# 鞍鋼股份有限公司
# ANGANG STEEL COMPANY LIMITED*

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 347)

# 2012 INTERIM RESULTS ANNOUNCEMENT

**Important:** The board of directors, the supervisory committee, the directors, the supervisors and the senior management of the Company confirm that there are no false representations or misleading statements contained in, or material omissions from, this report, and jointly and severally take responsibilities for the truthfulness, accuracy and completeness of the contents contained herein.

The board of directors of the Company is pleased to announce the unaudited results of the Company and subsidiaries under its control for the six months ended 30 June 2012 together with the comparative figures as stated herein.

The interim financial report for 2012 of the Company and the financial data herein are prepared under the Accounting Standards for Business Enterprises in the PRC.

**Definitions:**

For the purpose of this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

| | |
|---|---|
| "Company" | Angang Steel Company Limited* (鞍鋼股份有限公司), a joint stock limited company incorporated in the PRC on 8 May 1997; |
| "CSRC" | the China Securities Regulatory Commission (中國証券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets; |
| "EPS" | earnings per share; |
| "Group" | the Company and subsidiaries under its control; |
| "Hong Kong Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "PRC" | the People's Republic of China, excluding, for the purpose of this announcement only, Hong Kong, Macau Special Administrative Region and Taiwan; |
| ''RMB'' | Renminbi, the lawful currency of the PRC; and |
| "VAT" | value added tax. |

# I. FINANCIAL ANALYSIS

## Consolidated Balance Sheet

*(Expressed in million RMB unless otherwise indicated)*

| Assets | *Note* | **30 Jun 2012 (unaudited)** | 31 Dec 2011 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash at banks and on hand | | **2,596** | 2,341 |
| Trading financial assets | | | |
| Notes receivable | | **11,364** | 5,914 |
| Account receivables | 2 | **2,516** | 1,879 |
| Prepayments | | **3,215** | 3,860 |
| Interests receivable | | | |
| Other receivables | | **64** | 34 |
| Inventories | | **12,763** | 14,242 |
| Non-current assets due within 1 year | | | |
| Other current assets | | **94** | 94 |
| **Total current assets** | | **32,612** | 28,364 |
| **Non-current assets:** | | | |
| Available-for-sale financial assets | | **96** | 92 |
| Long-term equity investments | | **2,515** | 2,483 |
| Investment properties | | | |
| Fixed assets | | **52,526** | 53,566 |
| Construction in progress | | **9,063** | 9,136 |
| Construction material | | **61** | 132 |
| Intangible assets | | **6,746** | 6,824 |
| Deferred income tax assets | | **3,090** | 2,391 |
| Other non-current assets | | | |
| **Total non-current assets** | | **74,097** | 74,624 |
| **Total assets** | | **106,709** | 102,988 |

**Consolidated Balance Sheet**

| Liabilities and shareholders' equity | *Note* | 30 Jun 2012 (unaudited) | 31 Dec 2011 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term loans | | **16,303** | 10,630 |
| Notes payable | | **9,406** | 5,565 |
| Account payables | 3 | **5,341** | 4,687 |
| Advances from customers | | **4,191** | 4,396 |
| Employee benefits payable | | **332** | 318 |
| Tax and surcharges payable | | **(1,252)** | (1,914) |
| Interest payables | | **3** | 232 |
| Other payables | | **2,344** | 2,703 |
| Non-current liabilities due within 1 year | | **6,616** | 4,201 |
| Other current liabilities | | **3,010** | 6,005 |
| **Total current liabilities** | | **46,294** | 36,823 |
| **Non-current liabilities:** | | | |
| Long-term loans | | **9,129** | 13,135 |
| Deferred income tax liabilities | | **40** | 39 |
| Other non-current liabilities | | **700** | 686 |
| **Total non-current liabilities** | | **9,869** | 13,860 |
| **Total liabilities** | | **56,163** | 50,683 |
| **Shareholders' equity:** | | | |
| Share capital | | **7,235** | 7,235 |
| Capital reserve | | **31,461** | 31,458 |
| Special reserve | | **65** | 47 |
| Surplus reserves | | **3,570** | 3,570 |
| Undistributed profits | 4 | **6,465** | 8,441 |
| Differences from translation of foreign currency | | | |
| Subtotal of Shareholders' equity attributable to shareholders of parent company | | **48,796** | 50,751 |
| Minority interests | | **1,750** | 1,554 |
| **Total shareholders' equity** | | **50,546** | 52,305 |
| **Total liabilities and shareholders' equity** | | **106,709** | 102,988 |

**Consolidated Income Statement**

| Items | | *Note* | **6 months ended 30 Jun 2012 (unaudited)** | 6 months ended 30 Jun 2011 (unaudited) |
|---|---|---|---|---|
| **1. Operating income** | | | **39,378** | 46,334 |
| Including: | Operating income from main business | 5 | **39,378** | 46,334 |
| **2. Operating costs** | | | **42,395** | 46,515 |
| Including: | Operating costs for main business | 5 | **38,325** | 42,723 |
| | Business tax and surcharges | | **67** | 68 |
| | Marketing expenses | | **658** | 753 |
| | Administrative expenses | | **1,473** | 1,573 |
| | Financial expenses | 7 | **856** | 817 |
| | Impairment losses on assets | | **1,016** | 581 |
| Add: | gains/losses from fair value variation | | | |
| | Investment income | | **201** | 231 |
| Including: | Income from investment in joint ventures and associates | | **201** | 229 |
| **3. Operating profit/(loss)** | | | **(2,816)** | 50 |
| Add: | Non-operating income | | **50** | 106 |
| Less: | Non-operating expenses | | **13** | 23 |
| Including: | Losses on non-current assets disposal | | **13** | 22 |
| **4. Profit/(loss) before income tax** | | | **(2,779)** | 133 |
| Less: | Income tax expenses | 8 | **(699)** | (11) |
| **5. Net profit/(loss) for the year** | | | **(2,080)** | 144 |
| Net profit/(loss) attributable to shareholders of parent company | | | **(1,976)** | 220 |
| Gains/losses attributable to minority shareholders | | | **(104)** | (76) |

| Items | | *Note* | **6 months ended 30 Jun 2012 (unaudited)** | 6 months ended 30 Jun 2011 (unaudited) |
|---|---|---|---|---|
| **6. Earning per share** | | | | |
| (1) | Basic earnings per share | 9 | **(0.273)** | 0.030 |
| (2) | Diluted earnings per share | 9 | **(0.273)** | 0.030 |
| **7. Other comprehensive income** | | | **3** | (8) |
| **8. Total comprehensive income** | | | **(2,077)** | 136 |
| Share of total comprehensive income attributable to shareholders of parent company | | | **(1,973)** | 212 |
| Share of total comprehensive income attributable to minority interest | | | **(104)** | (76) |

## NOTES

### 1. BASIS OF PREPARATION

The financial statements of the Group are prepared on the assumption of going concern principle based on the actual transactions and events, under the accounting standard for business enterprise enacted by the Ministry of Finance of PRC in February 2006 and 38 specific accounting standards, the followed application guidelines, interpretations and other related rules ("Enterprise Accounting Standards"), and the disclosure requirements under the CSRC Public Offering of Securities of the Company Information Disclosure Rule No. 15 — Financial Report of the General Provisions (2010 Amendment).

## 2. ACCOUNT RECEIVABLES

*(1) Classified by nature*

| Items | Closing balance: Book balance: Balance | Closing balance: Book balance: Percentage (%) | Closing balance: Bad debt provision: Balance | Closing balance: Bad debt provision: Percentage (%) |
|---|---|---|---|---|
| Account receivables with significant single amount on which bad debt provision made individually | **2,157** | **86** | | |
| Other account receivables with insignificant single accounts on which bad debt provision made individually | **359** | **14** | | |
| Total | **2,516** | **100** | | |

| Type | Opening balance: Book balance: Balance | Opening balance: Book balance: Percentage (%) | Opening balance: Bad debt provision: Balance | Opening balance: Bad debt provision: Percentage (%) |
|---|---|---|---|---|
| Account receivables with significant single amount on which bad debt provision made individually | 1,646 | 88 | | |
| Other account receivables with insignificant single accounts on which bad debt provision made individually | 233 | 12 | | |
| Total | 1,879 | 100 | | |

*(2) The aging analysis of account receivables*

| Aging | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | **2,511** | **100** | 1,876 | 100 |
| 1 to 2 years | **4** | | 1 | |
| 2 to 3 years | | | 1 | |
| Over 3 years | **1** | | 1 | |
| Total | **2,516** | **100** | 1,879 | 100 |

## 3. ACCOUNT PAYABLES

| Aging | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | **5,273** | **99** | 4,612 | 98 |
| 1 to 2 years | **19** | | 26 | 1 |
| 2 to 3 years | **1** | | 1 | |
| Over 3 years | **48** | **1** | 48 | 1 |
| Total | **5,341** | **100** | 4,687 | 100 |

## 4. UNDISTRIBUTED PROFITS

| Items | This period |
|---|---|
| Undistributed profits at the end of last period before adjustment | 8,441 |
| Adjustment for undistributed profits at the beginning of period | |
| Undistributed profits at the end of last period after adjustment | 8,441 |
| Add: Net profits attributable to owners of parent company during this period | (1,976) |
| Undistributed profits at the end of period | 6,465 |

## 5. OPERATING INCOME AND OPERATING COSTS

*(1) Operating income and operating costs*

| Items | **This period** | Last period |
|---|---|---|
| Operating income from main operation | **39,263** | 46,224 |
| Other operating income | **115** | 110 |
| Total | **39,378** | 46,334 |
| Operating costs for main operation | **38,191** | 42,620 |
| Other operating costs | **134** | 103 |
| Total | **38,325** | 42,723 |

*(2) Main operation according to industry*

| | **This period** | | Last period | |
|---|---|---|---|---|
| **Name of industry** | **Operating income from main operation** | **Operating costs for main operation** | Operating income from main operation | Operating costs for main operation |
| Ferrous metal smelting and steel rolling process | **39,263** | **38,191** | 46,224 | 42,620 |
| Total | **39,263** | **38,191** | 46,224 | 42,620 |

*(3) Main operation according to products*

| | **This period** | | Last period | |
|---|---|---|---|---|
| **Name of products** | **Operating income from main operation** | **Operating costs for main operation** | Operating income from main operation | Operating costs for main operation |
| Hot rolled products | **13,701** | **13,213** | 13,552 | 12,568 |
| Cold rolled products | **15,020** | **14,658** | 19,111 | 16,700 |
| Medium -thick plate | **5,087** | **4,833** | 7,658 | 7,378 |
| Others | **5,455** | **5,487** | 5,903 | 5,974 |
| Total | **39,263** | **38,191** | 46,224 | 42,620 |

*(4) Main operation according to regions*

| Regions | This period | | Last period | |
|---|---|---|---|---|
| | **Operating income from operation** | **Operating costs for operation** | Operating income from operation | Operating costs for operation |
| China | **35,770** | **34,782** | 41,903 | 38,746 |
| Overseas | **3,493** | **3,409** | 4,321 | 3,874 |
| Total | **39,263** | **38,191** | 46,224 | 42,620 |

*(5) Top five buyers*

| **Period** | **Sum of top five buyers** | Proportion *(%)* |
|---|---|---|
| **This period** | **8,358** | **21** |
| Last period | 10,957 | 24 |

## 6. Depreciation and amortization

| **Items** | **This period** | Last period |
|---|---|---|
| Depreciation of fixed assets | **2,758** | 6,887 |
| Amortization of intangible assets | **82** | 168 |
| Total | **2,840** | 7,055 |

## 7. FINANCIAL EXPENSES

| **Items** | **This period** | Last period |
|---|---|---|
| Interest expenses | **1,131** | 973 |
| Minus: Interest income | **17** | 15 |
| Minus: Capitalization of interest | **244** | 184 |
| Exchange gain and loss | **(35)** | 6 |
| Minus: Capitalization of exchange gain and loss | | |
| Others | **21** | 37 |
| Total | **856** | 817 |

## 8. INCOME TAX EXPENSES

| **Items** | **This period** | Last period |
|---|---|---|
| Income tax calculated according to the Law of Tax and relevant regulations | | 42 |
| Adjustments on deferred income tax | **(699)** | (53) |
| Total | **(699)** | (11) |

The income tax expense is incurred in mainland China, and is calculated at 25% of the taxable income.

## 9. BASIC EPS AND DILUTED EPS

The basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public.

*(1) Basic EPS and diluted EPS*

| | **This period** | | Last period | |
|---|---|---|---|---|
| **Profits of the reporting period** | **Basic EPS** | **Diluted EPS** | Basic EPS | Diluted EPS |
| Net profit attributable to ordinary shareholders | **(0.273)** | **(0.273)** | 0.030 | 0.030 |
| Net profit (exclusive of non-operating profit) attributable to ordinary shareholders | **(0.277)** | **(0.277)** | 0.022 | 0.022 |

*(2) Calculation of basic EPS and diluted EPS*

(i) Calculation of the current net profits belonging to the shareholders of ordinary shares when calculating the basic earnings per share:

| **Items** | **This period** | Last period |
|---|---|---|
| Net profit attributable to ordinary shareholders | **(1,976)** | 220 |
| Including: Net profit attributable to continuing operations | **(1,976)** | 220 |
| Net profit (exclusive of non-operating profit) attributable to ordinary shareholders | **(2,004)** | 158 |
| Including: Net profit attributable to continuing operations | **(2,004)** | 158 |

(ii) Calculation of the weighted average number of ordinary shares issued to the public when calculating the basic earnings per share:

| **Items** | **This period** | Last period |
|---|---|---|
| The number of ordinary shares issued to the public in the beginning of the period | **7,235** | 7,235 |
| Plus: the weighted average number of ordinary shares issued this period | | |
| Minus: the weighted average number of ordinary shares repurchase this period | | |
| The number of ordinary shares issued to the public in the end of the period | **7,235** | 7,235 |

(iii) As the Company did not have diluted potential ordinary shares during this period, therefore the diluted EPS equals the basic EPS.

### 10. SEGMENT INFORMATION

The Group is divided into one segment according to business type: production and sale of iron and steel products.

### 11. NET CURRENT ASSET

| Items | Closing balance | Opening balance |
|---|---|---|
| Current assets | **32,612** | 28,364 |
| Minus: Current liabilities | **46,294** | 36,823 |
| Net current asset/(liability) | **(13,682)** | (8,459) |

### 12. TOTAL ASSETS MINUS CURRENT LIABILITIES

| Items | Closing balance | Opening balance |
|---|---|---|
| Total assets | **106,709** | 102,988 |
| Minus: Current liabilities | **46,294** | 36,823 |
| Total assets minus current liabilities | **60,415** | 66,165 |

## II. DIRECTORS' REPORT

### 1. Analysis of the operation during the reporting period:

In the first half of the year, the steel market was under grave conditions. To cope with the ever-changing market conditions, the Company, together with all of its employees, forged its core competence and further tapped its potential through strengthened efforts in cost reduction and efficiency enhancement.

*(1) Maintaining stable production in line with the market trend*

From January to June, the Group produced 9,978,200 tonnes of iron, 9,646,000 tonnes of steel and 9,388,200 tonnes of steel products, representing a decrease of 3.55%, 3.77% and 2.95%, respectively, as compared with the same period of the previous year. The Company sold 9,035,000 tonnes of steel products, representing a decrease of 4.00% as compared with the same period of the previous year.

*(2) Endeavors in cost reduction and efficiency enhancement*

In the first half of the year, the Company dedicated itself to cost reduction and efficiency enhancement. To this end, the Company proactively negotiated with Angang Group Company on the pricing mechanism of iron concentrates based on the establishment of an optional procurement mechanism for imported iron ores. It also adopted a series of measures such as optimizing the blending of coal and ores, reducing the cost prior to iron making, contracting the volume of inventories, improving the efficiency of energy utilization, enhancing recycling and management over scrap steel as well as reducing the management costs, in order to lower the costs and boost the profitability of the Company.

*(3) Promoting competence in research and development through technological innovation*

In the first half of the year, the Company delivered 318 patent applications which had been accepted by the state, including applications for 101 invention patents and 217 utility model patents. The Company has actively carried out communications with peers in the industry with 4 cases regarding the application of significant technological achievements including Development of Low-carbon, Low-silicon and Nil-aluminum (or Low-aluminum) Transformation Induced Plasticity Steel （低碳低矽無鋁（低鋁）相變誘發塑性鋼的開發）being widely promoted to the whole industry for learning and reference.

Enhanced efforts were put into production and marketing researches on major new products under development, including high-grade steel for pipelines, high-grade steel for bridges, steel for rescue capsules, steel for oil well pipelines, steel for bearings, steel for nuclear power plants, high-grade steel for cords and weathering steel for railways.

*(4) Forging ahead with sustainable development with emphasis on energy saving and environmental protection*

In the first half of the year, through balancing energy management, the Company implemented a series of measures to improve the efficiency of recycling and utilizing residual heat generated from coal gas, steam and blast furnace top-pressure recovery turbine, which clamped down the energy saving technical indicators of total energy consumption per tonne and consumption of new water per tonne in steel production by 0.65 % and 1.65% from the same period of the previous year, respectively, both figures achieving historical best results.

Environmental and air indicators in terms of $SO_2$, $NO_2$ and PM10 all met the national standards and the emission compliance rate of atmospheric pollutants reached 100%

*(5) Striving for higher customer satisfaction in accordance with the philosophy of value-added marketing services*

In light of grave economic conditions, the Company, on one hand, further strengthened the management over marketing channels and target markets with efforts in picking up the sales proportion of strategic and leading products and increasing its market share in northern regions. On the other hand, the Company built and improved the customer management mechanism with integration of production, sales and research whilst catering to the leading enterprises' needs in different regions and industries, thus improving the proportion of direct-sales products and products with high added value and technology standards in its sales portfolio.

The export of steel products remained stable. From January to June, the Group exported a total of 760,000 tonnes steel products, representing a decrease of 80,000 tonnes as compared with the same period of the previous year.

*(6) Expediting the construction of pilot green plant of Bayuquan Iron and Steel Branch* (鮁魚圈鋼鐵分公司) *with a focus on economic benefits*

Given the priority to economic benefits, the Company determined the production scale based on products' profit margin and arranged intensive production when appropriate, with a view to improve the profitability to the maximum extent. In the first half of 2012, the Bayuquan Iron and Steel Branch produced 2,853,700 tonnes of iron, 2,758,300 tonnes of steel and 2,629,000 tonnes of steel products, with indicators such as comprehensive coke ratio and consumption of iron and steel materials up to the industry-leading standards.

Deeply-rooted in the concept of green manufacturing of iron and steel, the Company improved such major energy indicators as total energy consumption per tonne and consumption of new water per tonne in steel production to industry-leading standards. Leveraging on the highly-efficient recycling of residual energy and heat, the Company's self-generated electricity reached 72% in proportion to the total power consumption and zero emissions of coal gas and steam, which demonstrated the Company's leading position among peers in the industry.

## 2. Products representing more than 10% of the operating revenue of the Group are as follows:

*Principal businesses of the Group by industry and products*

*Unit: RMB million*

| | Operating revenue | Operating cost | Gross profit margin | Increase/decrease in operating revenue as compared with the same period of the previous year | Increase/decrease in operating cost as compared with the same period of the previous year | Increase/decrease in gross profit margin as compared with the same period of the previous year |
|---|---|---|---|---|---|---|
| | | | % | % | % | *(percentage points)* |
| **Principal business by industry** | | | | | | |
| Steel pressing and processing industry | 39,263 | 38,191 | 2.73 | -15.06 | -10.39 | -5.07 |
| **Principal businesses by products** | | | | | | |
| Hot-rolled sheets products | 13,701 | 13,213 | 3.56 | 1.10 | 5.13 | -3.70 |
| Cold-rolled sheets products | 15,020 | 14,658 | 2.41 | -21.41 | -12.23 | -10.21 |
| Medium and thick plates | 5,087 | 4,833 | 4.99 | -33.57 | -34.49 | 1.33 |

Including: The connected transactions for sales of products and provision of labour services by the Company to its controlling shareholder and its subsidiaries amounted to RMB4,421 million in total during the reporting period.

Notes:

(1) The slight increase in operating revenue and operating cost from hot-rolled sheets products as compared with the same period of the previous year was mainly attributable to the increase in sales volume of products. The decrease in gross profit margin was mainly due to a more significant decrease in product prices as compared with the decrease in prices of raw materials and fuels.

(2) The decrease in operating revenue from cold-rolled sheets products was primarily due to i) the drop in product prices in line with the trend of the domestic steel products market and ii) the decrease in sales volume of products. The decrease in operating cost was due to i) the decrease in the products sales volume; ii) the decrease in the prices of raw materials and fuels; and iii) the strengthened efforts in energy saving and consumption reduction as well as other measures to save cost. The decrease in gross profit margin was mainly attributable to a more significant decrease in the product prices as compared with the decrease in prices of raw materials and fuels.

(3) The decrease in operating revenue from medium and thick plates was due to i) the drop in the prices of steel products and ii) the decrease in the product sales volume. The decrease of operating cost was due to i) the decrease in product sales volume; ii) the decrease in prices of raw materials and fuels; and iii) the strengthened efforts in energy saving and consumption reduction as well as other measures to save cost.

*Segmental information of principal businesses of the Group by geographical locations of sales*

*Unit: RMB million*

| | **Operating income from main operation for the reporting period** | Operating income from main operation for the same period of the previous year | Increase/ decrease in operating income from main operation as compared with the same period of the previous year *(%)* |
|---|---|---|---|
| Northeast China | **14,057** | 17,900 | -21.47 |
| North China | **4,976** | 5,558 | -10.47 |
| East China | **8,850** | 10,104 | -12.41 |
| South China | **7,074** | 7,085 | -0.16 |
| Central south China | **483** | 820 | -41.10 |
| Northwest China | **212** | 292 | -27.40 |
| Southwest China | **118** | 144 | -18.06 |
| Export sales | **3,493** | 4,321 | -19.16 |
| Total | **39,263** | 46,224 | -15.06 |

3. **No substantial change compared with the previous year in principal businesses and their structures.**

4. **Profitability (gross profit margin) of principal businesses decreased as compared with the previous year, mainly due to a substantial decrease in the sales price of steel products.**

5. **No substantial change compared with the previous year in profit composition on the same basis.**

6. **Analysis of the Financial Position of the Group**

*(1) Brief analysis of the business performance of the Group*

*Unit: RMB million*

| **Item** | **From January to June 2012** | From January to June 2011 | Percentage of increase/ (decrease) *(%)* |
|---|---|---|---|
| Operating Income | **39,378** | 46,334 | -15.01 |
| Operating Profit | **-2,816** | 50 | -5,732.00 |
| Net profit attributable to owners of the Company | **-1,976** | 220 | -998.18 |
| Net increase in cash and cash equivalents | **255** | -1,222 | 120.87 |

Notes:

1) The decrease in operating income as compared with the same period of the previous year was mainly attributable to i) the decrease in product prices and ii) the decrease in product sales volume.

2) The significant decrease in operating profit and the net profit attributable to owners of the Company as compared with the same period of the previous year was mainly due to the changes in the steel products market which witnessed a more significant decrease in product prices as compared with the decrease in prices of raw materials and fuels.

3) A more significant net increase in cash and cash equivalents as compared with the same period of the previous year was mainly due to i) a decrease in net cash outflow from investing activities as compared with the previous year following a decrease in cash payments for acquisition and construction of fixed assets, intangible assets and external investments and ii) an increase in net cash inflow from financing activities as compared with the same period of the previous year as a result of the cash received from borrowings exceeding the debt repayment in cash or the payment in cash for distribution of dividend, profit or repayment of interest for the period less than that for the same period of last year.

*(2) A brief analysis of the Group's assets composition:*

*Unit: RMB million*

| Item | As at 30 June 2012 | As at 31 December 2011 | Percentage of increase/ (decrease) *(%)* |
|---|---|---|---|
| Total assets | **106,709** | 102,988 | 3.61 |
| Total liabilities | **56,163** | 50,683 | 10.81 |
| Total shareholders' equity | **50,546** | 52,305 | -3.36 |
| Bills receivable | **11,364** | 5,914 | 92.15 |
| Accounts receivables | **2,516** | 1,879 | 33.90 |
| Construction materials | **61** | 132 | -53.79 |
| Short-term loans | **16,303** | 10,630 | 53.37 |
| Bills payable | **9,406** | 5,565 | 69.02 |
| Interests payable | **3** | 232 | -98.71 |
| Tax and surcharges payable | **-1,252** | -1,914 | 34.59 |
| Non-current liabilities due within 1 year | **6,616** | 4,201 | 57.49 |
| Other current liabilities | **3,010** | 6,005 | -49.88 |
| Long-term borrowings | **9,129** | 13,135 | -30.50 |

Notes:

1) The increase in total assets as compared with the end of the previous year was mainly attributable to the increase in bills receivable and accounts receivables as compared with the end of the previous year.

2) The increase in total liabilities as compared with the end of the previous year was due to the increase in the balances of bills payable and borrowings from banks.

3) The decrease in shareholders' equity as compared with the end of the previous year was mainly due to the Company's operating loss for the period.

4) The increase of RMB5,450 million in bills receivable as compared with the end of the previous year was mainly attributable to i) the increase in bills received for product sales during this period and ii) the Company's efforts in the issuance of bills and the decrease in endorsement of bills.

5) The increase of RMB637 million in accounts receivable as compared with the end of the previous year was mainly attributable to the increase in the accounts receivable from the credit sales during this period.

6) The decrease of RMB71 million in construction materials as compared with the end of the previous year was mainly attributable to the receipt of production.

7) The increase of RMB5,673 million in short-term borrowings as compared with the end of the previous year was mainly attributable to the increase in the borrowings of working capital of the Company.

8) The increase of RMB3,841 million in bills payable as compared with the end of the previous year was mainly attributable to the increase of bills payable for purchasing raw materials and fuels.

9) The decrease of RMB229 million in interests payable as compared with the end of the previous year was mainly attributable to the payment in this period of the provision for the interest of short-term financing bonds made at the end of last year.

10) The increase of RMB662 million in the tax and surcharges payable as compared with the end of the previous year was mainly attributable to the fact that VAT for this period offset the input VAT retained from the previous period.

11) The increase of RMB2,415 million in non-current liabilities due within 1 year as compared with the end of the previous year was mainly attributable to the transfer of long-term borrowings due within 1 year into borrowings.

12) The decrease of RMB2,995 million in other current liabilities as compared with the end of the previous year was mainly attributable to the fact that the issuance amount of short-term financing bonds of RMB3,000 million for this period representing a shortage of RMB3,000 million as compared with that for the previous year.

13) The decrease of RMB4,006 million in the long-term borrowings as compared with the end of the previous year was mainly attributable to the transfer of long-term borrowings due within 1 year into non-current liabilities due within 1 year.

*(3) Analysis of other operation conditions*

1) Liquidity, financial resources and capital structure of the Group

As at 30 June 2012, the Group had long-term borrowings (exclusive of borrowings due within 1 year) of RMB9,129 million, which was mainly used as replenishment of liquidity and project capital. The borrowings were for a term ranging from 3 to 25 years at an annual interest rate generally ranging from 5.76% to 7.05%.

As at 30 June 2012, the Group had cash at banks and on hand of RMB2,596 million, as compared with RMB2,341 million as at the end of 2011.

As at 30 June 2012, the Group's total assets less current liabilities amounted to RMB60,415 million, as compared with RMB66,165 million as at the end of 2011.

As at 30 June 2012, the equity attributable to owners of the Group amounted to RMB50,546 million, as compared with RMB52,305 million as at the end of 2011.

2) Pledged assets

There were no pledged assets during this reporting period.

3) Capital Commitments and contingent liabilities

As at 30 June 2012, the Group had capital commitments of RMB3,812 million, mainly comprising the construction and renovation contracts and external investment contracts which had been executed but not performed or partially performed.

As at 30 June 2012, the Group had no contingent liabilities.

4) Gearing ratio

The ratio of total equity to liabilities of the Group was 0.90 time as at 30 June 2012 and 1.03 times as at 31 December 2011.

5) Foreign exchange risk

The Group was not exposed to significant foreign currency risk arising from major transactions conducted through foreign currencies such as the export and sale of products, the import and procurement of raw materials for production and equipment for construction as these transactions were settled with export and import agents at locked exchange rates.

**7. Problems and difficulties in operation**

In the first half of the year, the steel product prices headed downwards with a 12% drop in the average price of the Company's steel products as compared with the same period of the previous year, followed by a further decline in July. The ore prices, albeit a downward trend, saw a far milder dip as as compared with that in the steel product prices, which seriously squeezed the profit margin of iron and steel enterprises.

The weakened demand in the steel products market hampered the release of the Company's production capacity, thus laying more stress on the iron and steel enterprises.

## 8. Investment of the Company

*(1) External Investments*

In the first half of 2012, the Company's external investments aggregated to RMB60 million, representing a decrease of 89.11% from the total external investments of RMB551 million in the same period of the previous year.

In particular, the Company invested RMB52 million in Dalian Shipping Heavy Industry Group Shipbuilding Co., Ltd.* (大連船舶重工集團船務工程有限公司), RMB5 million in Angang Shenyang Steel Product Processing and Distribution Company Limited as well as RMB3 million in CAERI (Beijing) Vehicle Lightweight Technology Academy Limited (國汽(北京)汽車輕量化技術研究院有限公司).

*(2) Investment Projects not Funded by Proceeds and Progress thereof*

*Unit: RMB million*

| **Project name** | **Project budget amount** | Project progress *(%)* | Project proceeds |
|---|---|---|---|
| High-performance cold-rolling silicon steel production line | **3,400** | 99% | -65 |
| Wire production line renovation | **755** | 94% | -65 |
| Total | **4,155** | — | -130 |

## 9. Business plan for the second half of the year

1) To reduce the procurement costs and innovate the working mode by further advancing the functional contracting(功能承包).

2) To further tap into the market based on an increased proportion of direct-sales customers and proactive expansion of both the markets at home and abroad.

3) To capitalize the potential in energy saving and consumption reduction by optimizing the production procedures and expanding the scope of cost reduction and efficiency enhancement.

4) To reconstruct the product portfolio by optimizing resources allocation and improving the products and services quality.

5) To promote the innovation on the business mode and improve the Company's competitiveness with strengthened efforts in innovation and transformation.

## III. EXPLANATIONS ON SIGNIFICANT EVENTS

### (I) Compliance with the Code on Corporate Governance Practices

Following the implementation of the Code on Corporate Governance Practices (the "Code") issued by the Hong Kong Stock Exchange under Appendix 14 of the Hong Kong Listing Rules, the Company has further improved its corporate governance pursuant to the Code. During the reporting period, the Company has complied with all provisions of the Code and most of the recommended best practices.

### (II) Proposals for proposed profit distribution and transfer of reserve to share capital of the Company for the interim period

The Company would make any profit distribution or transfer of reserve to share capital for the interim period.

### (III) Material litigation and arbitration

The Company was not involved in any material litigation and arbitration during the reporting period.

### (IV) Material acquisition, sale and assets restructuring

During the reporting period, the Company had no material assets acquisition, sale and assets restructuring.

### (V) Material connected transactions of the Company in the reporting period

*1. Connected transactions in connection with daily operation*

During the reporting period, the Group purchased most of its raw materials, energy and services necessary for production from Anshan Iron and Steel Group Corporation and its subsidiaries ("Angang Holding Group") and Pangang Group Steel Vanadium & Titanium Co., Ltd., and its subsidiaries ("Pangang Vanadium & Titanium Group"), and sold some of its products to Angang Holding Group. The transactions and prices were conducted in accordance with the supply of raw materials and services agreements entered into between the parties.

(1) Angang Holding Group provided the Group with the following major items:

| Item | Pricing principle | Price | Amount | As a percentage of the amount of similar transactions |
|---|---|---|---|---|
| | | *(RMB)* | *(RMB million)* | *(%)* |
| Iron concentrate | Not higher than the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) plus the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the trade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by the Company in the month (T-2). For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/tonne. A discount equal to 5% of the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) was granted on such a basis. (T stands for the current month) | 903/tonne | 3,261 | 35.66 |
| Pellet | Market price | 996/tonne | 2,680 | 100.00 |
| Sinter ore | The price of iron concentrate plus processing cost in the month (T-2). (The processing cost of which is not higher than that of similar products produced by the Company) | 979/tonne | 1,458 | 100.00 |
| Scrap steel | Market price | — | 145 | 61.34 |

| Item | Pricing principle | Price | Amount | As a percentage of the amount of similar transactions |
|---|---|---|---|---|
| | | *(RMB)* | *(RMB million)* | *(%)* |
| Billets | | — | 114 | 98.93 |
| Alloy and non-ferrous metals | | — | 50 | 3.51 |
| Sub-total | — | — | 7,708 | 51.20 |
| Electricity | State price | 0.55/kWh | 882 | 32.68 |
| Water | State price | 3.25/tonne | 37 | 32.42 |
| Steam | Production cost plus a gross profit of 5% | 43.31/GJ | 22 | 100.00 |
| Sub-total | — | — | 941 | 33.19 |
| Lime stone | Not higher than the selling prices quoted by the relevant member company of Angang Holding Group to the independent third parties | 53/tonne | 77 | 72.88 |
| Lime powder | | 391/tonne | 361 | 92.18 |
| Refractory material | | — | 185 | 25.71 |
| Other ancillary materials | | — | 72 | 7.85 |
| Spare parts | | — | 190 | 15.31 |
| Sub-total | — | — | 885 | 26.25 |
| Total | — | — | 9,534 | — |

(2) Angang Holding Group provided the Group with the following major services:

| Item | Pricing principle | Amount *(RMB million)* | As a percentage of the amount of similar transactions *(%)* |
|---|---|---|---|
| Railway transportation services | State price | 310 | 54.92 |
| Road transportation services | Market price | 200 | 82.09 |
| Agency services (import of raw materials, equipment, components and auxiliary materials, export, and domestic sales) | Commission not higher than 1.5% (not more than the commissions levied by major State import and export companies of China) | 79 | 100.00 |
| Repair and maintenance of equipment | Market price | 544 | 72.77 |
| Design and engineering services | | 710 | 59.12 |
| Education facilities, vocational education, on-the-job training, translation work | | 1 | 19.62 |
| Newspaper and other publications | State price | 0 | 18.08 |

| Item | Pricing principle | Amount | As a percentage of the amount of similar transactions |
|---|---|---|---|
| | | *(RMB million)* | *(%)* |
| Telecommunication business and services, information system | State price or depreciation plus maintenance costs | 12 | 78.26 |
| Production coordination and maintenance | Expenses of labour, materials and management were paid based on market prices | 592 | 75.96 |
| Welfare assistance and maintenance | | 84 | 72.44 |
| Company vehicle services | Market price | 1 | 100.00 |
| Environmental protection and security inspection services | State price | 1 | 100.00 |
| Charge for arrangement of business and meeting expenses | Market price | 1 | 54.65 |
| Supply of heat | State price | — | — |
| Greening services | Expenses of labour, materials and management were paid based on market prices | 11 | 100.00 |
| Security services | | 14 | 67.78 |
| Total | — | 2,560 | 67.62 |

*Note:* In which, for the six months ended 30 June 2012, the steel products provided by Angang Group International Trade Corporation as an agent for domestic sales and exports sales amounted to 2,950,000 tonnes and 760,000 tonnes respectively.

(3) Angang Holding Group provided the Group with the following financial services:

| Item | Pricing principle | Amount *(RMB million)* | As a percentage of the amount of similar transactions *(%)* |
|---|---|---|---|
| Deposit interest | State price | 5 | 27.21 |
| Maximum balance of deposit (including accrued interests) on a daily basis | — | 5,418 | — |
| Loans | — | 5,600 | 20.07 |
| Loans and discounted interest | State Price | 167 | 18.58 |
| Entrusted loans | — | 4,150 | 100.00 |
| Entrusted loan interest | Not higher than the interest rate obtained by the Company from commercial banks during the same period | 87 | 100.00 |

(4) The Group provided Angang Holding Group with the following major items:

| Item | Pricing principle | Price | Amount | As a percentage of the amount of similar transactions |
|---|---|---|---|---|
| | | *(RMB)* | *(RMB million)* | *(%)* |
| Cold-rolled sheets | The selling price charged by the Group to the independent third parties; for provision of aforesaid products for the development of new products for the other party, the price is based on the market price if the market price exists; if the market price is absent, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by the relevant member company. | 4,400/tonne | 1,079 | 8.86 |
| Heavy plates | | 3,569/tonne | 399 | 9.49 |
| Wire rods | | 3,622/tonne | 66 | 3.46 |
| Heavy section | | 4,450/tonne | 1 | 0.18 |
| Hot-rolled sheets | | 3,509/tonne | 2,067 | 15.09 |
| Medium plates | | 3,612/tonne | 76 | 8.64 |
| Galvanized steel sheets | | 4,073 /tonne | 64 | 2.86 |
| Colour coated sheets | | 5,139/tonne | 5 | 0.79 |
| Seamless pipes | | 3,887/tonne | 15 | 1.93 |
| Molten iron | | 2,460/tonne | 9 | 100.00 |
| Billets | | 3,582/tonne | 4 | 15.20 |
| Coke | | 1,059/tonne | 39 | 100.00 |
| Chemical by-products | | — | 207 | 19.31 |
| Sub-total | — | — | 4,031 | 10.49 |
| Scrap steel | Market price | — | 65 | 99.74 |
| Abandoned materials | | — | 4 | 56.90 |
| Retired assets or idle assets | Market price or appraised price | — | 26 | 100.00 |
| Sub-total | — | — | 95 | 96.29 |
| Total | — | — | 4,126 | — |

(5) The Group provided Angang Holding Group with the following comprehensive services:

| Item | Pricing principle | Price (RMB) | Amount (RMB million) | As a percentage of the amount of similar transactions (%) |
|---|---|---|---|---|
| New water | State price | 2.94/tonne | 21 | 97.73 |
| Clean recycled water | Production cost plus a gross profit margin of 5% | 0.74/tonne | 10 | 99.98 |
| Soft water | | 4.90/tonne | 0.2 | 100.00 |
| Gas | | 60.31/GJ | 190 | 75.82 |
| Blast furnace gas | | 4.00/GJ | 14 | 100.00 |
| Steam | | 47.50/GJ | 21 | 98.22 |
| Nitrogen | | 214.07/KM$^3$ | 1 | 21.85 |
| Oxygen | | 413.78/KM$^3$ | 1 | 13.29 |
| Argon | | 879.5/KM$^3$ | 0.3 | 3.95 |
| Compressed air | | 106.1/KM$^3$ | 0.2 | 100.00 |
| Used hot water | | 22.98/GJ | 34 | 95.56 |
| Product testing service | Market price | — | 2 | 74.02 |
| Transportation service | | — | 0.2 | 100.00 |
| Total | — | — | 294.9 | 38.24 |

(6) Pangang Steel & Vanadium Provided the Group with the following raw materials:

| **Item** | **Pricing principle** | **Price** *(RMB)* | **Amount** *(RMB million)* | **As a percentage of the amount of similar transactions** *(%)* |
|---|---|---|---|---|
| Iron concentrate | Not higher than the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) plus the railway transportation cost from Bayuquan Port to the Company as well as adjustment subject to the trade of the iron concentrate which was based on the average weighted grade of the iron concentrate imported by The Company in the month (T-2). For every 1 percentage point increase or decrease in the grade of iron concentrate, the price will be increased or decreased by RMB10/tonne. A discount equal to 5% of the average import price of domestic iron concentrate reported to the PRC Customs in the month (T-2) was granted on such a basis. (T stands for the current month) | 930/tonne | 349 | 3.82 |
| Alloy | Market price | — | 26 | 1.83 |
| Total | | — | 375 | — |

The above transactions of the Company were all settled in cash.

**(VI) Claims and obligations between the Company and related parties for non-operating purpose**

There were no claims or obligations between the Company and related parties for non-operating purpose during the reporting period.

As at 30 June 2012, the Group's bank loans of RMB2,893 million was secured by Angang Holding Group.

**(VII) Purchase, sale or redemption of the Company's listed securities**

During the six months ended 30 June 2012, there was no re-purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries.

**(VIII) Audit Committee**

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee and the management personnel have reviewed the accounting standards, principles and methods adopted by the Company, and considered matters regarding auditing, internal control and the unaudited interim report for the six months ended 30 June 2012.

**(IX) Securities transactions of directors**

The board of directors has adopted the relevant code for directors' securities transactions for the purpose of complying with Hong Kong Listing Rules. In the responses to the Company's special enquiries with all members of the board of directors, they have confirmed that they had complied with the standards set out in Appendix 10 to Hong Kong Listing Rules.

**(X) Independent non-executive directors**

Throughout the reporting period, the board of directors has been in compliance with Rule 3.10(1) of Hong Kong Listing Rules, which requires a company to maintain at least three independent non-executive directors, and comply with Rule 3.10(2) of Hong Kong Listing Rules, which requires one of the independent non-executive directors to possess professional qualifications or accounting or related financial management expertise.

## (XI) Equity in other listed companies

*Unit: RMB million*

| Stock Code | Stock abbreviation | Initial investment amount | Percentage in the company's equity | Book value at the end of the period | Loss or gain during the reporting period | Change in owner's equity during the reporting period |
|---|---|---|---|---|---|---|
| 600961 | Zhuzhou Smelter Group (株冶集團) | 81 | 1.9% | 96 | 0 | 3 |

By Order of the board of directors
**ANGANG STEEL COMPANY LIMITED***
**Fu Jihui**
*Executive Director and Secretary to the Board*

Anshan City, Liaoning Province, the PRC,
27 August 2012

As at the date of this announcement, the board of directors comprises the following directors:

*Executive Directors:*
Zhang Xiaogang
Yang Hua
Chen Ming
Yu Wanyuan
Fu Jihui

*Independent Non-Executive Directors:*
Li Shijun
Ma Guoqiang
Kwong Chi Kit, Victor

* *For identification purposes only*