivables	2	62,207,520	73,786,134
Inventories		10,436,497,653	10,601,699,907
Total current assets		28,373,242,223	25,047,202,788
NON-CURRENT ASSETS:			
Long term equity investments		4,572,581,109	2,219,360,976
Investment properties		17,964,582	17,999,035
Fixed assets		29,974,477,138	32,075,219,828
Construction materials		258,486,944	252,574,410
Construction in progress		1,809,167,534	1,420,353,347
Intangible assets		1,198,993,474	1,215,033,032
Deferred tax assets		462,035,687	479,719,267
Total non-current assets		38,293,706,468	37,680,259,895
TOTAL ASSETS		66,666,948,691	62,727,462,683

Company Balance Sheet (Continued)

30 June 2011
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2011 Unaudited	31 December 2010 Audited
CURRENT LIABILITIES:		
Short term loans	258,864,000	264,908,000
Bills payable	3,698,570,000	2,762,510,000
Accounts payable	7,633,469,995	4,730,311,762
Deposits received	6,091,606,885	6,832,999,783
Payroll and benefits payable	252,355,179	229,661,197
Taxes payable	(393,615,998)	(388,889,831)
Interest payable	39,978,613	58,022,621
Dividends payable	382,097,078	506,995,720
Other payables	952,268,678	895,353,523
Non-current liabilities due within one year	9,821,161,176	7,843,611,313
Total current liabilities	28,736,755,606	23,735,484,088
NON-CURRENT LIABILITIES:		
Long term loans	10,514,362,800	11,278,731,100
Bonds payable	998,333,000	997,833,200
Deferred income	501,390,251	540,572,623
Total non-current liabilities	12,014,086,051	12,817,136,923
Total liabilities	40,750,841,657	36,552,621,011
SHAREHOLDERS' EQUITY:		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,338,358,399	8,338,358,399
Surplus reserves	2,964,168,101	2,964,168,101
Retained profits	6,912,899,348	7,171,633,986
Total shareholders' equity	25,916,107,034	26,174,841,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	66,666,948,691	62,727,462,683

Company Income Statement

For the six months ended 30 June 2011
Renminbi Yuan

	Note XI	For the six months ended 30 June 2011 Unaudited	2010 Unaudited
Revenue	4	**38,717,188,205**	31,963,584,669
Less: Cost of sales	4	**37,855,424,317**	29,916,137,387
Taxes and surcharges		**105,760,655**	158,638,006
Selling expenses		**113,305,306**	104,339,055
Administrative expenses		**455,931,467**	423,653,025
Financial expenses		**223,827,456**	339,152,431
Assets impairment losses		**–**	13,906,462
Add: Loss on fair value changes		**(72,820)**	(87,920)
Investment income	5	**140,788,606**	254,665,451
including: share of profits of associates and jointly-controlled entities		**88,298,370**	82,228,847
Operating profit		**103,654,790**	1,262,335,834
Add: Non-operating income		**42,003,511**	71,909,842
Less: Non-operating expenses		**1,675,300**	379,607
including: net loss on disposal of non-current assets		**(2,999,882)**	(1,347,085)
Profit before tax		**143,983,001**	1,333,866,069
Less: Income tax		**17,683,580**	328,086,567
Net profit		**126,299,421**	1,005,779,502
Other comprehensive income		**–**	–
Total comprehensive income		**126,299,421**	1,005,779,502

Company Statement of Changes in Equity

For the six months ended 30 June 2011
Renminbi Yuan

30 June 2011

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

Company Statement of Changes in Equity (Continued)

For the six months ended 30 June 2011
Renminbi Yuan

30 June 2010

	Share capital	Capital reserve	Surplus reserves	Retained profits	Total shareholders' equity
1. At 1 January 2010	7,700,681,186	8,338,358,399	2,873,596,445	6,664,516,330	25,577,152,360
2. Increase/(decrease) during the period					
1) Net Profit	–	–	–	1,005,779,502	1,005,779,502
2) Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	1,005,779,502	1,005,779,502
3) Capital contribution and withdrawal					
1. Capital contribution by shareholders	–	–	–	–	–
2. Others	–	–	–	–	–
4) Profits appropriation					
1. Transfer to surplus reserves	–	–	–	–	–
2. Dividends declared	–	–	–	(308,027,247)	(308,027,247)
5) Transfers within shareholders' equity	–	–	–	–	–
3. At 30 June 2010	7,700,681,186	8,338,358,399	2,873,596,445	7,362,268,585	26,274,904,615

Company Cash Flow Statement

For the six months ended 30 June 2011
Renminbi Yuan

		Note XI	For the six months ended 30 June 2011 Unaudited	2010 Unaudited
1.	Cash flows from operating activities:			
	Cash received from sale of goods or rendering of services		**45,800,970,979**	35,401,536,635
	Cash received relating to other operating activities		**38,000**	31,656,000
	Sub-total of cash inflows		**45,801,008,979**	35,433,192,635
	Cash paid for goods and services		**(37,505,761,908)**	(33,279,796,223)
	Cash paid to and on behalf of employees		**(1,785,967,443)**	(1,637,287,646)
	Cash paid for all taxes		**(1,078,246,383)**	(1,717,996,738)
	Cash paid relating to other operating activities		**(198,377,029)**	(303,718,091)
	Sub-total of cash outflows		**(40,568,352,763)**	(36,938,798,698)
	Net cash flows from operating activities	6	**5,232,656,216**	(1,505,606,063)
2.	Cash flows from investing activities:			
	Cash received from returns on investments		**156,810,645**	111,229,840
	Net cash received from disposal of fixed assets, intangible assets and other long term assets		**269,593,098**	2,086,943
	Cash received from decrease of pledged deposits		**–**	1,369,440,246
	Cash received relating to other investing activities		**–**	23,060,000
	Sub-total of cash inflows		**426,403,743**	1,505,817,029
	Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(1,191,382,190)**	(642,974,923)
	Cash paid for investments		**(2,836,944,444)**	–
	Cash paid due to increase in pledged deposits, net		**(534,924)**	–
	Sub-total of cash outflows		**(4,028,861,558)**	(642,974,923)
	Net cash flows from investing activities		**(3,602,457,815)**	862,842,106

Company Cash Flow Statement (Continued)

For the six months ended 30 June 2011
Renminbi Yuan

		For the six months ended 30 June	
		2011 Unaudited	2010 Unaudited
3.	Cash flows from financing activities:		
	Cash received from borrowings	**8,488,388,500**	5,599,446,500
	Sub-total of cash inflows	**8,488,388,500**	5,599,446,500
	Cash repayments of borrowings	**(7,243,411,000)**	(5,642,372,000)
	Cash paid for distribution of dividend or profits and for interest expenses	**(892,036,582)**	(414,234,327)
	Sub-total of cash outflows	**(8,135,447,582)**	(6,056,606,327)
	Net cash flows from financing activities	**352,940,918**	(457,159,827)
4.	Effect of foreign exchange rate changes on cash	**77,074,381**	(21,421,501)
5.	Net increase/(decrease) in cash and cash equivalents	**2,060,213,700**	(1,121,345,285)
	Add: Balance of cash and cash equivalents at the beginning of period	**3,087,223,561**	3,759,523,396
6.	Balance of cash and cash equivalents at the end of period	**5,147,437,261**	2,638,178,111

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 Shanghai Stock Exchange and 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 was 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 year 2007, 2008 and 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 exercised by certain holders in exchange for the Company’s ordinary A share. After the exercising, the Company’s registered capital became equal to RMB7,700,681,186.

Up to 30 June 2011, the Company 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.20 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 & steel related business; extended processing of iron and steel products, production and sales of metallic products; steel framework, 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 certificate); 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.

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" and 38 specific accounting standards issued by the Ministry of Finance (the "MOF") in February 2006, application guidance, interpretations and other related regulations issued later on (collectively known as the "CAS").

The financial statements are prepared based on an ongoing basis.

The 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 established in accordance with related regulations when indications of impairment of assets noted.

2. Statement of adoption of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 30 June 2011, 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 recording 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 recording purposes in accordance with their own operating environments, and translate their accounts to Renminbi when preparing financial statements.

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 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 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 value at that date of acquisition.

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

5. Business combination *(continued)*

Business combination involving entities under common control (continued)

Any excess of 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 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 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, 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 2011. Subsidiary is a company or entity that 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 unrealized 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 beginning equity, the balance offsets minority interests. Any changes in the minority interests without losing control is recognized 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 value of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

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

6. Consolidated financial statements *(continued)*

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.

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 reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates effective 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.

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

8. Foreign operations and foreign currency translation *(continued)*

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 effective at the balance sheet date; shareholders' equity, with the exception of retained profits, are translated at the rates of exchange effective 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 are recognised as other comprehensive income, and are 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 effective 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.

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

(1) The contractual rights to the cash flows from the financial asset expire; or

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

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

9. Financial instruments *(continued)*

Recognition and derecognition of financial instruments (continued)

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 is 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.

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 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.

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

9. Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

Interests and cash dividend received during the period from financial assets at fair value through profits or loss are recognised in profits or loss for the current period.

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

(1) The designation eliminates or obviously reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different measurement basis 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.

(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 whose 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 assets. Also, assets from other categories of financial assets shall not reclassify to financial assets at fair value through profit and loss.

In accordance with the above conditions, the Group has designated its financial assets mainly including the financial assets held for trading.

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

9. Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

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.

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.

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

9. Financial instruments *(continued)*

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 transaction costs of other financial liabilities 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 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) a 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.

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 the holder incurs if 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 they do not belong to financial liabilities that are designated at fair value through profit or loss. Financial guarantee contracts are 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.

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

9. Financial instruments *(continued)*

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 divided into the liability and equity component each of which is accounted for separately. 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 that 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.

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. Such 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.

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

9. Financial instruments *(continued)*

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.

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 exceeding the amortised cost that would have no impairment recognised at the reversal date.

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

9. Financial instruments *(continued)*

Impairment of financial assets (continued)

Available-for-sale financial assets
When there is objective evidence that the financial asset is impaired, the cumulative loss that has 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 decreased by any principal repayment, amortisation, current fair value, and any impairment loss on that financial asset previously recognised in the income statement.

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

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

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

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 assets and recognise the related assets and liabilities incurred. If the control over the financial is not lost, the Group recognises the financial assets to the extent of its continuing involvement of the financial asset and recognises an associated liability.

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

10. Receivables

(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 recognized as impairment loss and charged to the income statement.

11. Inventories

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

Inventories are initially recognised at cost, which comprises 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 those are consumed.

Contract costs shall comprise direct materials, direct labour, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs include 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 perpetual inventory system.

At each balance sheet date, inventories shall be measured at the lower of cost and net realizable 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.

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

11. Inventories *(continued)*

Net realisable value is the estimated selling price under the normal business term deducted by the estimated costs of 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.

12. Long term equity investments

Long term equity investments consist of investments in subsidiaries, jointly controlled entities, associates, and other equity investments and represent investees that the Group cannot control, or the investees that are neither jointly controlled nor significantly influenced by the Group, and that are not quoted in an active market so that their 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 acquisiton. For the long term investments that are acquired through business combination involving entities under common control, the initial investment cost shall be the share in the carrying amount of the acquiree's equity. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for those completed the business combinations 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 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 follow: for the transaction that is 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 that are not quoted in an active market so that their 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 the investee and to obtain profit from the operating activities of the investee.

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

12. Long term equity investments *(continued)*

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.

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 joint control over those policies.

When the equity method is adopted, if the initial cost of investment being in excess of the share of investee's fair value on identifiable net assets the cost of investment 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 is 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 value 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, those should be entirely recognised). The recognition should be based 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 in straight line method (if exists) 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 items substantially treated as equity interests in the investee is reduced to zero, except for which the investor has extra obligation to assume loss of it. For the changes of investee's equity other than net income statement, the investor adjusts carrying amount of investment to shareholders' equity.

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

12. Long term equity investments *(continued)*

When long term equity investment are 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.

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.23. For the other long term investments which do not have quoted market price from active market, and whose fair value cannot be reliably measured, the impairment assessment and measurement of provision for impairment and further details 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 into the Group, and such expenditures can be measured reliably; or otherwise, 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 the Group adopts the cost model, further details are stated in note II.23.

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 have been replaced shall be derecognized; 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 expenditures for bringing the asset to its working condition for its intended use.

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 value, 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 years	3%	9.7%
Transportation vehicles and equipment	5 years	3%	19.4%

The components of fixed assets which have different useful life and generate different kind of benefits to the enterprise, should have different depreciation rates and methods.

The Group reviews the estimated useful lives, estimated residual value, and the 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.23.

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.23.

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

16. Borrowing costs

Borrowing costs are interest and other expenses arising from borrowings of the Group, including interest, amortisation of discounts or premiums, professional fees 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 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 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 decreased 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 capital expenditure that accumulated capital expenditures exceed 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 and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

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

17. Intangible assets

Intangible assets are recognized 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 recognized 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 benefits periods are classified as intangible assets with indefinite useful lives.

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

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

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

Intangible assets with finite useful lives are amortised over the useful lives on straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts 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 have amortisation 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.

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

17. Intangible assets *(continued)*

The expenditures for internal research and development projects of the Group are 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.23.

18. Provisions

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

(1) the obligation is a present obligation assumed by the Group; and

(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 of risks, uncertainties, present value and etc. 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 principle.

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

19. 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 that costs incurred to date bear to the estimated total costs of the transaction. Revenue from rendering of services 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 into contract or agreement with other parties which contains both sales of goods and rendering of services, if the portion of sale of goods and rendering of services can be separately measured, the portion of sale of goods and rendering of services are measured individually. If the portion of sale of goods and rendering of services cannot be separately measured or even if it could separately measured but cannot be measured individually, it is deemed to be sales of goods.

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

19. Revenue *(continued)*

Interest income

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

Lease income

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

20. 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.

21. 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 on goodwill arising from a business combination; tax arising from an item that has been recognised directly 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 its tax base, the Group adopts liability method for provision of deferred tax.

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

21. Income tax *(continued)*

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) temporary differences associated with subsidiaries, jointly controlled entities and associates, when the Group is able to control the timing of the reversal of the temporary differences; and it is probable that the temporary difference will not be reversed 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 be reversed 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 be applied 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.

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.

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

22. Lease

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

Operating lease as lessee

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

Operating lease as lessor

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

23. Impairment of assets

The Group determines the impairment of assets according to the 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 indicators of impairment existed as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indicators existed. 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 indicator 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 asset. 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.

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.

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

23. Impairment of assets *(continued)*

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 the goodwill 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 be charged against the carrying amount of goodwill which is 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.

III. TAX

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

Value-added tax	– The output VAT rate of the domestic sale is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulation, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refunds rates of 9% – 17%. A subsidiary of the Company adopted the "Levy first, refund afterwards" arrangements for VAT in its own export sales.
Business tax	– Payable based on 3% – 5% of the taxable income.
City construction and maintenance tax	– Payable based on 7% of the net VAT and business tax to be paid.
Income tax	– The Company and certain of its subsidiaries were subject to corporate income tax rate at 25% on their assessable profit.
Education surcharge	– Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	– Payable based on 1% of the net VAT and business tax to be paid.
Real estate tax	– Payable based on certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	– In accordance with tax laws and other relevant regulations.

2. Tax benefits and approval documents

Certain subsidiaries of the Company were foreign investment enterprises which are subject to corporate income tax rate ranged from 22% to 25% and enjoy the "Two years exempted and subsequent three years with 50% reduction" tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which are subject to corporate income tax rate at 15%. Other subsidiaries located in elsewhere and Hong Kong calculate the corporate income tax 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.

III. TAX *(CONTINUED)*

3. Other notes

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

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

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

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

1. Subsidiaries (including subsidiaries indirectly held through subsidiaries)

The details of subsidiaries of the Company are as follows:

Name of investee	Business Type	Place of incorporation and registration	legal represent-tative	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 (%)	Con-solid-ation Y/N	Minority interests	Amount in minority interests available for reduction of share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment															
Ma Steel International Trade and Economic Corporation ("Ma Steel International Trade Corp.")	Public	Anhui, PRC	Lu Kecong	Trading	RMB 50,000,000	Import of machinery and raw materials and export of steel products	150509582	RMB 50,000,000	–	100	100	Y	–	–	
Design & Research Institute of Maanshan Iron & Steel Company Limited ("Design & Research Institute")	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 service	732997248	RMB 7,500,000	–	66.82	66.82	Y	48,695,209	48,695,209	
MG Control Technique Company Limited ("MG Control Technique")	Limited liability	Anhui, PRC	Yan Hua	Manufa-cturing	RMB 12,000,000	Design of automation systems; purchase, installation and repairs of automation, computers and communication systems	738900283	RMB 7,500,000	–	97.93	100	Y	518,430	518,430	
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Anhui Masteel K. Wah")	Sino-foreign joint venture	Anhui, PRC	Xu Ruilin	Manufa-cturing	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	39,544,342	39,544,342	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino-HK joint Venture	Anhui, PRC	Zhu Jinnan	Manufa-cturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	746769078	RMB 8,225,885	–	100	100	Y	–	–	
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufa-cturing	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 20,000,000	–	92	92	Y	4,611,163	4,611,163	

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

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

The details of subsidiaries of the Company 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 of share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino-foreign joint Venture	Guangdong, PRC	Zhu Jinnan	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 120,000,000	–	66.7	66.7	Y	59,477,681	59,477,681	
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Limited-liability	Hong Kong, PRC	N/A	Manufacturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,800,000	–	100	100	Y	–	–	
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	754878645	RMB 30,000,000	–	100	100	Y	–	–	
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 1,000,000	–	90	90	Y	446,297	446,297	
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Zhu Jinnan	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	773136073	RMB 120,000,000	–	75	75	Y	34,545,283	34,545,283	
MG Trading and Development GmbH ("MG Trading")	Limited-liability	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	–	–	

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

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

The details of subsidiaries of the Company 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 of share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia))	Limited liability	Australia	N/A	Mine production and sales	AUD 21,737,900	Production and sales 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 Chang-rong	Manufa-cturing	RMB 500,000,000	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 and repair and maintenance of used	788567175	RMB 355,000,000	–	71	71	Y	327,580,953	327,580,953	(iii)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("MS (Hefei) Processing")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufa-cturing	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 73,200,000	–	89	89	Y	18,756,016	18,756,016	
Ma Steel (Wuhu) Material Technique Co. Ltd ("Wuhu Technique")	Limited liability	Anhui, PRC	Zhu Jinnan	Manufa-cturing	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	46,736,555	46,736,555	

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

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

The details of subsidiaries of the Company 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 of share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Ma Steel United Electric Steel Roller Co. Ltd ("Ma Steel Roller")	Limited liability	Anhui, PRC	Wang Xiaoguang	Manufacturing	USD 30,000,000	Developing, processing manufacturing and sale of steel roller, provision after-sale services and technical consultancy services	667902117	USD 15,300,000	–	51	51	Y	95,697,757	95,697,757	
Maanshan Used Vehicle Trading Centre Co. Ltd ("Used Vehicle Trading")	Limited liability	Anhui, PRC	Zheng Minzhu	Trading	RMB 500,000	Trading of used automobiles, sales 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; service of physical and chemical inspection technique; application, appraisal 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	Xu Yulin	Manufacturing	RMB 10,000,000	Technological service in energy saving, environment protection and construction projects; repair of electric facilities and machines	57571955-0	RMB 10,000,000	–	100	100	Y	–	–	(i)
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 structure, bridge steel structure, customised machine, sale of metal and construction materials	57571523-4	RMB 530,000,000	–	100	100	Y	–	–	(i)
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	–	–	(i)

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

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

The details of subsidiaries of the Company 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 of share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Maanshan Masteel Equipment Installation Engineering Co., Ltd ("Masteel Equipment Installation")	Limited liability	Anhui, PRC	Xia Huiming	Manufacturing	RMB 100,000,000	Production, installation and repair of pressure pipeline, boiler and pressure container	57571843-5	RMB 100,000,000	–	100	100	Y	–	–	(i)
Maanshan Masteel Resource Regeneration Co., Ltd ("Masteel Resource Regeneration")	Limited liability	Anhui, PRC	Wang Kaiding	Trading	RMB 50,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 50,000,000	–	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	–	–	(i)
Maanshan (Chongqing) Material Technology Co., Ltd ("Chongqing Material")	Limited liability	Chongqin, PRC	Dai Huaqiang	Trading	RMB 250,000,000	Simple processing and deliver of steel products, and related services storage and sale of metal products	57797482-X	RMB 87,500,000	–	70	70	Y	37,500,000	37,500,000	(i)
Subsidiaries acquired not under common control															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("MS (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Zhu Jinnan	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 of dangerous chemical products)	75732471X	USD 20,000,000	–	71	71	Y	54,196,120	54,196,120	
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 1,200,000,000	–	55	55	Y	1,017,858,415	1,017,858,415	(ii)
Anhui Masteel stereoscopic Auto-packing Equipments Company Limited ("Masteel Auto-Parking")	Limited liability	Anhui, PRC	Li Hanxing	Manufacturing	USD 2,500,000	Development, production, and sales of vehicle automatic transmission product and related spare parts; provision of related design technique, equipment production and transportation services	758545127	USD 2,500,000	–	100	100	Y	–	–	

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

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

(i) The above subsidiaries were established during the current period.

(ii) During the current period, the Company acquired 55% equity interest of Anhui Chang Jiang Iron and Steel at RMB1.234 billion as consideration. The detailed information was stated in Note VI.4.

(iii) As at 22 March 2011, the board of directors approved the resolution to inject a capital of RMB1.42 billion, by two stages, to Masteel (Hefei). The registered capital of Masteel (Hefei) will increase from RMB0.5 billion to RMB2.5 billion upon the completion of capital injection, and the shareholding percentage of the Company in Masteel (Hefei) would be unchanged. Up to 30 June 2011, the capital injection was not completed.

2. Change in the scope of consolidation

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

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

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

	Net assets at 30 June 2011	**Net profit/(loss) from the date of incorporation/ purchase to period end**
Masteel Electric Repair	9,008,571	(991,429)
Masteel Steel Structure	529,437,790	(562,210)
Masteel Surface engineering	274,701,395	(298,605)
Masteel Equipment installation	98,467,541	(1,532,459)
Masteel Resource Regeneration	49,922,262	(77,738)
Shanghai Trading	60,963,375	963,375
Chongqing Material	125,000,000	–
Anhui Chang Jiang Iron and steel	2,312,592,057	17,643,344

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

4. Business combination involving entities not under common control

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

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

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

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

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

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

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

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

5. Translation exchange rates of overseas subsidiaries' financial statements

	Average rates		**Closing rates**	
	30 June 2011	30 June 2010	**30 June 2011**	December 31 2010
EUR	**9.0839**	9.0341	**9.3612**	8.8065
HKD	**0.8413**	0.8765	**0.8316**	0.8509
AUD	**6.8156**	5.9451	**6.9173**	6.7139

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	30 June 2011			31 December 2010		
	Original currency	Exchange rate	RMB equivalents Unaudited	Original currency	Exchange rate	RMB equivalents Audited
Cash on hand						
– RMB			1,473,038			155,208
Balances with financial institutions						
– RMB			6,270,801,286			4,683,911,396
– HKD	397,262	0.8316	330,363	351,544	0.8509	299,129
– USD	335,690,369	6.4716	2,172,399,790	59,303,332	6.6227	392,748,175
– EUR	4,708,659	9.3612	44,078,695	5,066,783	8.8065	44,620,629
– JPY	42,304,786	0.0802	3,394,536	453,195	0.0813	36,827
– AUD	44,791,473	6.9173	309,836,055	40,204,839	6.7139	269,931,269
			8,800,840,725			5,391,547,425
Others						
– RMB			962,486,999			990,988,382
			962,486,999			990,988,382
Total			9,764,800,762			6,382,691,015

As at 30 June 2011, the Group's cash and bank balances amounting to RMB968,904,599 were pledged to banks as securities (31 December 2010: RMB997,625,402), including other monetary assets amounting to RMB962,486,999 (31 December 2010: RMB990,988,382) pledged as securities for trade facilities and performance bonds, and time deposits amounting to USD1,000,000, equivalent to RMB6,417,600 (31 December 2010: USD1,000,000, equivalent to RMB6,637,020), pledged to banks to issue credit letter.

As at 30 June 2011, the Group had cash and bank balances amounting to RMB365,520,988 deposited outside the PRC (31 December 2010: RMB287,188,479).

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

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

2. Bills receivable

	30 June 2011 Unaudited	31 December 2010 Audited
Bank acceptance bills	8,700,994,746	8,374,602,622

As at 30 June 2011, the Group pledge bills receivable amounted to RMB96,389,698 for bank loans amounted to RMB96,000,000 (31 December 2010: nil). Details are stated in Note V.13 of the financial statement.

As at 30 June 2011 and 31 December 2010, there were no trade receivables transferred from bills receivable because of pledging or the drawers' inability to pay, and the top five largest bills receivable that were not expired but had been endorsed out were as follows:

30 June 2011

Issue entity	Issue date	Maturity date	Amount
Company 1	2011-04-13	2011-07-12	1,073,600,000
Company 2	2011-04-01	2011-07-01	250,000,000
Company 3	2011-04-15	2011-07-15	190,000,000
Company 4	2011-04-21	2011-07-21	170,000,000
Company 5	2011-04-08	2011-07-08	100,000,000
Total			1,783,600,000

31 December 2010

Issue entity	Issue date	Maturity date	Amount
Company 1	2010-10-15	2011-04-12	43,000,000
Company 2	2010-11-18	2011-02-16	40,000,000
Company 3	2010-12-22	2011-06-21	30,000,000
Company 4	2010-12-20	2011-03-01	30,000,000
Company 5	2010-07-13	2011-01-08	28,000,000
Total			171,000,000

At 30 June 2011, certain of the Group's short-term loans were acquired from bills receivable discounted to the amount of RMB148,743,900 (31 December 2010: RMB52,582,299).

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

3. Trade receivables

The Group's credit terms are usually 30 to 90 days. The trade receivables are interest free.

The ageing of trade receivables is analysed below:

	30 June 2011 Unaudited	31 December 2010 Audited
Within one year	1,111,980,402	1,049,949,000
One to two years	57,432,509	39,677,062
Two to three years	6,869,730	11,293,541
Over three years	13,917,396	12,649,598
	1,190,200,037	1,113,569,201
Less: Provision for bad debts	16,946,497	15,789,981
Total	1,173,253,540	1,097,779,220

Trade receivables balance is analysed as follows:

	30 June 2011 Unaudited				31 December 2010 Audited			
	Balance	Ratio	Provision for bad debts	Ratio	Balance	Ratio	Provision for bad debts	Ratio
Individually significant and assessed impairment individually	1,067,569,644	90	(7,390,199)	1	936,327,886	84	(6,927,040)	1
Other insignificant but assessed impairment individually	122,630,393	10	(9,556,298)	8	177,241,315	16	(8,862,941)	5
Total	1,190,200,037	100	(16,946,497)		1,113,569,201	100	(15,789,981)	

The movement of provision for bad debts against trade receivables for the current period is disclosed in Note 12.

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

3. Trade receivables *(continued)*

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

Reason	**For the six months ended 30 June**	
	2011	2010
	Unaudited	Audited
Bankrupt or liquidated debtors	**–**	–
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	**–**	–
Less: Reversal of bad debts provisions written-off in prior year	**–**	4,000
Total	**–**	(4,000)

As at 30 June 2011, the top five largest customers were as follows:

	Relationship with the Group	**Balance**	**Aging**	**Ratio (%)**
Company 1	**Independent third party**	**73,131,140**	**Within one year**	**6**
Company 2	**Independent third party**	**59,082,674**	**Within one year**	**5**
Company 3	**Independent third party**	**58,873,237**	**Within one year**	**5**
Company 4	**Independent third party**	**39,319,417**	**Within one year**	**3**
Company 5	**Independent third party**	**37,498,528**	**Within one year**	**3**
		267,904,996		**22**

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

3. Trade receivables *(continued)*

As at 31 December 2010, the top five largest customers were as follows:

	Relationship with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	176,221,549	Within one year	16
Company 2	Independent third party	100,964,605	Within one year	9
Company 3	Independent third party	99,402,907	Within one year	9
Company 4	Independent third party	57,024,479	Within one year	5
Company 5	Parent company	51,390,735	Within one year	5
		485,004,275		44

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

	30 June 2011 Unaudited			31 December 2010 Audited		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	46,749,213	6.4716	302,542,205	47,603,264	6.6227	315,262,136
EUR	2,264,248	9.3612	21,196,082	574,555	8.8065	5,059,819
HKD	–	0.8316	–	2,563,002	0.8509	2,180,858
AUD	1,215,475	6.9173	8,407,805	2,663,305	6.7139	17,881,163
Total			332,146,092			340,383,976

As at 30 June 2011 and 31 December 2010, there were no trade receivables being derecognised due to the transfer of financial assets.

As at 30 June 2011 and 31 December 2010, 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.

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

4. Prepayments

The ageing of prepayment balance is analysed as follows:

	30 June 2011 Unaudited		31 December 2010 Audited	
	Balance	**ratio**	Balance	ratio
Within one year	**3,977,534,869**	**99**	1,353,499,820	98
One to two years	**27,704,298**	**1**	8,415,265	1
Two to three years	**2,832,140**	**–**	5,170,354	–
Over three years	**9,127,965**	**–**	10,058,178	1
Total	**4,017,199,272**	**100**	1,377,143,617	100

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

As at 30 June 2011, the top five largest prepayments were as follows:

	Relationship with the Group	**Balance**	**Payment date**	**Reason for not yet settled**
Company 1	**Associate**	**490,000,000**	**2011**	**(i)**
Company 2	**Independent third party**	**303,250,000**	**2011**	**(ii)**
Company 3	**Independent third party**	**197,911,849**	**2011**	**(ii)**
Company 4	**Independent third party**	**177,931,628**	**2011**	**(ii)**
Company 5	**Independent third party**	**149,923,661**	**2011**	**(ii)**
		1,319,017,138		

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

4. Prepayments *(continued)*

As at 31 December 2010, 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	231,737,601	2010	(ii)
Company 2	Independent third party	122,694,005	2010	(ii)
Company 3	Independent third party	102,848,958	2010	(ii)
Company 4	Independent third party	102,436,673	2010	(ii)
Company 5	Independent third party	89,922,417	2010	(ii)
		649,639,654		

(i): This balance represents the prepayment for investment in an associate. As at 30 June 2011, such associate was not yet incorporated.

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

The following balances are denominated in foreign currencies:

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
JPY	451,929,600	0.0802	36,264,187	6,160,000	0.0813	500,562
EUR	7,375,899	9.3612	69,047,269	3,023,295	8.8065	26,624,647
Total			105,311,456			27,125,209

As at 30 June 2011 and 31 December 2010, the balances of prepayment did not contain any amount due from shareholders who held 5% or above of the Company's equity interests or other related parties. Further details of the balance due from related parties are stated in Note VI.6 to the financial statements.

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

5. Other receivables

The ageing of other receivables is analysed below:

	30 June 2011 Unaudited	31 December 2010 Audited
Within one year	**1,036,465,484**	708,970,916
One to two years	**33,973,974**	1,991,324
Two to three years	**2,235,911**	1,934,364
Over three years	**7,038,237**	5,986,756
	1,079,713,606	718,883,360
Less: Provision for bad debts	**7,070,497**	7,070,497
Total	**1,072,643,109**	711,812,863

The movement of provision for bad debts against other receivables for the current period is disclosed in Note 12.

Other receivables balance is analysed as follows:

	30 June 2011 Unaudited				31 December 2010 Audited			
	Balance	ratio	Provision for bad debts	ratio	Balance	rate	Provision for bad debts	ratio
Individually significant and assessed impairment individually	931,793,876	86	(2,400,000)	-	690,407,240	96	(2,400,000)	-
Other insignificant but assessed impairment individually	147,919,730	14	(4,670,497)	3	28,476,120	4	(4,670,497)	16
Total	1,079,713,606	100	(7,070,497)		718,883,360	100	(7,070,497)	

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

5. Other receivables *(continued)*

As at 30 June 2011, the top five largest customers were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	Independent third party	682,763,395	Within one year	62
Company 2	Independent third party	234,071,210	Within one year	21
Company 3	Independent third party	87,802,497	Within one year	8
Company 4	Independent third party	42,191,021	Within one year	4
Company 5	Independent third party	31,862,391	Within one year	4
		1,078,690,514		99

As at 31 December 2010, the top five largest customers were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	Independent third party	561,766,501	Within one year	79
Company 2	Independent third party	66,688,481	Within one year	9
Company 3	Independent third party	31,535,253	Within one year	4
Company 4	Independent third party	3,503,840	One to two years	0.5
Company 5	Independent third party	2,400,000	Over three years	0.5
		665,894,075		93

As at 30 June 2011 and 31 December 2010, the Group's other receivables did not have any derecognition of other receivables due to transfer of financial assets.

As at 30 June 2011 and 31 December 2010, the balance of other receivables did not contain any amount due from either shareholders who held 5% or above of the Company's equity interests or other related parties.

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

6. Inventories

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	8,819,805,686	(1,935,119)	8,817,870,567	8,193,400,601	–	8,193,400,601
Spare parts	1,681,858,115	(61,540,934)	1,620,317,181	1,712,853,023	(61,875,468)	1,650,977,555
Finished goods	1,161,620,390	–	1,161,620,390	921,345,723	–	921,345,723
Work in progress	2,323,049,091	–	2,323,049,091	1,554,840,839	–	1,554,840,839
Construction contract	227,176,709	–	227,176,709	131,230,300	–	131,230,300
Total	14,213,509,991	(63,476,053)	14,150,033,938	12,513,670,486	(61,875,468)	12,451,795,018

The movement of impairment provision against inventories for the current period is disclosed in Note 12.

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

As at 30 June 2011, no inventory of the Group was pledged as securities for the Group's trading facilities for the issuance of bank bills (31 December 2010: RMB309,831,082).

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

7. Investments in jointly-controlled entities and associates

30 June 2011

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

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

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

30 June 2011 *(continued)*

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the period	Net profit/(loss) during the period
Jointly-controlled entities					
BOC-Ma Steel	655,718,817	96,192,171	559,526,646	269,084,644	74,130,871
MASTEEL-CMI	1,156,490	(707)	1,157,197	–	(13,782)
Sino-Japan Resource Regeneration	6,240,615	182,082	6,058,533	–	(1,992,348)
Associates					
Jiyuan JinMa Coke	2,113,282,031	1,676,731,272	436,550,759	1,660,909,988	90,446,850
Tengzhou Shenglong Coke	2,008,149,100	1,342,552,949	665,596,151	791,619,850	22,275,789
Shanghai Iron and Steel Electronic	1,395,248,242	1,197,021,059	198,227,183	58,739,954	21,810,537
Maanshan Harbour	964,530,820	546,416,708	418,114,112	111,294,530	17,279,541
All-monitor Transmission System	33,612,436	(222,163)	33,834,599	1,129,954	(558,098)
Zhengpu Harbour	102,660,250	1,229,915	101,430,335	–	1,427,236

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

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

31 December 2010

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

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

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

31 December 2010 *(continued)*

	Assets closing balance	Liabilities closing balance	Net assets closing balance	Revenue during the year	Net profit/(loss) during the year
Jointly-controlled entities					
BOC-Ma Steel	677,087,600	25,473,037	651,614,563	507,124,470	168,206,951
MASTEEL-CMI	1,177,272	6,293	1,170,979	1,142,160	129,024
Sino-Japan Resource Regeneration	8,067,124	16,243	8,050,881	–	(1,949,119)
Associates					
Jiyuan JinMa Coke	1,726,380,465	1,370,895,841	355,484,624	2,907,745,257	201,107,547
Tengzhou Shenglong Coke	1,312,550,898	669,230,538	643,320,360	1,711,897,956	85,806,080
Shanghai Iron and Steel Electronic	1,775,795,863	1,599,387,375	176,408,488	186,972,205	101,979,997
Maanshan Harbour	907,661,846	495,041,454	412,620,392	231,385,804	32,053,019
All-monitor Transmission System	34,184,909	(207,788)	34,392,697	1,837,694	(6,477,882)
Zhengpu Harbour	101,578,339	1,591,243	99,987,096	–	(12,904)

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

8. Long term equity investments

30 June 2011

	Initial investment Cost	Opening balance	Increase during the period	Decrease during the period	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the period	Cash dividend received during the period
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	325,807,282	37,065,435	(83,109,394)	279,763,323	50	50	-	-	83,109,394
MASTEEL-CMI	500,000	585,489	-	(6,891)	578,598	50	50	-	-	-
Sino-Japan Resource Regeneration	4,900,000	3,944,932	-	(835,570)	3,109,362	49	(note)	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	125,091,931	32,560,866	-	157,652,797	36	36	-	-	-
Tengzhou Shenglong Coke	66,776,000	205,852,171	7,128,253	-	212,980,424	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	35,281,697	4,362,107	-	39,643,804	20	20	-	-	-
Maanshan Harbour	112,500,000	182,417,451	7,775,781	-	190,193,232	45	45	-	-	-
All-monitor Transmission System	13,500,000	11,737,900	-	(251,144)	11,486,756	45	45	3,738,814	-	-
Zhengpu Harbour	35,000,000	35,000,000	499,532	-	35,499,532	35	35	-	-	-
Cost method:										
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	-	-	10,000,000	0.66	0.66	-	-	-
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	-	-	8,554,800	1.56	1.56	-	-	-
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	-	-	88,767,360	12	12	-	-	-
Others	1,450,000	1,450,000	-	-	1,450,000	N/A	N/A	-	-	-
Total	654,093,360	1,034,491,013	89,391,974	(84,202,999)	1,039,679,988			3,738,814	-	83,109,394

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

8. Long term equity investments *(continued)*

31 December 2010

	Initial investment Cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	308,822,884	84,103,476	(67,119,078)	325,807,282	50	50	–	–	67,119,078
MASTEEL-CMI	500,000	849,620	64,512	(328,643)	585,489	50	50	–	–	328,643
Sino-Japan Resource Regeneration	4,900,000	–	4,900,000	(955,068)	3,944,932	49	(note)	–	–	–
Associates										
Jiyuan JinMa Coke	80,000,000	202,370,092	59,521,839	(136,800,000)	125,091,931	36	36	–	–	136,800,000
Tengzhou Shenglong Coke	66,776,000	180,697,941	25,154,230	–	205,852,171	32	32	–	–	–
Shanghai Iron and Steel Electronic	4,000,000	8,878,969	26,402,728	–	35,281,697	20	20	–	–	–
Maanshan Harbour	112,500,000	170,620,165	13,372,286	(1,575,000)	182,417,451	45	45	–	–	1,575,000
All-monitor Transmission System	13,500,000	18,391,761	–	(6,653,861)	11,737,900	45	45	3,738,814	3,738,814	–
Zhengpu Harbour	35,000,000	–	35,000,000	–	35,000,000	35	35	–	–	–
Cost method:										
Henan Longyu Energy Co., Ltd.	10,000,000	10,000,000	–	–	10,000,000	0.66	0.66	–	–	8,839,983
China the 17th Metallurgy Construction Co., Ltd.	2,700,000	8,554,800	–	–	8,554,800	1.56	1.56	–	–	160,000
Shanghai Luojing Mineral Dock Co., Ltd.	88,767,360	88,767,360	–	–	88,767,360	12	12	–	–	605,021
Others	1,450,000	1,450,000	–	–	1,450,000	N/A	N/A	–	–	4,793,785
Total	654,093,360	999,403,592	248,519,071	(213,431,650)	1,034,491,013			3,738,814	3,738,814	220,221,510

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

8. Long term equity investments *(continued)*

Note: As at the end of the reporting period, the Group held a 49% equity interest of 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 require more than half of the votes of the directors and the approval from 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.

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

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

9. Fixed assets

30 June 2011

	Buildings and structures Unaudited	Plant, machinery and equipment Unaudited	Transportation vehicles and equipment Unaudited	Total Unaudited
Cost:				
At 1 January 2011	21,417,742,775	41,034,085,574	443,930,297	62,895,758,646
Acquisition of a subsidiary (Note IV.4)	242,049,635	333,823,944	32,106,458	607,980,037
Additions	673,362	27,329,707	3,201,422	31,204,491
Transferred from construction in progress (Note 10)	375,915,214	622,965,660	7,692,352	1,006,573,226
Reclassifications	27,856,028	(28,120,271)	264,243	–
Disposal	(27,244,774)	(40,891,596)	(4,259,542)	(72,395,912)
At 30 June 2011	22,036,992,240	41,949,193,018	482,935,230	64,469,120,488
Accumulated depreciation:				
At 1 January 2011	7,868,179,121	20,165,603,838	368,517,725	28,402,300,684
Provided during the period	553,386,945	1,746,655,001	14,577,603	2,314,619,549
Reclassifications	10,744,774	(10,761,862)	17,088	–
Disposal	(1,764,876)	(11,593,889)	(4,131,755)	(17,490,520)
At 30 June 2011	8,430,545,964	21,889,903,088	378,980,661	30,699,429,713
Impairment:				
At 1 January 2011	5,252,400	82,602,336	–	87,854,736
Acquisition of a subsidiary (Note IV.4)	16,072,252	36,924,195	–	52,996,447
30 June 2011	21,324,652	119,526,531	–	140,851,183
Net carrying amount:				
At.30 June 2011	13,585,121,624	19,939,763,399	103,954,569	33,628,839,592
At 1 January 2011	13,544,311,254	20,785,879,400	75,412,572	34,405,603,226

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

9. Fixed assets *(continued)*

31 December 2010

	Buildings and structures Audited	Plant, machinery and equipment Audited	Transportation vehicles and equipment Audited	Total Audited
Cost:				
At 1 January 2010	20,723,321,211	40,896,760,968	436,313,529	62,056,395,708
Additions	4,572,542	13,391,518	1,873,714	19,837,774
Transferred from construction in progress (Note 10)	453,468,974	1,030,635,327	11,384,775	1,495,489,076
Reclassifications	813,749,762	(824,278,762)	10,529,000	–
Disposal	(21,368,324)	(82,423,477)	(16,170,721)	(119,962,522)
Other decrease	(556,001,390)	–	–	(556,001,390)
At 31 December 2010	21,417,742,775	41,034,085,574	443,930,297	62,895,758,646
Accumulated depreciation:				
At 1 January 2010	6,391,562,457	16,952,699,117	348,559,669	23,692,821,243
Provided during the year	1,143,964,056	3,633,952,894	32,729,209	4,810,646,159
Reclassifications	345,005,820	(347,585,780)	2,579,960	–
Disposal	(12,353,212)	(73,462,393)	(15,351,113)	(101,166,718)
At 31 December 2010	7,868,179,121	20,165,603,838	368,517,725	28,402,300,684
Impairment:				
At 1 January 2010	5,252,400	85,423,244	–	90,675,644
Disposal	–	(2,820,908)	–	(2,820,908)
31 December 2010	5,252,400	82,602,336	–	87,854,736
Net carrying amount:				
At 31 December 2010	13,544,311,254	20,785,879,400	75,412,572	34,405,603,226
At 1 January 2010	14,326,506,354	23,858,638,607	87,753,860	38,272,898,821

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

9. Fixed assets *(continued)*

As at 30 June 2011, the Group had no intention to dispose of any fixed assets and did not hold any fixed assets that were being temporarily idle.

As at 30 June 2011, certificates of ownership in respect of 164 of the Group's buildings in the PRC, with an aggregate cost of RMB678.77 million (31 December 2010: approximately RMB2,611.69 million), were not 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 2011, certain of the Group's production equipment with a net carrying amount of RMB189,130,000 (31 December 2010: RMB37,986,953) were pledged as security to acquire bank loans amounting to RMB98,000,000 (31 December 2010: RMB15,000,000). The detailed information is disclosed in Note V.13.

10. Construction in progress

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Products quality project	**2,051,475,079**	**–**	**2,051,475,079**	364,069,851	–	364,069,851
Energy-saving and environment	**239,383,672**	**–**	**239,383,672**	154,180,398	–	154,180,398
Equipment advancement and other modification projects	**804,972,967**	**–**	**804,972,967**	902,103,098	–	902,103,098
Other projects	**185,301,046**	**–**	**185,301,046**	83,975,397	–	83,975,397
Total	**3,281,132,764**	**–**	**3,281,132,764**	1,504,328,744	–	1,504,328,744

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

10. Construction in progress *(continued)*

30 June 2011

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the period (Note) RMB	Transferred to fixed assets (Note 9) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Products quality project	3,015,271	364,069,851	2,320,142,659	(632,737,431)	2,051,475,079	Internally generated funds	68
2. Energy-saving and environment protection project	471,430	154,180,398	119,591,376	(34,388,102)	239,383,672	Internally generated funds	51
3. Equipment advancement and other modification projects	914,662	902,103,098	118,686,421	(215,816,552)	804,972,967	Internally generated funds	88
4. Other projects	N/A	83,975,397	224,956,790	(123,631,141)	185,301,046	Internally generated funds	N/A
		1,504,328,744	2,783,377,246	(1,006,573,226)	3,281,132,764		
Less: Impairment		-	-	-	-		
Total		1,504,328,744	2,783,377,246	(1,006,573,226)	3,281,132,764		

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

10. Construction in progress *(continued)*

31 December 2010

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (Note 9) RMB	Closing balance RMB	Source of fund	Percentage of completion %
1. Products quality project	389,120	194,613,507	283,879,429	(114,423,085)	364,069,851	Internally generated funds	94
2. Energy-saving and environment protection project	475,892	67,883,027	128,540,990	(42,243,619)	154,180,398	Internally generated funds	32
3. Equipment advancement and other modification projects	1,119,580	1,242,630,024	451,900,253	(792,427,179)	902,103,098	Internally generated funds	81
4. Other projects	N/A	292,828,084	337,542,506	(546,395,193)	83,975,397	Internally generated funds	N/A
		1,797,954,642	1,201,863,178	(1,495,489,076)	1,504,328,744		
Less: Impairment		–	–	–	–		
Total		1,797,954,642	1,201,863,178	(1,495,489,076)	1,504,328,744		

Note: The acquisition of Anhui Chang Jiang Iron and Steel contributed to an increase in product quality project the amounted of RMB1,806,572,096. Details are disclosed in Note IV.4

The movement of impairment provision for construction in progress for the period is disclosed in Note 12.

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

11. Intangible assets

30 June 2011

	Back-up roll technology Unaudited	Land use rights Unaudited	Mining right Unaudited	Total Unaudited
Cost:				
At 1 January 2011	45,082,836	2,115,520,329	150,421,069	2,311,024,234
Acquisition of a subsidiary (Note IV.4)	–	172,481,750	–	172,481,750
Additions	–	–	4,909,867	4,909,867
Exchange realignment	–	–	4,630,324	4,630,324
At 30 June 2011	45,082,836	2,288,002,079	159,961,260	2,493,046,175
Accumulated depreciation:				
At 1 January 2011	751,381	420,573,075	26,346,142	447,670,598
Provided during the period	2,254,142	21,358,629	2,331,961	25,944,732
Exchange realignment	–	–	832,961	832,961
At 30 June 2011	3,005,523	441,931,704	29,511,064	474,448,291
Impairment:				
At 1 January 2011 and At 30 June 2011	–	–	–	–
Net carrying amount				
At 30 June 2011	42,077,313	1,846,070,375	130,450,196	2,018,597,884
At 1 January 2011	44,331,455	1,694,947,254	124,074,927	1,863,353,636

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

11. Intangible assets *(continued)*

31 December 2010

	Back-up roll technology Audited	Land use rights Audited	Mining right Audited	Total Audited
Cost:				
At 1 January 2010	–	2,126,951,213	128,553,274	2,255,504,487
Additions	45,082,836	8,818,815	9,255,082	63,156,733
Transfer into investment property	–	(2,422,651)	–	(2,422,651)
Disposal	–	(17,827,048)	–	(17,827,048)
Exchange realignment	–	–	12,612,713	12,612,713
At 31 December 2010	45,082,836	2,115,520,329	150,421,069	2,311,024,234
Accumulated depreciation:				
At 1 January 2010	–	380,261,096	19,463,641	399,724,737
Provided during the year	751,381	41,551,232	4,841,342	47,143,955
Transfer into investment property	–	(311,361)	–	(311,361)
Disposal	–	(927,892)	–	(927,892)
Exchange realignment	–	–	2,041,159	2,041,159
At 31 December 2010	751,381	420,573,075	26,346,142	447,670,598
Impairment:				
At 1 January 2010 and At 31 December 2010	–	–	–	–
Net carrying amount				
At 31 December 2010	44,331,455	1,694,947,254	124,074,927	1,863,353,636
At 1 January 2010	–	1,746,690,117	109,089,633	1,855,779,750

The movement of impairment provision for intangible assets for the period is disclosed in Note 12.

At 30 June 2011, certain of the Group's land use rights with a net carrying amount of RMB234,078,839 (31 December 2010: RMB26,041,109) were pledged as security to acquire bank loans amounting to RMB150,000,000 (31 December 2010: RMB14,000,000). The detailed information is disclosed in Notes V.13 and V.17, respectively.

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

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

12. Assets impairment provisions

	For the six months ended 30 June 2011					
	Opening Balance Audited	Increase during the period (Note) Unaudited	Decrease during the period: Reversal Unaudited	Decrease during the period: Write-back Unaudited	Decrease during the period: Write-off Unaudited	Closing balance Unaudited
Provision for bad debts	22,860,478	1,156,516	–	–	–	24,016,994
Including: Trade receivables	15,789,981	1,156,516	–	–	–	16,946,497
Other receivables	7,070,497	–	–	–	–	7,070,497
Provision for inventories	61,875,468	1,935,119	–	(334,534)	–	63,476,053
Including: Raw Materials	–	1,935,119	–	–	–	1,935,119
Spare parts	61,875,468	–	–	(334,534)	–	61,540,934
Impairment of long term equity investments	3,738,814	–	–	–	–	3,738,814
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	87,854,736	52,996,447	–	–	–	140,851,183
Including: Buildings and structures	5,252,400	16,072,252	–	–	–	21,324,652
Plant, machinery and equipment	82,602,336	36,924,195	–	–	–	119,526,531
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	176,329,496	56,088,082	–	(334,534)	–	232,083,044

Note: The increase of impairment provision in the current period is attributable to the acquisition of Anhui Chang Jiang Iron and Steel.

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

12. Assets impairment provisions *(continued)*

	For the year ended 31 December 2010					
	Opening Balance	Increase during the year	Decrease during the year Reversal	Write-back	Write-off	Closing balance
Provision for bad debts	27,611,159	–	(112,552)	–	(4,638,129)	22,860,478
Including: Trade receivables	20,540,662	–	(112,552)	–	(4,638,129)	15,789,981
Other receivables	7,070,497	–	–	–	–	7,070,497
Provision for inventories	82,043,978	13,906,462	–	(34,074,972)	–	61,875,468
Including: Raw Materials	33,417,210	–	–	(33,417,210)	–	–
Spare parts	48,626,768	13,906,462	–	(657,762)	–	61,875,468
Impairment of long term equity investments	–	3,738,814	–	–	–	3,738,814
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	(2,820,908)	87,854,736
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	(2,820,908)	82,602,336
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	200,330,781	17,645,276	(112,552)	(34,074,972)	(7,459,037)	176,329,496

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

13. Short term loans

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
Types of loans	Original currency	Closing exchange rate	RMB equivalents	Original currency	Closing exchange rate	RMB equivalents
Entrusted loans						
– RMB (i)			10,000,000			10,000,000
Guaranteed loans						
– RMB (ii)			10,000,000			–
Unsecured loans						
– RMB			1,782,643,288			480,582,299
– USD	50,000,000	6.4716	323,580,000	40,000,000	6.6227	264,908,000
Secured loans						
– RMB (iii)			248,000,000			15,000,000
Pledged loans						
– RMB (iv)			96,000,000			–
Trust receipt loans						
– USD	410,171,940	6.4716	2,654,468,725	31,196,186	6.6227	206,602,979
Total			5,124,692,013			977,093,278

(i) As at 30 June 2011, certain bank loans of RMB10,000,000 in aggregate were lent by Holding through entrust loan arrangement with the Industrial and Commercial Bank of China, with terms of 1 year and annual interest rates at 4.779% (31 December 2010: an amount of RMB10,000,000 with an interest rate of 4.779% per annum).

(ii) As at 30 June 2011, the Group's guaranteed loans were guaranteed by an independent third party, Anhui Chang Jiang Mine Ltd.

(iii) As at 30 June 2011, certain of the Group's short-term loans amounting to RMB248,000,000 were secured by the pledge of manufacturing equipment. The detailed information is disclosed in Note V.9 and V.11.

(iv) As at 30 June 2011 the Group's pledged loans were secured by the pledge of bills receivable. The detailed information is disclosed in Note V.2.

As at 30 June 2011, the interest rates of the above short-term loans were ranged from 2.08% to 6.63% (31 December 2010: 1.1%–5.6%).

As at 30 June 2011, the Group had no expired outstanding short term loans.

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

14. Bills payable

	30 June 2011 Unaudited	31 December 2010 Audited
Bank acceptance bills	**6,480,283,121**	5,269,342,225

The bills payable amounting to RMB6,480,283,121 (31 December 2010: RMB5,269,342,225) are due in the next accounting year. As at the balance sheet date, certain amount of the Group's bills payable were secured by certain amount of the other balances with financial institutions. Please refer to Note V. 1.

As at 30 June 2011 and 31 December 2010, no bills payable were due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

15. Taxes payable

	30 June 2011 Unaudited	31 December 2010 Audited
Value added tax	**(235,079,429)**	(214,827,743)
Corporate income tax	**(228,321,091)**	(247,822,255)
City construction and maintenance tax	**2,946,273**	9,693,285
Other taxes	**10,287,867**	41,776,112
Total	**(450,166,380)**	(411,180,601)

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

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

16. Dividends payable

	30 June 2011 Unaudited	31 December 2010 Audited	Unpaid reason for over 1 year
Holding	191,528,000	501,402,557	Unpaid
Other shareholders	272,334,599	5,593,163	Unpaid
Total	463,862,599	506,995,720	

As at 30 June 2011 and 31 December 2010, 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 is stated in Note VI.6 to the financial statements.

17. Non-current liabilities due within one year

	30 June 2011 Unaudited	31 December 2010 Audited
Non-current liabilities due within one year	4,366,000,000	2,511,135,000
Bonds payable (Note 19)	5,455,161,176	5,346,476,313
	9,821,161,176	7,857,611,313

	30 June 2011 Unaudited	31 December 2010 Audited
Non-current liabilities due within one year:		
Secured loans (i)	–	14,000,000
Guaranteed loans (ii)	1,766,000,000	1,316,000,000
Unsecured loans	2,600,000,000	1,181,135,000
	4,366,000,000	2,511,135,000

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

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

(i) As at 31 December 2010, non-current liabilities due within one year amounting to RMB14,000,000 were secured by the pledge of land use rights. Please refer to Note V. 11.

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

As at 30 June 2011, the Group had no expired outstanding long term loans.

As at 30 June 2011, the top five non-current liabilities due within one year were as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2011 RMB equivalent	31 December 2010 RMB equivalent
Export-import bank of China	2010/3/23	2012/3/23	RMB	(i)	**350,000,000**	350,000,000
Agricultural Bank of China	2008/12/17	2011/12/16	RMB	(ii)	**200,000,000**	200,000,000
Agricultural Bank of China	2008/12/17	2011/12/16	RMB	(ii)	**200,000,000**	200,000,000
Agricultural Bank of China	2008/12/17	2011/12/16	RMB	(ii)	**200,000,000**	200,000,000
Industrial and Commercial Bank of China	2007/1/16	2011/9/13	RMB	(ii)	**200,000,000**	200,000,000
					1,150,000,000	1,150,000,000

(i) The borrowing rates of those long term loans due within one year is the exporter's borrowing rate of Central bank.

(ii) The borrowing rates of those long term loans due within one year were 10% below the benchmark rate offered by the Central bank.

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

18. Long term loans

	30 June 2011 Unaudited	31 December 2010 Audited
Guaranteed loans (i)	**1,957,480,000**	3,021,675,000
Unsecured loans	**8,665,882,800**	8,347,056,100
	10,623,362,800	11,368,731,100

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

As at 30 June 2011, the top five long term loans:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	30 June 2011 RMB equivalent	31 December 2010 RMB equivalent
Export-import bank of China	2011/2/24	2013/2/24	USD	note1	**647,160,000**	–
Export-import bank of China	2011/2/25	2013/2/25	USD	note1	**647,160,000**	–
Export-import bank of China	2011/6/13	2013/9/11	USD	note1	**323,580,000**	–
Agricultural Bank of China	2011/6/3	2012/12/2	RMB	note2	**200,000,000**	–
Agricultural Bank of China	2011/6/7	2012/12/6	RMB	note2	**100,000,000**	–
					1,917,900,000	–

Note 1: The above borrowing rates of long term loans due within one year were floating by season and 4% over London Interbank Offered Rate.

Note 2: The above borrowing rates of long term loans due within one year were the Central bank benchmark rate.

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

18. Long term loans *(continued)*

As at 30 June 2011, the Group had no expired outstanding long term loans.

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

	30 June 2011 Unaudited	31 December 2010 Audited
One to two years	9,704,362,800	10,308,731,100
Two to five years	919,000,000	1,060,000,000
	10,623,362,800	11,368,731,100

19. Bonds payable

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Bonds with warrants	5,346,476,313	108,684,863	–	5,455,161,176
Medium-term notes payable	997,833,200	499,800	–	998,333,000
Total	6,344,309,513	109,184,663	–	6,453,494,176
Less: Transfer into non-current liabilities due within one year (Note 17)	5,346,476,313			5,455,161,176
	997,833,200			998,333,000

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

19. Bonds payable *(continued)*

Bonds with warrants

On 13 November 2006, the Company issued 55,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB5.5 billion in total. The bonds and warrants are listed on the Shanghai Stock Exchange. The bonds with warrants are guaranteed by Holding and have a 5-year life from the date of issuance, and will be fully repaid in November 2011. The subscribers of each bond have been entitled to receive 23 warrants at nil consideration, and in aggregate, 1,265,000,000 warrants have been issued. Every warrant can be converted into one A share. The warrants have a life of 24 months from the date of listing. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 12-month and 24-month of the listing of the warrants. The original conversion price is RMB3.40 each. Since dividends declared on 13 July 2007 and 10 July 2008, the conversion price has been decreased to RMB3.33 and RMB3.26 each.

During the first exercise period of the warrants from 15 November 2007 to 28 November 2007, a total of 303,251,716 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.33. During the second exercise period of the warrants from 17 November 2008 to 28 November 2008, a total of 942,129,470 warrants were exercised by certain holders in exchange for the Company's A share at a conversion price of RMB3.26. Since then, the exercise of these warrants has been entirely completed.

The bonds with warrants are interest-bearing at a rate of 1.4% per annum payable of RMB77 million in arrears on 12 November each year. When the bonds with warrants were issued, the prevailing market interest rate for similar bonds without the attached purchase warrants was higher than the interest rate at which the bonds were issued.

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without the attached purchase warrants.

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 first stage medium-term note of RMB1 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.

The medium rate of RMB1 billion is circulating in the Chinese Inter-bank Bond Market. Such medium-term note commenced at 5 February 2010 and repayable in 3 years.

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

20. Share capital

30 June 2011	At 1 January 2011		Increase/(decrease) during the period			At 30 June 2011	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. Ordinary A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. Ordinary H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	-	-	-	7,700,681,186	100.00

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

20. Share capital *(continued)*

31 December 2010	At 1 January 2010		Increase/(decrease) during the year			At 30 December 2010	
	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares (i)	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	–	–	–	–	–	–	–
2. State-owned legal person shares	–	–	–	–	–	–	–
3. Other domestically owned shares	–	–	–	–	–	–	–
Including:							
Shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
B. Shares without selling restriction							
1. Ordinary A shares	5,967,751,186	77.50	–	–	–	5,967,751,186	77.50
2. Ordinary H shares	1,732,930,000	22.50	–	–	–	1,732,930,000	22.50
Sub-total	7,700,681,186	100.00	–	–	–	7,700,681,186	100.00
C. Total	7,700,681,186	100.00	–	–	–	7,700,681,186	100.00

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

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

21. Revenue and cost of sales

Revenue is stated as follows:

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Principal operating income	**38,115,283,871**	30,192,768,112
Other operating income	**5,035,949,788**	1,483,702,854
Total	**43,151,233,659**	31,676,470,966

* 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	
	2011	2010
	Unaudited	Unaudited
Principal cost of sales	**36,734,429,606**	27,879,861,413
Other cost of sales	**4,792,100,681**	1,228,672,963
Total	**41,526,530,287**	29,108,534,376

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

21. Revenue and cost of sales *(continued)*

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Sale of steel products	**36,079,816,987**	29,088,650,586
Sale of steel billets and pig iron	**287,071,337**	266,661,197
Sale of coke by-products	**531,044,162**	406,494,932
Others	**1,217,351,385**	430,961,397
Total	**38,115,283,871**	30,192,768,112

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

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

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

21. Revenue and cost of sales *(continued)*

During the first half of 2010, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue (%)
Company 1	4,912,443,602	16
Company 2	1,312,390,210	4
Company 3	1,209,375,700	4
Company 4	1,163,988,677	4
Company 5	670,905,718	2
Total	9,269,103,907	30

22. Administrative expenses

	For the six months ended 30 June	
	2011 Unaudited	2010 Unaudited
Depreciation	**22,080,403**	18,903,071
Employee benefits	**199,477,281**	168,518,071
Office expenses	**171,080,324**	168,972,526
*Auditors' remuneration	**2,560,000**	2,880,000
Other taxes	**45,153,936**	38,297,194
Others	**171,077,794**	138,024,975
Total	**611,429,738**	535,595,837

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

23. Financial expenses

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Interest expenses (Note)	**581,033,559**	435,170,189
Less: Interest income	**44,186,275**	42,119,330
Exchange (gain)/loss, net	**(164,239,615)**	20,126,295
Others	**32,808,917**	14,912,121
Total	**405,416,586**	428,089,275

* Note: The Group's interest expenses include interest on bank loans, other loans and bonds with warrants which will be expired within 5 years.

24. Investment income

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Long term investment income under equity method	**88,298,370**	82,901,417
Long term equity investment income under cost method	**–**	4,793,786
Other investment income	**295,633**	4,395
Total	**88,594,003**	87,699,598

* During the current period, the Group's investment income from listed companies and unlisted companies are RMB10,301 and RMB88,583,702, respectively (during the six months ended 30 June 2010, the investment income from listed companies and unlisted companies was RMB4,551 and RMB87,695,047, respectively).

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

24. Investment income *(continued)*

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

	For the six months ended 30 June		Variation
	2011	2010	**reason**
	Unaudited	Unaudited	
BOC-Ma Steel	**37,065,435**	35,638,624	(i)
Jiyuan Jinma Coke Making	**32,560,866**	34,812,145	(ii)
Shanghai DaZhong Steel	**4,362,107**	9,580,262	(ii)
Tengzhou Shenglong Coke Making	**7,128.253**	11,944,220	(ii)
Maanshan Harbour	**7,775,781**	2,683,294	(i)

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

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

As at 30 June 2011, there was no significant restriction imposed upon the realisation of the Group's investment income.

25. Income tax

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
*The Mainland China:		
Current income expense	**76,524,678**	51,356,730
Adjustments in respect of current tax of previous periods	**(30,910)**	(3,207,925)
*Overseas:		
Current income expense	**15,080,553**	9,701,518
Deferred tax income	**26,470,916**	332,336,244
Total	**118,045,237**	390,186,567

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

25. Income tax *(continued)*

Relationship between income tax and profit before tax:

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Profit before tax	**488,378,170**	1,469,660,424
Tax at the applicable tax rate of 25% (i)	**122,034,475**	367,415,007
Effect of different tax rates of subsidiaries	**2,437,528**	1,386,621
Expenses not deductible for tax	**33,104,658**	62,185,173
Adjustment in respect of current tax of previous periods	**(30,910)**	(3,207,924)
Other tax concessions	**(10,636,822)**	(15,045,806)
Income not subject to tax	**(17,058,673)**	(1,297,226)
Tax losses not recognised	**12,083,114**	960,007
Tax losses utilised	**(1,541,862)**	(1,652,073)
Profits and losses attributable to jointly-controlled entities and associates	**(22,346,271)**	(20,557,212)
Tax charge at the Group's effective rate	**118,045,237**	390,186,567

(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.

26. Earnings per share

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

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.

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

26. Earnings per share *(continued)*

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.

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

	For the six months ended 30 June	
	2011 Unaudited	2010 Unaudited
Profit attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**310,052,416**	1,041,639,495
	Number of shares	Number of shares
Shares		
Weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation	**7,700,681,186**	7,700,681,186
Effect of dilution – weighted average number of ordinary shares:		
Warrants attached to bonds	**N/A**	N/A
Weighted average number of ordinary shares in issue after adjustment	**N/A**	N/A

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

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

27. Other comprehensive income

	For the six months ended 30 June	
	2011 Unaudited	2010 Unaudited
Exchange fluctuation reserve	**13,130,600**	(19,277,392)

28. Notes to items of statement of cash flows

	For the six months ended 30 June	
	2011 Unaudited	2010 Unaudited
Cash received relating to other operating activities:		
Specific subsidies granted by government	**12,745,262**	39,305,498
Others	**367,703**	–
	13,112,965	39,305,498
Cash paid relating to other operating activities:		
Supporting services	**54,840,500**	45,661,600
Security expenses	**43,560,521**	37,927,195
Office expenses	**125,222,838**	96,308,753
Transportation expenses	**101,078,265**	70,155,444
Flooding prevention expenses	**8,144,408**	13,788,858
Environmental improvement fee	**18,271,531**	24,148,634
Research and development fee	**4,285,957**	20,945,591
Others	**45,611,036**	58,242,995
Total	**401,015,056**	367,179,070
Cash received relating to other investing activities:		
Government subsidies granted for specific projects	**–**	23,060,000
Net cash inflows in acquisition of subsidiary	**383,261,393**	–
Cash received from the decrease of term deposits over three months	**–**	26,372,000
Total	**383,261,393**	49,432,000

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

29. Cash flows from operating activities

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Net profit	**310,052,416**	1,041,639,495
Add: Minority interests	**60,280,517**	37,834,362
Provision for inventories	**–**	13,906,462
Depreciation of fixed assets	**2,314,619,549**	2,413,615,535
Amortisation of investment properties	**111,297**	85,764
Amortisation of intangible assets	**25,944,732**	23,276,979
Amortisation of deferred income	**(40,791,454)**	(39,855,757)
Loss/(gain) on disposal of non-current assets	**2,654,836**	(2,118,190)
Financial expenses	**372,607,669**	413,177,154
Investment income	**(88,594,003)**	(87,699,598)
Loss on fair value changes	**72,820**	87,920
Decrease in deferred tax assets	**27,213,214**	332,336,245
Decrease in deferred tax liabilities	**(742,297)**	–
Increase in inventories	**(959,636,274)**	(2,925,517,968)
Increase in receivables from operating activities	**(974,232,413)**	(3,266,788,805)
Increase in payables from operating activities	**522,529,200**	1,531,815,748
Net cash flows from operating activities	**1,572,089,809**	(514,204,654)

30. Cash and cash equivalents

Net movement of cash and cash equivalents

	30 June 2011	31 December 2010
	Unaudited	Audited
Cash closing balance	**8,795,896,163**	5,385,065,613
Less: Cash opening balance	**5,385,065,613**	5,502,947,835
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivelents	**–**	–
Net increase/(decrease) of cash and cash equivelents	**3,410,830,550**	(117,882,222)

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

30. Cash and cash equivalents *(continued)*

	30 June 2011 Unaudited	31 December 2010 Audited
Cash		
Including: Cash on hand	**1,473,038**	155,208
Balances with financial institutions without restriction	**8,626,885,928**	5,022,307,410
Time deposits	**1,136,441,796**	1,360,228,397
Cash and cash equivalents	**9,764,800,762**	6,382,691,015
Less: pledged deposits		
* -pledged for granting trading facilities (Note1)	**968,904,599**	997,625,402
	968,904,599	997,625,402
Cash and cash equivalents in consolidated cash flow statement	**8,795,896,163**	5,385,065,613

*31. Dividend

The board of directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (30 June 2010: Nil).

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 (%)	Organization code
Holding	Limited liability	Anhui, PRC	Gu Jianguo	Manufacturing	6,298,290,000	50.47	50.47	15050914-4

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

2. Subsidiaries

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

3. Associates and jointly-controlled entities of the Group

Associates and jointly-controlled entities of the Group are stated in NoteV.7.

4. Other related parties

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

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

4. Other related parties *(continued)*

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

(i): The name of the company was changed in the current period, and its original name was Masteel Group Construction Co., Ltd.

(ii): The name of the company was changed in the current period, and its original name was Masteel Group Road and Bridge Construction Co., Ltd.

(iii): The name of the company was changed in the current period, and its original name was Masteel Group Kang Tei Property Co., Ltd.

(iv): The name of the company was changed in the current period, and its original name was Masteel Group Kang Tei Building and Installing Industry Co., Ltd

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

(1) Purchases of iron ore from related party

		For the six months ended 30 June			
		2011 Unaudited		2010 Unaudited	
	Note	Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Holding	(i)	1,160,337,088	5	1,016,940,297	15
Total		1,160,337,088	5	1,016,940,297	15

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

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			
		2011		2010	
		Unaudited		Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(ii)	**52,760,558**	**52**	65,985,186	74
Masteel Group Li Sheng Co., Ltd	(ii)	**10,083,306**	**10**	5,543,118	6
Masteel Group Industry Development Co., Ltd	(ii)	**16,693,944**	**17**	6,786,213	8
Maanshan steel Construction (Group) Co., Ltd	(ii)	**11,249,405**	**11**	2,913,141	3
Masteel Group Steel Scrap Intergrated Utilization Co., Ltd	(ii)	**1,411,735**	**1**	3,874,386	4
Other	(ii)	**8,424,208**	**9**	3,877,001	5
Total		**100,623,156**	**100**	88,979,045	100

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

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			
		2011		2010	
		Unaudited		Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**1,409,103**	**16**	555,101	47
Masteel Shen Ma Metal Co., Ltd	(iii)	**759,300**	**8**	616,097	53
Masteel Group Industry Development Co., Ltd	(iii)	**6,867,690**	**76**	–	–
Total		**9,036,093**	**100**	1,171,198	100

(iii) These transactions with 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			
		2011		2010	
		Unaudited		Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**24,265,000**	**100**	24,265,000	100

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

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			
		2011 Unaudited		2010 Unaudited	
	Note	Amount RMB	Similar transaction %	Amount RMB	Similar transaction %
Masteel Group Industry Development Co., Ltd	(iii)	9,661,805	3	1,622,726	1
Masteel Group Li Sheng Co., Ltd	(iii)	–	–	475,864	–
Maanshan Steel Construction (Group) Co., Ltd	(iii)	110,096,631	38	40,612,900	14
Others	(iii)	710,134	–	370,430	–
Total		120,468,570	41	43,081,920	15

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

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			
		2011		2010	
		Unaudited		Unaudited	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
Holding	(iii)	**3,217,632**	**–**	2,547,517	2
Maanshan Steel Construction (Group) Co., Ltd	(iii)	**22,769,869**	**3**	44,445,703	41
Maanshan Jia Hua Commodity Concrete Co., Ltd	(iii)	**161,689**	**–**	215,534	–
Masteel Group Li Sheng Co., Ltd	(iii)	**1,028,117**	**–**	770,379	1
Masteel Group Steel Scrap Intergrated Utilization Co., Ltd	(iii)	**7,203,117**	**1**	193,265	–
Other	(iii)	**2,360,929**	**–**	1,443,948	2
Total		**36,741,353**	**4**	49,616,346	46

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

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			
		2011		2010	
		Unaudited		Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iii)	**–**	**–**	1,454,589	–
Maanshan Jiang Hua Commodity Concrete Co., Ltd	(iii)	**186,521**	**–**	381,956	–
Maanshan Steel Construction (Group) Co., Ltd	(iii)	**865,451**	**–**	–	–
Total		**1,051,972**	**–**	1,836,545	–

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

(8) Interest expenses paid to related party

		For the six months ended 30 June			
		2011		2010	
		Unaudited		Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
Holding	(iv)	**235,677**	**0.01**	907,355	0.2

(iv) Bank loans of RMB10,000,000 in aggregate (2010: RMB10,000,000) were lent by Holding through an entrusted loan arrangement with the Industrial and Commercial Bank of China to a subsidiary of the Group. The loan will mature in one year and has an annual interest rate of 4.778%.

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

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

(9) Purchases of coke from associates

		For the six months ended 30 June			
		2011		2010	
		Unaudited		Unaudited	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
Jiyuan JinMa Coke	(v)	**–**	**–**	40,012,535	3
Tengzhou Shenglong Coke	(v)	**117,233,346**	**7**	198,841,844	13
Total		**117,233,346**	**7**	238,854,379	16

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbor and were conducted in accordance with the terms mutually agreed between the parties.

(10) Loading expenses paid to associate

		For the six months ended 30 June			
		2011		2010	
		Unaudited		Unaudited	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
Maanshan Harbor	(v)	**78,040,061**	**15**	74,347,666	14

(v) These transactions were made between the Group and Jiyuan JinMa Coke, Tengzhou Shenglong Coke, Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

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

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

(11) Rental income from jointly-controlled entity

		For the six months ended 30 June			
		2011		2010	
		Unaudited		Unaudited	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
BOC-Ma Steel	(vi)	**625,000**	**66**	625,000	56

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

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

		For the six months ended 30 June			
		2011		2010	
		Unaudited		Unaudited	
			Similar		Similar
		Amount	**transaction**	Amount	transaction
	Note	**RMB**	**%**	RMB	%
BOC-Ma Steel	(vi)	**135,410,985**	**69**	127,733,004	76

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

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

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

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

		For the six months ended 30 June			
		2011 Unaudited		2010 Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
BOC-Ma Steel	(vi)	**5,071,245**	**100**	2,317,512	100

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

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

		For the six months ended 30 June			
		2011 Unaudited		2010 Unaudited	
	Note	**Amount RMB**	**Similar transaction %**	Amount RMB	Similar transaction %
BOC-Ma Steel	(vi)	**260,020,641**	**100**	242,385,646	100

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

The transactions (i), (ii), (iii), (v) and (vi) above are the significant transactions carried out between the Group and its related parties during the period.

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

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

(15) Guarantee for related party

30 June 2011	Note	**Guarantee name**	**Guarantee amount**	**Start date**	**End date**	**Is guarantee mature**
Holding	(vii)	The Company	1.618 billion	2011.2	2012.11	No as at the signing date of the report

31 December 2010	Note	Guarantee name	Guarantee amount	Started date	End date	Is guarantee mature
Holding	(vii)	The Company	2.106 billion	2010.2	2012.3	No as at the signing date of the report

(vii) Holding guaranteed certain bank loans of the Group amounting approximately to RMB1.618 billion (2010: approximately RMB2.106 billion) on 30 June 2011 at nil consideration. Holding guaranteed bonds with warrants amounting approximately to RMB9.223 billion (31 December 2010: approximately RMB9.838 billion).

(16) Further details on balances with 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.

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

6. Receivables from/payables to related parties

	30 June 2011 Unaudited	31 December 2010 Audited
Prepayments:		
Holding and its subsidiaries		
Maanshan Steel Construction (Group) Co., Ltd	6,388,669	–
Anhui Masteel Luo He Mining Co., Ltd	83,642,080	–
Other entities controlled by Holding	380,500	81,500
Total	90,411,249	81,500
Accounts payable:		
Holding and its subsidiaries		
Maanshan Steel Construction (Group) Co., Ltd	7,326,682	12,903,085
Masteel Group Road and Bridge Construction Co., Ltd	1,443,453	2,736,282
Masteel Group Li Sheng Co., Ltd	4,125,926	–
Masteel Group Industry Development Co., Ltd	10,141,256	–
Holding	61,410	19,340,667
Other entities controlled by Holding	3,446,854	41,579,953
Total	26,545,581	76,559,987
Associates and Jointly-controlled entities of the Group		
BOC-Ma Steel	18,995,765	18,889,363
Jiyuan JinMa Coke	223,791	223,791
Maanshan Harbor	14,501,814	13,892,441
Tengzhou Shenglong Coke	2,342,793	3,505,120
All-monitor Transmission System	12,720	–
Total	36,076,883	36,510,715

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

6. Receivable from/payable to related parties *(continued)*

	30 June 2011 Unaudited	31 December 2010 Audited
Trade receivables:		
Holding and its subsidiaries		
Holding	**44,827,447**	53,391,979
Maanshan Jiang Hua Commodity Concrete Co., Ltd	**20,453**	–
Maanshan Steel Construction (Group) Co., Ltd	**3,829,938**	25,437,535
Other entities controlled by Holding	**1,244,291**	–
Total	**49,922,129**	78,829,514
Associates and Jointly-controlled entities of the Group		
Maanshan Harbor	**114,822**	435,502
Deposits received:		
Holding and its subsidiaries		
Anhui BRC & Masteel Weldmesh Co., Ltd	**17,873,261**	19,481,523
Holding	**921,511**	29,168,967
Masteel Group Industry Development Co., Ltd	**138,448,577**	72,181,444
Anhui Masteel Luo He Mining Co., Ltd	**7,851,977**	
Other entities controlled by Holding	**2,892,197**	4,745,147
Total	**167,987,523**	125,577,081
Associates and Jointly-controlled entities of the Group		
Tengzhou Shenglong Coke	**161,305**	145,600
Dividends receivable:		
Associates and Jointly-controlled entities of the Group		
BOC-Ma Steel	**20,609,394**	–
Jiyuan JinMa Coke	**88,800,000**	118,800,000
Total	**109,409,394**	118,800,000
Dividends payable:		
Holding	**191,528,000**	501,402,557

These balances are unsecured, interest-free and have no fixed terms of repayment. As at 30 June 2011 and 31 December 2010, no bad debt provision was made for receivables due from related parties.

VII. CONTINGENT LIABILITIES

1. Guarantee

As at 30 June 2011, the Company granted guarantees amounting to approximately RMB0.356 billion (31 December 2010: approximately RMB0.374 billion) to banks in connection with facilities granted to its subsidiaries. * As at 30 June 2011, there were no facilities utilised (31 December 2010: Nil).

2. Difference of corporate income tax

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

VIII. COMMITMENTS

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

	30 June 2011 Unaudited RMB'000	31 December 2010 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	**8,478,690**	5,206,758
Contracted, but not provided for	**22,715,595**	454,463
Total	**31,194,285**	5,661,221
Investment commitments		
Contracted, but not provided for	**–**	35,000

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 were as follows:

	30 June 2011 Unaudited RMB'000	31 December 2010 Audited RMB'000
Capital commitments		
Authorised, but not contracted for	–	111

IX. POST BALANCE SHEET EVENTS

As at 29 July 2011, the Company received the approval from China Securities Regulatory Commission ("CSRC"), "the approval of allowance to Maanshan Iron & Steel Company Limited to issue company bonds" (Securities regulatory license [2011] No. 1177), to issue company bonds publicly with par value no more than RMB5.5 billion. The approval is effective within six month from the date of approval.

X. OTHER SIGNIFICANT EVENTS

1. Leases

As lessor

The Group has leased certain of its investment properties under operating lease arrangement ranging from 2 to18 years. The periodic rent is fixed during the operating lease periods.

	30 June 2011 Unaudited	31 December 2010 Audited
Remaining lease period		
Within 1 year, inclusive	1,900,000	1,900,000
1 to 2 years, inclusive	1,750,000	1,750,000
2 to 3 years, inclusive	1,750,000	1,750,000
Over 3 years	10,625,000	11,407,534
Total	16,025,000	16,807,534

As lessee

* The rental expenses of operating lease recorded in profit or loss in the current period amounted to RMB24,265,000 (30 June 2010: RMB24,265,000).

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. Assets at fair value

30 June 2011

	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	826,640	(72,820)	–	–	753,820

31 December 2010

	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	1,037,360	(210,720)	–	–	826,640

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. Operating segment information

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

The Group's information

Products and service information

External principal operating income

	For the six months ended 30 June	
	2011 Unaudited RMB	2010 Unaudited RMB
Sale of steel products	**36,079,816,987**	29,088,650,586
Sale of steel billets and pig iron	**287,071,337**	266,661,197
Sale of coke by-products	**531,044,162**	406,494,932
Others	**1,217,351,385**	430,961,397
Total	**38,115,283,871**	30,192,768,112

Geographical information

External principal operating income

	For the six months ended 30 June	
	2011 Unaudited RMB	2010 Unaudited RMB
The PRC	**37,460,289,727**	29,212,894,099
Overseas	**654,994,144**	979,874,013
Total	**38,115,283,871**	30,192,768,112

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. Operating segment information *(continued)*

Geographical information *(continued)*

Non-current assets

	30 June 2011 Unaudited RMB'000	31 December 2010 Audited RMB'000
The PRC	40,101,688,591	38,893,484,379
Overseas	135,562,229	202,121,717
Total	40,237,250,820	39,095,606,096

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.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

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

The aging analysis of trade receivables is as follows:

	30 June 2011 Unaudited	31 December 2010 Audited
Within one year	1,641,367,767	2,274,689,449
One to two years	55,664,455	40,161,435
Two to three years	21,579,185	40,367,325
Over three years	28,812,753	8,999,801
	1,747,424,160	2,364,218,010
Less: Provision for bad debts	13,382,203	13,382,203
Total	1,734,041,957	2,350,835,807

Trade receivables balance is analysed as follows:

	30 June 2011 (Unaudited)				31 December 2010 (Audited)			
	Balance	Book Value Ratio (%)	Provision for bad debts Amount	Ratio (%)	Balance	Book Value Ratio (%)	Provision for bad debts Amount	Ratio (%)
Individually significant and assessed impairment individually	763,860,393	44	(6,927,040)	1	856,832,212	36	(6,927,040)	1
Other insignificant but assessed impairment individually	983,563,767	56	(6,455,163)	1	1,507,385,798	64	(6,455,163)	-
Total	1,747,424,160	100	(13,382,203)		2,364,218,010	100	(13,382,203)	

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

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

1. Trade receivables *(continued)*

The following balances are denominated in foreign currencies:

	30 June 2011			31 December 2010		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
USD	46,371,201	6.4716	300,095,863	47,603,264	6.6227	315,262,136
EUR	719,196	9.3612	6,732,538	80,318	8.8065	707,321
			306,828,401			315,969,457

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

	For the six months ended 30 June	
Reason	2011 Unaudited	2010 Unaudited
Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable	–	–
Less: Reversal of bad debts provisions written-off in prior year	–	4,000
Total	–	(4,000)

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

1. Trade receivables *(continued)*

As at 30 June 2011, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	**Subsidiary**	**421,683,219**	**within one year**	**24**
Company 2	**Subsidiary**	**109,541,249**	**within one year**	**6**
Company 3	**Subsidiary**	**108,063,625**	**within one year**	**6**
Company 4	**Subsidiary**	**94,037,457**	**within one year**	**5**
Company 5	**Independent third party**	**73,131,140**	**within one year**	**4**
		806,456,690		**45**

As at 31 December 2010, the top five largest customers were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Subsidiary	1,046,963,539	within one year	44
Company 2	Independent third party	176,221,549	within one year	7
Company 3	Independent third party	174,252,178	within one year	7
Company 4	Independent third party	100,964,605	within one year	4
Company 5	Independent third party	99,402,907	within one year	4
		1,597,804,778		66

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

2. Other receivables

The ageing analysis of the other receivables is as follows:

	2011 Unaudited	2010 Audited
Within one year	58,036,038	70,384,692
One to two years	2,574,540	1,611,993
Two to three years	1,860,090	3,317,229
Over three years	6,667,765	5,403,133
	69,138,433	80,717,047
Less: Provision for bad debts	6,930,913	6,930,913
Total	62,207,520	73,786,134

Other receivables balance is analysed as follows:

	30 June 2011 Unaudited				31 December 2010 Unaudited			
	Balance	Book value rate (%)	Amount	Provision for bad debts rate (%)	Balance	rate (%)	Book value Amount	Provision for bad debts rate (%)
Individually significant and assessed impairment Individually	41,736,352	60	(2,400,000)	6	37,441,143	46	(2,400,000)	6
Other insignificant but assessed impairment Individually	27,402,081	40	(4,530,913)	17	43,275,904	54	(4,530,913)	10
Total	69,138,433	100	(6,930,913)		80,717,047	100	(6,930,913)	

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

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

2. Other receivables *(continued)*

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

As at 30 June 2011, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	4,541,222	Within one year	7
Company 2	Independent third party	2,400,000	One to two years	3
Company 3	Independent third party	1,768,163	Over three years	3
Company 4	Subsidiary	1,489,876	Within one year	3
Company 5	Independent third party	1,288,268	Two to three years	3
		11,487,529		19

As at 31 December 2010, the top five largest other receivables were as follows:

	Relation with the Group	Balance	Aging	Ratio (%)
Company 1	Independent third party	31,535,253	Within one year	39
Company 2	Independent third party	3,503,840	One to two years	4
Company 3	Independent third party	2,400,000	Over three years	3
Company 4	Independent third party	1,790,200	Within one year	2
Company 5	Subsidiary	1,489,877	Two to three years	2
		40,719,170		50

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

3. Assets impairment provisions

	For the six months ended 30 June 2011					
		Increase	Decrease			
	Opening	during the	during the period			Closing
	Balance	year	Reversal	Write-back	Write-off	balance
Provision for bad debts	20,313,116	–	–	–	–	20,313,116
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	6,930,913	–	–	–	–	6,930,913
Provision for inventories	61,875,468	–	–	(334,534)	–	61,540,934
Including: Raw Materials	–	–	–	–		
Spare parts	61,875,468	–	–	(334,534)	–	61,540,934
Impairment of long term equity investments	–	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	87,854,736	–	–	–	–	87,854,736
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	82,602,336	–	–	–	–	82,602,336
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	170,043,320	–	–	(334,534)	–	169,708,786

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

3. Assets impairment provisions *(continued)*

	For the year ended 31 December 2010					
		Increase	Decrease			
	Opening	during the	during the year			Closing
	Balance	year	Reversal	Write-back	Write-off	balance
Provision for bad debts	24,951,245	–	–	–	(4,638,129)	20,313,116
Including: Trade receivables	18,020,332	–	–	–	(4,638,129)	13,382,203
Other receivables	6,930,913	–	–	–	–	6,930,913
Provision for inventories	82,043,978	13,906,462	–	(34,074,972)	–	61,875,468
Including: Raw Materials	33,417,210	–	–	(33,417,210)	–	–
Spare parts	48,626,768	13,906,462	–	(657,762)	–	61,875,468
Impairment of long term equity investments	–	–	–	–	–	–
Impairment of investment properties	–	–	–	–	–	–
Impairment of fixed assets	90,675,644	–	–	–	(2,820,908)	87,854,736
Including: Buildings and structures	5,252,400	–	–	–	–	5,252,400
Plant, machinery and equipment	85,423,244	–	–	–	(2,820,908)	82,602,336
Impairment of construction in progress	–	–	–	–	–	–
Impairment of intangible assets	–	–	–	–	–	–
Total	197,670,867	13,906,462	–	(34,074,972)	(7,459,037)	170,043,320

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	
	2011	2010
	Unaudited	Unaudited
Principal operating income	**33,505,670,650**	29,397,308,973
Other operating income	**5,211,517,555**	2,566,275,696
Total	**38,717,188,205**	31,963,584,669

Cost of sales is stated as follows:

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Principal cost of sales	**32,857,491,901**	27,559,640,461
Other cost of sales	**4,997,932,416**	2,356,496,926
Total	**37,855,424,317**	29,916,137,387

Principal operating income is stated as follows:

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Sale of steel products	**32,259,041,292**	28,116,878,889
Sale of steel billets and pig iron	**282,856,568**	256,515,022
Sale of coke by-products	**442,635,589**	557,412,053
Others	**521,137,201**	466,503,009
Total	**33,505,670,650**	29,397,308,973

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

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

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

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

In the first half of 2010, the revenue from the top five largest customers was as follows:

	Amount	Rate in total revenue (%)
Company 1	1,302,367,957	8
Company 2	1,105,613,271	5
Company 3	820,323,189	4
Company 4	771,981,098	3
Company 5	658,347,271	3
Total	4,658,632,786	23

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

5. Investment income

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Long term equity investment income under equity method	**89,385,084**	82,228,847
Long term equity investment income under cost method	**51,193,432**	172,432,210
Other investment income	**210,090**	4,394
Total	**140,788,606**	254,665,451

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

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

6. Cash flows from operating activities

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Net profit	**126,299,421**	1,005,779,502
Add: Provision for inventories	**–**	13,906,462
Depreciation of fixed assets	**2,167,091,560**	2,307,748,886
Amortisation of investment properties	**34,453**	405,049
Amortisation of intangible assets	**16,039,558**	15,922,501
Amortisation of deferred income	**(38,965,629)**	(38,906,757)
Gain on disposal of non-current assets	**(2,999,882)**	(1,347,085)
Financial expenses	**219,452,505**	332,787,123
Investment income	**(140,788,606)**	(254,665,451)
Loss on fair value changes of financial assets held for trading	**72,820**	87,920
Decrease in deferred tax assets	**17,683,580**	328,086,567
(Increase)/decrease in inventories	**165,202,254**	(2,183,983,318)
(Increase)/decrease in receivables from operating activities	**475,636,581**	(3,264,557,301)
Increase in payables from operating activities	**2,227,897,601**	233,129,839
Net cash flows from operating activities	**5,232,656,216**	(1,505,606,063)

* XII. NET CURRENT ASSETS

	The Group		The Company	
	30 June 2011 Unaudited	December 31 2010 Audited	**30 June 2011 Unaudited**	December 31 2010 Audited
Current assets	**38,989,088,581**	30,515,450,995	**28,373,242,223**	25,047,202,788
Less: Current liabilities	**38,495,108,113**	29,166,308,995	**28,736,755,606**	23,735,484,088
Net current assets/(liabilities)	**493,980,468**	1,349,142,000	**(363,513,383)**	1,311,718,700

* XIII. TOTAL ASSETS LESS CURRENT LIABILITIES

	The Group		The Company	
	30 June 2011 Unaudited	December 31 2010 Audited	**30 June 2011 Unaudited**	December 31 2010 Audited
Total assets	**79,712,711,946**	70,104,925,186	**66,666,948,691**	62,727,462,683
Less: Current liabilities	**38,495,108,113**	29,166,308,995	**28,736,755,606**	23,735,484,088
Total assets less current liabilities	**41,217,603,833**	40,938,616,191	**37,930,193,085**	38,991,978,595

XIV. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 August 2011.

1. NON-RECURRING GAINS OR LOSSES ITEMS

	For the six months ended 30 June	
	2011	2010
	Unaudited	Unaudited
Items of non-recurring gains or losses		
Gain/(loss) on disposal of non-current assets	**(2,654,836)**	2,118,190
Subsidies income	**12,745,262**	39,305,498
Amortisation of deferred income	**40,791,454**	39,855,757
Other non-operating income and expense items	**(1,582,440)**	(418,009)
Loss on fair value changes	**(72,820)**	(87,920)
Dividends from financial assets held for trading	**–**	4,551
Other investment income/(loss)	**295,632**	(157)
	49,522,252	80,777,910
Less: Income tax effect on items of non-recurring gains or losses	**11,887,491**	9,516,186
Non-recurring gains or losses attributable to minority shareholders	**1,872,619**	1,720,377
Net effect of non-recurring gains or losses	**35,762,142**	69,541,347
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit attributable to ordinary equity holders of the parent	**310,052,416**	1,041,639,495
Less: Net effect of non-recurring gains or losses	**35,762,142**	69,541,347
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	**274,290,274**	972,098,148

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.

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2011

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

For the six months ended 30 June 2010

	Weighted average return on net assets (%)	Earnings per share (RMB) Basic	Diluted
Net profit attributable to equity holders of the parent	3.86	0.135	N/A
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses	3.60	0.126	N/A

The above return on net assets and earnings per share are calculated based on the formula stipulated in the notice of No.9 [2010] "Regulation for the preparation of information disclosure for listed securities companies No.9 – Calculation and disclosure of return on net assets and earnings per share" (2010 revised) issued by CSRC.

3. VARIANCE ANALYSIS

Analysis on items with fluctuation more than 30% (inclusive) in interim consolidated financial statements is as follows:

(1) Cash and bank balances amounted to RMB9,764,800,762, an increase of 53% over the previous year-end, which was mainly attributable to the increase in bank loans for working capital.

(2) Prepayments amounted to RMB4,017,199,272, an increase of 192% over the previous year-end, which was mainly attributable to the increased raw material consumption and the increase in raw material prices.

(3) Other receivables amounted to RMB1,072,643,111, an increase of 51% over the previous year-end, which was mainly attributable to the increase in prepayments for import customs and taxes.

(4) Construction in progress amounted to RMB3,281,132,764, an increase of 118% over the previous year, which was mainly attributable to the acquisition of Anhui Chang Jiang Iron and Steel during the current period.

(5) Short term loan amounted to RMB5,124,692,013, an increase of 424% over the previous year-end, which was mainly attributable to the increase in loans for working capital resulting from the increased volumes of steel product sales and commercial trading business.

(6) Accounts payable amounted to RMB7,568,414,651, an increase of 36% over the previous year-end, which was mainly attributable to the increase in the volume and price of raw materials purchased during the current period.

(7) Interest payable amounted to RMB40,172,506, a decrease of 31% over the previous year-end, which was mainly attributable to the payment of medium-term note interest in February 2011.

(8) Deferred tax liabilities amounted to RMB45,226,879, an increase of 100% over the previous year-end, which was mainly attributable to the revaluation surplus of assets acquired from Auhui Chang Jiang Iron and Steel, which is not deductable for tax purposes.

3. VARIANCE ANALYSIS *(continued)*

(9) Revenue amounted to RMB43,151,233,659, an increase of 36% over the previous comparative period, which was mainly attributable to the increase in both sales volume and selling price of steel products.

(10) Cost of sales amounted to RMB41,526,530,287, an increase of 43% over the previous comparative period, which was mainly attributable to the increase in sales volume of steel products and the rising price of raw materials.

(11) Asset impairment losses was nil, a decrease of 100% over the previous comparative period, which was mainly attributable to the fact that no asset impairment event occurred in the current period.

(12) Non-operating expenses amounted to RMB4,604,980, an increase of 1,002% over the previous comparative period, which was mainly attributable to the increase in losses on disposal of non-current assets and public welfare donations.

(13) Income tax amounted to RMB118,045,237, a decrease of 70% over the previous comparative year, which was mainly attributable to the decrease in profit for the current period.

(14) Share of profit or loss for minority interests amounted to RMB60,280,517, an increase of 59% over the previous comparative period, which was mainly attributable to the increase in the profit of non-wholly-owned subsidiaries in the current period.

VII. Documents Available for Inspection

1. Interim report signed by Chairman of the Company;

2. Financial reports signed and stamped by the Company's legal representative, chief accountant and head of Accounting Department;

3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by the CSRC during the reporting period;

4. The Company's Articles of Association;

5. Interim report disclosed in other securities market;

6. Other related information.

Maanshan Iron & Steel Company Limited
Su Jiangang
Chairman

18 August 2011
Maanshan City, Anhui Province, the PRC