

**BAOSHAN IRON & STEEL CO., LTD.**  
**600019**

**2012 SEMI-ANNUAL REPORT**

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**I. Important Notice**

The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter “the Company”), along with their directors, supervisors and senior executives, hereby guarantee that the *2012 Semi-annual Report* (hereinafter the *Report*) is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the *Report*.

All directors attended the board meeting.

The semi-annual financial report of the Company is unaudited.

Mr. He Wenbo, Chairman of the Company, Ms. Chen Ying, Vice President of the Company and chief accountant, and Mr. Li Qiqiang, Vice Director of the Finance Department in charge of the accounting affairs, attest to the truthfulness and completeness of the financial statements in this *Report*.

No capital was found in the Company to be occupied by the controlling shareholder and its related parties.

No guarantee was found in the Company to be provided in manner that is against the stipulated decision-making procedures.

## II. Company Profile

### (I) Company

Chinese Name	宝山钢铁股份有限公司
Chinese Abbreviation	宝钢股份
English Name	Baoshan Iron & Steel Co., Ltd.
English Abbreviation	Baosteel
Legal Representative	He Wenbo

### (II) Contact

	Secretary to Board of Directors	Representative of Securities Affairs
Name	Chen Ying	Yu Hong
Address	Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai	Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Telephone	86-21-26647000	86-21-26647000
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Email	<a href="mailto:ir@baosteel.com">ir@baosteel.com</a>	ir@baosteel.com

### (III) Company Details

Registered Address	885 Fujin Rd. Baoshan District, Shanghai
Zip Code	201900
Office Address	Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Zip Code	201900
Official Website	<a href="http://www.baosteel.com/plc/index.asp">http://www.baosteel.com/plc/index.asp</a>
Email	ir@baosteel.com

### (IV) Information Disclosure and the Report Obtainment

Company Announcements or Disclosures published in	<i>China Securities News, Shanghai Securities News, and Securities Times</i>
Semi-annual Report Website Designated by China Securities Regulatory Commission	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Copies of the Report can be obtained from	Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai

### (V) Company Stock

Company Stock				
Stock Type	Stock Listed at	Stock Name	Stock Code	Abbreviation Of the Stock Before Alteration
A Stock	Shanghai Stock Exchange	宝钢股份	600019	G 宝钢

## (VI) Other Company Details

Date of Incorporation: 3 February 2000

Place of Incorporation: Guoyuan, Fujin Rd. Baoshan District, Shanghai

Date of Latest Registration Change: 14 October, 2010

Place of Latest Registration Change: 885 Fujin Rd. Baoshan District, Shanghai

Registered Code of Corporate Business License: 310000000074519

Tax Identification Number: 310046631696382

Organization Code: 631696382

Accounting Firm: Deloitte Touche Tohmatsu Certified Public Accountants Limited

Office Address of Accounting Firm: 30<sup>th</sup> Floor, Bund Center, 222 Yan An Rd. East, Shanghai, China (20002)

Changes in registration were made on: 30 November 2000, 11 May 2005, 1 September 2005, 1 June 2006, 23 April 2007, 18 January 2008, 22 June 2009, 23 April 2010, and 14 October, 2010.

## (VII) Major Financial Data and Financial Indicators

## 1. Major Financial Data and Financial Indicators

(Unit: Million RMB)

	As at 30 June 2012	As at 31 December 2011	Increase (%)
Total asset	226,200	231,100	-2.12
Shareholder's equity (interest) attributed to the listed Company	112,608	106,495	5.74
Book value per share attributed to the listed Company (RMB)	6.43	6.08	5.74
	For the six months ended 30 June 2012	For the six months ended 30 June 2011	Increase (%)
Operating profit	2,718	6,760	-59.79
Pre-tax profit	12,334	6,787	81.73
Net profit attributable to shareholders of the listed Company	9,610	5,079	89.19
Net profit attributable to shareholders of the listed Company less non-recurring gains and losses	2,375	5,045	-52.92
Basic earnings per share (RMB)	0.55	0.29	89.19
Basic earnings per share less non-recurring gains and losses (RMB)	0.14	0.29	-52.92
Diluted earnings per share (RMB)	0.55	0.29	89.19
Weighted average return on net assets (%)	8.73	4.81	3.91 pts
Net cash flow from operating activities	9,968	5,407	84.37
Net cash flow per share from operating activities (RMB)	0.57	0.31	84.37

## 2. Non-recurring gains and losses

(Unit: Million RMB)

Items of non-recurring gains and losses	Amount
Profit and loss from disposal of non-current assets	9,066
Investment income from available-for-sale financial assets	12
Net increase from other non-operating activities	570
Effect of income taxes	-2,411
Effect of minority interest	-2
Total	7,235

### III. Capital and Shareholders

#### (I) Changes in share capital

No changes occurred to the number of shares and the structure of the share capital in the reporting period.

#### (II) Shareholders and actual controllers

##### 1. Shareholders and their shares

							Share
Number of shareholders as at 30 June 2012				573,194			
Top 10 shareholders							
Name	Type of Investor	(%)	Total shares	Increase during the period	Shares subjected to conditional sales	Shares pledged or frozen	
BAOSTEEL GROUP CORP.	State-owned	74.97	13,128,825,267	17,570,037	0	None	
BANK OF COMMUNICATION—HU AAN STRATEGIC SELECTION STOCK FUND	Others	0.40	70,724,376	70,724,376	0	None	
RUGAO CHANGRONG ORE STORAGE LIMITED	Others	0.40	70,185,347	0	0	None	
ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD.	Others	0.36	63,419,861	0	0	None	
ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD.	Others	0.33	58,626,601	0	0	None	
INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD.	Others	0.29	50,119,104	3,772,900	0	None	
BANK OF COMMUNICATION—E FUND 50 INDEX SECURITIES INVESTMENT FUND	Others	0.28	48,679,639	-10,390,400	0	None	
ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD.	Others	0.27	47,964,158	3,050,000	0	None	
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD.	Others	0.27	47,612,776	-4,000,000	0	None	
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND	Others	0.27	46,573,192	-4,269,700	0	None	
Top 10 tradable-share holders							
Shareholders			Shareholdings of unconditional share		Share type		
BAOSTEEL GROUP CORP.			13,128,825,267		RMB ordinary share		

BANK OF COMMUNICATION—HUAAN STRATEGIC SELECTION STOCK FUND	70,724,376	RMB ordinary share
RUGAO CHANGRONG ORE STORAGE LIMITED	70,185,347	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE QIANXING INVESTMENT & TRADING CO., LTD.	63,419,861	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE LIXIN INVESTMENT CO., LTD.	58,626,601	RMB ordinary share
INTERNATIONAL FINANCE—STANDARD CHARTERED (GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD.	50,119,104	RMB ordinary share
BANK OF COMMUNICATION—E FUND 50 INDEX SECURITIES INVESTMENT FUND	48,679,639	RMB ordinary share
ZHANGJIAGANG HONGDA TRANSPORTATION CO., LTD.	47,964,158	RMB ordinary share
ZHANGJIAGANG FREE TRADE ZONE RIXIANG INTERNATIONAL TRADE CO., LTD.	47,612,776	RMB ordinary share
INDUSTRIAL AND COMMERCIAL BANK OF CHINA—SHANGHAI STOCK EXCHANGE 50 ETF FUND	46,573,192	RMB ordinary share
Remarks on affiliation, alliance or collusion among the aforementioned top ten shareholders	According to the Medium-term Notes Prospectus published by Jiangsu Shagang Group Co., Ltd. (Shagang Group) in May and November of 2011, Rugao Changrong Ore Storage Limited is the joint stock company of the subsidiary controlled by Shagang Group; the shareholders of Zhangjiagang Free Trade Zone Qianxing Investment & Trading Co., Ltd. is Shagang Group's shareholders; the actual controllers of Zhangjiagang Free Trade Zone Lixin Investment Co., Ltd., and zhangjiagang Free Trade Zone Rixiang International Trade Co., Ltd. are both the major shareholders of Shagang Group. The controlling shareholder of Zhangjiagang Hongda Transportation Co., Ltd. is the shareholder of Shagang Group. The Company is not aware of any connection among or between the top ten shareholders and top ten shareholders of shares without selling restrictions or that they are persons acting in concert as provided for in the Measures for the Administration of Acquisitions by Listed Companies.	

## 2. Status of corporate controlling shareholders and actual controlling shareholders

The corporate controlling shareholders and actual controlling shareholders of the Company remained unchanged in the reporting period.

### (III) Convertible Corporate Bonds

#### 1. Issuance of convertible bonds

Approved by China Securities Regulatory Commission (CSRC) in the document [2008] 739, the Company issued, on June 20, 2008, RMB 10 billion convertible bonds with attached warrants with par value of RMB 100 per bond and a duration of six years. The coupon rate was 0.80%. On June 30, 2008, the convertible bond with warrants was separated into 100,000,000 corporate bonds (a worth of RMB 10 billion) and 1,600,000,000 stock warrants.

Approved by Shanghai Stock Exchange in the document [2008] 81, a total of RMB 10 billion of corporate bonds after separation were listed in Shanghai Stock Exchange on July 4, 2008. The bond was abbreviated as "08 Baosteel Bond" with the code of "126016". The duration is from July 4, 2008 to June 19, 2014 and they will be repaid in the five trading days after the maturity date (June 19, 2014).



Approved by Shanghai Stock Exchange in the document [2008]11, a total of 1,600,000,000 stock warrants after separation were listed in Shanghai Stock Exchange on July 4, 2008. The stock warrant was abbreviated as “Baosteel CWB1” with the code “580024”. The duration was from July 4, 2008 to July 3, 2010 and the exercising period was the trading days from June 28, 2010 to July 3, 2010, during which the warrants were to cease trading.

As at the market close on July 2, 2010, the exercise schedule for “Baosteel CWB1” was ended with 113,785 stock warrants exercised, resulting in an increase of 48,088 shares of the Company, and a total capital of RMB 567,438.40 raised. The raised capital has been used as stated in the prospectus. On July 7, 2010, the “Baosteel CWB1” stock warrants were delisted in Shanghai Stock Exchange.

## 2. Holders and underwriter of the convertible bonds during the reporting period

Number of holders of convertible bonds at the end of the reporting period	9,031	
Underwriter of the Company's Convertible Bonds	Baosteel Group Corp.	
Top ten holders of Baosteel Convertible Bond		
Holders	Bonds held at the end of the reporting period (RMB)	Percentage (%)
China Pacific Life Insurance Co., Ltd.	1,690,577,000	16.91
New China Insurance Co., Ltd.	1,449,378,000	14.49
National Council for Social Security Fund—305 Combo	499,158,000	4.99
Citic Securities Co., Ltd.	427,687,000	4.28
China Everbright Bank Co., Ltd.-- ICBC Ruixin bond security investment fund	403,166,000	4.03
Huatai Life Insurance Company Ltd.—Dividend-unit-linked product	394,235,000	3.94
New China Life Insurance Co., Ltd.--Wanneng-Deyi financial bond, fund account	384,108,000	3.84
China Petroleum Finance Co., Ltd.	383,936,000	3.84
China Petroleum Finance Co., Ltd.	377,073,000	3.77
China Pacific Insurance(group) Co., Ltd.	250,961,000	2.51

## 3. Changes of the Convertible Bond Price

RMB				
Date of Adjustment	Price after Adjustment	Disclosure Date	Disclosure Media	Notes
15 June 2009	12.16	15 June 2009	<i>China Securities News, Shanghai Securities News and Securities Times</i> and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> )	Dividend distribution
24 May 2010	11.80	24 May 2010	<i>China Securities News, Shanghai Securities News and Securities Times</i> and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> )	Dividend distribution
Closing price for the convertible bond of the period		The exercise for “Baosteel CWB1” was ended		

#### IV. Directors, Supervisors, and Senior Executives

##### (I) Shareholding status of the directors, supervisors, and senior executives

(Unit: Share)

Name	Title	Shares held at the beginning of the year	Increase of shares for the six months ended 30 June 2012	Decrease of shares for the six months ended 30 June 2012	Shares as at 30 June 2012	Reason for the changes
Ma Guoqiang	Director, President	100,000	50,000		150,000	Purchased at the secondary market
Zhu Junsheng	Director	40,800	30,000		70,800	Purchased at the secondary market
Zhou Jianfeng	Vice President	35,000	25,000		60,000	Purchased at the secondary market
Wang Jing	Vice President	36,000	40,000		76,000	Purchased at the secondary market

##### (II) Recruitment and Termination of directors, supervisors, and senior executives

In the 2011 General Shareholder's Meeting held in the afternoon of 27 April 2012 in Shanghai, the following members were elected as the members of the Board of Directors: Mr. He Wenbo, Mr. Ma Guoqiang, Mr. Zhao Zhouli, Mr. Zhu Junsheng, Mr. Wang Li, Mr. Buck Pei, Ms. Wong Pik Kuen Helen (independent director), Mr. Yuh-Chang Hwang (independent director), and Mr. Liu wenbo (independent director). The members of the Fourth Board of Directors including Ms. Liu Zhanying, Mr. Wu Yaowen, Ms. Katherine Tsang (independent director), and Mr. Edward C. Tse (independent director) have served their terms and are no longer BOD members of the Company.

In the same meeting, the following members were elected as the member of the Fifth Board of Supervisors: Ms. Liu Zhanying, Mr. Guo Bin, and Mr. Wu Kunzong, while the members of the Fourth Board of Supervisors including Ms. Li Li, Mr. Zhou Guiquan, and Mr. Zhu Keping have served their terms and are no longer such members.

During March 15 to 31, 2012, the Seventh Meeting of the Third Workers' Congress was held, in which Mr. Lin An, and Mr. Zhang Pijun were elected as the workers' representative supervisors of the Fifth Board of Supervisors.

On April 27, 2012, the Company held the first meeting of the Fifth Board of Directors. Mr. He Wenbo was elected as the chairman of the Fifth Board of Directors, and the following persons were hired: Mr. Ma Guoqiang, as the president of the Company, Mr. Li Yongxiang, Mr. Jiang Licheng, Ms. Chen ying, Mr. Zhou Jianfeng, and Ms. Wang Jing, as the vice presidents of the Company, and Ms. Chen Ying, as the Secretary to Board. Mr. Lou Dingbo, and Mr. Pang Yuanlin have served their terms and are no longer vice presidents.

The first meeting of the Fifth Board of Supervisors was held on April 27, 2012 and elected Ms. Liu Zhanying as the chairperson of the Fifth Board of Supervisors.

## V. Board of Director's Report

### (I) Review of the Exterior Environment in the First Half of 2012 and Prediction on the Market in the Second Half of 2012

In the first half of 2012, the global economy saw a continued slowdown in recovery. In China, there is downward pressure on economic growth, and inflation remains at a high level although it has been slightly eased. Thanks to the continued capacity expansion from the newly completed projects and the positive market expectation, the crude steel saw a monthly rise in China in the beginning of 2012, making a new record of daily output of 2.019 million tons in April. As a result, competition in homogeneity became fiercer. In the first half of the year, the market price of steel remained low. Except the industry of cars, other downstream industries all experienced a decrease in output, resulting in a great imbalance between demand and supply. Since mid April, the steel product prices continued to drop, with prices of many types of products hitting record low since last year, and the inventories increasing obviously. In contrast to the low steel price, price of the iron ore remained comparatively high, and the prices for the coking coal and the steel scrap dropped slightly but far from easing the cost pressure for the steel industry. In the first half of 2012, the industry continued to suffer from low industry profits and reported a steep year-on-year drop in its overall performance.

In the second half of 2012, it is expected that no substantial progress could be made in resolving the Euro Debt Crisis, and the stability and recovery of the world economy remain seriously challenged. In China, with the gradual realization of the effect of national macro-control policies on the real economy, the domestic economy signals a stable situation. Affected by the market situation of supply exceeding demand, it will be difficult to register any substantial increase in the steel price. Instead, it will continue to fluctuate at a low level. Because of the diminishing demands, the iron ore and other raw materials as well as fuel will see a drop in price. Nevertheless, the operational pressure for the steel industry will remain high.

### (II) The Company's Operation in the Period

#### 1. Overall Performance in the Period

In the reporting period, faced with the challenges of the "Meager Profit Era" of the steel industry, the Company stuck to the differentiated competition strategy. With its management focus on product management, cost improvement and managerial reforms, the Company saw further optimization of product mix, further improvement in the managerial capacity and continued cost reduction. The sales of finished products and billets totaled 11.855 million tons, and the exclusive and leading products totaled a sales volume of 5.540 million tons. The total business revenue amounted to RMB 98.10 billion, and the profit from operations was RMB 2.72 billion, including a loss of RMB 0.74 billion in the first quarter of the Business units of the stainless steel and the special steel.

On April 1, 2012, the Company gained RMB 9.09 billion from selling the related assets of the business units of stainless steel and special steel. As at the end of the first half, it realized a consolidated profit of RMB 12.33 billion.

## 2. Business scope and operation

### (1) Business scope

With steel industry as its focus, the Company also engages in business areas related with the steel industry such as trade, shipping, coal chemical industry, information services, and finance. The principle products of the Company include hot-rolled sheets and coils, heavy plates, cold-rolled sheets, galvanized sheets, tin plates, color-coated sheets, electric steel, seamless tubes and pipes, UOE & HFW welded pipes, hot-rolled pickled sheets, high-speed wires and rods, stainless steel, and special steel, which are widely applied and used in industries such as automobile, home appliances, oil industry, machine manufacturing, energy and transportation, construction and decoration, metal ware products, aviation, nuclear power, and electronic panels.

### (2) Overall Performance in the Period

#### 1) Profit Analysis

In the reporting period, the Company's business revenue totaled RMB 98.10 billion, with a total profit of RMB 12.33 billion.

Year-on-year increase or decrease of the total operating revenue, profit from operations, and total profit:

(Unit: Million RMB)

Item	January-June 2012	January-June 2011	YOY increase
Total operating revenue	98,101	111,149	-11.74%
Profit from operations	2,718	6,760	-59.80%
Total profit	12,334	6,787	81.73%
Net profit (attributable to shareholders of listed company)	9,610	5,079	89.19%

In the reporting period, the Company realized a consolidated profit of RMB 12.33 billion, a 81.73% increase as against the same period last year. This is mainly because the Company gained RMB 9.09 billion from selling the related assets of the business units of Stainless Steel and Special Steel. The Profit from operations decreased by 59.80% compared to the same period last year due to the impact of diminishing market demand, dropping price for the steel products, and decreasing gross profits.

#### 2) Distribution of income from principal businesses

## Distribution of income and cost from principal businesses:

(Unit: Million RMB)

Segment	Revenue	Cost of operation	Gross margin (%)	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin (percentage points)
Steel manufacturing	79,894	74,949	6.19%	-17.83%	-15.18%	-2.93ppts
Sales of steel products	93,862	91,975	2.01%	3.27%	3.58%	-0.29ppts
Others	7,725	6,714	13.08%	5.62%	7.80%	-1.76ppts
Deduction between segments	-83,331	-83,263	0.08%	-1.11%	-1.11%	Unchanged
Total	98,150	90,376	7.92%	-11.71%	-8.89%	-2.85ppts

Note: Based on the internal organizational structure, the Company is divided into the segments of iron and steel manufacturing, iron and steel sales, and the sector of other affairs. The iron and steel manufacturing segment consists of such iron and steel manufacturing units as the Company and Meishan Iron & Steel and; the iron and steel sale segment consists of such trading units as Baosteel International and overseas companies; the segment of other affairs consists of such units as finance, chemical industry and IT, etc.

In the Period, the Company exported 1.214 million tons of steel products as against 1.315 million tons at the same period last year. Sales income by geographical regions:

(Unit: Million RMB)

Region	Revenue	Change in Revenue (% YoY)
Domestic market	88,160	-11.24%
Overseas market	9,990	-15.70%

## Major products of the Company in the Period are as follows:

(Unit: 10 thousand tons, RMB Million)

Products	Sales volume	Revenue	Cost	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (percentage points)
Cold-rolled carbon steel	477	27,369	24,481	10.55%	-9.11%	-2.36%	-6.18ppts
Hot-rolled carbon steel	362	15,576	13,984	10.22%	-21.47%	-17.83%	-3.98ppts
Heavy plates	101	4,730	5,206	-10.08%	-15.18%	-13.13%	-2.59ppts
Steel tubes	73	5,091	4,528	11.06%	-5.27%	-7.81%	2.46ppts
Stainless steel	51	6,040	6,109	-1.14%	-34.94%	-32.21%	-4.07ppts
Special steel	20	2,237	2,380	-6.37%	-64.51%	-61.63%	-7.97ppts
Other steel products	101	4,425	4,607	-4.11%	-1.76%	4.32%	-6.08ppts
Total	1,186	65,469	61,296	6.37%	-19.16%	-15.60%	-3.95ppts

Note 1: The sales volume of steel products of the Company in the Period included the 0.823 million tons of cold-rolled and hot-rolled carbon steel products sold to BNA, but did not include the 1.028 million tons of cold-rolled carbon steel products sold by BNA.

Note 2: The Company sold the related assets of the business units of Stainless Steel and Special Steel on April 1, 2012. The statistics of the sales volume, revenue and cost of the stainless steel and the special steel are all from the first quarter only. Therefore, the revenue and cost of these products registered a substantial year-on-year drop.

The gross margin of the Company's steel products decreased by 3.95 percentage points YoY mainly because: the downstream industries had a soft demand and the sales price of the steel products dropped at a rate far higher than that of the price drop in the upstream fuel and raw materials. Despite the various measures the Company took to lower the cost and raise the profitability, it is still affected by the negative impact of the market.

### 3) Cash flow analysis

In the first half of 2012, net profit of the Company totaled RMB 9.69 billion, and the depreciation and amortization of fixed assets totaled RMB 6.04 billion (including: gains of asset disposal: RMB 9.09 billion, and effect of income taxes: RMB 2.27 billion), generating a cash receivable of RMB 8.93 billion. However, the inventory capital increased by RMB 3.37 billion and the receivables and payables from operating activities decreased by RMB 4.41 billion. As a result, the Company realized a net cash inflow of RMB 9.97 billion.

The Company's net cash inflow from operating activities increased by RMB 4.56 billion as compared to the same period last years. Leaving out the factor of the Finance Co., the Company's net cash flow from operating activities was RMB 8.97 billion, increasing by RMB 3.78 billion as compared to the inflow of RMB 5.19 billion in the same period last year. The main reasons for this increase are as follows:

① Leaving out the effect of the sales of the related business units of Stainless Steel and Special Steel (including: gains of asset disposal: RMB 9.09 billion, and effect of income taxes: RMB 2.27 billion), net profit was RMB 2.61 billion lower than that of the same period last year, reducing net cash inflow;

② Cash flow decreased because the depreciation, amortization and other items decreased by RMB 0.61 billion from that of the same period last year;

③ Cash flow related with the financial expenses and other items increased by RMB 0.17 billion from that of the same period last year;

④ Inventories was RMB 3.37 billion more than that of the beginning of the year, increasing by RMB 5.26 billion from the same period last year. The YoY inventory flow increased by Rmb 1.89 billion.

⑤ Cash from from receivables and payables increased by RMB 3.43 billion, while that in the same period last year was a decrease of RMB 1.51 billion. As a result, the cash flow from receivables and payables had a YoY increase of RMB 4.94 billion.

The overall cash flow from operating activities is in good condition.

Net cash inflow from investing activities totaled RMB 12.74 billion, an increase of RMB 18.72 billion compared to the same period last year. Leaving out the factor of

the Finance Co., the net cash inflow from investing activities was RMB 12.89 billion, increasing by RMB 18.52 billion compared with the net cash outflow of RMB 5.63 billion at the same period last year. This is mainly because the cash inflow from disposal of fixed assets and intangible asset as well as other long-term assets increased by RMB 18.5 billion (selling the related assets of the business units of Stainless Steel and Special Steel) compared to that of the same period last year, and the cash payment for purchasing fixed assets increased by RMB 0.87 billion compared to the same period last year.

Net cash outflow from financing activities totaled RMB 18.3 billion, a rise of RMB 18.39 billion compared to the same period last year. Leaving out the factor of the Finance Co., the net cash outflow from financing activities was RMB 18.19 billion, an increase of RMB 18.14 billion from the net cash outflow of RMB 0.05 billion at the same period last year. In the first half of 2012, the Company paid RMB 4.52 billion for dividends and interests, a decrease of RMB 1.52 billion compared to the same period last year. This is mainly because compared to the same period last year, the dividend payment (0.2 RMB/share) was RMB 1.75 billion less, and the net borrowings reduced, registering a year-on-year outflow increase of RMB 19.84 billion.

### 3. Problems and Difficulties in the Operation

In terms of the exterior situation, the global economy continues to experience ups and downs in recovery, coupled with the volatile euro crisis, and signals a slowdown. The domestic economy faces the pressure of slowdown as well, resulting in a slower output growth in the downstream industries including automobile, home appliances, and machinery. The steel products in the domestic market will find it hard to raise the price. In the meantime, prices of imported iron ore show a tendency to fall. Nevertheless, the Company is still faced with great pressures in reducing cost and raising profitability. As regards the internal production and operation, the Company is still faced with challenges in the following three aspects: 1) the annual maintenance and regular maintenance of major production lines will take place at roughly the same time, and continued attention is required for the capacity and profitability improvement of the new production lines; 2) efforts should be made to maintain and further enhance the product quality and customers satisfaction rate; and 3) measures should be taken to further strengthen the control over various indicators of energy preservation and environmental protection so as to fulfill the Company's goal of energy saving and emission reduction.

In the later half of 2012, amid the softer market demand from the downstream industries, the Company will further promote the coordination among production, sales and research to enhance the competitiveness of major categories of products. It will optimize the inventory management to raise efficiency of inventory turnover. By further improving the customer-centered operation mechanism and pushing forward the customer technical service system, it will endeavor to raise customers' satisfaction rate. It will also elaborate on various measures of cost improvement and steps of cost reduction and efficiency boost, and enforce the central control of sales and administration expenses so as to bring down the overall cost. In the meantime, great efforts will be made to carry out the idea of environment management, and tap on the potential of energy source management to meet the goal of energy saving and emission reduction.

### (III) Investments

#### 1. Investments in fixed assets

In the reporting period, the Company invested RMB 5.24 billion in fixed assets.

##### (1) Fund-raising projects

In the reporting period, the Company was not involved in any fund-raising project and didn't use any previously raised fund.

##### (2) Non-fundraising projects

###### ① Completed projects having been put into operation

**The project of technical revamping & upgrading of the product mix and technological equipment at Meishan Iron & Steel Co., Ltd.:** Completed and put into production in June 2012. The project built the production lines of sintering machines, coke ovens, blast furnaces, converters, continuous casters, and hot strip mill, as well as other corresponding utilities. The project is expected to empower Meishan Iron & Steel with an annual capacity of producing 7.17 million tons of iron, 7.60 million tons of steel, and a hot rolling capacity of 7.50 million tons.

**The project of new leveller added to heavy plate plant of directly affiliated plants:** To add a leveller to the existing 5000mm heavy plate mill with a view to improve the yield and develop 10,000t/y high-end TMCP and DQ products, 10,000t/y super high-strength plate and wearing plate. The project is planned to be completed by August 2012.

**Oriented silicon steel follow-up project:** It aims at building a production line including single stand reversing mill, the decarburizing annealing line, the high temperature rotary hearth furnace, and the flattening & coating line, which will produce 200,000 tons silicon steel annually. The first phase was completed in October 2011, and the second phase of the project is planned to be completed by July, 2013.

**The relocation project of Lubao Steel Pipe Co., Ltd. and adjustment of its product mix:** To build a production line for hot continuous rolling tubes and for tube processing and a finishing line for high-pressure boiler tubes. The project is designed to produce 500,000 tons of high-end seamless steel pipelines such as the high-grade anti-erosion pipes for petroleum, and the high-pressure boiler tubes. The first phase of the project, the tube processing line was completed in December, 2009, while the second phase, the production line for continuous rolling tubes is planned to be completed in the later half of 2012.

###### ② Newly-started projects

**Optimization of the product mix of the Precision Steel Plant of the Tube, Pipe and Bar Business Unit:** The Precision Steel Plant is to be wholly moved to the headquarters site and measures are to be taken to optimize its product mix so as to



bring its strength in small batch production and multi-size production into full play. It will form a synergetic complementation with the 140 seamless mill set. The project is to be completed by March 2013.

## 2. Other investments

The Company completed RMB 0.44 billion worth of equity investment programs in the reporting period.

### (IV) Performance as against the Budget and Plan

The budget of the operating revenue for the year 2012 is RMB 216 billion. The actual revenue in the first half of 2012 totaled RMB 98.1 billion, a 45% of the annual budget. The operation cost budget is RMB 196 billion, and the actual cost of the reporting period was RMB 90.2 billion, a 46% of the annual budget. In the second half of 2012, the Company will overcome difficulties to further break down the steps and implement various measures with great care, so as to maintain its leading performance among domestic steel producers.

### (V) Revision to the Annual Operating Plan

In light of the changes of both the interior and the exterior environment, the Company made the following adjustments to its annual operating plan: in 2012, the Company plans to produce 22.79 million tons of iron, 23.98 million tons of steel, and sell 23.46 million tons of finished products and billets, realizing an overall operation revenue of RMB 196 billion against an operation cost of RMB 180 billion.

### (VI) Caution from the Operational Results

Due to the effect of gains from selling related assets of the business units of Stainless Steel and Special Steel, the Company is expected to register a YoY increase of over 50% in the accumulated net profit attributed to the shareholders of the listed company from the beginning of the year to the end of the next reporting period.

## VI. Significant Events

### (I) Progress in Corporate Governance

Ever since listed at the stock exchange in 2000, the Company has endeavored to create and execute, by means of standardizing its management and regulating its operation, a thorough and comprehensive corporate governance system, which features operational transparency in information disclosure, interactive relationship with investors, and strict and effective internal auditing and monitoring system, risk-controlling systems, sound credit and transparency in management, in strict compliance with the *Company Law*, the *Securities Law*, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the *Rules of Shanghai Stock Exchange for Stock Listing*. Efforts have also been made to enhance the efficiency of the Board of Directors by means of keeping abreast with domestic and international progress in management while focusing on creativity and innovation. The Company endeavors to build a strategy-oriented corporate governance system that bears the characteristics of Baosteel, of the steel industry, and of China.

### (II) Implementation of Cash Dividend Distribution in the Reporting Period

The Company's dividend distribution plans in previous years were all in line with the Company's constitution and were approved by the shareholders' meeting. The cash dividend stipulated by the Company followed clear standard and percentage requirement, and the related decision-making procedure and mechanism were self-contained. The independent directors have fulfilled their obligations and played active roles in the dividend distribution planning. It was also ensured that the medium and small shareholders could fully air their views and concerns. Measures were taken to protect the legal rights of the medium and small shareholders.

According to the "*Bill of Cash Dividend of Baoshan Iron & Dividend*" approved by 2004 General Shareholders' Meeting, annual cash dividend should not be lower than 40% of the net profit of that particular year.

According to the resolutions approved at the 2011 Shareholders General Meeting held on 27 April 2012, the proposed appropriation for 2011 is as follows: All shareholders were entitled to a cash dividend of RMB 2.00 per 10 shares (taxes included), for a total dividend payout of RMB 3,502,409,617.60. Details of the dividend distribution were published in the *China Securities News*, *Shanghai Securities News* and *Securities Times* of 5 June 2012. The final share registration date for the dividend entitlement was 8 June 2012, with the ex-dividend date set at 11 June 2012 and dividend payout date on 15 June 2012. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd.'s Shanghai Branch after the market closed on 8 June 2012, would be entitled to such cash dividends.

### (III) Implementation of profit appropriation in the reporting period

See details on the implementation of profit appropriation in the reporting period on VI (II).

## (IV) Legal Proceedings

The Company was not involved in any material litigation or arbitration proceedings in the period reported.

## (V) Bankruptcy and Restructuring

No bankruptcies and re-structuring were experienced in the reporting period.

## (VI) Shares Held of Other Listed Companies and Financial Enterprises

## 1. Investment in Securities

(Unit: Share, RMB Million)

No.	Type	Code	Name	Initial investment cost	Shareholding	Book value as at end of period	Ratio in total share of bond as at end of period (%)	Profit
1	Financial product	2012051703	Beijing International Trust Income Right Plan 2012 No. 012	100.00	100,000,000.00	100.00	8.89	-
2	Financial product	20120615	ICBC Structured Deposit	100.00	100,000,000.00	100.00	8.89	-
3	Financial product	2012051702	Beijing International Trust Income Right Plan 2012 No. 013	98.64	98,635,536.00	98.64	8.77	-
4	Corporate bond	1182098	11 Jinguang MTN1	79.90	800,000.00	82.68	7.35	3.22
5	Corporate bond	1082222	10 New Water Power MTN1	59.89	600,000.00	63.88	5.68	-
6	Corporate bond	1282050	12Bailianji MTN1	60.73	600,000.00	62.71	5.58	-
7	Corporate bond	1182285	11 Pingmeihua MTN2	51.36	500,000.00	55.29	4.92	-
8	Corporate bond	1182040	11Tianwei MTN1	51.27	500,000.00	53.31	4.74	-
9	Corporate bond	1182008	11Jianghuai MTN1	50.89	500,000.00	51.88	4.61	-
10	Fund	20120531	Fortune SG Panshi No. 1	50.00	50,000,000.00	50.05	4.45	-
Other bonds held as at the end of the period				396.62	-	405.92	36.12	9.51
Profit in bonds sold in the reporting period				-	-	-	-	25.29
Total				1,099.30	-	1,124.36	100.00	38.02

Note: The securities are held by Finance Co., a subsidiary of the Company.

## 2. Stocks held of other listed companies

(Unit: Million RMB)

Stock code	Stock name	Initial investment cost	Equity ratio in the Company	Book value as at the end of period	Profit	Change in shareholders' equity in the period	Accounting type	Share source
000983	Xishan Coal Electricity Group	941.66	1.35%	665.47	8.53	31.99	Financial assets available for sale	Acquisition
601699	Lu'an Environmental Energy	5.05	0.51%	244.95	-	-3.72	Financial assets available for sale	Investment when issued
600508	Shanghai Energy	5.55	0.77%	101.03	1.67	-2.51	Financial assets available for sale	Investment when issued
600997	Kailuan Corporation	3.51	0.38%	48.79	0.47	-2.34	Financial assets available for sale	Investment when issued
600000	SPD Bank	62.97	0.03%	42.12	1.17	-1.40	Financial assets available for sale	Acquisition
601001	Datong Coal Industry	2.57	0.22%	39.42	-	-3.27	Financial assets available for sale	Investment when issued
Total		1,021.30	-	1,141.77	11.84	18.76	-	-

Note: The securities are held by Baosteel International Economic & Trading Co., a subsidiary of the Company.

#### (VII) Significant Acquisitions, Sales and Consolidations in the Period

On March 15, 2012, the Company held the first interim Shareholders' Meeting of 2012, and approved the "Proposal of selling the assets of the Stainless Steel Business Unit and the Special Steel Business Unit".

On April 1, 2012, the Company completed the settlement of the following items: related assets of the Stainless Steel Business Unit and the Special Steel Business Unit, 100% equity of Shanghai Baosteel Special Materials Co., Ltd. held by Baoshan Iron & Steel Co., Ltd., 58.50% equity of Baoyin Special Steel Tubes, 94.5% equity of Shanghai No. 5 Steel Gas Co., Ltd., and 9.71% equity of AVIC Special Materials Industry Co., Ltd. (Xi'an). The transferred assets and equities totaled RMB 41.31 billion, and the Company gained RMB 9.09 billion from the transfer.

As for the equity held by Baoshan Iron & Steel Co., Ltd. of the following companies: 54% equity of Ningbo Baoxin Stainless Steel Co., Ltd., 40% equity of Shanghai STAL Precision Stainless Steel Co., Ltd., and 20% equity of Rihong Stainless Steel (Shanghai) Co., Ltd., settlement can only be made after obtaining approvals from the administrative department since the subject companies are foreign-invested ones (the transfer gains is estimated at RMB 0.49 billion). As of June 30, 2012, Applications have been filed for the equity settlement.

#### (VIII) Significant Related Party Transactions

##### 1. Day-to-day related party transactions

The major related parties of the Company are legal persons controlled by the Baosteel Group. The transactions conducted between the Company and its major related parties in the reporting period included:

(1) Purchase and sales of products and purchases of services

(Unit: Million RMB)

Related parties	Transactions	Pricing policy	Amount
Baosteel Stainless Steel Co., Ltd.	Raw materials, auxiliary materials, and energy	Market price	2,472
Baosteel Development Corp.	Steel products, and auxiliary materials	Market price	1,462
Baosteel Metal Co., Ltd.	Steel products, and energy	Market price	1,390
Baosteel Special Materials Co., Ltd.	Raw materials, steel products, auxiliary materials, and energy	Market price or negotiated price	1,033
Baosteel Resources Co., Ltd.	Raw materials	Market price	863
Baosteel Group Shanghai Iron & Steel Co., Ltd.	Steel products, energy and auxiliary materials	Market price	790
Baosteel Resources (International) Ltd.	Raw materials	Market price	589
<b>Subtotal of sales</b>			<b>8,599</b>
Baosteel Stainless Steel Co., Ltd.	Steel products	Market price or negotiated price	4,082
Baosteel Resources Co., Ltd.	Raw materials	Market price	3,804
Baosteel Special Materials Co., Ltd.	Steel products	Market price or negotiated price	1,378
Baosteel Development Corp.	Steel products and auxiliary materials	Market price	1,039
Baosteel Engineering & Technology Group Co., Ltd.	Equipment	Market price	917
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd.	Steel products	Market price	839
<b>Subtotal of purchase</b>			<b>12,059</b>
Baosteel Development Corp.	Receiving services including comprehensive logistics, project installation, equipment examination & maintenance, as well as transportation, etc.	Negotiated price	989
Baosteel Engineering & Technology Group Co., Ltd.	Receiving services including project installation, equipment examination and maintenance, etc.	Negotiated price	700
<b>Subtotal of services received</b>			<b>1,690</b>

Notes: Subsidiaries are included in the above-listed company.

The sales above accounted for 8.8% of the Company's revenue from its principal

business in the reporting period; purchases and service took up 13.4% and 1.9% respectively of the Company's cost for its principle business in the period.

All above transactions were settled either by cash or by note.

## (2) Financial services

Baosteel Group Finance Co., Ltd. (hereafter referred to as Finance Co.), a national non-bank financial company with the Company (with 62.1% of the shares) and the Baosteel Group (with 35.18% of the shares), was established for central management of the funds of the Company so as to raise the efficiency of fund use. It provides a comprehensive service of internal accounting settlement, fund deposited and loan, short term capital financing, investment and fund-raising for members within the group..

In the period reported, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 1.35 billion loans to Baosteel Group's controlled companies, with outstanding loan of RMB 2.54 billion and a total interest income of RMB 70 million. At the same time, it absorbed deposit from Baosteel Group and its subsidiaries, as at the end of the period, it had a deposit of RMB 7.67 billion, paying a interest of RMB 0.11 billion.

In the reporting period, Finance Co. discounted a total of RMB 0.13 billion to Baosteel Group's controlled companies at the discount rate set by the People's Bank of China, with the closing balance of 10 million.

In the period, Baosteel Desheng Stainless Steel Co., Ltd., a subsidiary of Baosteel Group, entrusted the Finance Co. to carry out financial activities such as the Treasury bond repo. The Finance Co. charged RMB 127,000 service fee for the entrusted amount of RMB 2.22 billion.

The related party transactions listed in the above (1) and (2) are conducted on the basis of maximum profitability and efficiency for both parties, reflecting the principle of professional cooperation and co-compensation. The major transactions between the Company and the related parties are expected to continue.

## 2. Transfer of assets or equity

See VI (VII) for details.

## 3. Related external investments with related parties

No related external investments with related parties were conducted in the reporting period.

## 4. Claims, liabilities and guarantees between the Company and related parties

Claims and liabilities arise from day-to-day related party operations and transactions that result in trade receivables and payables, as well as from long-term dues to the holding company for acquisition of assets from Baosteel Group.

On 1 April 2008, the Company acquired the Luoqing Project assets and businesses from Shanghai Pudong Iron & Steel Co., Ltd. of Baosteel Group. The financial settlement price was RMB 14.34 billion, which would be paid 20% each year in five years free of interest. Starting from 2009, the balance of this acquisition was made on 31 December every year, with the last payment to be made on 31 December 2012. This acquisition was approved by the Shareholders' Meeting. In the beginning of 2012, the long-term payable was RMB 2.76 billion. The subsequent measurement was made on the basis of the post-amortization costs, and the unrecognized financing expenses written off for the year was RMB 0.06 billion.

On April 1, 2012, the Company sold to Shanghai Stainless Steel and Baosteel Special Steel the related assets of its business units of Stainless Steel and Special Steel. The settlement was made at RMB 41.31 billion, among which, the RMB 22.5 billion will be collected in 5 equal installments on April 1 each year from 2013 to 2017. The interest for the installment is calculated at a 10% discount based on the benchmark one-year loan interest rate. As of June 30, 2012, the interest for the yearly long-term receivables was RMB 0.32 billion.

## 5. Fund appropriations and their solutions

See VI (VIII) 4 for detail.

### (IX) Major Contracts and Performance

#### 1. Significant Trusteeships, contracts or leases that bring about over 10% (including 10%) of the total profit in the reporting period for the Company

##### (1) Trusteeships

The Company was not involved in any trusteeship in the reporting period.

##### (2) Contracts

The Company was not involved in any contract in the reporting period.

##### (3) Leases

The Company was not involved in any lease in the reporting period.

#### 2. Guarantees

In face of the more and more fierce competition in the domestic and foreign steel markets, and in order to encourage all sales branches at home and abroad to take an active part in the supply and bidding under the guidance and instruction of the Company, the Company offers the joint liability performance guarantee for HOWA

Trading Corporation Limited, a wholly-owned subsidiary of the Company. The first performance guarantee was USD 0.257 billion. It started from 19 March 19, 2010, and the duration will not be more than 50 months. The second performance guarantee was USD 0.036 billion, with a duration from September 30, 2011 to January 5, 2015. The total amount was USD 0.293 billion, about 1.6% of the unaudited net asset at the end of this reporting period. The performance guarantee has been approved by the Board of Directors.

As far as the Company is concerned, the above guarantee doesn't pose any substantial increase of risks. Therefore, it is fundamentally different from ordinary guarantees.

### 3. Entrusted cash management and entrusted loans

#### (1) Entrusted cash management

Million RMB

No.	Entrustee	Entrusted amount	Starting	Termination	Capital recollected	Actual gains
1	The Finance Co. of Baosteel Group	40.00	2-17-2012	2-24-2012	40.00	0.04
2	The Finance Co. of Baosteel Group	35.00	4-9-2012	4-16-2012	35.00	0.02
3	The Finance Co. of Baosteel Group	50.00	4-17-2012	4-23-2012	50.00	0.03
4	The Finance Co. of Baosteel Group	1,000.00	5-11-2012	5-25-2012	1,000.00	1.24
5	The Finance Co. of Baosteel Group	1,500.00	6-11-2012	6-14-2012	1,500.00	0.29
Total		2,625.00			2,625.00	1.62

Note: ① All of the above transactions were carried out through legal procedures, no provision for impairment was made and the capital was not gained through financing activities.

② The above transactions were Treasury Bond Repo business entrusted by the Company and its subsidiary Huangshi Coated and Galvanized on the Finance Co., also a subsidiary of the Company.

#### (2) Entrusted loans

The Company was not involved in any entrusted loan in the reporting period.

#### (3) Other financial activities

Million shares, Million RMB

Investment type	Signing party	Investing shares	Term	Investing product	Estimated gains	Profit
<b>Available-for-sale financial assets</b>						



Open-end fund	Fund company	50.00	Over 1 year	Fortune SG Panshi No. 1 fund		0.00
Close-end fund	Securities trader	9.93	Within 1 year	Bank of Communications More Profit		0.37
Stock	Securities trader	62.97	Over 1 year	SPD Bank		1.55
Corporate bond	Inter bank market	50.01	Within 1 year	12Bagang CP001		1.02
Corporate bond	Inter bank market	40.00	Within 1 year	12Shennengji CP001		0.14
Corporate bond	Inter bank market	39.25	Over 1 year	10 Xia Road&Bridge MTN1		2.30
Corporate bond	Inter bank market	59.89	Over 1 year	10 New Water Power MTN1		0.00
Corporate bond	Inter bank market	40.14	Within 1 year	11 Hengyi CP01		1.84
Corporate bond	Inter bank market	30.03	Within 1 year	11 Orient CP01		0.81
Corporate bond	Inter bank market	20.00	Within 1 year	11 Sangde CP01		0.62
Corporate bond	Inter bank market	20.05	Within 1 year	11Hongtu CP01		0.95
Corporate bond	Inter bank market	50.14	Within 1 year	11 Feng media CP01		2.14
Corporate bond	Inter bank market	50.89	Over 1 year	11 Jianghuai MTN1		0.00
Corporate bond	Inter bank market	51.27	Over 1 year	11 Tianwei MTN1		0.00
Corporate bond	Inter bank market	40.63	Over 1 year	11 Fengfeng MTN1		2.13
Corporate bond	Inter bank market	79.99	Over 1 year	11 Jinguang MTN1		4.30
Corporate bond	Inter bank market	49.80	Within 1 year	11 Huahong MTN2		2.24
Corporate bond	Inter bank market	51.68	Within 1 year	11 Yangmei MTN3		2.15
Corporate bond	Inter bank market	51.36	Over 1 year	11 Pingmeihua MTN2		0.00
Corporate bond	Inter bank market	60.73	Over 1 year	12 Bailianji MTN1		0.00
Corporate bond	Inter bank market	20.00	Over 1 year	12 Shanghai Port MTN1		0.00
Corporate bond	Inter bank market	10.00	Over 1 year	12 Shen Energy MTN1		0.00
<b>Held-to-maturity investment</b>						
Trust Plan	Shanghai International Trust	118.47	Within 1 year	Shanghai International Trust "Pearl 23" (first issue)		1.77
Trust Plan	Shanghai International Trust	50.00	Over 1 year	Shanghai International Trust Nanjing Urban Construction	10.20%	0.00
Trust Plan	Shanghai International Trust	30.00	Within 1 year	Shanghai International TrustGX2301	8.80%	0.00
Trust Plan	Beijing International Trust	25.00	Within 1 year	Beijing International Trust Income Right	8%	0.00

				Plan 2012 No. 005		
Trust Plan	Beijing International Trust	98.64	Over 1 year	Beijing International Trust Income Right Plan 2012 No. 013	8%	0.00
Trust Plan	Beijing International Trust	100.00	Within 1 year	Beijing International Trust Income Right Plan 2012 No. 012	8%	0.00
Trust Plan	Beijing International Trust	50.00	Within 1 year	Beijing International Trust Income Right Plan 2012 No. 014	8%	0.00
Bank financial product	Industrial Bank Co., Ltd.	100.00	Within 1 year	Industrial Bank Co., Ltd. financial product XYXT		1.83
Bank financial product	Bank of Communications	100.00	Within 1 year	Bank of Communications Jutong financial product		1.62
Bank financial product	ICBC	100.00	Within 1 year	ICBC Structured Deposit	4%	0.00
Bank financial product	China Construction Bank	1.00	Within 1 year	Lideying financial product	4.30%	0.00
<b>Tradable Financial Assets</b>						
Money Market Fund	Fund company	280.00	Within 1 year	Hua'an Cash Fuli Money B		1.11
Money Market Fund	Fund company	240.00	Within 1 year	Bosera Cash Income		1.74
Money Market Fund	Fund company	200.00	Within 1 year	Harvest Money		0.67
Money Market Fund	Fund company	100.00	Within 1 year	Changsheng Money		0.06
Money Market Fund	Fund company	940.00	Within 1 year	E-fund Money B		2.76
Money Market Fund	Fund company	300.00	Within 1 year	UBS SDIC Money B		0.57
Money Market Fund	Fund company	150.00	Within 1 year	Galaxy Yinfu Money B		0.55
Money Market Fund	Fund company	100.00	Within 1 year	Penghua Money B		0.15
Money Market Fund	Fund company	300.00	Within 1 year	Bank of China Money		0.60
Money Market Fund	Fund company	300.00	Within 1 year	Chian Southern Cash Profit B		0.77
Money Market Fund	Fund company	150.00	Within 1 year	Fortune SG Money B		0.83
Money Market Fund	Fund company	250.00	Within 1 year	CGB Money B		0.50
Money Market Fund	Fund company	20.00	Within 1 year	Tianhong Money Manager B		0.00
Money Market Fund	Fund company	30.00	Within 1 year	UBS SDIC Money		0.07
Money Market Fund	Fund company	200.00	Within 1 year	Wanjia Money		0.22
Money Market Fund	Fund company	370.00	Within 1 year	Huitianhu Money B		1.66
Money Market Fund	Fund company	300.00	Within 1 year	Bank of Communications		0.92

				Money B		
Money Market Fund	Fund company	400.00	Within 1 year	Changxin Interest Profit B		1.14
Trust Plan	Shanghai International Trust	350.00	Within 1 year	Shanghai International Trust Cash Profit		4.50
Trust Plan	Bank of Communications International Trust	150.00	Within 1 year	BOC International Trust Jufu No. 254		0.19
Convertible bond	Exchange market	0.94	Within 1 year	Hengfen CB		0.07
Open-end fund	Fund company	10.00	Within 1 year	Bosera TianyiA		0.00
Corporate bond	Inter bank market	30.01	Within 1 year	12 Meisteel CP001		0.24
Corporate bond	Inter bank market	20.02	Within 1 year	12Shan Jiaojian CP001		0.00
Corporate bond	Inter bank market	40.28	Within 1 year	11Fangzheng MTN3		0.00
Corporate bond	Exchange market	30.26	Within 1 year	11Tianwei Bond		0.00
Corporate bond	Inter bank market	30.19	Within 1 year	12 Zhongjin Lingnan cp001		0.91
Corporate bond		18.37	Within 1 year	Zhonggong Zhuanzhai		1.15
Corporate bond	Inter bank market	10.10	Within 1 year	12 Dazhong News MTN1		0.04

Note: All of the above were low-risk financing by the Company's subsidiary the Finance Co. with its own capital. No complaints occurred during the reporting period.

#### 4. Other major agreements

The Company was not involved in any other major agreements in the reporting period.

#### (X) Commitments and Performance

Commitments of companies or shareholders with over 5% stake in and to the reporting period:

1. Baosteel Group undertook the following two commitments as at the establishment of the Company:

(1) All related party transactions with the Company will be carried out in compliance with relevant laws, regulations and rules set by the authorities and will not damage the legitimate interest of the Company nor its minority shareholders.

(2) Baosteel Group will not directly participate in any business activity or directly own an interest in any business activity or entity that might pose competition to the Company's current operating business. However, Baosteel Group can maintain its existing shares in the Company, as well as manage and develop the existing business which may or may not be in competition with the Company. Should Baosteel Group (including its wholly-owned and holding subsidiaries or other associates)

engage in any new business, investment or research that might be in competition with the principal products or services of the Company in the future, Baosteel Group has agreed to grant the Company pre-emptive rights to develop or acquire the said business.

These commitments will stay in force under two conditions: A. the Company is listed on the Hong Kong Stock Exchange and domestic stock exchange of China; and, B. Baosteel Group owns no less than 30% of the Company's issued shares.

In addition, on June 13, 2001, and September 6, 2002, Baosteel Group further pledged to uphold these two commitments after the Company's acquisition of the assets related to construction of its phase three project and all remaining assets thereof.

These commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* dated 21st June 2001 and 12th September 2002 and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) as well.

## 2. Commitments made in Issuance Prospectus by Baosteel Group:

(1) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses which may be in competition with the Company;

(2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until the Company gives up the commercial opportunities;

(3) Baosteel Group is committed to helping dealing with the relevant property certificates for buildings and lands after the Company completed the mergers and acquisitions. These commitments were publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) in April 2005.

## 3. Commitments Baosteel Group undertook about Luojing Land:

Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter, Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3.228 million m<sup>2</sup>, for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-assessing day (30 September 2007), RMB2.8 billion as preliminarily estimated, shall be paid by the Company. Baosteel Group promises:

(1) If the Company intends to purchase the Luojing assets, Baosteel Group and/or Pudong Steel would help the Company go over the transfer procedures and other matters as required by the Company.

(2) In the event of the total actual expense exceeding RMB2.8 billion for the procedures, Baosteel Group and/or Pudong Steel shall fully cover the exceeding amount in time, by means of paying the Company and/or the government (as is required). The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 12 December 2007.

## 4. Supplementary commitments about the land involved in 2005 share capital

increase of the Company:

Baosteel Group issued a written statement to the Company on 11 April 2008 concerning the land use right and change in its area:

As regards the piece of land whose use right has been suspended due to change in Baoshan land planning program, Baosteel Group shall fully cover the possible losses (including, but not limited to, the cost of the land and the interests involved, relocation expenses, and loss on production stoppage) arising from the loss of the land use right within 30 days.

Baosteel Group shall try its best to help when the Company applies to relevant official departments for the use right of the land in question or when the Company uses the land in the manner it is used now.

These commitments were included in *Prospectus of Convertible Bonds with Call Warrants*, which was publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) dated June 18, 2008.

5. Commitments the Company undertook about land use right in 2005 increase in share capital:

(1) The Company intended to purchase, with the capital raised from the issuance of 5 billion new shares, from Baosteel Group 23 pieces of state-allocated land and 14 pieces of “idle running” land. After the completion of the transactions, the Company would go over the procedures of changing the state-allocated land into state-owned transferable land and changing the “idle running” land into state-owned transferable land with no limits in right;

(2) The Company and related companies that came under control of the Company after the acquisition shall negotiate in an active manner with relevant administrative offices to go over the procedures, within 18 months after the land acquisition, of the certificates for using the state-owned land or for owning the estates of the aforementioned pieces of land. The land users of the aforementioned land shall be registered in the Company or related companies that came under control of the Company after the acquisition.

On April 1, 2012, the Company completed all asset settlement of its business units of Stainless Steel and Special Steel. The land mentioned in No. 4 and No. 5 was within the scope of this asset sale, therefore, Baosteel Group and the Company were exempted from the related obligations naturally.

6. Commitments Baosteel Group undertook about Desheng Nickel Project:

Baosteel Group sought the Company’s opinion of investment on the Desheng Nickel Project on December 16, 2010 in written form of “Solicit Letter about Investment on Desheng Nickel Project”, “Commitments about Desheng Nickel Project”. The Company agreed that Baosteel Group could invest on the project, but retained that right to purchase the equity of the project. Baosteel Group promises: When the Company wants to acquire the equity of the project, it would transfer its share of equity of the project at a fair price in line with relative laws, regulations, and other documents and on basis of asset estimating results as conducted by an individual estimating organization.

These commitments stay in force under two conditions: (a) the company is listed at a stock exchange and (b) Baosteel Group owns no less than 30% of the Company’s

issued shares.

The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 23 December 2010.

7. Commitments Baosteel Group undertook about Zhanjiang Iron & Steel Project:

Baosteel Group sought the Company's opinion of investment on the Zhanjiang Iron & Steel Project on April 7, 2011 in written form of "Solicit Letter about Investment on Zhanjiang Iron & Steel Project," and "Commitments about Zhanjiang Iron & Steel Project". Baosteel Group promises: in case that the Company decides to give up this business opportunity, when the Company wants to acquire the equity of the project in future, Baosteel Group will transfer its share of equity of the project at a fair price in line with relative laws, regulations, and other normative documents and on the basis of asset evaluation results as conducted by an independent evaluation organization.

These commitments stay in force under two conditions: (a) the company is listed at a stock exchange and (b) Baosteel Group owns no less than 30% of the company's issued shares.

The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 13 April 2011.

8. Commitments Baosteel Group undertook about not reducing its shareholdings during the period of share increase and the legal time limit:

During the period from 27 September 2011 to 28 December 2011, and on 16 January 2012, Baosteel Group accumulatively purchased 175,307,826 more shares of the Company through the trading system of Shanghai Stock Exchange, accounting for about 1.00% of the Company's shares. After the two purchases, the Group owns 13,128,825,267 shares of the Company, accounting for 74.9% of the total issued shares of the Company. Baosteel Group planned to continue purchasing shares of the Company in its own name from the secondary market in the following 12 months after its first increase of shares on 27 September 2011. The accumulative increase shall not exceed 2% of the Company's issued shares (including this accumulative increase). Baosteel Group promised that during the share increase period and the legal time limit, it will not reduce its holding of shares.

The Company published the details of the share increase in *China Securities News*, *Shanghai Securities News* and *Securities Times*, as well as on the website of Shanghai Stock Exchange on 28 September 2011 and 17 January 2012.

The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 28 September 2011 and 17 January 2012.

During the reporting period, Baosteel Group and the Company did not commit any breach of the aforementioned commitments.

(XI) Engagement and/or Termination of Auditor's Service

According to the resolution approved by 2011 General Shareholder's Meeting held on 27 April, 2011, the Company hired Deloitte Touche Tohmatsu CPA Ltd. as the independent auditor. The auditing fee for the year 2012 is RMB 2.88 million. The engagement is to be ceased at the date of 2012 General Shareholder's Meeting.

(XII) Penalty and Improvement for the Listed Company, Directors, Supervisors, Senior Executives, Shareholders or Actual Controllers of the Company

Neither the Company, nor its directors, supervisors, senior executives, shareholders or actual controllers was the subject of an investigation by the China Securities Regulatory Commission in the reporting period, neither were they punished or penalized or cited by the commission, or openly denounced by any administrative department or Stock Exchange for any wrongdoing.

(XIII) Profitability, Asset Status, and Credit Rating of Baosteel Group, the Guarantee of the Company's Convertible Bond

The profitability, assets status and credit rating of Baosteel Group, the guarantee of the Company's convertible bond, have not experienced significant changes.

As at the end of the reporting period, the asset-liability ration of the Company's legal person was 41.0%, an indicator of a stable capital structure. In the coming year, the Company would repay its due bonds by its own capital and debt financing.

(XIV) Other Significant Matters

No other significant matter occurred in the reporting period.

(XV) Index of Important Announcements

Item	Disclosure media	Disclosure date	Website
Notice of Related Party Transaction by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	6 Jan. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Express Report of 2011 Performance of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	14 Jan. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Progress in Shareholding Increase by the Controlling Shareholders of Baoshan Iron & Steel	<i>China Securities News, Shanghai Securities News and Securities Times</i>	17 Jan. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Seventeenth Meeting of Fourth Board of Directors & Notice of 2012's	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Feb. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

First Interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.			
Notice of Related Party Transaction by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Feb. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Seventeenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 Feb. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Materials from 2012's First Interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	3 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Supplementary Announcement to the "Proposal of selling the assets of the Stainless Steel Business Unit and the Special Steel Unit" by Baoshan Iron & Steel.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	14 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of 2012's First Interim General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	16 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Legal Position Paper of 2012's First Interim Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	16 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of On-line Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the Year 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Eighteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Report of Day-to-day Related Transactions of Baoshan Iron & Steel Co., Ltd. in 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Examination Report of Internal Control of Baoshan Iron & Steel Co., Ltd. in 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Sustainability Report (2011) of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Audit Report of the Internal Control of the Parent and its Subsidiaries of Baoshan Iron & Steel	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>



Special Explanation about the Capital Occupation by the Controlling Shareholders and other Related Parties	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Abstract of the Annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Annual Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Eighteenth Meeting of Fourth Board of Directors & Notice of 2011 General Shareholder's Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 Mar. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Explanation of the Examination Report of 2011 Internal Control of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	6 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Materials from 2011 Shareholders' Annual Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	12 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Nineteenth Meeting of the Fourth Board of Directors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of On-line Publication of the Performance of Baoshan Iron & Steel Co., Ltd. in the First Quarter of 2012	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
First Quarter Report of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Legal Position Paper of 2011 Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the Nineteenth Meeting of Fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	28 Apr. 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the First Meeting of Fifth Board of Directors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	3 May 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement of the Resolutions of the First Meeting of Fifth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	3 May 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

Notice of Dividend Distribution of 2011 by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	5 June 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Notice of Dividend Distribution of “08 Baosteel Bond” in 2012 by Baoshan Iron & Steel Co., Ltd.	<i>China Securities News, Shanghai Securities News and Securities Times</i>	15 June 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>

**VII. Financial Statements****Consolidated Balance Sheet****30 June 2012**

Prepared by: Baoshan Iron &amp; Steel Co., Ltd.

Unit: RMB Unaudited

Item	Note	30 June 2012	31 December 2011
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	(V) 1	18,660,531,086.56	14,379,464,105.74
Held-for-trading financial assets	(V) 2	166,645,151.69	352,804,683.86
Notes receivable	(V) 3	9,902,210,103.80	12,860,113,254.16
Accounts receivable	(V) 4	8,574,289,254.09	6,983,893,119.47
Payments in advance	(V) 5	5,232,447,290.19	5,298,265,694.46
Interests receivable	(V) 6	340,206,772.50	11,757,749.94
Dividends receivable	(V) 7	41,385,814.61	246,648,970.16
Other receivables	(V) 8	1,333,045,273.19	1,227,688,540.03
Buying back the sale of financial assets		10,000,000.00	-
Inventories	(V) 9	34,928,722,185.85	37,389,713,386.91
Non-current assets due within one year	(V) 10	4,904,635,536.00	483,907,475.02
<b>Total of current assets</b>		<b>84,094,118,468.48</b>	<b>79,234,256,979.75</b>
<b>NON- CURRENT ASSETS</b>			
Disbursement of loans and advances	(V) 11	3,415,607,438.56	3,410,144,438.27
Available-for-sale financial assets	(V) 12	1,676,092,528.65	1,504,972,994.37
Held-to-maturity investment		50,000,000.00	-
Long-term receivables	(V) 13	18,049,993,750.00	27,388,500.00
Long-term equity investment	(V) 14, 15	4,611,301,962.90	4,498,487,312.97
Investment property	(V) 16	537,277,985.35	487,474,698.00
Fixed assets	(V) 17	89,168,823,136.60	115,371,361,577.46
Construction in progress	(V) 18	17,197,476,857.58	16,282,590,033.75
Construction materials	(V) 19	203,592,641.96	805,812,260.74
Intangible assets	(V) 20	5,817,690,581.24	8,126,173,826.75
Long-term expenses to be apportioned	(V) 21	28,265,711.72	42,017,928.52
Deferred income tax assets	(V) 22	1,228,962,107.70	1,188,689,741.88
Other non-current assets	(V) 24	120,349,588.33	120,375,537.42
<b>Total of non-current assets</b>		<b>142,105,434,290.59</b>	<b>151,865,488,850.13</b>
<b>TOTAL ASSETS</b>		<b>226,199,552,759.07</b>	<b>231,099,745,829.88</b>

**Consolidated Balance Sheet (Continued)****30 June 2012**

Prepared by: Baoshan Iron &amp; Steel Co., Ltd.

Unit: RMB Unaudited

<u>Item</u>	<u>Note</u>	<u>30 June 2012</u>	<u>31 December 2011</u>
<b>CURRENT LIABILITIES</b>			
Short-term borrowings	(V) 25	31,568,373,527.99	38,876,457,632.91
Receipt of deposits and deposits from other financial institutions	(V) 26	7,732,479,693.89	8,433,585,032.21
Loans from other financial institutions	(V) 27	1,020,000,000.00	300,000,000.00
Notes payable	(V) 28	3,492,410,202.30	2,677,585,618.61
Accounts payable	(V) 29	19,742,613,581.78	19,270,699,108.70
Advance receipts	(V) 30	9,770,539,142.45	10,789,724,318.08
Financial assets sold for under repurchase agreement		748,567,054.18	-
Staff remuneration payable	(V) 31	1,564,240,370.34	1,553,291,216.55
Taxes payable	(V) 32	(847,936,151.58)	(987,589,062.21)
Interests payable	(V) 33	298,633,770.15	316,050,944.68
Dividends payable	(V) 34	94,025,180.56	18,082,635.32
Other payables	(V) 35	880,788,869.52	780,610,181.71
Non-current liabilities due within one year	(V) 36	8,664,809,771.94	16,809,668,448.29
<b>Total of current liabilities</b>		<b>84,729,545,013.52</b>	<b>98,838,166,074.85</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	(V) 37	8,251,553,297.79	7,325,679,720.00
Bonds payable	(V) 38	9,618,948,197.07	8,918,663,150.96
Long-term payables	(V) 39	331,382,277.50	911,415,731.15
Specific payables	(V) 22	2,554,696,208.05	316,780,621.85
Deferred income tax liabilities	(V) 40	1,024,984,408.74	1,319,044,230.80
Other non-current liabilities		21,781,564,389.15	18,791,583,454.76
<b>Total non-current liabilities</b>		<b>106,511,109,402.67</b>	<b>117,629,749,529.61</b>
<b>Total liabilities</b>			
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	(V) 41	17,512,048,088.00	17,512,048,088.00
Capital reserve	(V) 42	37,352,730,867.13	37,330,639,029.54
Capital reserve	(V) 43	20,648,705.86	11,788,986.69
Special reserve	(V) 44	21,132,255,172.18	21,132,255,172.18
Surplus reserve	(V) 45	36,861,907,662.09	30,754,305,445.21
Foreign currency translation difference		(271,200,054.25)	(245,545,838.69)
Total shareholder's equity attributable to the parent company		112,608,390,441.01	106,495,490,882.93
Minority interest		7,080,052,915.39	6,974,505,417.34
<b>Total shareholder's equity</b>		<b>119,688,443,356.40</b>	<b>113,469,996,300.27</b>
<b>TOTAL OF LIABILITIES &amp; SHAREHOLDER'S EQUITY</b>		<b>226,199,552,759.07</b>	<b>231,099,745,829.88</b>

The notes are indispensable parts of the Financial Statements.

The Financial Statements from page 34 to page 113 are signed by the following persons in the capacities indicated.

Legal representative:  
He Wenbo

Person-in-charge of accounting affairs:  
Chen Ying

Head of the accounting department:  
Li Qiqiang

**Balance Sheet of the Company****30 June 2012**

Prepared by: Baoshan Iron &amp; Steel Co., Ltd.

Unit: RMB Unaudited

<u>Item</u>	<u>Note</u>	<u>30 June 2012</u>	<u>31 December 2011</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		<u>11,836,607,401.24</u>	<u>8,826,002,497.24</u>
Held-for-trading financial assets		<u>27,629,945.97</u>	-
Notes receivable		<u>12,859,037,551.24</u>	<u>14,028,815,911.13</u>
Accounts receivable	(XI) 1	<u>8,498,412,807.74</u>	<u>6,896,778,182.66</u>
Payments in advance		<u>2,770,296,750.10</u>	<u>2,480,162,457.76</u>
Interests receivable		<u>324,499,315.07</u>	-
Dividends receivable		<u>13,395,251.27</u>	-
Other receivables	(XI) 2	<u>314,615,416.39</u>	<u>503,609,047.98</u>
Inventories		<u>18,863,919,612.60</u>	<u>24,621,659,766.83</u>
Non-current liabilities due within one year		<u>4,500,000,000.00</u>	-
<b>Other current assets</b>		<u>3,123,929,385.67</u>	<u>5,864,685,966.51</u>
<b>Total of current assets</b>		<b><u>63,132,343,437.29</u></b>	<b><u>63,221,713,830.11</u></b>
<b>NON-CURRENT ASSETS</b>			
Long-term receivables		<u>18,000,000,000.00</u>	-
Long-term equity investment	(XI) 3, 4	<u>27,393,699,575.53</u>	<u>27,673,450,448.67</u>
Fixed assets		<u>62,921,903,118.10</u>	<u>90,615,546,715.70</u>
Construction in progress		<u>2,870,173,933.27</u>	<u>3,393,924,415.94</u>
Construction materials		<u>43,537,462.87</u>	<u>38,286,961.88</u>
Intangible assets		<u>1,637,238,433.79</u>	<u>3,913,518,973.35</u>
Long-term expenses to be apportioned		<u>1,681,119.22</u>	<u>14,394,666.51</u>
Deferred income tax assets		<u>428,598,886.25</u>	<u>418,690,604.77</u>
Other non-current assets		<u>117,905,780.14</u>	<u>117,905,780.14</u>
<b>Total of non-current assets</b>		<b><u>113,414,738,309.17</u></b>	<b><u>126,185,718,566.96</u></b>
<b>TOTAL ASSETS</b>		<b><u>176,547,081,746.46</u></b>	<b><u>189,407,432,397.07</u></b>

**Balance Sheet of the Company (Continued)****30 June 2012**

Prepared by: Baoshan Iron &amp; Steel Co., Ltd.

Unit: RMB Unaudited

Item	Note	30 June 2012	31 December 2011
<b>CURRENT LIABILITIES</b>			
Short-term borrowings		10,862,409,708.08	20,351,326,028.98
Notes payable		56,871,681.19	61,722,416.46
Accounts payable		24,913,591,393.13	26,574,715,743.14
Advance receipts		8,837,047,587.37	10,265,421,675.61
Staff remuneration payable		999,499,838.61	1,073,164,972.01
Taxes payable		570,712,476.88	(112,094,016.84)
Interests payable		161,401,017.02	250,161,146.79
Other payables		93,049,063.66	202,869,701.83
Non-current liabilities due within one year		8,110,891,425.26	16,758,001,068.29
<b>Total of current liabilities</b>		<b>54,605,474,191.20</b>	<b>75,425,288,736.27</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings		5,268,641,700.00	4,410,630,000.00
Bonds payable		9,123,794,862.51	8,918,663,150.96
Specific payables		237,970,000.00	769,908,534.23
Deferred income tax liabilities		2,509,565,792.87	282,207,189.74
Other non-current liabilities		643,495,892.73	980,722,628.04
<b>Total non-current liabilities</b>		<b>17,783,468,248.11</b>	<b>15,362,131,502.97</b>
<b>Total liabilities</b>		<b>72,388,942,439.31</b>	<b>90,787,420,239.24</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital		17,512,048,088.00	17,512,048,088.00
Capital reserve		37,229,752,008.51	37,207,402,138.54
Surplus reserve		21,132,255,172.18	21,132,255,172.18
Undistributed profits		28,284,084,038.46	22,768,306,759.11
<b>Total shareholder's equity</b>		<b>104,158,139,307.15</b>	<b>98,620,012,157.83</b>
<b>TOTAL OF LIABILITIES &amp; SHAREHOLDER'S EQUITY</b>		<b>176,547,081,746.46</b>	<b>189,407,432,397.07</b>

**Consolidated Profit Statement****January to June 2012**

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

<u>Item</u>	<u>Note</u>	<u>January-June 2012</u>	<u>January-June 2011</u>
<b>I. TOTAL OPERATING REVENUE</b>		<u>98,100,643,194.97</u>	<u>111,149,258,130.54</u>
Including: Operating income	(V) 46	<u>97,901,730,101.87</u>	<u>110,989,096,365.52</u>
Interest income		<u>195,163,359.08</u>	<u>155,548,356.61</u>
Handling charges and commission income		<u>3,749,734.02</u>	<u>4,613,408.41</u>
<b>II. TOTAL OPERATING EXPENSE</b>		<u>95,824,679,359.92</u>	<u>104,560,881,753.19</u>
Including: Operating cost	(V) 46	<u>90,241,193,885.70</u>	<u>99,095,096,917.58</u>
Interest expenses		<u>134,117,293.07</u>	<u>95,740,348.73</u>
Handling charges and commission expenses		<u>278,796.45</u>	<u>163,801.16</u>
Business tax and surcharges	(V) 47	<u>134,488,839.09</u>	<u>240,458,818.52</u>
Sales expenses		<u>892,354,520.24</u>	<u>883,334,019.82</u>
Administrative expenses		<u>3,893,258,192.27</u>	<u>4,063,112,894.65</u>
Financial expenses	(V) 48	<u>499,495,875.29</u>	<u>66,094,513.57</u>
Loss on the asset impairment	(V) 49	<u>29,491,957.81</u>	<u>116,880,439.16</u>
Add: Gains from change in fair value (“-” for loss)	(V) 50	<u>34,276,720.87</u>	<u>(6,686,555.13)</u>
Investment gains (“-” for loss)	(V) 51	<u>407,383,915.06</u>	<u>178,422,543.57</u>
Including: Gains from investment in associates and joint ventures		<u>108,590,304.45</u>	<u>92,267,556.41</u>
<b>III. TOTAL OPERATING PROFIT (“-” for loss)</b>		<u>2,717,624,470.98</u>	<u>6,760,112,365.79</u>
Add: Non-operating income	(V) 52	<u>10,226,896,441.53</u>	<u>113,724,564.55</u>
Less: Non-operating expenses	(V) 53	<u>610,284,454.87</u>	<u>86,825,529.79</u>
Including: Loss from disposal of non-current assets		<u>569,663,169.84</u>	<u>60,805,342.61</u>
<b>IV PRE-TAX PROFIT (“-” for loss)</b>		<u>12,334,236,457.64</u>	<u>6,787,011,400.55</u>
Less: Income tax expenses	(V) 54	<u>2,648,984,756.25</u>	<u>1,462,058,259.90</u>
<b>V. NET PROFIT (“-” for loss)</b>		<u>9,685,251,701.39</u>	<u>5,324,953,140.65</u>
Net profit attributable to the equity holder of the parent company		<u>9,610,011,834.48</u>	<u>5,079,492,303.81</u>
Minority interest income		<u>75,239,866.91</u>	<u>245,460,836.84</u>
<b>VI. EARNINGS PER SHARE</b>			
(I) Basic earnings per share	(V) 55	<u>0.55</u>	<u>0.29</u>
<b>VII. OTHER COMPREHENSIVE INCOME</b>	(V) 56	<u>10,632,037.69</u>	<u>(43,329,913.98)</u>
<b>VIII. TOTAL COMPREHENSIVE INCOME</b>		<u>9,695,883,739.08</u>	<u>5,281,623,226.67</u>
Total comprehensive income attributable to the equity holder of the parent company		<u>9,618,395,077.56</u>	<u>5,033,987,350.98</u>
Total comprehensive income attributable to minority shareholders		<u>77,488,661.52</u>	<u>247,635,875.69</u>

## Profit Statement of the Company

January to June 2012

Prepared by: Baoshan Iron & Steel Company Limited

Unit: RMB Unaudited

<u>Item</u>	<u>Note</u>	<u>January-June 2012</u>	<u>January-June 2011</u>
<b><u>I. OPERATING INCOME</u></b>	<u>(XI) 5</u>	<u>71,038,781,743.59</u>	<u>89,548,702,762.46</u>
Less: Operating cost	<u>(XI) 5</u>	<u>65,917,184,244.25</u>	<u>81,120,598,551.61</u>
Business tax and surcharges		<u>55,211,183.56</u>	<u>140,974,639.13</u>
Sales expenses		<u>332,736,977.13</u>	<u>369,332,550.64</u>
Administrative expenses		<u>2,973,160,529.96</u>	<u>3,151,970,752.23</u>
Financial expenses		<u>108,712,587.32</u>	<u>(43,233,890.27)</u>
Loss on the asset impairment		<u>(66,119,232.16)</u>	<u>110,712,611.43</u>
Add: Gains from change in fair value (“-” for loss)		<u>27,629,945.97</u>	<u>(11,021,542.86)</u>
Investment gains (“-” for loss)	<u>(XI) 6</u>	<u>167,076,110.83</u>	<u>375,849,387.47</u>
Including: Gains from investment in associates and joint ventures		<u>59,072,871.00</u>	<u>128,220,529.07</u>
<b><u>II. OPERATING PROFIT (“-” for loss)</u></b>		<u>1,912,601,510.33</u>	<u>5,063,175,392.30</u>
Add: Non-operating income		<u>10,154,623,025.10</u>	<u>22,377,203.13</u>
Less: Non-operating expenses		<u>579,951,990.25</u>	<u>49,429,739.08</u>
Including: Loss from disposal of non-current assets		<u>555,401,552.45</u>	<u>39,010,905.47</u>
<b><u>III. PRE-TAX PROFIT (“-” for loss)</u></b>		<u>11,487,272,545.18</u>	<u>5,036,122,856.35</u>
Less: Income tax expenses		<u>2,469,085,648.23</u>	<u>1,006,905,945.43</u>
<b><u>IV. NET PROFIT (“-” for loss)</u></b>		<u>9,018,186,896.95</u>	<u>4,029,216,910.92</u>
<b><u>V. OTHER COMPREHENSIVE INCOME</u></b>		<u>1,931,853.45</u>	<u>(11,308,345.00)</u>
<b><u>VI. TOTAL COMPREHENSIVE INCOME</u></b>		<u>9,020,118,750.40</u>	<u>4,017,908,565.92</u>



**Consolidated Cash Flow Statement****January to June 2012**

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

<u>Item</u>	<u>Note</u>	<u>January-June 2012</u>	<u>January-June 2011</u>
<b><u>I. CASH FLOW FROM OPERATING ACTIVITIES</u></b>	—		
Cash received from sales of goods and provision of services	—	<u>113,473,770,972.82</u>	<u>125,813,732,023.03</u>
Net decrease in loans and advances to customers	—	-	<u>568,392,178.34</u>
Net increase in Loans from other financial institutions	—	<u>720,000,000.00</u>	<u>340,000,000.00</u>
Net decrease in deposits with central bank and other financial institutions	—	<u>269,085,327.50</u>	-
Cash received from interest, handling charges and commissions	—	<u>196,659,801.62</u>	<u>158,626,566.10</u>
Tax rebates	—	<u>162,880,963.22</u>	<u>88,530,502.07</u>
Net increase in financial assets sold for repurchase	—	<u>748,567,054.18</u>	<u>310,000,000.00</u>
Other cash received from activities related to operation	(V) 57(1)	<u>1,131,964,799.78</u>	<u>924,723,412.44</u>
<b><u>Subtotal of cash inflow from operating activities</u></b>	—	<b><u>116,702,928,919.12</u></b>	<b><u>128,204,004,681.98</u></b>
Cash paid for goods purchased and services rendered	—	<u>98,185,366,891.52</u>	<u>111,365,034,864.68</u>
Net increase in loans and advances to customers	—	<u>94,780,497.00</u>	-
Net increase in deposits with central bank and other financial institutions	—	-	<u>756,557,418.02</u>
Net decrease in deposits from customers and placements from banks and other financial institutions	—	<u>692,806,435.22</u>	<u>281,490,694.49</u>
Cash payment for interest, handling charges and commissions	—	<u>80,292,928.78</u>	<u>72,129,184.76</u>
Cash paid to and on behalf of employees	—	<u>4,091,117,871.25</u>	<u>4,061,425,337.62</u>
Taxes paid	—	<u>1,672,114,799.64</u>	<u>4,753,814,791.19</u>
Other cash paid for activities related to operating activities	(V) 57(2)	<u>1,918,506,525.62</u>	<u>1,507,047,354.45</u>
<b><u>Subtotal of cash outflow from operating activities</u></b>	—	<b><u>106,734,985,949.03</u></b>	<b><u>122,797,499,645.21</u></b>
<b><u>Net cash flow from operating activities</u></b>	—	<b><u>9,967,942,970.09</u></b>	<b><u>5,406,505,036.77</u></b>
<b><u>II. CASH FLOW FROM INVESTING ACTIVITIES</u></b>	—		
Cash received from disposal of investments	—	<u>1,274,603,003.67</u>	<u>1,416,959,029.43</u>
Cash received from gains in investments	—	<u>516,123,589.14</u>	<u>329,284,931.66</u>
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	<u>18,509,211,736.67</u>	<u>6,117,737.64</u>
Net cash received from disposal of subsidiaries and other business unites	—	<u>173,048,286.59</u>	<u>13,008,611.00</u>
Other cash received relating to investment activities	(V) 57(3)	<u>273,762,833.86</u>	<u>80,156,411.70</u>

<b>Subtotal of cash inflow from investment activities</b>	—	<b><u>20,746,749,449.93</u></b>	<b><u>1,845,526,721.43</u></b>
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	—	<u>6,547,908,443.89</u>	<u>5,676,236,235.17</u>
Cash paid for investments	—	<u>1,479,118,405.09</u>	<u>2,149,838,414.16</u>
Net cash received from subsidiaries and other business units	—	<u>(17,557,703.60)</u>	=
Other cash paid related to investment activities	(V) 57(4)	<u>58,149.92</u>	<u>4,114,419.41</u>
<b>Subtotal of cash outflow from investment activities</b>	—	<b><u>8,009,527,295.30</u></b>	<b><u>7,830,189,068.74</u></b>
<b>Net cash flow from investment activities</b>	—	<b><u>12,737,222,154.63</u></b>	<b><u>-5,984,662,347.31</u></b>
<b>III. CASH FLOW FROM FINANCING ACTIVITIES</b>	—		
Cash received by absorbing investments	—	<u>317,837,753.99</u>	<u>133,791,646.96</u>
Including: Cash received by subsidiaries from minority shareholder's investments	—	<u>317,837,753.99</u>	<u>133,791,646.96</u>
Cash received from borrowings	—	<u>34,793,481,388.54</u>	<u>34,108,632,133.04</u>
Cash received from issuing of bonds	—	<u>993,500,000.00</u>	=
<b>Subtotal of cash inflow from financing activities</b>	—	<b><u>36,104,819,142.53</u></b>	<b><u>34,242,423,780.00</u></b>
Cash repayments of debts	—	<u>49,932,003,901.43</u>	<u>28,115,054,774.59</u>
Cash payments for distribution of dividends or profits, or cash payments for interests	—	<u>4,477,263,842.33</u>	<u>6,044,093,305.96</u>
Including: Dividends and profits paid by subsidiaries to minority shareholders	—	<u>96,227,505.23</u>	<u>323,486,002.03</u>
<b>Subtotal of cash outflow from financing activities</b>	—	<b><u>54,409,267,743.76</u></b>	<b><u>34,159,148,080.55</u></b>
<b>Net cash flow from financing activities</b>	—	<b><u>(18,304,448,601.23)</u></b>	<b><u>83,275,699.45</u></b>
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	—	<b><u>(91,020,875.66)</u></b>	<b><u>15,050,543.43</u></b>
<b>V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	—	<b><u>4,309,695,647.83</u></b>	<b><u>(479,831,067.66)</u></b>
Add: Balance of cash and cash equivalents at beginning of the period	(V) 58(2)	<u>13,180,223,388.65</u>	<u>7,937,919,424.23</u>
<b>VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	(V) 58(2)	<b><u>17,489,919,036.48</u></b>	<b><u>7,458,088,356.57</u></b>

## Cash Flow Statement of the Company

January to June 2012

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

Item	Note	January-June 2012	January-June 2011
<b>I. CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash received from sales of goods and provision of services	—	78,699,614,481.88	103,860,734,116.13
Other cash received from activities related to operation	—	560,708,049.87	769,230,928.08
<b>Subtotal of cash inflow from operating activities</b>	—	<b>79,260,322,531.75</b>	<b>104,629,965,044.21</b>
Cash paid for goods purchased and services rendered	—	70,474,259,232.80	89,830,809,493.99
Cash paid to and on behalf of employees	—	2,578,908,813.36	2,675,557,869.02
Taxes paid	—	273,096,960.51	3,287,926,026.43
Other cash paid for activities related to operating activities	—	393,207,556.63	451,832,062.12
<b>Subtotal of cash outflow from operating activities</b>	—	<b>73,719,472,563.30</b>	<b>96,246,125,451.56</b>
<b>Net cash flow from operating activities</b>	(XI) 8	<b>5,540,849,968.45</b>	<b>8,383,839,592.65</b>
<b>II. CASH FLOW FROM INVESTING ACTIVITIES</b>			
Cash received from disposal of investments	—	2,815,379,161.34	3,700,000,000.00
Cash received from gains in investments	—	125,333,199.95	488,246,291.44
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	18,504,498,420.59	5,099,501.98
Other cash received relating to investment activities	—	264,186,404.66	71,634,423.86
<b>Subtotal of cash inflow from investment activities</b>	—	<b>21,709,397,186.54</b>	<b>4,264,980,217.28</b>
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	—	2,939,386,597.97	2,984,947,799.87
Cash paid for investments	—	2,731,682,945.00	3,700,000,000.00
Other cash paid related to investment activities	—	58,149.92	4,114,419.41
<b>Subtotal of cash outflow from investment activities</b>	—	<b>5,671,127,692.89</b>	<b>6,689,062,219.28</b>
<b>Net cash flow from investment activities</b>	—	<b>16,038,269,493.65</b>	<b>-2,424,082,002.00</b>
<b>III. CASH FLOW FROM FINANCING ACTIVITIES</b>			
Cash received from borrowings	—	12,311,235,176.33	29,084,976,788.65
Other cash received related to financing activities	—	2,921,075,566.17	=
<b>Subtotal of cash inflow from financing activities</b>	—	<b>15,232,310,742.50</b>	<b>29,084,976,788.65</b>
Cash repayments of debts	—	29,673,999,164.45	24,712,256,912.50
Cash payments for distribution of dividends or profits, or cash payments for interests	—	4,061,592,529.48	5,792,609,921.48
Other cash paid related to financing activities	—	=	5,159,493,249.18
<b>Subtotal of cash outflow from financing activities</b>	—	<b>33,735,591,693.93</b>	<b>35,664,360,083.16</b>
<b>Net cash flow from financing activities</b>	—	<b>(18,503,280,951.43)</b>	<b>(6,579,383,294.51)</b>
<b>IV. EFFECT OF FOREIGN EXCHANGE RATE</b>	—	<b>(65,233,606.67)</b>	<b>20,814,021.37</b>

<b><u>CHANGES ON CASH AND CASH EQUIVALENTS</u></b>			
<b><u>V. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</u></b>	—	<b><u>3,010,604,904.00</u></b>	<b><u>(598,811,682.49)</u></b>
<u>Add: Balance of cash and cash equivalents at beginning of the period</u>	—	<u>8,826,002,497.24</u>	<u>4,076,704,419.19</u>
<b><u>VI. BALANCE OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</u></b>	—	<b><u>11,836,607,401.24</u></b>	<b><u>3,477,892,736.70</u></b>

## Consolidated Statement of Changes in Shareholder's Equity

January to June 2012

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

Item	January to June 2012										Minority shareholder's interest	Total shareholder's interest
	Equity attributable to the parent company									Subtotal		
	Capital stock	Capital reserve	Less: Treasury Stock	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Foreign currency translation difference				
I. Opening balance at beginning of the period	17,512,048,088.00	37,330,639,029.54	=	11,788,986.69	21,132,255,172.18	=	30,754,305,445.21	(245,545,838.69)	106,495,490,882.93	6,974,505,417.34	113,469,996,300.27	
II. Increase/decrease during the reported period	=	22,091,837.59	=	8,859,719.17	=	=	6,107,602,216.88	(25,654,215.56)	6,112,899,558.08	105,547,498.05	6,218,447,056.13	
(1) Net profit	=	=	=	=	=	=	9,610,011,834.48	=	9,610,011,834.48	75,239,866.91	9,685,251,701.39	
(2) Other comprehensive income	=	34,037,458.64	=	=	=	=	=	(25,654,215.56)	8,383,243.08	2,248,794.61	10,632,037.69	
Subtotal of (1) and (2)	=	34,037,458.64	=	=	=	=	9,610,011,834.48	(25,654,215.56)	9,618,395,077.56	77,488,661.52	9,695,883,739.08	
(3) Capital paid in and reduced by shareholders	=	(11,945,621.05)	=	=	=	=	=	=	(11,945,621.05)	229,198,693.41	217,253,072.36	
1. Capital paid in by owners	=	=	=	=	=	=	=	=	=	=	=	
2. Capital paid in by minority shareholders in subsidiaries	=	=	=	=	=	=	=	=	=	317,837,753.99	317,837,753.99	
3. Purchasing minority shareholdings of the subsidiaries	=	=	=	=	=	=	=	=	=	=	=	
4. Others	=	(11,945,621.05)	=	=	=	=	=	=	(11,945,621.05)	(88,639,060.58)	(100,584,681.63)	
(4) Profit distribution	=	=	=	=	=	=	(3,502,409,617.60)	=	(3,502,409,617.60)	(201,139,856.88)	(3,703,549,474.48)	
1. Appropriations to Surplus reserve	=	=	=	=	=	=	=	=	=	=	=	
2. Distribution to shareholders	=	=	=	=	=	=	(3,502,409,617.60)	=	(3,502,409,617.60)	=	(3,502,409,617.60)	
3. Dividends paid to minority shareholders	=	=	=	=	=	=	=	=	=	(201,139,856.88)	(201,139,856.88)	
(5) Special reserve	=	=	=	8,859,719.17	=	=	=	=	8,859,719.17	=	8,859,719.17	
1. Appropriations in the period	=	=	=	15,814,579.42	=	=	=	=	15,814,579.42	=	15,814,579.42	
2. Used in the period	=	=	=	6,954,860.25	=	=	=	=	6,954,860.25	=	6,954,860.25	
III. Closing balance of the period	17,512,048,088.00	37,352,730,867.13	=	20,648,705.86	21,132,255,172.18	=	36,861,907,662.09	(271,200,054.25)	112,608,390,441.01	7,080,052,915.39	119,688,443,356.40	

**Consolidated Statement of Changes in Shareholder's Equity (Continued)****2011**

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

Item	2011										
	Equity attributable to the parent company									Minority shareholder's interest	Total shareholder's interest
	Capital stock	Capital reserve	Less: Treasury Stock	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Foreign currency translation difference	Subtotal		
I. Closing balance at end of the previous year	17,512,048,088.00	37,565,832,959.01	=	15,291,362.80	20,124,401,541.84	=	29,674,047,101.69	(145,142,801.00)	104,746,478,252.34	6,596,017,233.65	111,342,495,485.99
Add: Adjustment at beginning of the year	=	=	=	=	(4,047,047.22)	=	(16,188,188.93)	=	(20,235,236.15)	=	(20,235,236.15)
II. Opening balance at beginning of the year	17,512,048,088.00	37,565,832,959.01	=	15,291,362.80	20,120,354,494.62	=	29,657,858,912.76	(145,142,801.00)	104,726,243,016.19	6,596,017,233.65	111,322,260,249.84
III. Increase/decrease during the year	=	(235,193,929.47)	=	(3,502,376.11)	1,011,900,677.56	=	1,096,446,532.45	(100,403,037.69)	1,769,247,866.74	378,488,183.69	2,147,736,050.43
(I) Net profit	=	=	=	=	=	=	7,361,961,636.41	=	7,361,961,636.41	373,838,530.63	7,735,800,167.04
(II) Other comprehensive income	=	(502,975,229.21)	=	=	=	=	=	(100,403,037.69)	(603,378,266.90)	1,313,849.72	(602,064,417.18)
Subtotal of (I) and (II)	=	(502,975,229.21)	=	=	=	=	7,361,961,636.41	(100,403,037.69)	6,758,583,369.51	375,152,380.35	7,133,735,749.86
(III) Capital paid in and reduced by shareholders	=	267,781,299.74	=	=	=	=	=	=	267,781,299.74	250,272,036.41	518,053,336.15
1. Capital paid in by owners	=	=	=	=	=	=	=	=	=	=	=
2. Capital paid in by minority shareholders in subsidiaries	=	=	=	=	=	=	=	=	=	237,552,122.75	237,552,122.75
3. Purchasing minority shareholdings of the subsidiaries	=	=	=	=	=	=	=	=	=	=	=
4. Others	=	267,781,299.74	=	=	=	=	=	=	267,781,299.74	12,719,913.66	280,501,213.40
(IV) Profit distribution	=	=	=	=	1,011,900,677.56	=	(6,265,515,103.96)	=	(5,253,614,426.40)	(246,936,233.07)	(5,500,550,659.47)
1. Appropriations to Surplus reserve	=	=	=	=	1,011,900,677.56	=	(1,011,900,677.56)	=	=	=	=
2. Distribution to shareholders	=	=	=	=	=	=	(5,253,614,426.40)	=	(5,253,614,426.40)	=	(5,253,614,426.40)
3. Dividends paid to minority shareholders	=	=	=	=	=	=	=	=	=	(246,936,233.07)	(246,936,233.07)
(V) Special reserve	=	=	=	(3,502,376.11)	=	=	=	=	(3,502,376.11)	=	(3,502,376.11)
1. Appropriations in the year	=	=	=	29,222,813.83	=	=	=	=	29,222,813.83	=	29,222,813.83
2. Used in the year	=	=	=	(32,725,189.94)	=	=	=	=	(32,725,189.94)	=	(32,725,189.94)
IV. Closing balance of the year	17,512,048,088.00	37,330,639,029.54	=	11,788,986.69	21,132,255,172.18	=	30,754,305,445.21	(245,545,838.69)	106,495,490,882.93	6,974,505,417.34	113,469,996,300.27

**Statement of Changes in Shareholder's Equity of the Company****January to June 2012**

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

Item	January to June 2012							
	Capital stock	Capital reserve	Less: Treasury Stock	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Total stockholders interest
I. Opening balance at beginning of the period	17,512,048,088.00	37,207,402,138.54	=	=	21,132,255,172.18	=	22,768,306,759.11	98,620,012,157.83
II. Increase/decrease during the reported period	=	22,349,869.97	=	=	=	=	5,515,777,279.35	5,538,127,149.32
(I) Net profit	=	=	=	=	=	=	9,018,186,896.95	9,018,186,896.95
(II) Other comprehensive income	=	1,931,853.45	=	=	=	=	=	1,931,853.45
Subtotal of (I) and (II)	=	1,931,853.45	=	=	=	=	9,018,186,896.95	9,020,118,750.40
(III) Capital paid in and reduced by shareholders	=	20,418,016.52	=	=	=	=	=	20,418,016.52
1. Capital paid in by owners	=	=	=	=	=	=	=	=
2. Others	=	20,418,016.52	=	=	=	=	=	20,418,016.52
(IV) Profit distribution	=	=	=	=	=	=	(3,502,409,617.60)	(3,502,409,617.60)
1. Appropriations to Surplus reserve	=	=	=	=	=	=	=	=
2. Distribution to shareholders	=	=	=	=	=	=	(3,502,409,617.60)	(3,502,409,617.60)
III. Closing balance of the period	17,512,048,088.00	37,229,752,008.51	=	=	21,132,255,172.18	=	28,284,084,038.46	104,158,139,307.15

**Statement of Changes in Shareholder's Equity of the Company (Continued)****2012**

Prepared by: Baoshan Iron &amp; Steel Company Limited

Unit: RMB Unaudited

Item	2011							
	Capital stock	Capital reserve	Less: Treasury Stock	Special reserve	Surplus reserve	General risk provisions	Undistributed profits	Total stockholders interest
I. Closing balance at end of the previous year	17,512,048,088.00	36,970,366,712.93	-	-	20,124,401,541.84	-	23,990,506,664.17	98,597,323,006.94
Add: Adjustment at beginning of the year	-	-	-	-	(4,047,047.22)	-	(16,188,188.93)	(20,235,236.15)
II. Opening balance at beginning of the year	17,512,048,088.00	36,970,366,712.93	-	-	20,120,354,494.62	-	23,974,318,475.24	98,577,087,770.79
III. Increase/decrease during the year	-	237,035,425.61	-	-	1,011,900,677.56	-	(1,206,011,716.13)	42,924,387.04
(I) Net profit	-	-	-	-	-	-	5,059,503,387.83	5,059,503,387.83
(II) Other comprehensive income (loss)	-	(26,109,289.00)	-	-	-	-	-	(26,109,289.00)
Subtotal of (1) and (2)	-	(26,109,289.00)	-	-	-	-	5,059,503,387.83	5,033,394,098.83
(III) Capital paid in and reduced by shareholders	-	263,144,714.61	-	-	-	-	-	263,144,714.61
1. Capital paid in by owners	-	-	-	-	-	-	-	-
2. Others	-	263,144,714.61	-	-	-	-	-	263,144,714.61
(IV) Profit distribution	-	-	-	-	1,011,900,677.56	-	(6,265,515,103.96)	(5,253,614,426.40)
1. Appropriations to Surplus reserve	-	-	-	-	1,011,900,677.56	-	(1,011,900,677.56)	-
2. Distribution to shareholders	-	-	-	-	-	-	(5,253,614,426.40)	(5,253,614,426.40)
IV. Closing balance of the year	17,512,048,088.00	37,207,402,138.54	-	-	21,132,255,172.18	-	22,768,306,759.11	98,620,012,157.83



## (I) Company Profile

Baoshan Iron & Steel Company Limited (the "Company") was incorporated and registered on 2 March 2000 in Shanghai, the People's Republic of China ("PRC"), as a limited company, with the registration number of 3100001006333, under the law of the PRC. The Company was established by Shanghai Baosteel Group Corporation, Ltd. (formerly "Shanghai Baosteel Group Corporation"; hereinafter "Baosteel Group") as the sole investor, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company took over related businesses, assets and liabilities from Baosteel Group by means of issuing 10,635,000,000 ordinary shares to Baosteel Group with a par value of RMB 1.00 each.

The Company issued 1,877,000,000 ordinary shares (A shares) to the general public with a par value of RMB1 each and an offer price of RMB4.18, by means of on-line stock exchange listing coupled with off-line rationed subscription, from 6 to 24 November 2000, in compliance with the approval document No. [2000] 140, issued by the China Securities Regulatory Commission (the "CSRC").

Following the approval by the CSRC, as provided in the approval document No. [2005]15, during 21 to 26 of April 2005, the Company issued five billion shares with a par value of RMB1.00 each and an offer price of RMB5.12 per share, including three billion state-owned shares to Shanghai Baosteel Group Corporation and two billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and on-line and off-line bidding inquiry.

Approved by the CSRC (No. 739 document in 2008), the Company issued RMB10 billion convertible loan notes featuring the separation between liability and conversion option components on 20, June, 2008. In this issuance, the original circulating shareholders for unlimited sale (of shares) conditions were given the priority for placing, and the rest of the notes were sold to institutional investors through price inquiry and to on-line applicants. The notes were issued based on the face value, which was RMB100.00 per stock. The dividend was paid once a year and the principal was returned once and for all when the time expired. The annual contract interest rate was 0.8%. The purchaser of the note was able to obtain 16 copies of stock purchase components issued by the issuer, the duration of the component was 24 months from the date of its being listed on the market, and the exercising period was the last 5 trading days of the duration. The exercise proportion was 2:1 and the initial exercise price was RMB12.50 per stock. The liability and conversion option components were listed and traded on Shanghai Stock Exchange on 4 July 2008. The exercise price was then adjusted to RMB11.80 per stock due to dividend. The exercising period was from 28 June to 3 July 2011. A total of 113,785 components were successfully exercised before the stock market closed on 2 July 2011, the last effective exercise date for "Baosteel CWB1", increasing 48,088 shares of the Company.

As at the end of 31 December 2011, Baosteel Group holds 13,128,825,267 ordinary shares out of the total tradable 17,512,048,088 common stocks denominated in RMB. The shareholding percentage is 74.97%.

The business scope of the Company covers iron and steel production and its related processing, power generation, coal, industrial-gas generation, port terminals, warehouse storage and transport. It is also engaged in technology development and transfer, technology services and consulting, automobile maintenance, exports of steel products and technology, imports of related materials, machinery, equipment, parts and components, as well as technology (except for restricted items i.e. where imports and exports are prohibited by the Government). The Company also engages in import processing as well as a subsidized trading business. In summary, the principal activities of the Company are the manufacture and sales of iron and steel products as well as the sales and services of the by-products generated during the process of steel production and sales.

The parent company of the Company is Baosteel Group, while its actual controller is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The Company and its subsidiaries are referred to as the Group hereinafter.

**(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ADJUSTMENTS****1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The Group has adopted the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance ("MoF") on 15 February 2006. In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting (Revised in 2010).

**Basis of accounting and principle of measurement**

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group has adopted the historical cost as the principle of measurement of the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

**2. Statement of compliance with the ASBE**

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of 30 June 2012, and the Company's and consolidated results of operations and cash flows for January to June 2012.

**3. Accounting year**

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

**4. Functional currency**

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiaries choose their functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its financial statements.

**5. The accounting treatment of business combinations involving enterprises under same control and enterprises not under same control**

Business combinations are classified into business combinations involving enterprises under same control and business combinations involving enterprises not under same control.

**5.1 Business combination involving enterprises under same control**

A business combination involving enterprises under same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities thus obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) is adjusted to the capital premium in capital reserve. If the capital premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

**5.2 Business combination involving enterprises not under same control**

A business combination involving enterprises not under same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or parties both before and after

the combination.

The consolidated costs are the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquire. The expenses for auditing, legal services, and evaluating consultation and other related expenses will be recorded into the profits and losses of the current period of the acquirer. For a business combination not under the same control realized by two or more transactions of exchange, the combination costs shall be the summation of the fees paid on the day of purchase, and the fair value of the acquiree's shares held before the date of the purchase. As for the shares held by the acquirer before the date of purchase, their value should be recalculated according fair value at the date of purchase. The difference between the fair value and the book value will be recorded into the profits and losses of the current period of the acquirer. Other comprehensive benefits pertinent to those shares will be recorded into investment gains of the current period.

The identifiable assets, liabilities and contingent liabilities acquired in the combination shall be measured in light of their fair values at the date of purchase. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation and the balance shall be recorded into the amount of initial measurement on the basis of its cost. When the combination cost is smaller than the fair value of the identifiable net assets acquired, the acquirer shall carry out reexamination of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. If the situation is confirmed, the balance shall be recorded into the profits and losses of the current period.

## **6. Preparation of consolidated financial statements**

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination involving enterprises not under same control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate, and no adjustment is made to the opening balances and comparative figures in the consolidated financial statements.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under same control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the same control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All major accounts and transactions between the Company and the subsidiaries and those between two subsidiaries shall be written off at the time of combination.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount

are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess is adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognized as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

## **7. Recognition criteria of cash and cash equivalents**

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

## **8. Translation of transactions and financial statements denominated in foreign currencies**

### **8.1 Transactions denominated in foreign currencies**

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation are capitalised as part of the cost of the qualifying asset during the capitalisation period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income and included in capital reserve.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income included in capital reserve.

### **8.2 Translation of financial statements denominated in foreign currencies**

When the consolidated financial statements include foreign operation(s), if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognised as "exchange differences arising on translation of financial statements denominated in foreign currencies" in owners' equity, and in profit and loss for the period upon disposal of the foreign operation.

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date;

shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the average exchange rate of the transaction period; the opening balance of retained earnings is the translated closing balance of the previous year's retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders' equity in the balance sheet.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the average exchange rate in the period of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

## **9. Financial instruments**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

### **9.1 Determination of fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Group uses the quoted price in the active market to establish its fair value. For a financial instrument which has no active market, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

### **9.2 Effective interest rate method**

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

### **9.3 Classification, recognition and measurement of financial assets**

On initial recognition, financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

#### **9.3.1. Financial Assets at Fair Value through Profit or Loss ("FVTPL")**

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value



through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

#### 9.3.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management 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. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

#### 9.3.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, interest receivable, dividends receivable, other receivables and disbursement of loans and advances.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

#### 9.3.4. Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

#### 9.4 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuers or the debtors;
- (2) A breach of contract by the debtors, such as a default or delay in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the debtors' financial difficulty, grants a concession to debtors;
- (4) It is becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
  - Adverse changes in the payment status of borrower in the group of assets;
  - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) Other objective evidence indicates that there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

If financial assets carried at amortized cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

- Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

#### - Impairment of financial assets measure at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

### 9.5 Transfer of financial assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset are transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

### 9.6 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

#### 9.6.1. Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative,



except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

#### 9.6.2. Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

#### 9.7 Derecognition of Financial Liabilities

The Group derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

#### 9.8 Derivatives and embedded derivatives

Derivative financial instruments include forward contracts, interest rate swaps, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

#### 9.9 Offsetting financial assets and a financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

#### 9.10 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions (excluding stock dividends) made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognize any changes in the fair value of equity instruments.

#### 9.11 Convertible loan notes

The Group confirms whether the issued convertible loan notes contain both liability and conversion option components. Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity instrument, is included in capital reserve (other capital reserve – share conversion option). In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option classified as equity remains in equity. Transaction costs incurred for the issue of convertible loan notes are allocated to the liability component and equity component in proportion to their respective fair values.

Where the conversion option components remain unexercised at the maturity date of the convertible loan notes issued by the Group, the balance recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium). Once the conversion option components are exercised, the equity component recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium); the aggregate nominal amount of shares are credited to share capital at par value of the stock multiplied by the number of shares; the difference between the total funds raised by conversion option components and share capital is credited to capital reserve (capital premium).

### **10. Accounts receivable**

#### 10.1 Receivables that are individually significant and for which bad debt provision is individually assessed

<u>Basis for determining an individually significant receivable</u>	<u>A receivable of the top five customers is deemed as an individually significant receivable by the Group.</u>
<u>Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed</u>	<u>For receivables that are individually significant, the Group assesses the receivables individually for impairment. For a financial asset that is not impaired individually, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Receivables for which an impairment loss is individually recognized are not included in a collective assessment of impairment.</u>

#### 10.2 Receivables for which bad debt provision is collectively assessed on a portfolio basis

<u>Method of determining provision for receivables with credit risk characteristics</u>	<u>When assessed on a collective basis, objective evidence of impairment for a portfolio of receivables could include the structure and similar credit risk characteristics (debtors' capabilities of contractual repayment), as well as the Group's past experience of collecting payments, observable changes in economic conditions, and existed impairment loss.</u>
	<u>Bad debt of insignificant receivables or individually significant receivables that can be collected in short term without credit risk is not assessed.</u>

Portfolios that aging analysis is used for bad debt provision:

<u>Aging</u>	<u>Provision as a proportion of accounts receivable (%)</u>	<u>Provision as a proportion of other receivables (%)</u>
<u>Within 1 year (inclusive)</u>	<u>5%</u>	<u>5%</u>
<u>More than 1 year but not exceeding 2 years</u>	<u>30%</u>	<u>30%</u>
<u>More than 2 years but not exceeding 3 years</u>	<u>60%</u>	<u>60%</u>
<u>More than 3 years</u>	<u>100%</u>	<u>100%</u>

## **11. Inventories**

### 11.1 Categories of inventories

The Group's inventory includes raw materials, work in progress, finished goods, spare parts and others, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

### 11.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the weighted average method.

### 11.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration of the purposes of holding inventories and effect of events after the balance sheet date.

The provision for decline in value of inventories is made on the base of the balance between the cost of the single item of inventories and the net realizable value.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

### 11.4 Stock count system

The perpetual inventory system is maintained for stock system.

### 11.5 Amortization method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortized using the immediate write-off method.

## **12. Long-term equity investments**

### 12.1 Determination of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under same control, the investment cost of the long-term equity investment is the attributable share of the carrying amount of the shareholders' equity of the acquiree at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under same control, the investment cost of the long-term equity investment is the cost of acquisition. For a long-term equity investment acquired through

business combination not involving enterprises under same control and achieved in stages, the investment cost of the long-term equity investment is the aggregate of the carrying amount of the equity interest held in the acquiree prior to the acquisition date and the cost of the additional investment at the acquisition date. The long-term equity investment acquired otherwise than through a business combination is initially measured at its cost.

## 12.2 Subsequent measurement and recognition of profit or loss

### 12.2.1. Long-term equity investment accounted for using the cost method

For long-term equity investments over which the Group does not have joint control or significant influence and without quoted prices in an active market and that fair values cannot be reliably measured, the Group accounts for such long-term equity investments using the cost method. Besides, long-term equity investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits already declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

### 12.2.2. Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group exercises joint control along with other investors.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profit or loss of the investee for the period as investment income or loss for the period. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets at the acquisition date after making appropriate adjustments to conform with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets are not eliminated. Changes in owners' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as other comprehensive income which is included in the capital reserve.

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

For long-term equity investments in associates and joint ventures which had been held by the Group before its first-time adoption of Accounting Standards for Business Enterprises on 1 January 2007, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the investee's net assets at the time of acquisition, the excess is amortized and is recognized in profit or loss on a straight line basis over the original remaining life.

### 12.2.3. Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognized in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount included in the shareholders' equity attributable to the percentage interest disposed is transferred to profit or loss for the period.

#### 12.3 Basis for determining joint control and significant influence over investee

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. 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 determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee such as convertible loan notes and conversion option components held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

#### 12.4 Test of impairment of assets and method for determining the provision for the asset impairment

The Group reviews the long-term equity investments at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If an impairment indication exists, the recoverable amount is estimated. If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognized in profit or loss for the period.

Once an impairment loss is recognized for a long-term equity investment, it will not be reversed in any subsequent period.

### **13. Investment properties**

Investment property is the property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out and a building that is leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortization policy for the investment property which is consistent with that for buildings or land use rights.

The Group reviews the investment properties at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If there is any indication that such assets may be impaired, the recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once an impairment loss is recognized for an investment property, it will not be reversed in any subsequent period.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

### **14. Fixed assets**

#### 14.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

#### 14.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

<u>Category of fixed assets</u>	<u>Depreciation period (years)</u>	<u>Residual value (%)</u>	<u>Depreciation rate (%)</u>
<u>Buildings</u>	<u>15-35</u>	<u>4</u>	<u>2.7-6.4</u>
<u>Machinery and equipment</u>	<u>7-15</u>	<u>4</u>	<u>6.4-13.7</u>
<u>Transportation vehicles</u>	<u>5-10</u>	<u>4</u>	<u>9.6-19.2</u>
<u>Office and other equipment</u>	<u>4-9</u>	<u>4</u>	<u>10.7-24.0</u>

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### 14.3 Test of impairment of fixed assets and method for determining the provision for impairment losses of fixed assets

The Group assesses at each balance sheet date whether there is any indication that the fixed assets may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

#### 14.4 Other explanations

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year end, and accounts for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

### 15. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

The Group assesses at each balance sheet date whether there is any indication that construction in progress may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once the impairment loss of construction in progress is recognized, it is not be reversed in any subsequent



period.

## **16. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognized in profit or loss in the period in which they are incurred.

Assets eligible for capitalization refers to the fixed assets, investment properties, inventories and other assets, of which the acquisition, construction and production takes a substantial period of time to get ready for its intended use or for sale.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalization is suspended until the acquisition, construction or production of the asset is resumed.

## **17. Intangible assets**

### **17.1 Intangible assets**

Intangible asset includes land use rights, software, and etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and makes adjustments when necessary.

### **17.2 Research and development expenditure**

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

- (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) the Group has the intention to complete the intangible asset and use or sell it;
- (3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (4) the availability of adequate technical, financial and other resources to complete the development and the

ability to use or sell the intangible asset; and  
(5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

### 17.3 Test of impairment of fixed assets and method for determining the provision for impairment losses of intangible assets

The Group assesses at each balance sheet date whether there is any indication that the intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

## **18. Long-term expenses to be apportioned**

Long-term expenses to be apportioned represent expenses incurred that should be borne and amortized over the current and subsequent periods of more than one year. Long-term expenses to be apportioned are amortized using the straight-line method over the expected periods in which benefits are derived.

## **19. Assets transferred under repurchase agreements**

### 19.1 Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the balance sheet. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the balance sheet. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

### 19.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the balance sheet. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the balance sheet. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

## **20. Revenue**

### 20.1 Revenue from sales of goods

Revenue from sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; and the associated costs incurred or to be incurred can be measured reliably.

### 20.2 Revenue arising from the rendering of services

Revenue from rendering of services is recognized using the percentage of completion method at the balance



sheet date. The stage of completion of a transaction for rendering for services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognized.

When a contract or agreement signed between the Group and another enterprise contains both sales of goods and rendering of services, the sales of goods and the rendering of services are distinguished from each other and measured separately. If the sales of goods and the rendering of services cannot be distinguished from each other, or when the two can be distinguished from each other but cannot be measured respectively, they are treated as the sales of goods.

### 20.3 Royalty Revenue

The amount of royalty revenue is measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

### 20.4 Interest Revenue

The amount of interest revenue is measured and confirmed in accordance with the length of time for which the Group's monetary funds is used by others and the effective interest rates.

## **21. Government grants**

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For repayment of a government grant already recognized, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

## **22. Deferred tax assets / deferred tax liabilities**

The income tax expenses include current income tax and deferred income tax.

### 22.1. Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

### 22.2. Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

### **23. Operating leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### 23.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

### 23.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

### 23.3 The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income.

Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

The net amount of financial lease receivables less unearned finance income is separated into long-term debts receivable and the portion of long-term debts receivable due within one year for presentation.

## **24. Employee benefit**

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability, except for compensation for termination of employment relationship with the employees.

The Group participates in the employee social security systems, such as basic pensions, medical insurance, unemployment insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision for the compensation payable arising from the termination of employment relationship with employees is recognized with a corresponding charge to the profit or loss for the period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date, are recognized in profit or loss for the period when the recognition criteria for provisions are met with termination benefits.

## **25. Basis of determining significant accounting policies and key assumptions and uncertainties in accounting estimates**

In the application of the Group's accounting policies, which are described in Note II, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experiences of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognized in the period of the change, if the change affects that period only; or recognized in the period of the change and future periods, if the change affects both.

Key assumptions and uncertainties in accounting estimates

The followings are the key assumptions and uncertainties in accounting estimates at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

#### 25.1 Inventory Provision

Note II (11) describes that inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. Physical counts on all inventories are carried out by the management on a periodical basis in order to determine whether provision needs to be made in respect of any obsolete and defective inventories identified. This involves comparison of carrying amount of the aged inventory items with the respective net realizable value. The purpose is to ascertain whether provision is required to be made in the financial statements for any obsolete and slow-moving items. In this regard, the management is satisfied that adequate inventory provision has been made for obsolete and slow-moving inventories.

#### 25.2 Bad debt provision

The Company makes bad debt provision for receivables when there is clear evidence that the recovery of receivables is uncertain. As the Company's management needs to judge historical record of debt recovery, debt aging, financial status of debtors and overall economic environment when evaluating the provision, the measurement of bad debt provision is uncertain. Although there is no reason to believe significant change will take place on the assumption on which the measurement of receivables is based, the carrying amount and provision of receivables will change when actual results are different from previous assumptions.

#### 25.3 Deferred tax assets

The recognition of deferred tax assets is primarily subject to actual profit and actual tax rate employed by deductible temporary differences in the future. The recognized deferred tax assets will be reversed and recognized in profit or loss, when the actual profit is less than the expectation, or the actual tax rate is lower than the expectation. Furthermore, due to the uncertainty of whether there is enough taxable profit in the future, carrying forward losses of future years and deductible temporary differences are not fully recognized as deferred tax assets.

**(III) TAXES****Major categories of taxes and tax rates**

<u>Category of tax</u>	<u>Basis of tax computation</u>	<u>Tax rate</u>
<u>Value-added tax</u>	<u>Taxable revenue of goods sales</u>	<u>6%, 11%, 13% or 17%</u>
<u>Business tax</u>	<u>Taxable revenue</u>	<u>3% or 5%</u>
<u>City maintenance and construction tax</u>	<u>Actual turnover tax</u>	<u>1%~7%</u>
<u>Educational surtax and surcharge</u>	<u>Actual turnover tax</u>	<u>1%~5%</u>
<u>Enterprise income tax</u>	<u>Taxable income</u>	<u>Note</u>
<u>River way administration charge</u>	<u>Actual turnover tax</u>	<u>Applicable rates set by the government</u>
<u>Property tax</u>	<u>Residual value of the taxable buildings or rental income</u>	<u>Applicable rates set by the government</u>
<u>Individual income tax</u>	<u>Taxable individual income</u>	<u>Applicable rates set by the government</u>

Note: The Company is subjected to 25% income tax rate on its taxable income. Subsidiaries of the Group are subjected to respective applicable income tax rates on taxable income. The income taxes of overseas subsidiaries of the Group are based on the relevant local laws and regulations on taxation.

**(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS****1. Information of primary subsidiaries****(1) Subsidiaries acquired through business combinations involving enterprises under same control**

Full name of subsidiaries	Type	Place of incorporation	Nature of business	Registered capital ('000)	Business scope	Actual capital contribution at the end of the period ('000)	Balance of other items, that in substance, constitutes net investment in the subsidiary	Proportion of ownership interest (%)	Proportion of voting power (%)	Consolidated or not consolidated	Minority interest (RMB'000)	Amount of the minority interests used to absorb profits or losses attributable to minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent Company
Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes)	LLC	Yantai	Manufacturing	RMB 100,000	Production & sales of steel tubes	RMB 79,820	-	79.82%	79.82%	Y	152,474	-	-
Baosteel Huangshi Coated & Galvanized Sheets Co., Ltd. (Huangshi Coating & Galvanizing)	LLC	Huangshi	Manufacturing	RMB 144,647	Production & sales of galvanized sheets	RMB 84,542	-	58.45%	More than half of voting power	Y	133,666	-	-
Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International)	LLC	Shanghai	Steel trading	RMB 2,248,879	Steel trading	RMB 2,248,879	-	100%	100%	Y	1,069,734	-	-
Shanghai Meishan Iron & Steel Co., Ltd. (Meishan Steel)	LLC	Nanjing	Manufacturing	RMB 7,081,426	Steel processing & sales	RMB 5,455,836	-	77.04%	77.04%	Y	2,742,436	-	-
Ningbo Baoxin Stainless Steel Co., Ltd. (Ningbo Baoxin)	LLC	Ningbo	Manufacturing	RMB 3,188,361	Processing & sales of cold-rolled stainless sheets	RMB 1,721,715	-	54%	54%	Y	1,211,619	-	-
Shanghai Baosight Software Co., Ltd. (Baosight Softwar)	LLC	Shanghai	IT	RMB 262,244	Software development	RMB 145,545	-	55.5%	55.5%	Y	591,304	-	-
Baosteel America Inc. (Baosteel America)	LLC	Texas, USA	Steel trading	USD 980	Steel trading	USD 980	-	100%	100%	Y	-	-	-
Howa Trading Co., Ltd. (Howa Trading)	LLC	Tokyo, Japan	Steel trading	JPY 876,000	Steel trading	JPY 876,000	-	100%	100%	Y	-	-	-
Baosteel Europe GmbH (Baosteel Europe)	LLC	Hamburg, Germany	Steel trading	EUR 2,050	Steel trading	EUR 2,050	-	100%	100%	Y	64,772	-	-
Baosteel Singapore PTE Ltd. (Baosteel Singapore)	LLC	Singapore	Steel trading	SGD 1,500	Steel trading	SGD 1,500	-	100%	100%	Y	-	-	-
Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises)	LLC	Hong Kong	Steel trading	HKD 1,000	Steel trading	HKD 1,000	-	100%	100%	Y	-	-	-
Baosteel Do Brasil Ltda (Baosteel Brazil Trading)	LLC	Rio de Janeiro, Brazil	Steel trading	USD 980	Steel trading	USD 980	-	100%	100%	Y	-	-	-
Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical)	LLC	Shanghai	Manufacturing	RMB 2,110,040	Production and sales of chemical products	RMB 2,110,040	-	100%	100%	Y	248,734	-	-
Baosteel Group Finance Co. Ltd. (Finance Co.) (Note1)	LLC	Shanghai	Finance	RMB 1,100,000	Financial & foreign exchange	RMB 310,500	-	62.1%	62.1%	Y	564,252	-	-
Nantong Baosteel Iron & Steel Co., Ltd. (Nantong Steel)	LLC	Nantong	Manufacturing	RMB 620,532	Steel processing & sales	RMB 594,582	-	95.82%	95.82%	Y	31,727	-	-

**(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS - continued****1. Information of primary subsidiaries - continued****(2) Subsidiaries acquired through establishment or investment**

Full name of subsidiaries	Type	Place of incorporation	Nature of business	Registered capital ('000)	Business scope	Actual capital contribution at the end of the period ('000)	Balance of other items, that in substance, constitutes net investment in the subsidiary	Proportion of ownership interest (%)	Proportion of voting power (%)	Consolidated or not consolidated	Minority interest (RMB'000)	Amount of the minority interests used to absorb profits or losses attributable to minority interests	The amount of current year loss contributed to minority shareholder in excess of the shareholder equity contributed to minority shareholder at the beginning of the year, that have been offset in the shareholder equity of the parent Company
Yantai Baosteel Tubes Co., Ltd. (Yantai Baosteel)	LLC	Yantai	Manufacturing	RMB 2,000,000	Steel tube production & sales	RMB 2,000,000	±	100%	100%	Y	±	±	±
Shanghai Huagongbao E-commerce Co., Ltd. (Huagongbao)	LLC	Shanghai	E-commerce	RMB 5,000	E-commerce	RMB 3,500	±	70%	70%	Y	1,354	±	±
Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube)	LLC	Karamay	Manufacturing	RMB 48,898	Steel tube production & sales	RMB 36,674	±	75%	75%	Y	12,176	±	±
Poly Pipe (Thailand) Co., Ltd. (Poly Pipe)	LLC	Thailand	Manufacturing	THB 800,000 (USD 92,100)	Steel tube production	USD 37,577	±	51%	51%	Y	228,349	±	±
BGM Co., Ltd. ("BGM")	LLC	Gyeonggi-do, South Korea	Manufacturing	KRW 10,000,000	Steel products production & sales	KRW 5,000,000	±	50%	50%	Y	27,471	±	±

**(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS - continued****2. Exchange rates for translating major financial statement items of foreign operations**

Currency	Average exchange rate		Exchange rate at end of period	
	January-June 2012	2011	End of June, 2012	End of 2011
USD	6.3061	6.4618	6.3249	6.3009
EUR	8.1957	8.4845	7.8710	8.1625
JPY	0.0791	0.0812	0.0796	0.0811
BRL	3.38279	3.59786	3.04741	3.37813

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS****1. Cash and bank balances**

RMB

Item	Closing balance			Opening balance		
	Foreign Currency	Exchange Rate	Amount in RMB	Foreign Currency	Exchange Rate	Amount in RMB
Cash:						
RMB			705,444.12			800,496.99
Bank deposit:						
RMB			14,552,927,986.52			11,012,184,461.38
USD	344,420,837.98	6.3249	2,178,427,358.14	187,613,144.03	6.3009	1,182,131,659.24
JPY	4,202,359,674.25	0.0796	334,507,830.07	3,064,159,430.48	0.0811	248,503,329.81
EUR	29,882,587.22	7.8710	235,205,844.01	41,699,729.16	8.1625	340,374,039.26
HKD	1,281,686.36	0.8152	1,044,830.72	1,175,844.16	0.8107	953,256.86
Other currencies			36,402,416.27			38,742,403.32
Other currency funds:						
RMB			110,373,225.76			75,753,028.43
Deposit reserve in central bank by Finance Co.			1,210,936,150.95			1,480,021,430.45
Total			18,660,531,086.56			14,379,464,105.74

Details of restricted bank balance are shown as follows:

RMB

Item	Closing balance	Opening balance
Deposit reserve in central bank by Finance Co.	1,210,936,150.95	1,480,021,430.45
Deposit for notes with a maturity of more than three months	-	-
Total	1,210,936,150.95	1,480,021,430.45

As at 30 June 2012, RMB 2,069,471,383.66 (at 31 December 2011: RMB 1,457,411,572.90) was deposited in overseas banks. At 30 June 2012, other currency funds of the Group mainly consist of cash for investment of RMB 21,746,550.77 (at 31 December 2011: RMB 11,446,244.82), bank acceptance bill's guarantee deposit of RMB 76,057,258.89 (at 31 December 2011: RMB 49,342,212.84), letter of guarantee deposit of RMB 3,616,389.94 (at 31 December 2011: RMB 12,979,154.98) and credit card deposit of RMB 661,500.20 (at 31 December 2011: RMB 176,465.06), etc.

**2. Held-for-trading financial assets**

Details of held-for-trading financial assets are as follows:

RMB

Item	Closing fair value	Opening fair value
Held-for-trading bond investment	94,917,197.28	72,023,970.50
Held-for-trading fund investment	40,493,083.87	280,780,713.36
Derivative financial assets	31,234,870.54	-
Total	166,645,151.69	352,804,683.86



The management of the Company believes that there exists no significant obstacle in the realization of its held-for-trading financial assets.

### 3. Notes receivable

#### (1) Categories of notes receivable

Category	Closing balance	Opening balance	RMB
Bank acceptances	9,105,817,599.20	12,141,494,879.81	
Commercial acceptances	796,392,504.60	718,618,374.35	
Total	9,902,210,103.80	12,860,113,254.16	

(1) As at 30 June 2012, a carrying amount of RMB 163,782,000.00 (at 31 December 2011: RMB 2,400,000.00) of the bank acceptance was being discounted for a short-term loan of RMB 163,782,000.00 (at 31 December 2011: RMB 2,400,000.00). As at 30 June 2012, there was no notes receivable pledged against secured borrowings (at 31 December 2011: The carrying amount of RMB 67,000,000.00 was pledged against secured borrowings of RMB 38,000,000.00).

(2) At beginning of the year and end of the period, no notes receivables were reclassified to accounts receivable due to the drawers' inability to settle the notes on maturity.

(3) At beginning of the year and end of the period, there were no notes receivables due to any shareholders holding at least 5% of the Company's shares with voting power.

(4) Notes receivable due to related parties refer to Note (VI). 6(1).

(5) As at 30 June 2012, the details of top five largest amounts of notes receivable discounted as short-term borrowings are as follows:

Name of drawer	Date of issue	Maturity Date	Amount RMB
Shanghai Baove Group Co., Ltd.	15 March 2012	15 September 2012	42,282,000.00
Jiangsu Changbao Precision Steel Tube Co., Ltd.	20 March 2012	20 September 2012	10,000,000.00
Jiangsu Changbao Precision Steel Tube Co., Ltd.	25 April 2012	25 October 2012	10,000,000.00
Jiangsu Changbao Precision Steel Tube Co., Ltd.	4 May 2012	4 November 2012	10,000,000.00
Shanghai Zhongyou TIPO Steel Pipe Co., Ltd.	30 May 2012	30 November 2012	10,000,000.00
Total			82,282,000.00

As at 31 December 2011, the details of notes receivable discounted as short-term borrowings are as follows:

Name of drawer	Date of issue	Maturity Date	Amount RMB
Foshan Weihe Mould Steel Co., Ltd	7 November 2011	4 May 2012	2,400,000.00

(6) As at 31 December 2011, the details of top five largest amounts of notes receivable pledged (secured as short-term borrowings) are as follows:

Name of drawer	Date of issue	Maturity Date	Amount RMB
Shenzhen Hengxin Technology Co.,Ltd	28 September 2011	28 March 2012	10,000,000.00
Yangzhou Longchuan Steel pipe Co.,Ltd	30 September 2011	30 March 2012	7,000,000.00
Yixing Ningfeng Steel Trading Co.,Ltd	26 September 2011	26 March 2012	6,000,000.00
Wuxi Tongyuan Rejected Product Recycling Co., Ltd	27 September 2011	27 March 2012	5,000,000.00
Ningbo Baochi Iron and Steel Sales Co., Ltd.	26 September 2011	26 March 2012	5,000,000.00
Total			33,000,000.00

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****4. Accounts receivable****(1) Disclosure of accounts receivable by categories:**

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	%	Amount	%	Amount	%	Amount	%
Accounts receivable that are individually significant	2,111,969,458.81	23	40,546,381.46	10	1,216,880,221.38	17	60,844,011.07	16
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	75,587,472.38	1	75,587,472.38	20	76,723,057.37	1	76,723,057.37	20
Accounts receivable recognizing provision for bad debts classified into groups	6,769,861,123.51	76	266,994,946.77	70	6,077,801,741.06	82	249,944,831.90	64
Total	8,957,418,054.70	100	383,128,800.61	100	7,371,405,019.81	100	387,511,900.34	100

**The aging analysis of accounts receivable is as follows:**

RMB

Aging	Closing balance				Opening balance			
	Amount	%	Bad debt provision	Carrying amount	Amount	%	Bad debt provision	Carrying amount
Within 1 year	8,470,505,870.76	95	278,160,372.43	8,192,345,498.33	7,048,095,546.41	96	287,785,053.14	6,760,310,493.27
More than 1 year but not exceeding 2 years	335,651,559.13	4	18,545,218.39	317,106,340.74	192,962,776.93	2	14,525,867.86	178,436,909.07
More than 2 years but not exceeding 3 years	57,192,910.33	-	10,835,737.41	46,357,172.92	40,118,318.19	1	8,477,921.97	31,640,396.22
More than 3 years	94,067,714.48	1	75,587,472.38	18,480,242.10	90,228,378.28	1	76,723,057.37	13,505,320.91
Total	8,957,418,054.70	100	383,128,800.61	8,574,289,254.09	7,371,405,019.81	100	387,511,900.34	6,983,893,119.47

**(2) Individual significant amounts or insignificant accounts receivable but with provision accrued individually:**

RMB

Content of accounts receivable	Amount	Bad debt provision	Proportion of provision (%)	Reasons for the provision
Accounts receivable that are individually significant	2,111,969,458.81	40,546,381.46	2	Note 1
Accounts receivable with long aging	75,587,472.38	75,587,472.38	100	Note 2
Total	2,187,556,931.19	116,133,853.84		

**Individual significant amounts or insignificant accounts receivable but with provision accrued individually:**

RMB

Content of accounts receivable	Amount	Bad debt provision	Proportion of provision (%)	Reasons for the provision
Accounts receivable that are individually significant	1,216,880,221.38	60,844,011.07	5	Note 1
Accounts receivable with long aging	76,723,057.37	76,723,057.37	100	Note 2
Total	1,293,603,278.75	137,567,068.44		

Note 1: Provision rate for receivables aged within one year is 5% using the aging analysis approach due to no significant obstacle to recollection. As at 30 June 2012, balances of some large receivables were due within one year with low risk in collection, and accordingly no bad debt provision was made.

Note 2: Bad debt provision is fully made due to long aging and a slim chance of recollection.

**(3) Accounts receivable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(2).****(4) Top five customers with the largest balances are set out below:**

RMB

Name of customer	Relationship with the Company	Amount	Age	Proportion of the amount to the total accounts receivable (%)
Entity one	Related party	719,976,832.77	Within 1 year	8

Entity two	Related party	581,064,996.91	Within 1 year	6
Entity three	Third party	294,264,412.97	Within 1 year	3
Entity four	Related party	270,144,105.56	Within 1 year	3
Entity five	Third party	246,519,110.60	Within 1 year	3
Total		2,111,969,458.81		

(5) Accounts receivable due to related parties refer to Note (VI). 6(2).

## 5. Prepayments

(1) Aging analysis of prepayments is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	5,043,995,558.57	96	5,146,739,253.10	97
1-2 years	157,434,249.13	3	124,841,442.59	2
2-3 years	11,037,008.25	-	17,479,240.15	1
More than 3 years	19,980,474.24	1	9,205,758.62	-
Total	5,232,447,290.19	100	5,298,265,694.46	100

As at 30 June 2012, prepayments with more than one year are mainly intended for purchase of large equipment used for projects under construction.

(2) Top five suppliers with the largest balances are set out below:

Name of supplier	Relationship with the Company	Amount	Aging
Entity one	Third party	559,378,527.62	Within 1 year
Entity two	Third party	550,174,185.24	Within 1 year
Entity three	Related party	294,289,084.91	Within 1 year
Entity four	Related party	283,119,428.52	Within 1 year
Entity five	Related party	240,032,513.38	Within 1 year
Total		1,926,993,739.67	

(3) At the opening and closing of the period, there is no prepayment to any shareholder holding at least 5% of the Company's shares with voting power.

(4) Disclosure of prepayments by supplier categories is as follows:

Category	Closing balance	Opening balance
Individually significant prepayments	1,926,993,739.67	1,898,220,209.40
Other insignificant prepayments	3,305,453,550.52	3,400,045,485.06
Total	5,232,447,290.19	5,298,265,694.46

(5) Prepayments due to related parties refer to Note (VI). 6(3).

## 6. Interests receivable

(1) Interests receivable

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Interest receivable	11,757,749.94	328,449,022.56	-	340,206,772.50

(2) Explanations for interests receivable:

At the balance sheet date, the aging of interests receivable is within one year.

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****7. Dividends receivable**

RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reasons for uncollected amounts	Whether the amount is impaired
Dividends receivable aged within 1 year	227,449,857.31	13,395,251.27	218,658,406.82	22,186,701.76	The Company has not yet collected dividends from Shanghai Luojing Mining Port Co., Ltd. and CISDI Engineering Co., Ltd.	No
Dividends receivable aged More than 1 year	19,199,112.85	-	-	19,199,112.85	The Company has not yet collected dividends from CISDI Engineering Co., Ltd.	No
Total	246,648,970.16	13,395,251.27	218,658,406.82	41,385,814.61		No

**8. Other receivables****(1) Disclosure of other receivables by categories:**

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	%	Amount	%	Amount	%	Amount	%
Other receivables that are individually significant	285,474,653.54	21	7,677,251.87	17	459,748,088.24	36	8,957,090.73	13
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	23,986,845.88	2	23,986,845.88	53	46,786,649.42	4	46,786,649.42	70
Accounts receivable recognizing provision for bad debts classified into groups	1,069,188,905.89	77	13,941,034.37	30	788,185,624.13	60	11,288,081.61	17
Total	1,378,650,405.31	100	45,605,132.12	100	1,294,720,361.79	100	67,031,821.76	100

**Aging analysis of other receivables is as follows:**

RMB

Aging	Closing balance				Opening balance			
	Amount	%	Bad debt provision	Carrying amount	Amount	%	Bad debt provision	Carrying amount
Within 1 year	1,281,057,835.54	93	16,644,186.14	1,264,413,649.40	1,171,020,420.81	90	15,971,728.05	1,155,048,692.76
1-2 years	19,993,475.61	1	1,594,374.72	18,399,100.89	24,939,771.36	2	1,647,765.68	23,292,005.68
2-3 years	7,631,325.96	1	3,379,725.38	4,251,600.58	5,927,889.84	1	2,625,678.61	3,302,211.23
More than 3 years	69,967,768.20	5	23,986,845.88	45,980,922.32	92,832,279.78	7	46,786,649.42	46,045,630.36
Total	1,378,650,405.31	100	45,605,132.12	1,333,045,273.19	1,294,720,361.79	100	67,031,821.76	1,227,688,540.03

**(2) Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually:**

RMB

Content of other receivables	Amount	Bad debt provision	Proportion of provision (%)	Reasons
Other receivables with significant balances	285,474,653.54	7,677,251.87	3	Note 1
Other receivables with long aging	23,986,845.88	23,986,845.88	100	Note 2
Total	309,461,499.42	31,664,097.75		

**Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2011:**

RMB

Content of other receivables	Amount	Bad debt provision	Proportion of provision (%)	Reasons
Other receivables with significant balances	459,748,088.24	8,957,090.73	2	Note 1
Other receivables with long	46,786,649.42	46,786,649.42	100	Note 2

aging			
Total	506,534,737.66	55,743,740.15	

Note 1: Other receivables with significant balances include R&D expense receivables from Baosteel Group, custom's deposit and accrued VAT on purchase of related transactions, which have very low risk in collection. The Company did not make a bad debt provision for these receivables.

Note 2: Bad debt provision is fully made in view of long aging and a slim chance of collection.

(3) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(4).

(4) Top five entities with the largest balances are set out below:

				RMB
Name of Entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total other receivables (%)
Entity one	Related party	153,945,037.40	Within 1 year	11
Entity two	Third party	41,380,000.00	Note	3
Entity three	Third party	36,381,698.52	Within 1 year	3
Entity four	Related party	30,950,648.62	Within 1 year	2
Entity five	Third party	22,817,269.00	Within 1 year	2
Total	—	285,474,653.54	—	—

Note: The amount more than 1 year but not exceeding 2 years is RMB 900,000.00, and the amount more than 3 years is RMB 40,480,000.00.

(5) Other receivables due to related parties refer to Note (VI). 6(4).

## 9. Inventories

(1) Categories of inventories

Item	Closing balance			Opening balance		
	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount
	Raw materials	9,461,832,252.27	215,988,370.53	9,245,843,881.74	11,026,768,705.39	345,036,625.44
Work-in-progress	9,949,357,533.60	357,626,196.12	9,591,731,337.48	11,858,155,097.69	589,940,930.26	11,268,214,167.43
Merchandise	12,689,644,480.28	561,666,368.33	12,127,978,111.95	11,374,743,688.57	602,126,053.86	10,772,617,634.71
Spare parts and others	4,028,422,905.99	65,254,051.31	3,963,168,854.68	4,774,385,414.94	107,235,910.12	4,667,149,504.82
Total	36,129,257,172.14	1,200,534,986.29	34,928,722,185.85	39,034,052,906.59	1,644,339,519.68	37,389,713,386.91

(2) Provision for decline in value of inventories

Category of inventories	Opening carrying amount	Increase for the year		Decrease for the year			Exchange differences arising on translation of financial statements, denominated in foreign currencies	Closing carrying amount at end of year
		Provision	Newly-added subsidiaries	Reversals	Write-off	Disposal		
		Raw materials	345,036,625.44	23,889,041.40	-	75,135,573.58		
Work-in-progress	589,940,930.26	119,379,216.07	120,598.24	39,161,584.88	-	312,652,963.57	-	357,626,196.12
Merchandise	602,126,053.86	141,082,563.56	396,737.70	163,118,544.22	-	18,876,034.79	55,592.22	561,666,368.33
Spare parts and others	107,235,910.12	19,167.82	1,104,716.41	-	475,891.87	42,629,851.17	-	65,254,051.31
Total	1,644,339,519.68	284,369,988.85	1,622,052.35	277,415,702.68	475,891.87	451,960,572.26	55,592.22	1,200,534,986.29

(3) Explanation to provision for decline in value of inventories:

<u>Item</u>	<u>Basis of making provision for decline in value of inventories</u>	<u>Reasons for reversal of decline in value of inventories for the period</u>	<u>Proportion of amount of reversal for the period to the closing balance of the relevant category of inventories</u>
<u>Raw materials</u>	<u>Lower net carrying amount than net realizable</u>	<u>Rise in price</u>	<u>1%</u>
<u>Work-in-progress</u>	<u>Lower net carrying amount than net realizable</u>	<u>Rise in price</u>	<u>-</u>
<u>Merchandise</u>	<u>Lower net carrying amount than net realizable</u>	<u>Rise in price</u>	<u>1%</u>
<u>Spare parts and others</u>	<u>Lower net carrying amount than net realizable</u>	<u>Rise in price</u>	<u>-</u>

No inventory was used for guarantee as at end of the period. And no interest was capitalized in the closing balance of inventory as at 30 June 2012.

### 10. Non-current assets due within one year

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
<u>Available-for-sale bonds</u>	<u>-</u>	<u>165,441,000.00</u>
<u>Trust financial products</u>	<u>404,635,536.00</u>	<u>318,466,475.02</u>
<u>Long-term receivables due within one year</u>	<u>4,500,000,000.00</u>	<u>-</u>
<u>Total</u>	<u>4,904,635,536.00</u>	<u>483,907,475.02</u>

### 11. Loans and advances to customers

#### (1) Category of loans and advances to customers

<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
<u>Loans</u>	<u>3,034,500,000.00</u>	<u>3,330,900,000.00</u>
<u>Discounts</u>	<u>496,607,438.56</u>	<u>152,644,438.27</u>
<u>Provision for loan impairment</u>	<u>(115,500,000.00)</u>	<u>(73,400,000.00)</u>
<u>Total</u>	<u>3,415,607,438.56</u>	<u>3,410,144,438.27</u>

#### (2) Provision for loss of loans

<u>Item</u>	<u>Opening carrying amount</u>	<u>Provision for the year</u>	<u>Decrease for the year</u>		<u>Exchange differences arising on translation of financial statements denominated in foreign currencies</u>	<u>Closing carrying amount</u>
			<u>Reversals</u>	<u>Write-off</u>		
<u>Provision for loss of loans</u>	<u>73,400,000.00</u>	<u>42,100,000.00</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>115,500,000.00</u>

### 12. Available-for-sale financial assets

<u>Item</u>	<u>Closing fair value</u>	<u>Opening fair value</u>
<u>Available-for-sale bonds</u>	<u>484,267,630.00</u>	<u>544,860,320.00</u>
<u>Available-for-sale equity instruments</u>	<u>1,141,774,898.65</u>	<u>1,116,763,674.37</u>
<u>Others</u>	<u>50,050,000.00</u>	<u>8,790,000.00</u>
<u>Less: available-for-sale bonds due within one year</u>	<u>-</u>	<u>165,441,000.00</u>
<u>Total</u>	<u>1,676,092,528.65</u>	<u>1,504,972,994.37</u>

### 13. Long-term receivables

	<u>Closing balance</u>	<u>Opening balance</u>

Receivables from disposal of assets	22,500,000,000.00	-
Finance leases	57,674,635.95	31,945,441.89
Including: Unearned finance gains	5,049,635.95	3,115,441.89
Bad debt provision	2,631,250.00	1,441,500.00
Less: receivables from disposal of assets due within one year	4,500,000,000.00	
Total	18,049,993,750.00	27,388,500.00

Long-term receivables due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(6).

#### 14. Investments in joint ventures and associates

RMB

Name of investee	Type	Place of incorporation	Legal representative	Nature of business	Paid-in capital		Proportion of ownership interest held by the Group (%)	Proportion of voting power in the investee held by the Group (%)	Investee's total assets at the end of the period	Investee's total liabilities at the end of the period	Total net assets at the end of the period	Total operating income for the period	Net profit for the period
					Currency	'000							
<b>I. Joint ventures</b>													
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA)	LLC	Shanghai	Wang Jing	Manufacturing	RMB	3,000,000	50	50	4,551,422,672.94	1,085,017,717.77	3,466,404,955.17	6,776,511,239.42	57,722,102.34
Bao-Island Enterprise Co., Ltd. (Bao-Island Enterprise)	LLC	Hong Kong	Not applicable	Ship chartering	HKD	3,300	50	50	1,531,365,813.30	326,668,435.20	1,197,120,147.90	400,347,195.30	14,496,670.80
Niagara Machinery Products Co., Ltd. (Niagara Machinery) (Note 1)	LLC	Ontario, Canada	Not applicable	Manufacturing	USD	37,500	50	50	-	-	-	-	-
Shanghai China Shipping-Baosteel Processing Co., Ltd. (Shipping-Baosteel)	LLC	Shanghai	Zhang Yong	Manufacturing	RMB	199,930	50	50	209,296,835.73	490,842.98	208,805,992.75	-	-
<b>II. Associates</b>													
Shanghai STAL Precision Stainless Steel Co., Ltd. (STAL Precision)	LLC	Shanghai	Wang Xiaodong	Manufacturing	USD	96,560	40	40	1,548,101,524.38	146,322,124.17	1,401,779,400.21	596,562,026.33	62,637,008.07
Shanghai Baosteel & Arcelor Laser Welding Company Ltd. (Welding Co.)	LLC	Shanghai	Hou Xiangdong	Manufacturing	RMB	211,500	38	38	565,357,109.91	274,753,548.74	290,603,561.17	398,688,220.13	34,619,736.61
Shanghai Renwei Software Co., Ltd. (Renwei Software)	LLC	Shanghai	Song Jianhai	IT	USD	1,500	41.33	41.33	13,904,072.04	5,254,790.88	8,649,281.16	15,103,541.66	3,141,292.14
Henan Pingbao Coal Co., Ltd. (Henan Pingbao)	LLC	Xuchang	Chen Jiansheng	Mining	RMB	800,000	40	40	1,827,293,857.79	1,165,675,186.06	661,618,671.73	401,910,737.94	80,728,788.55
Tianjin BCM Distribution Co., Ltd. (Tianjin BCM)	LLC	Tianjin	Pan Zhijun	Iron & steel trading	RMB	140,000	40	40	185,696,655.33	55,870,245.17	129,826,410.16	134,624,215.44	2,010,113.41
Wuxi Baomit Steel Processing and Delivery Co., Ltd. (Wuxi Baomit) (Note 2)	LLC	Wuxi	Ogiwara Shinichi	Iron & steel trading	USD	7,700	51	Note 2	364,351,468.63	213,516,330.15	150,835,138.48	143,893,800.08	2,750,701.22
Shanghai Zhongyou Baoshun Chemical Industry Co., Ltd. (Zhongyou Baoshun)	LLC	Shanghai	Li Ruoping	Manufacturing	RMB	5,000	35	35	5,457,151.16	65,477.14	5,391,674.02	-	-
Rihong Stainless Steel (Shanghai) Co., Ltd. (Rihong Stainless)	LLC	Shanghai	Hiraoaka Yoshifumi	Manufacturing	RMB	95,000	20	20	178,124,448.40	140,991,589.30	37,132,859.10	210,624,126.16	(10,456,593.98)
Sichuan Daxing Baohua Chemical Co., Ltd. (Sichuan Daxing)	LLC	Dazhou	Tang Chun	Manufacturing	RMB	50,000	45	45	87,402,027.09	35,685,460.62	51,716,566.47	26,506,852.66	1,179,974.96
Ningbo Stainless Metal Protection Material Co., Ltd. (Ningbo Stainless) (Note 3)	LLC	Ningbo	Liu Hongwen	Manufacturing	RMB	40,000	34	34	-	-	-	-	-
NSM Siderurgica Modenese SPA ("NSM")	LLC	Modena Italy	Not applicable	Steel extension	EUR	1,500	35	35	454,090,323.86	411,570,992.95	42,519,330.91	174,057,861.48	(9,704,675.39)
Baosteel Can Making (Vietnam) Co., Ltd. (Vietnam Can Making)	LLC	Binh Duong Vietnam	Not applicable	Package industry	USD	35,600	30	30	220,876,893.89	1,615,947.64	219,260,946.25	-	(2,351,905.12)

Note 1: Changes in scope of consolidation because of liquidation in 2010.

Note 2: At the balance sheet date, the investment from the Group accounted for 51% of the total ownership interest of Wuxi Baomit and half of the directors on its board are from the Group. The board is chaired by one of the directors appointed by Mitsui & Co., Ltd.. In accordance with the articles of Wuxi Baomit, the chairman has the final decision when votes for or against a decision are equal in number and a decision is impossible on basis of the articles. As a result, Wuxi Baomit has been considered as an associate of the Group and is measured on basis of the equity method.

Note 3: As at the balance sheet date, the share capital for Ningbo Stainless has not yet been contributed and no operation was launched in.

Where the equity method of accounting is adopted, there is no significant difference in the accounting policies of the Group and its associates and joint ventures. No significant limits exist regarding cash realization and investment income repatriation from these long-term investments.



**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****15. Long-term equity investment**

Details of long-term equity investment are as follows:

RMB											
Name of investee	Accounting method	Initial investment cost	Opening balance	Increase/ (decrease)	Closing balance	Proportion of ownership interest held by the Group (%)	Proportion of voting power in the investee held by the Group (%)	Explanation of the inconsistency between the proportion of ownership interest and the proportion of voting power	Provision for impairment losses	Provision for impairment losses for the period	Cash dividends for the period
<b>Joint ventures</b>											
BNA	Equity method	1,500,000,000.00	1,704,341,426.17	28,861,051.17	1,733,202,477.34	50	50		-	-	-
Bao-Island Enterprise	Equity method	143,084,132.00	589,379,885.10	9,180,188.85	598,560,073.95	50	50		-	-	-
Niagara Machinery	Equity method	123,721,439.29	-	-	-	50	50		-	-	-
Shipping-Baosteel	Equity method	99,965,000.00	103,180,195.89	-	103,180,195.89	50	50		-	-	-
Subtotal of joint ventures		1,866,770,571.29	2,396,901,507.16	38,041,240.02	2,434,942,747.18				-	-	-
<b>Associates</b>											
STAL Precision	Equity method	122,004,541.93	535,656,956.86	25,054,803.23	560,711,760.09	40	40		-	-	-
Welding Co.	Equity method	46,170,000.00	121,973,853.29	(11,544,500.08)	110,429,353.21	38	38		-	-	24,700,000.00
Renwei Software	Equity method	5,131,591.00	2,276,451.87	1,298,296.04	3,574,747.91	41.33	41.33		-	-	-
Henan Pingbao	Equity method	120,000,000.00	224,092,166.59	40,555,302.09	264,647,468.68	40	40		-	-	-
Tianjin BCM	Equity method	56,000,000.00	51,306,661.98	804,045.36	52,110,707.34	40	40		-	-	-
Baojiang Shipping	Equity method	32,522,976.15	73,896,993.08	(5,057,309.61)	68,839,683.47	51	Note 1		-	-	6,460,167.23
Wuxi Baomit	Equity method	1,912,509.83	1,887,085.90	-	1,887,085.90	35	35		-	-	-
Zhongyou Baoshun	Equity method	9,473,440.98	9,517,890.62	(2,091,318.80)	7,426,571.82	20	20		-	-	-
Rihong Stainless	Equity method	22,500,000.00	22,486,541.18	530,988.73	23,017,529.91	45	45		-	-	-
Sichuan Daxing	Equity method	4,080,000.00	4,080,000.00	9,520,000.00	13,600,000.00	20	20		-	-	-
Ningbo Stainless	Equity method	65,301,632.50	65,301,632.50	(2,332,058.30)	62,969,574.20	35	35		-	-	-
NSM	Equity method	25,203,600.00	25,203,600.00	42,380,562.36	67,584,162.36	30	30		-	-	-
Vietnam Can Making	Equity method	526,300,292.39	1,137,679,833.87	99,118,811.02	1,236,798,644.89				-	-	31,160,167.23
<b>Others</b>											
Baovale Mining Co., Ltd.	Cost method		103,282,213.00	-	103,282,213.00	50	Note 2	Note 2	-	-	-
Taiyuan Baoyuan Chemical Co., Ltd.	Cost method		9,000,000.00	-	9,000,000.00	15	15		-	-	-
CISDI Engineering Co., Ltd.	Cost method		9,508,999.34	-	9,508,999.34	6.28	6.28		-	-	-
Jianchuan Group Automation Engineering Co., Ltd.	Cost method		1,000,000.00	-	1,000,000.00	7.128	7.128		-	-	-
Zhongjiing Investment Consultancy Stock Co., Ltd.	Cost method		3,000,000.00	-	3,000,000.00	5	5		666,024.47	-	-
Hanyang Components Co., Ltd.	Cost method		3,311,720.00	-	3,311,720.00	20	20		3,311,720.00	-	-
Anhui Huishang Co., Ltd.	Cost method		3,000,000.00	-	3,000,000.00	3.53	3.53		-	-	-
Henan Longyu Energy Co., Ltd.	Cost method		370,269,254.56	-	370,269,254.56	12.96	12.96		-	-	-
Shanghai Laojing Mining Port Co., Ltd.	Cost method		88,734,096.00	-	88,734,096.00	12	12		-	-	13,395,251.27
Yongmsi Group Co., Ltd.	Cost method		279,000,000.00	-	279,000,000.00	10	10		-	-	113,370,525.00
Henan Zhenglong Coal Co., Ltd.	Cost method		45,569,714.27	-	45,569,714.27	4.91	4.91		-	-	83,398,933.80
Guangzhou Huiren Auto Service Co., Ltd.	Cost method		215,923.23	(157,651.11)	58,272.12	15	15		56,443.17	-	-
China Resources Land Limited (Beijing)	Cost method		1,618,750.00	-	1,618,750.00	0.09	0.09		-	-	-
AVIC Special Metal (Xi'an) Co., Ltd.	Cost method		40,000,000.00	(40,000,000.00)	-	9.71	9.71		-	-	1,010,000.00
Shanghai Huayi Information Technology Co., Ltd.	Cost method		1,500,000.00	-	1,500,000.00	15	15		-	-	-
GlobalorePteLtd	Cost method		-	15,812,250.00	15,812,250.00	14.286	14.286		-	-	-
Others	Cost method		980,000.00	-	980,000.00	Insignificant	Insignificant		-	-	-
Subtotal of others			959,990,670.40	(24,345,401.11)	935,645,269.29				4,034,187.64	-	211,174,710.07
Equity transferred from old system trade right due to non-tradable share reform	---		7,949,489.18	-	7,949,489.18				-	-	-
<b>Total</b>			<b>4,502,521,500.61</b>	<b>112,814,649.93</b>	<b>4,615,336,150.54</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4,034,187.64</b>	<b>-</b>	<b>242,334,877.30</b>



**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****15. Long-term equity investment - continued**

Note 1: Refer to Note (V). 15 Note 3 for details.

Note 2: As the Company does not exert actual control, joint control or significant influence over the operating policies and financial decisions of Baovale Mining Co., Ltd., but only collects fixed payment in a certain ratio in accordance with investment agreements. Therefore, the investment in Baovale was considered long-term equity investment and measured on basis of cost method.

**16. Investment properties**

Investment properties measured at cost

	RMB			
Item	Opening carrying amount	Increase for the year	Decrease for the year	Closing carrying amount
<u>I. Total original carrying amount</u>	<u>640,947,820.71</u>	<u>67,658,050.55</u>	<u>12,442,757.66</u>	<u>696,163,113.60</u>
1. Buildings	353,161,960.80	-	12,442,757.66	340,719,203.14
2. Land use rights	287,785,859.91	67,658,050.55	-	355,443,910.46
<u>II. Total accumulated depreciation and amortization</u>	<u>153,473,122.71</u>	<u>10,150,831.78</u>	<u>4,738,826.24</u>	<u>158,885,128.25</u>
1. Buildings	126,082,621.97	6,506,895.13	4,738,826.24	127,850,690.86
2. Land use rights	27,390,500.74	3,643,936.65	-	31,034,437.39
<u>III. Total net book value of investment properties</u>	<u>487,474,698.00</u>	<u>57,507,218.77</u>	<u>7,703,931.42</u>	<u>537,277,985.35</u>
1. Buildings	227,079,338.83	(6,506,895.13)	7,703,931.42	212,868,512.28
2. Land use rights	260,395,359.17	64,014,113.90	-	324,409,473.07
<u>IV. Total accumulated provision for impairment losses of investment properties</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1. Buildings	-	-	-	-
2. Land use rights	-	-	-	-
<u>V. Total carrying amounts of investment properties</u>	<u>487,474,698.00</u>	<u>57,507,218.77</u>	<u>7,703,931.42</u>	<u>537,277,985.35</u>
1. Buildings	227,079,338.83	(6,506,895.13)	7,703,931.42	212,868,512.28
2. Land use rights	260,395,359.17	64,014,113.90	-	324,409,473.07

Depreciation and amortisation for the period is RMB 10,150,831.78.

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****17. Fixed assets**

RMB

Item	Opening carrying amount	Increase for the period	Decrease for the period	Closing carrying amount
I. Total original carrying amount	266,197,238,288.40	5,125,981,924.74	39,794,960,952.57	231,528,259,260.57
Including: Buildings	58,599,644,880.55	938,603,231.07	11,685,559,706.51	47,852,688,405.11
Machinery and equipment	169,259,414,269.25	3,430,436,430.55	24,418,140,830.05	148,271,709,869.75
Transportation vehicles	18,341,266,987.42	264,333,741.37	1,416,593,651.06	17,189,007,077.73
Office and other equipment	19,996,912,151.18	492,608,521.75	2,274,666,764.95	18,214,853,907.98
II. Total accumulated depreciation	150,777,283,776.80	5,932,372,941.49	14,398,809,425.80	142,310,847,292.49
Including: Buildings	24,244,322,906.02	1,124,103,067.19	2,793,432,862.52	22,574,993,110.69
Machinery and equipment	95,921,929,582.19	3,555,422,333.85	8,522,346,960.57	90,955,004,955.47
Transportation vehicles	15,323,753,480.59	548,700,665.19	1,153,848,022.74	14,718,606,123.04
Office and other equipment	15,287,277,808.00	704,146,875.26	1,929,181,579.97	14,062,243,103.29
III. Total net book value of fixed assets	115,419,954,511.60			89,217,411,968.08
Including: Buildings	34,355,321,974.53			25,277,695,294.42
Machinery and equipment	73,337,484,687.06			57,316,704,914.28
Transportation vehicles	3,017,513,506.83			2,470,400,954.69
Office and other equipment	4,709,634,343.18			4,152,610,804.69
IV. Total provision for impairment losses	48,592,934.14	-	4,102.66	48,588,831.48
Including: Buildings	14,661,224.12	-	-	14,661,224.12
Machinery and equipment	33,535,111.69	-	-	33,535,111.69
Transportation vehicles	174,724.48	-	-	174,724.48
Office and other equipment	221,873.85	-	4,102.66	217,771.19
V. Total carrying amount of fixed assets	115,371,361,577.46			89,168,823,136.60
Including: Buildings	34,340,660,750.41			25,263,034,070.30
Machinery and equipment	73,303,949,575.37			57,283,169,802.59
Transportation vehicles	3,017,338,782.35			2,470,226,230.21
Office and other equipment	4,709,412,469.33			4,152,393,033.50

The increase in accumulated depreciation and amortisation for the period consists of charge for the current period of RMB 5,929,353,612.67, and the increase of RMB 3,019,328.82 is due to the transfer from investment properties to fixed assets.

**18. Construction in progress****(1) Details of construction in progress:**

RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision for impairment loss	Net carrying amount	Carrying amount	Provision for impairment loss	Net carrying amount
Technical upgrade and capital construction	17,197,476,857.58	-	17,197,476,857.58	16,282,590,033.75	-	16,282,590,033.75

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****18. Construction in progress - continued****(2) Changes in significant construction in progress:**

RMB

Item	Budget	Opening balance	Increase for the period	Transfer to fixed assets	Transfer to intangible assets	Other decrease	Amount invested as a proportion of budget amount (%)	Amount of accumulated capitalized interest	Including: capitalized interest for the period	Capitalization rate for the period	Source of fund	Closing balance
Technical upgrade and capital construction	33,294,665,332.48	16,282,590,033.75	5,981,416,162.43	4,767,619,014.47	-	298,910,324.13	51.65%	810,771,861.16	193,595,760.94	4.50%-6.00%	Self-generated working capital, loans, and bond financing	17,197,476,857.58

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****19. Materials for construction projects**

RMB

Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
Special materials	2,611,901.44	19,145,782.08	16,408,904.75	5,348,778.77
Special equipment	799,616,431.52	1,208,371,430.55	1,811,131,715.39	196,856,146.68
Equipment in transit	3,583,927.78	152,916,880.74	155,113,092.01	1,387,716.51
Total	805,812,260.74	1,380,434,093.37	1,982,653,712.15	203,592,641.96

RMB

**20. Intangible assets**Intangible assets

RMB

Item	Opening carrying amount	Increase for the period	Decrease for the period	Closing carrying amount
I. Total original carrying amount	9,262,986,353.77	143,850,105.66	2,743,858,577.62	6,662,977,881.81
Land use rights	9,049,856,270.88	133,319,242.13	2,728,260,821.57	6,454,914,691.44
Software	80,379,180.12	5,525,863.53	29,891.32	85,875,152.33
Others	132,750,902.77	5,005,000.00	15,567,864.73	122,188,038.04
II. Total accumulated amortization	1,136,812,527.02	98,711,247.63	390,236,474.08	845,287,300.57
Land use rights	991,574,817.17	80,227,640.10	390,214,069.40	681,588,387.87
Software	60,528,328.43	13,878,052.48	10,254.47	74,396,126.44
Others	84,709,381.42	4,605,555.05	12,150.21	89,302,786.26
III. Total net book value of intangible assets	8,126,173,826.75	45,138,858.03	2,353,622,103.54	5,817,690,581.24
Land use rights	8,058,281,453.71	53,091,602.03	2,338,046,752.17	5,773,326,303.57
Software	19,850,851.69	(8,352,188.95)	19,636.85	11,479,025.89
Others	48,041,521.35	399,444.95	15,555,714.52	32,885,251.78
IV. Total provision for impairment	-	-	-	-
Total carrying amount of intangible assets	8,126,173,826.75	45,138,858.03	2,353,622,103.54	5,817,690,581.24

The increase in accumulated amortization consists of charge for the current period of RMB 90,406,395.84. There are an increase of RMB 6,529,232.85 on acquisition of subsidiaries and an increase of RMB 1,775,618.94 the transfer from investment properties to fixed assets.

**21. Long-term expenses to be apportioned**

RMB

Item	Opening balance	Addition in the current period	Decrease for the period		Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing balance
			Amortization	Disposal of assets		
Fees for decoration	15,341,004.52	571,376.80	2,364,605.62	-	-	13,547,775.70
Leasing expenses	9,618,278.71	650,686.26	580,757.46	-	(1,905.33)	9,686,302.18
Others	17,058,645.29	3,088,632.12	3,472,266.78	12,013,310.18	369,933.39	5,031,633.84
Total	42,017,928.52	4,310,695.18	6,417,629.86	12,013,310.18	368,028.06	28,265,711.72

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****22. Deferred tax assets/deferred tax liabilities****Recognized deferred tax assets and deferred tax liabilities**

	RMB	
Items	Closing balance	Opening balance
<b>Deferred tax assets:</b>		
Provision for impairment losses of assets	413,141,693.80	531,306,722.59
Unrealized profit from inter-group transactions	6,687,551.45	6,687,551.45
Difference in residuals of fixed assets	413,528,824.72	417,251,036.97
Losses from changes in fair values	45,910,494.61	45,728,172.61
Termination welfare	36,737,536.92	40,815,520.87
Deductible losses	21,382,356.49	5,030,830.60
Others	291,573,649.71	141,869,906.79
Subtotal	1,228,962,107.70	1,188,689,741.88
<b>Deferred tax liabilities:</b>		
Payment of tax unpaid for investment income	282,207,189.74	282,207,189.74
Gains from changes in fair values	48,504,951.96	31,957,809.84
Asset regrouping	2,220,451,116.64	=
Others	3,532,949.71	2,615,622.27
Subtotal	2,554,696,208.05	316,780,621.85

**23. Details of provision for impairment losses of assets**

Item	Opening carrying amount	Increase in the period		Decrease in the period			Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing carrying amount
		Provision	Newly-added subsidiaries	Reversals	Write-off	Decrease in disposal		
I. Bad debts provision	455,985,222.10	74,287,735.24	1,820,161.89	93,850,063.60	96,282.09	6,498,530.41	(283,060.40)	431,365,182.73
II. Provision for decline in value of intangibles	1,644,339,519.68	284,369,988.85	1,622,052.35	277,415,702.68	475,891.87	451,960,572.26	55,592.22	1,200,534,986.29
III. Provision for impairment of long-term equity investments	4,034,187.64	=	=	=	=	=	=	4,034,187.64
IV. Provision for impairment of fixed assets	48,592,934.14	=	=	=	4,102.66	=	=	48,588,831.48
V. Provision for impairment of loans	73,400,000.00	42,100,000.00	=	=	=	=	=	115,500,000.00
Total	2,226,351,863.56	400,757,724.09	3,442,214.24	371,265,766.28	576,276.62	458,459,102.67	(227,468.18)	1,800,023,188.14

**24. Other non-current assets**

	RMB	
Item	Closing balance	Opening balance
Loans due from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Others	2,443,808.19	2,469,757.28
Total	120,349,588.33	120,375,537.42

**25. Short-term borrowings**

## Categories of short-term borrowings:

	RMB	
Item	Closing balance	Opening balance
Pledged loans (Note 1)	163,782,000.00	90,400,000.00
Guaranteed loans (Note 2)	50,000,000.00	120,675,524.00
Credit loans	31,354,591,527.99	38,665,382,108.91
Total	31,568,373,527.99	38,876,457,632.91

At the balance sheet date, the annual interest rate of the Group's short-term borrowings ranges from LIBOR+0.6% to LIBOR+3% in USD (in 2011: LIBOR+0.6% to LIBOR+4%); 4.374% to 7.216% in RMB; and from 1.59% to 3.9% in EURO).

Note 1: As at 30 June 2012, a total of RMB 163,782,000.00 was pledged against unexpired discounted bank acceptance bills (31 December 2011: RMB 2,400,000.00). There was no short-term borrowings on note pledge (31 December 2011: RMB 38,000,000.00), and there was no short-term borrowings pledged against receivables through business guarantee (31 December 2011: RMB 50,000,000.00).

Note 2: As at 30 June 2012, the Group has a total of RMB 50,000,000.00 loans collateralized by guarantee letters issued by Mitsui & Co., Ltd. (31 December 2011: RMB58,000,000.00 loans collateralized by guarantee letters issued by Mitsui & Co., Ltd., and a total of RMB62,675,524.00 loans collateralized by guarantee letters issued by Sumitomo Corporation Group and Sumitomo Corporation (China) Holding Ltd.).

## 26. Customer deposits and deposits from banks and other financial institutions

RMB

Item	Closing balance	Opening balance
Current deposits	303,358,559.78	172,181,714.17
Fixed deposits	7,429,121,134.11	8,261,403,318.04
Total	7,732,479,693.89	8,433,585,032.21

## 27. Taking from banks and other financial institutions

RMB

Item	Closing balance	Opening balance
Taking from domestic banks	1,020,000,000.00	300,000,000.00

## 28. Notes payable

RMB

Category	Closing balance	Opening balance
Commercial acceptances	2,759,806,530.39	1,095,040,330.24
Bank acceptances	732,603,671.91	1,582,545,288.37
Total	3,492,410,202.30	2,677,585,618.61

The above notes payable will become due in year 2013.

As at 30 June 2012, notes payable due from any shareholders holding at least 5% of the Company's shares with voting power refer to Note (VI) 6(8).

## 29. Accounts payable

(1) Details of accounts payable are as follows:

RMB

Item	Closing balance	Opening balance
Accounts payable for equipment	4,628,859,409.63	4,357,210,808.54
Accounts payable for raw materials	15,113,754,172.15	14,913,488,300.16
Total	19,742,613,581.78	19,270,699,108.70

(2) Accounts payable due from any shareholder holding at least 5% of the Company's shares with voting power or from related parties in the current period refer to Note (VI) 6(9).

## 30. Receipts in advance

(1) Details of receipts in advance are as follows:

RMB

Item	Closing balance	Opening balance
Receipts in advance	9,770,539,142.45	10,789,724,318.08

(2) Receipts in advance from shareholders holding at least 5% of the Company's shares with voting power or from related parties in the reporting period refer to Note (VI) 6(10).

The aging conditions of receipts in advance with significant balances in the Group are all within one year as at 30 June 2012.

### 31. Employee benefits payable

Item	Opening carrying amount	Increase for the period	Decrease for the period	Closing carrying amount
I. Wages or salaries, bonuses, allowances and subsidies	1,144,202,343.98	2,653,049,873.25	2,715,180,615.98	1,082,071,601.25
II. Staff welfare	-	131,329,403.99	131,329,403.99	-
III. Social security contributions	2,805,793.00	842,442,398.72	842,762,841.14	2,485,350.58
Including: Basic pension insurance	1,218,085.20	444,555,335.82	444,987,624.69	785,796.33
Medical insurance	1,161,660.47	238,340,450.35	238,542,499.96	959,610.86
Unemployment insurance	99,473.62	35,930,164.03	35,968,715.09	60,922.56
Work injury insurance	42,842.18	11,694,337.69	11,698,499.50	38,680.37
Maternity insurance	52,920.59	16,392,618.21	16,416,641.16	28,897.64
Employment fee for the injured	5,590.18	572,480.01	438,737.01	139,333.18
Annuity fund	224,406.76	94,387,289.41	94,139,586.53	472,109.64
Others	814.00	569,723.20	570,537.20	-
IV. Housing funds	50,990.58	257,305,726.97	257,356,717.55	-
V. Termination benefits	167,828,478.80	52,616,061.11	66,806,105.14	153,638,434.77
VI. Labor union and education fund	167,772,991.36	85,203,024.67	67,758,097.79	185,217,918.24
VII. Others	70,630,618.83	80,120,536.33	9,924,089.66	140,827,065.50
Total	1,553,291,216.55	4,102,067,025.04	4,091,117,871.25	1,564,240,370.34

As at 30 June 2012, the total employee benefits payable amounts to RMB 982,397,188.61 (2011: RMB 982,397,188.61), including unpaid portion which is in line with work efficiency.

There are no overdue employee benefits payable or non-monetary benefits as at 30 June 2012.

### 32. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	(1,198,323,118.84)	(1,047,080,706.22)
Business tax	765,6761.03	26,012,769.92
Enterprise income tax	279,097,201.23	(221,702,170.62)
Individual income tax	31,542,371.21	86,311,277.55
City construction and maintenance tax	26,173,515.27	24,775,059.87
Property tax	(18,919,152.16)	26,261,010.65
Others	24,836,270.68	117,833,696.64
Total	(847,936,151.58)	(987,589,062.21)

### 33. Interest payable

Item	Closing balance	Opening balance
Interest payable on convertible loan notes	2,222,222.22	42,222,222.22
Interest payable on medium-term notes	136,894,945.36	146,081,967.21
Interest payable on short-term borrowings	159,516,602.57	127,746,755.25
Total	298,633,770.15	316,050,944.68

Interest payable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI) 6(12).

**34. Dividends payable**

Name of entity	RMB	
	Closing balance	Opening balance
Mitsui & Co., Ltd.	61,978,836.54	3,564,645.30
China Orient Asset Management Corp.	9,475,888.34	9,475,888.34
Sumitomo Corporation Group	8,563,031.29	-
Anhui Province Huishang Co., Ltd.	7,088,471.02	-
Corning (Hong Kong) Ltd.	2,082,443.05	2,082,443.05
Toyota Tsusho Corporation	1,183,893.19	1,183,893.19
Nanjing New Line Logistics Co., Ltd.	1,800,000.00	900,000.00
Guizhou Aluminium Plant	853,743.23	853,743.23
Wanshunchang Group Investment Co., Ltd.	719,785.45	-
Guangzhou Nansha New & High-tech Development Corporation	257,066.24	-
Others	22,022.21	22,022.21
<b>Total</b>	<b>94,025,180.56</b>	<b>18,082,635.32</b>

**35. Other payables**

(1) Details of other payables are as follows:

Name of entity	RMB	
	Closing balance	Opening balance
Guarantee and deposit fees	460,365,572.35	467,873,965.67
Advanced fund	136,517,230.15	120,990,107.30
Transportation and port fees	994,416.85	9,369,011.78
Construction fees payable	1,858,958.25	1,671,771.14
Land compensation	34,575,653.82	31,094,071.26
Relief fund	16,698,368.31	15,016,932.34
Commission fees	2,443,365.00	2,197,331.27
Others	227,335,304.80	132,396,990.95
<b>Total</b>	<b>880,788,869.52</b>	<b>780,610,181.71</b>

(2) At the end of the period and beginning of the year, no other payables were due to any shareholders holding at least 5% of the Company's shares with voting power or related party.

(3) Other payable due to related parties refer to Note (VI) 6(11).

**36. Non-current liabilities due within one year**

(1) Details of non-current liabilities due within one year are as follows:

Item	RMB	
	Closing balance	Opening balance
Long-term borrowings due within one year	349,134,480.00	4,065,340,680.00
Long-term payables due within one year	2,813,663,801.63	2,758,493,923.17
Bonds payable due within one year	5,502,011,490.31	9,985,833,845.12
<b>Total</b>	<b>8,664,809,771.94</b>	<b>16,809,668,448.29</b>

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

Item	RMB	
	Closing balance	Opening balance
Credit loans	349,134,480.00	4,065,340,680.00



## (b) Top five long-term borrowings due within one year

RMB

Lender	Inception date of borrowing	Maturity date	Original Currency	Interest rate(%)	Closing balance	
					Amount in USD	Amount in RMB
HSBC	13/10/2010	13/10/2012	USD	6 LIBOR+2%	17,000,000.00	107,523,300.00
Sumitomo Mitsui Banking Corporation (China) Limited	02/09/2011	30/11/2012	USD	3 LIBOR+1.15%	30,000,000.00	189,747,000.00
China Construction Bank	11/08/2004	20/12/2012	USD	3 LIBOR+1.3%	2,400,000.00	15,179,760.00
China Construction Bank	11/08/2004	20/06/2013	USD	3 LIBOR+1.3%	2,400,000.00	15,179,760.00
China Construction Bank	29/04/2004	20/12/2012	USD	3 LIBOR+1%	1,700,000.00	10,752,330.00
Total					53,500,000.00	338,382,150.00

RMB

Lender	Inception date of borrowing	Maturity date	Original Currency	Interest rate(%)	Opening balance	
					Amount in USD	Amount in RMB
Bank of China	04/05/2009	04/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	630,090,000.00
Bank of China	08/05/2009	08/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	630,090,000.00
Bank of China	20/05/2009	20/05/2012	USD	3 LIBOR+0.4%	100,000,000.00	630,090,000.00
Bank of China	02/06/2009	02/06/2012	USD	3 LIBOR+0.4%	100,000,000.00	630,090,000.00
HSBC	09/04/2010	09/04/2012	USD	LIBOR+1.6%	50,000,000.00	315,045,000.00
Total						2,835,405,000.00

## (3) Long-term payables due within one year

RMB

Item	Closing balance	Opening balance
Payables for the acquisition of Luojing assets	2,813,663,801.63	2,758,493,923.17

## (4) Bonds payable due within one year

RMB

Name of bond	Par value	Date of Issuance	Term	Amount	Opening interest payable	Accrued interest for the year	Interest already paid in the year	Closing interest payable	Closing balance
Medium Term Note (0982097) (Note)	5,000,000,000.00	30 June 2009	3 years	5,000,000,000.00	66,500,000.00	66,500,000.00	-	66,500,000.00	4,999,957,323.63
Short-term Financing Note (Note)	500,000,000.00	4 May 2012	1 year	500,000,000.00	-	3,908,333.34	-	3,908,333.34	502,054,166.68
Total	5,500,000,000.00			5,500,000,000.00	66,500,000.00	68,454,166.67	-	68,454,166.67	5,502,011,490.31

## 36. Non-current liabilities due within one year--continued

Note : On 30 June 2009, the second tranche of medium-term notes of 2009 (09 Baosteel MTN2), with the worth of RMB 5 billion, a coupon rate of 2.66%, and a par value of RMB 100 at a fixed interest rate, was launched. The medium-term notes with the worth of RMB 10 billion are tradable at the inter-bank bond market with 3 years' duration.

In December 2011, the National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB 1 billion short-term financing notes with two years' duration by the Group. The notes can be issued by installment within the two years. The Group issued on 4 May 2012 the first tranche of the short-term financing notes (12 Meisteel CP001) for RMB 0.5 billion, with a coupon rate of 4.69%, a par value of 100 at a fixed interest rate. The interest is to be paid on due date.

**37. Long-term borrowings****(1) Categories of long-term borrowings**

RMB

Item	Closing balance	Opening balance
Credit loans	8,251,553,297.79	7,325,679,720.00

**(1) (2) Top five long-term borrowings**

RMB

Lender	Inception date of borrowing	Maturity date	Currency	Annual interest rate(%)	Closing balance	
					Amount in foreign currency	Amount in domestic currency
The Export-import Bank of China (EIBC)	15 September 2010	15 July 2013	USD	6 LIBOR+2.8%	200,000,000.00	1,264,980,000.00
EIBC	19 July 2010	19 July 2013	USD	6LIBOR+2.1%	100,000,000.00	632,490,000.00
EIBC	16 December 2010	16 December 2013	USD	6LIBOR+0.5%	100,000,000.00	632,490,000.00
EIBC	16 December 2010	16 December 2013	USD	6LIBOR+0.5%	100,000,000.00	632,490,000.00
EIBC	11 January 2011	16 December 2013	USD	6LIBOR+1%	100,000,000.00	632,490,000.00
Total						3,794,940,000.00

RMB

Lender	Inception date of borrowing	Maturity date	Currency	Annual interest rate(%)	Opening balance	
					Amount in foreign currency	Amount in domestic currency
EIBC	15 September 2010	15 July 2013	USD	6 LIBOR+2.8%	200,000,000.00	1,260,180,000.00
EIBC	19 July 2010	19 July 2013	USD	6LIBOR+0.5%	100,000,000.00	630,090,000.00
EIBC	16 December 2010	16 December 2013	USD	6LIBOR+0.4%	100,000,000.00	630,090,000.00
EIBC	16 December 2010	16 December 2013	USD	6 LIBOR+0.4%	100,000,000.00	630,090,000.00
EIBC	1 November 2011	16 December 2013	USD	6 LIBOR+0.4%	100,000,000.00	630,090,000.00
Total						3,780,540,000.00

**Bank facilities**

As at 30 June 2012, the unutilized bank facilities of the Group reach RMB 106.570 billion. The management of the Company believes that the above mentioned facilities and the net cash flows from operating activities will be sufficient to repay the current liabilities due in the coming period.

**38. Bonds payable**

RMB

Name of bond	Par value	Issue date	Term of the bond	Issue amount	Opening interest payable	Accrued interest for the period	Interest paid during the period	Closing interest payable	Closing balance
12 Meisteel bond (note)	500,000,000.00	4 May 2012	3 years	500,000,000.00	-	-	-	4,258,333.34	495,153,334.56
08 Baosteel bond (126016) (note)	10,000,000,000.00	20 June 2008	6 years	10,000,000,000.00	42,222,222.22	40,000,000.00	80,000,000.00	2,222,222.22	9,123,794,862.51
<b>Total</b>	<b>10,500,000,000.00</b>			<b>10,500,000,000.00</b>	<b>42,222,222.22</b>	<b>40,000,000.00</b>	<b>80,000,000.00</b>	<b>6,480,555.56</b>	<b>9,618,948,197.07</b>

Note: Approved by China Securities Regulatory Commission (CSRC) in the document of [2008]739, the Company issued, on 20 June 2008, RMB10 billion convertible loan notes with par value of RMB100 per bond and a duration of six years (from 20 June 2008 to 20 June 2014). The coupon rate was 0.8% per annum. The dividend was paid once a year on 20 June, and the principal was returned once and for all when the time expired. Every 10 bonds are attached by 160 copies of stock purchase components issued by the issuer. The duration of the component was 24 months from the date of its being listed on the market. The number of the note remained unchanged in the reporting period. The exercising period was the last five trading days of the duration. The exercise proportion was 2 to 1, meaning that two shares of the note represent one share of the Company's stock, and the initial exercise price was RMB12.50 per share, which was adjusted to RMB12.16 per share due to dividend on 15 June 2010. The exercise price was adjusted to RMB11.80 per share on 24 May 2011 due to dividend. In the duration of the component, the exercise price and proportion would be adjusted accordingly when the cut off of the dividend or right of the previous fiscal year is carried out. When the uses of the funds from the note issuance are found to be greatly different from those the Company promised in the prospect, which is considered an alternation of the uses of the funds according to relative regulations of China Securities Regulatory Commission or is confirmed by the commission, component holders are entitled to buy the notes at the price of its book value plus the current interest. The fair value of the liability component on the day of issue is measured on basis of the prices of similar securities, while the rest is recognized as the fair value of the equity and recorded in the shareholders' equity.

In December 2011, the National Association of Financial Market Institutional Investors (NAFMII) approved the registration of RMB 4 billion medium-term notes with two years' duration by the Group. The notes can be issued by installment within the two years. The Group issued on 4 May 2012 the first tranche of the short-term financing notes (12 Meisteel MTN1) for RMB 0.5 billion, with a coupon rate of 5.11%, a par value of 100 at a fixed interest rate. The interest is to be paid once each year.

**39. Special payable**

RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Government subsidies	911,415,731.15	-	580,033,453.65	331,382,277.50

**40. Other non-current liabilities**

RMB

Item	Closing carrying amount	Opening carrying amount
Deferred income (Note)	1,024,984,408.74	1,319,044,230.80
<b>Total</b>	<b>1,024,984,408.74</b>	<b>1,319,044,230.80</b>

Note: The government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset according to the CAS.

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****41. Share capital**

As at 30 June 2012, the registered and paid-in capital of the Company totals at RMB 17,512,048,088.00 with par value of RMB 1.00 each. The share class and structure are set out as follows:

	Opening balance	Changes for the period					Closing balance
		New issue of shares	Bonus issue	Capitalization of surplus reserve	Others	Subtotal	
<u>RMB</u>							
<b>Jan.—June, 2012:</b>							
I. Tradable shares							
I. Ordinary shares denominated in RMB	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00
II. Total shares	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00
<b>2011:</b>							
I. Tradable shares							
I. Ordinary shares denominated in RMB	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00
II. Total shares	17,512,048,088.00	-	-	-	-	-	17,512,048,088.00

As at the end of 30 June 2012, Baosteel Group holds 13,128,825,267 common shares of the total tradable RMB common stocks.

In accordance with the reform program approved on the 2005 First Interim Shareholders' Meeting held on 12 August 2005, the Baosteel Group, the only non-tradable shareholder of the Company, shall make tradable its shares at the consideration of a payment of 2.2 shares for every ten tradable shares the holders have registered on the day of registration and a European style warrant of subscription right with an expiry period of 378 days till 18 August, 2006, and an exercise price of RMB4.50 per share. The non-tradable share of the Group shall circulate on market when credits are made to the accounts of the shareholders. After the implementation of the program, the total capital stock of the Company is still 17,512,000,000, and financial data such as Company assets, debts, owners' rights and interests, and income-per-share remain unchanged.

Baosteel Group has hereby made the following promises: the Group shall not sell the new shares and is obliged to disclose the related information within the six months after the implementation of the program; within the twelve months since it is entitled to the right to trade its shares, the Group shall not sell or transfer the Company's shares, and only twenty-four months after the entitlement shall the Group's shares be listed on the market; the total sales of the Company's shares the Group has conducted in stock exchanges within the thirty-six months, since it is entitled to circulating right of its shares shall not be more than 5% of the total shares of the Company and the price shall not be less than RMB5.63 per share; and within the three years since the entitlement, the shares of the Company that the Group owns shall not be less than 67% of the total shares of the Company. However, new shares of the Company that the Group has acquired after the reform program shall be out of the province of the above limitations in regard of trading and transferring.

Baosteel Group has also promised that, if the A share price of the Company falls at a level below RMB4.53 per share, the Group shall inject no more than RMB2 billion in aggregation to purchase the general public shares of the Company by means of competitive pricing at Shanghai Stock Exchange. The Group shall not sell the newly owned shares and is obliged to disclose the related information within the six months after the promotion program. Up to 21 September 2005, the Group had fulfilled the promise of RMB2 billion injection, with its holding of the Company amounting to 446,565,849 shares.

In order to further the non-tradable share reform program so as to prevent the Company's shares from irrational fluctuation and protect the interests of the investors, Baosteel Group made further efforts by promising the Company and its shareholders that, in case that the share price of the Company drops to a level below RMB4.53 per share six months after the above-mentioned two-month period, the Group shall inject another sum of no more than RMB2 billion in aggregation, together with the remaining of the first injection if it has not being used up to purchase the Company's shares by means of competitive pricing at the Stock Exchange of Shanghai until the promised sum has been used up or the Company's share price rises above RMB4.53 per share. The promise shall be fulfilled before the China Securities Regulatory Commission exempts the Group from the duties in purchasing the shares of the Company and the non-tradable share reform program will be approved by the

Company's Shareholders' General Meeting. The Group shall not sell the newly purchased shares and is obliged to disclose the related information within the six months after the supporting program. The China Securities Regulatory Commission has agreed to exempt the Group from the duties in the purchase referred to. Up to 31 December 2005, additional 412,183,690 shares were purchased by the Group. During 1 to 5 January 2006, the Group increased its shares of the Company by 79,596,591. Up to 5 January 2006, the Group had fulfilled the promise of the second RMB2-billion injection, with its holding of the Company's shares amounting to 491,780,281 shares.

On 15 April 2006, the six-month duration as the time limit for share selling for the 446,565,849 shares of the Company owned by Baosteel Group with a first injection of RMB2 billion expired, and the shares could be traded on the stock market. On 30 August 2006, the European warrant expired, and some shareholders with tradable shares purchased 5,542,559 shares of the Company from Baosteel Group. On 16 October 2006, the six-month duration as the time limit for share selling for the 491,780,281 shares of the Company owned by Baosteel Group with a second injection of RMB2 billion expired, accordingly, the shares could be traded on the stock market.

With the promise that "total sales of the Company's shares the Group has conducted in stock exchanges within the thirty-six months since the Group is entitled to circulating right of its shares shall not be more than five per cent of the total shares of the Company", in 2007, the 875,600,000 conditional shares of the Company held by the Group were converted to non-conditional ones, and the Group cut the Company's non-conditional shares by 761,346,130 shares.

Up to 19 August 2008, a total of 11,900,917,441 conditional shares of the Company that Baosteel Group held were allowed to be circulated on market, making all the shares of the Company unconditional shares tradable, of which Baosteel Group owns 73.97%. In the current period, Baosteel Group had not increased or decreased the unconditional tradable shares of the Company.

The Company issued, on 20 June 2008, RMB10 billion convertible loan notes with par value of RMB100 per bond and a duration of six years (from June 20 2008 to June 20 2014). The coupon rate was 0.8% per annum. The inception date of interest was 20 June 2008. A total number of 1.6 billion conversion option components with an exercise proportion of 2 to 1 were issued with an initial exercise price of RMB12.50 per share. The duration of the component was 24 months from the date of its being listed on the market. The exercise price was adjusted to RMB12.16 per share due to dividend payment on 15 June 2010. On 24 May 2010 the exercise price was adjusted to RMB11.80 per share due to dividend payment. The exercising period is from 28 June 2010 to 3 July 2010. A total of 113,785 shares were successfully exercised before the stock market closed on 2 July 2010, the last effective exercise date for "Baosteel CWB1", thus shares of the Company rose by 48,088 shares. Deloitte Touche Tohmatsu CPA Ltd. has verified the increase in share capital and issued the verification report.

From January to June, 2012, due to a total of 17,570,037 unconditional shares of the Company purchased by Baosteel Group, the total proportion of equity interest by Baosteel Group reached 74.97%.

#### 42. Capital reserve

	RMB			
Item	Opening balance	Increase for the year	Decrease for the year	Closing balance
<b>Jan.-June 2012</b>				
Capital premium				
Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Exercise of conversion option of convertible loan notes	29,703,329,723.00	-	-	29,703,329,723.00
Other comprehensive income				-
Including: Provision for equity investment (Note 1)	(42,263,025.08)	10,195,640.12	-	(32,067,384.96)
Changes in fair value of available-for-sale financial assets	112,104,726.42	31,789,091.36		143,893,817.78
Income tax impact of changes in fair value of available-for-sale financial assets	(36,033,407.09)	-	7,947,272.84	(43,980,679.93)
Other capital reserve				
Including: Equity component split from convertible loan notes		-	-	-
Other capital reserves (Note 2)	1,866,944,402.56	-	11,945,621.05	1,854,998,781.51
<b>Total</b>	<b>37,330,639,029.54</b>	<b>41,984,731.48</b>	<b>19,892,893.89</b>	<b>37,352,730,867.13</b>
<b>2011:</b>				
Capital premium				

Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Exercise of conversion option of convertible loan notes	29,703,329,723.00	-	-	29,703,329,723.00
Other comprehensive income				
Including: Provision for equity investment (Note 1)	(15,351,774.09)	-	26,911,250.99	(42,263,025.08)
Changes in fair value of available-for-sale financial assets	736,419,156.09	-	624,314,429.67	112,104,726.42
Income tax impact of changes in fair value of available-for-sale financial assets	(184,283,858.54)	148,250,451.45	-	(36,033,407.09)
Other capital reserve (Note 2)				
Including: Equity component split from convertible loan notes	-	-	-	-
Other capital reserves	1,599,163,102.82	267,781,299.74	-	1,866,944,402.56
Total	37,565,832,959.01	416,031,751.19	651,225,680.66	37,330,639,029.54

Note 1: Increase in provision for equity investment is due to the movement of capital reserve of joint ventures and associates the Group recognizes in equity method;

Note 2: Decrease in other capital reserves is mainly because of the disposal of subsidiaries.

#### 43. Special reserve

RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
<b>Jan.-June 2012</b>				
Operation security fee	11,788,986.69	15,814,579.42	6,954,860.25	20,648,705.86
<b>2011:</b>				
Operation security fee	15,291,362.80	29,222,813.83	32,725,189.94	11,788,986.69

#### 44. Surplus reserve

RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
<b>Jan.-June 2012</b>				
Statutory surplus reserve	8,930,401,416.20	-	-	8,930,401,416.20
Discretionary surplus reserve	12,201,853,755.98	-	-	12,201,853,755.98
Total	21,132,255,172.18	-	-	21,132,255,172.18
<b>2011:</b>				
Statutory surplus reserve	8,424,451,077.42	505,950,338.78	-	8,930,401,416.20
Discretionary surplus reserve	11,695,903,417.20	505,950,338.78	-	12,201,853,755.98
Total	20,120,354,494.62	1,011,900,677.56	-	21,132,255,172.18

#### 45. Retained profits

RMB

Item	Amount	Proportion of appropriation
<b>Jan.-June 2012</b>		
Retained profits at beginning of the period	30,754,305,445.21	
Add: Net profit attributable to owners of the Company for the period	9,610,011,834.48	
Less: Appropriation to statutory surplus reserve	-	
Appropriation to discretionary surplus reserve	-	
Declaration of dividends on ordinary shares	3,502,409,617.60	
Retained profits at the end of the period	36,861,907,662.09	
<b>2011:</b>		
Before adjustment: Retained profits at beginning of period	29,674,047,101.69	
Adjustment: Total Retained profits at beginning of year	(16,188,188.93)	
After adjustment: Retained profits at beginning of year	29,657,858,912.76	
Add: Net profit attributable to owners of the Company for the period	7,361,961,636.41	

Less: Appropriation to statutory surplus reserve	505,950,338.78	10% of net profit of the Company
Appropriation to discretionary surplus reserve	505,950,338.78	10% of net profit of the Company
Declaration of dividends on ordinary shares	5,253,614,426.40	
Retained profits at the end of the period	30,754,305,445.21	

#### 46. Operating income and operating costs

##### (1) Operating income

Item	RMB	
	Jan.-June 2012	Jan.-June 2011
Principal operating income	96,827,235,215.35	110,245,113,892.43
Other operating income	1,074,494,886.52	743,982,473.09
Operating income	97,901,730,101.87	110,989,096,365.52

##### (2) Principal operating activities (classified by industries)

Name of industry	RMB'000		RMB'000	
	Jan.-June 2012		Jan.-June 2011	
	Operating income	Operating costs	Operating income	Operating costs
Iron & steel manufacturing	79,443,074	74,584,018	96,572,937	87,813,580
Sales of iron & steel products	93,340,651	91,478,116	90,860,959	88,778,628
Others	7,298,734	6,481,892	7,002,479	6,087,001
Writing off between industries	(83,255,224)	(83,255,224)	(84,191,261)	(84,191,261)
Total	96,827,235	89,288,802	110,245,114	98,487,948

##### (3) Principal operating activities (classified by products)

Name of product	RMB'000		RMB'000	
	Jan.-June 2012		Jan.-June 2011	
	Operating income	Operating costs	Operating income	Operating costs
Iron & steel	91,959,689	85,635,769	105,015,566	94,464,344
Others	4,867,546	3,653,033	5,229,548	4,023,604
Total	96,827,235	89,288,802	110,245,114	98,487,948

##### (4) Principal operating activities (classified by geographical areas)

Name of geographical area	RMB'000		RMB'000	
	Jan.-June 2012		Jan.-June 2011	
	Operating income	Operating costs	Operating income	Operating costs
Domestic	86,838,942	79,707,416	98,400,023	87,254,924
Overseas	9,988,293	9,581,386	11,845,091	11,233,024
Total	96,827,235	89,288,802	110,245,114	98,487,948

##### (5) Operating income from the Company's top five customers

Name of customer	RMB	
	Operating income	Proportion to total operating income of the Company (%)
Entity One	5,899,840,578.71	6%
Entity Two	2,496,267,094.69	3%
Entity Three	1,946,642,871.83	2%
Entity Four	1,580,393,302.20	2%
Entity Five	1,471,464,961.03	2%
Total	13,394,608,808.46	



**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****47. Business taxes and levies**

	RMB		
Item	Jan.-June 2012	Jan.-June 2011	Basis of calculation
Business tax	10,492,258.00	35,389,716.27	Note
City construction and education surcharges	114,122,926.81	191,531,426.38	Note
Tariff	415,001.10	1,545,283.75	Note
Others	9,458,653.18	11,992,392.12	Note
<b>Total</b>	<b>134,488,839.09</b>	<b>240,458,818.52</b>	

Note: Relevant criteria and tax rates for the above items refer to Note (III). 1.

**48. Financial expenses**

	RMB	
Item	Jan.-June 2012	Jan.-June 2011
Interest expenses	1,139,366,013.11	951,310,575.01
Less: Capitalized interest expenses	193,595,760.94	117,914,220.45
Less: Interest income	598,262,148.93	80,156,411.70
Exchange gains	126,600,289.11	(715,506,531.96)
Less: Capitalized exchange differences	-	-
Others	25,387,482.94	28,361,102.67
<b>Total</b>	<b>499,495,875.29</b>	<b>66,094,513.57</b>

**49. Impairment losses of assets**

	RMB	
Item	Jan.-June 2012	Jan.-June 2011
I. Bad debt losses	(19,562,328.36)	(14,576,479.74)
II. Written-down of inventory provision	6,954,286.17	111,236,918.90
III. Impairment/ (reversal) on loans	42,100,000.00	20,220,000.00
<b>Total</b>	<b>29,491,957.81</b>	<b>116,880,439.16</b>

**50. Gains from changes in fair value**

	RMB	
Items resulting in gains from changes in fair values	Jan.-June 2012	Jan.-June 2011
Held-for-trading financial assets	34,276,720.87	(8,786,909.60)
Held-for-trading financial liabilities	-	2,100,354.47
<b>Total</b>	<b>34,276,720.87</b>	<b>(6,686,555.13)</b>

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued**



**51. Investment income**

(1) Details of investment income:

<u>Item</u>	<u>RMB</u>	
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Income from long-term equity investments under cost method</u>	<u>211,174,710.07</u>	<u>15,611,674.27</u>
<u>Income from long-term equity investments under equity method</u>	<u>108,590,304.45</u>	<u>92,267,556.41</u>
<u>Stock investment income/ (losses)</u>	<u>12,223,584.30</u>	<u>2,496,760.75</u>
<u>Bond investment income</u>	<u>23,063,171.13</u>	<u>18,657,625.94</u>
<u>Fund investment income/ (losses)</u>	<u>14,673,197.65</u>	<u>4,780,378.90</u>
<u>Investment losses from disposal of derivative financial instruments</u>	<u>7,121,438.16</u>	<u>13,642,934.66</u>
<u>Investment income from disposal of equity investment</u>	<u>19,078,344.25</u>	<u>23,978,932.94</u>
<u>Investment income from held-to-maturity investments</u>	<u>6,769,631.06</u>	<u>-</u>
<u>Others</u>	<u>4,689,533.99</u>	<u>6,986,679.70</u>
<u>Total</u>	<u>407,383,915.06</u>	<u>178,422,543.57</u>

(2) Income from long-term equity investments under cost method

(3)

Top five investees of whose investment income accounts for the highest proportion of the pre-tax profit:

<u>Investee</u>	<u>RMB</u>		<u>Reasons for movement in the current period</u>
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>	
<u>Yongcheng Coal and Electric Power Co., Ltd.</u>	<u>113,370,525.00</u>	<u>-</u>	<u>Cash dividend</u>
<u>Henan Zhenglong Coal Co., Ltd.</u>	<u>83,398,933.80</u>	<u>-</u>	<u>Cash dividend</u>
<u>Shanghai Luojing Mining Port Co., Ltd.</u>	<u>13,395,251.27</u>	<u>8,830,841.82</u>	<u>Cash dividend</u>
<u>China Aviation Industry (Xi'an) Special Material Co.,Ltd</u>	<u>1,010,000.00</u>	<u>-</u>	<u>Cash dividend</u>
<u>Baovale Mining Co., Ltd.</u>	<u>-</u>	<u>6,780,832.45</u>	<u>Cash dividend</u>
<u>Total</u>	<u>211,174,710.07</u>	<u>15,611,674.27</u>	<u>-</u>

(3) Income from long-term equity investments under equity method:

Top five investees from which the investment income accounts for a high proportion of the pre-tax profit:

<u>Investee</u>	<u>RMB</u>		<u>Reasons for movement in the current period</u>
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>	
<u>Henan Pingbao</u>	<u>32,291,515.42</u>	<u>-</u>	<u>Profit of the associate</u>
<u>BNA</u>	<u>28,861,051.17</u>	<u>71,376,482.39</u>	<u>Profit of the joint venture</u>
<u>STAL Precision</u>	<u>25,054,803.23</u>	<u>24,078,668.73</u>	<u>Profit of the associate</u>
<u>Welding Co.</u>	<u>13,155,499.92</u>	<u>8,017,982.68</u>	<u>Profit of the associate</u>
<u>Bao-Island Enterprise</u>	<u>7,248,335.40</u>	<u>32,765,377.95</u>	<u>Profit of the joint venture</u>
<u>Wuxi Baomit</u>	<u>-</u>	<u>5,719,409.38</u>	<u>Profit of the associate</u>
<u>Total</u>	<u>106,611,205.14</u>	<u>141,957,921.13</u>	<u>-</u>

As at 30 June 2012, , no significant limitation existed regarding investment income repatriation.

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****52. Non-operating income**

<u>Item</u>	<u>RMB</u>	
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
Total gains on disposal of non-current assets	<u>9,616,127,304.20</u>	<u>5,734,619.11</u>
Including: Gains on disposal of fixed assets	<u>1,878,869,136.59</u>	<u>5,734,619.11</u>
Gains on disposal of intangible assets	<u>7,737,258,167.61</u>	-
Government grants	<u>81,632,500.14</u>	<u>61,028,950.20</u>
Compensation income	<u>3,278,710.78</u>	<u>2,021,045.60</u>
Others	<u>525,857,926.41</u>	<u>44,939,949.64</u>
Total	<u>10,226,896,441.53</u>	<u>113,724,564.55</u>

**53. Non-operating expenses**

<u>Item</u>	<u>RMB</u>	
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
Total losses on disposal of non-current assets	<u>569,663,169.84</u>	<u>60,805,342.61</u>
Including: Losses on disposal of fixed assets	<u>541,071,548.74</u>	<u>60,805,342.61</u>
Donations to third parties	<u>9,170,000.00</u>	<u>9,977,615.82</u>
Others	<u>31,451,285.03</u>	<u>16,042,571.36</u>
Total	<u>610,284,454.87</u>	<u>86,825,529.79</u>

**54. Income tax expenses**

<u>Item</u>	<u>RMB</u>	
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
Current income tax expense	<u>460,982,820.99</u>	<u>1,492,994,504.56</u>
Deferred income tax expense	<u>2,188,001,935.26</u>	<u>(30,936,244.66)</u>
Total	<u>2,648,984,756.25</u>	<u>1,462,058,259.90</u>

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued**

**55. Calculation process of basic earnings per share**

For the purpose of calculating basic earnings per share, net profit for the current period attributable to ordinary shareholders is as follows:

	RMB	
	Jan.-June 2012	Jan.-June 2011
Net profit for the current period attributable to ordinary shareholders	9,610,011,834.48	5,079,492,303.81
Including: Net profit from continuing operations	9,610,011,834.48	5,079,492,303.81
Net profit from discontinued operations	-	-

For the purpose of calculating basic earnings per share, the denominator is the weighted average number of outstanding ordinary shares and its calculation process is as follows:

	RMB	
	Jan.-June 2012	Jan.-June 2011
Number of ordinary shares outstanding at the beginning of year	17,512,048,088.00	17,512,048,088.00
Add: Weighted average number of ordinary shares issued in the current period	-	-
Less: Weighted average number of ordinary shares repurchased in the current period	-	-
Number of ordinary shares outstanding at the end of period	17,512,048,088.00	17,512,048,088.00

**Earnings per share**

	RMB	
	Jan.-June 2012	Jan.-June 2011
Calculated based on net profit attributable to shareholders of the Company:		
Basic earnings per share	0.55	0.29
Calculated based on net profit from continuing operations attributable to shareholders of the Company:		
Basic earnings per share	0.55	0.29
Calculated based on net profit from discontinued operations attributable to shareholders of the Company:		
Basic earnings per share	-	-

The Company has no potential ordinary share which has dilutive effect in the current accounting period, and therefore no diluted earnings per share are disclosed.

**56. Other comprehensive income**

	RMB	
Item	Jan.-June 2012	Jan.-June 2011
1. Gains(losses) arising from available-for-sale financial assets	34,787,484.17	(47,897,880.30)
Less: Tax effects arising from available-for-sale financial assets	8,696,871.04	(11,419,655.87)
Net amount included in other comprehensive income in the prior periods that is transferred to profit or loss for the period	-	-
Subtotal	26,090,613.13	(36,478,224.43)
2. Share of other comprehensive income of the investee accounted for using the equity method	10,195,640.12	(11,308,345.00)
Subtotal	10,195,640.12	(11,308,345.00)
3. Exchange differences of financial statements denominated in foreign currencies	(25,654,215.56)	4,456,655.45
Subtotal	(25,654,215.56)	4,456,655.45
Total	10,632,037.69	(43,329,913.98)

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued****57. Notes to items in the cash flow statement**(1) Other cash receipts relating to operating activities

RMB

<u>Item</u>	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Non-operating income, government grant and etc.</u>	<u>1,131,964,799.78</u>	<u>924,723,412.44</u>

(2) Other cash payments relating to operating activities

RMB

<u>Item</u>	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Selling expenses</u>	<u>646,557,855.15</u>	<u>654,117,169.55</u>
<u>Administrative expenses</u>	<u>1,071,046,138.29</u>	<u>673,833,031.36</u>
<u>Others</u>	<u>200,902,532.18</u>	<u>179,097,153.54</u>
<u>Total</u>	<u>1,918,506,525.62</u>	<u>1,507,047,354.45</u>

(3) Other cash receipts relating to investing activities

RMB

<u>Item</u>	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Interest income</u>	<u>273,762,833.86</u>	<u>80,156,411.70</u>
<u>Others</u>	<u>=</u>	<u>=</u>
<u>Total</u>	<u>273,762,833.86</u>	<u>80,156,411.70</u>

(4) Other cash payments relating to investing activities

RMB

<u>Item</u>	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Cash payment upon the settlement of derivative instruments</u>	<u>58,149.92</u>	<u>4,114,419.41</u>

**(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued**

**58. Supplementary information to the cash flow statement****(1) Supplementary information to the cash flow statement**

	RMB	
<u>Supplementary information</u>	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
<u>Net profit</u>	9,685,251,701.39	5,324,953,140.65
<u>Add: Provision for impairment losses of assets</u>	29,491,957.81	116,880,439.16
<u>Depreciation of fixed assets and investment properties</u>	5,939,504,444.45	6,540,139,901.81
<u>Amortization of intangible assets</u>	90,406,395.84	98,333,157.59
<u>Amortization of long-term prepaid expenses</u>	6,417,629.86	7,002,270.88
<u>Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "-")</u>	(9,046,464,134.36)	55,070,723.50
<u>Losses on changes in fair values (gains are indicated by "-")</u>	(34,276,720.87)	6,686,555.13
<u>Financial expenses (income is indicated by "-")</u>	474,031,800.24	37,733,410.90
<u>Losses arising from investments (gains are indicated by "-")</u>	(407,383,915.06)	(178,422,543.57)
<u>Decrease in deferred tax assets (increase is indicated by "-")</u>	(41,149,593.41)	(28,485,537.15)
<u>Increase in deferred tax liabilities (decrease is indicated by "-")</u>	2,237,915,586.20	(2,200,091.56)
<u>Decrease in inventories (increase is indicated by "-")</u>	(3,373,388,880.31)	(5,260,020,457.26)
<u>Decrease in receivables from operating activities (increase is indicated by "-")</u>	682,864,475.15	(2,308,390,753.52)
<u>Increase in payables from operating activities (decrease is indicated by "-")</u>	3,724,722,223.16	997,224,820.21
<u>Net cash flow from operating activities</u>	9,967,942,970.09	5,406,505,036.77
<b>2. Significant investing and financing activities that do not involve cash receipts and payments:</b>		
<u>Conversion of debt into capital</u>	=	=
<u>Convertible loan notes due within one year</u>	=	=
<u>Fixed assets acquired under finance leases</u>	=	=
<b>3. Net changes in cash and cash equivalents:</b>		
<u>Closing balance of cash</u>	17,449,594,935.61	6,780,073,267.43
<u>Less: Opening balance of cash</u>	12,899,442,675.29	7,887,919,424.23
<u>Add: Closing balance of cash equivalents</u>	40,324,100.87	678,015,089.14
<u>Less: Opening balance of cash equivalents</u>	280,780,713.36	50,000,000.00
<u>Net increase in cash and cash equivalents</u>	4,309,695,647.83	(479,831,067.66)

**(2) Composition of cash and cash equivalents**

	RMB	
<u>Item</u>	<u>As at end of the period</u>	<u>As at beginning of the year</u>
<b>I. Cash</b>	17,449,594,935.61	12,899,442,675.29
<u>Including: Cash on hand</u>	705,444.12	800,496.99
<u>Bank deposits</u>	17,338,516,265.73	12,822,889,149.87
<u>Other monetary funds</u>	110,373,225.76	75,753,028.43
<b>II. Cash equivalents</b>	40,324,100.87	280,780,713.36
<u>Including: Funds from monetary market</u>	30,324,100.87	280,780,713.36
<u>Buying back the sale of financial assets</u>	10,000,000.00	=
<b>III. Closing balance of cash and cash equivalents</b>	17,489,919,036.48	13,180,223,388.65

Cash and cash equivalents exclude restricted cash and cash equivalents of the Company or subsidiaries within the Group.

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

**1. Parent of the Company**

RMB

Name	relationship	Type	Place of incorporation	Legal representative	Nature of business	Registered capital	Proportion of the Company's ownership interest held by the parent (%)	Proportion of the Company's voting power held by the parent (%)	Ultimate controlling party of the Company	Organization code
Baosteel Group Corporation (Baosteel Group)	Parent company	Limited company (state-owned)	Shanghai	Xu Lejiang	Iron and steel manufacturing & processing	51,082,620,998.89	74.97	74.97	State-owned Asset Supervision and Administration Commission of the State Council	13220082-1

**2. Subsidiaries of the Group**

Please refer to Note (IV) for details of subsidiaries of the Group.

**3. Associates and joint ventures of the Group.**

Please refer to Note (V)14 for details of associates and joint ventures of the Group.

**4. Other related parties of the Group**

Name of other related party	Relationship between other related parties and the Company	Organization code
Baosteel Resources (International) Limited (Baosteel Resources (International))	Both under control of Baosteel Group	#6080030-0
Baosteel Metal Co., Ltd. and its subsidiaries (Baosteel Metal and its subsidiaries)	Both under control of Baosteel Group	13223304-1
Shanghai Baosteel Engineering & Technology Group Co., Ltd. and its subsidiaries (Engineering & Technology Co. and its subsidiaries)	Both under control of Baosteel Group	63083393-9
Hwabao Trust Co., Ltd. (Hwabao Trust)	Both under control of Baosteel Group	63124192-7
Hwabao Investment Co., Ltd. (Hwabao Investment)	Both under control of Baosteel Group	13222881-6
Baosteel Group Baoshan Hotel (Baoshan Hotel)	Both under control of Baosteel Group	13342754-2
Baosteel Development Co., Ltd. and its subsidiaries (Baosteel Development and its subsidiaries)	Both under control of Baosteel Group	13343894-6
Baosteel Group Shanghai No.2 Iron & Steel Co., Ltd. and its subsidiaries (No. 2 Steel and its subsidiaries)	Both under control of Baosteel Group	13320566-7
Baosteel Group Shanghai No.1 Iron & Steel Co., Ltd. and its subsidiaries (No. 1 Steel and its subsidiaries)	Both under control of Baosteel Group	13220760-1
Baosteel Group Shanghai Pipes Co., Ltd. (Shanghai Pipes)	Both under control of Baosteel Group	63057927-2
Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries (Meishan Steel and its subsidiaries)	Both under control of Baosteel Group	13226493-X
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries (Pudong Steel and its subsidiaries)	Both under control of Baosteel Group	13221291-0
Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries (No. 5 Steel and its subsidiaries)	Both under control of Baosteel Group	13220240-5
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries (Xinjiang Bayi and its subsidiaries)	Both under control of Baosteel Group	22860110-1
Baosteel Group Resource Co., Ltd. and its subsidiaries (Baosteel Resource and its subsidiaries)	Both under control of Baosteel Group	79144036-X
Shanghai Institute of Iron and Steel (Institute of Steel and Iron)	Both under control of Baosteel Group	13342720-0
Zhanjiang Longteng Logistics Co., Ltd. (Zhanjiang Longteng)	Both under control of Baosteel Group	79779551-6
Baosteel Desheng Stainless Steel Co., Ltd. (Baosteel Desheng)	Both under control of Baosteel Group	78216761-3
Baosteel Zhanjiang Iron & Steel Co., Ltd. (Zhanjiang Iron & Steel)	Both under control of Baosteel Group	57241911-4
Ningbo Iron & Steel Co., Ltd. (Ningbo Steel)	Both under control of Baosteel Group	74497613-7
Guangdong Baosteel Property Co., Ltd (Guangdong Property)	Both under control of Baosteel Group	67706963-2
Guangdong Shaoguan Iron & Steel Group Co., Ltd. (Guangdong Shaoguan Steel)	Both under control of Baosteel Group	19152191-6
Shanghai Baosteel Stainless Steel Co., Ltd. (Shanghai Stainless)	Both under control of Baosteel Group	59041990-0
Baosteel Stainless Steel Co., Ltd. (Baosteel Stainless)	Both under control of Baosteel Group	59167293-2
Baosteel Special Materials Co., Ltd. (Baosteel Special Materials)	Both under control of Baosteel Group	59313809-8
Baosteel Special Steel Co., Ltd. (Baosteel Special Steel)	Both under control of Baosteel Group	59041866-8
Beijing Huili Property Development Co., Ltd. (Beijing Huili)	Both under control of Baosteel Group	76847696-2

<u>Shanghai Baosteel Technical and Economic Development Corporation(Technical &amp; Economic Development Co., Ltd. and its subsidiaries)</u>	<u>Both under control of Baosteel Group</u>	<u>13220712-6</u>
<u>Baosteel Australia Mining Company Pty Ltd. (Baosteel Australia Mining)</u>	<u>Both under control of Baosteel Group</u>	

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****5. Related party transactions****Sales and purchases of goods, provision and receipt of services****(1) Sales of goods**

RMB'000

Related party	Transaction type	Details of related party transaction	Pricing of related party transactions	Jan.-June 2012		Jan.-June 2011	
				Amount	Proportion of the amount of related party transactions to that of similar transactions (%)	Amount	Proportion of the amount of related party transactions to that of similar transactions (%)
Baosteel Group	Sales	Energy and auxiliary materials	Fair value	4,107	0.00	3,694	0.00
No. 1 Steel and its subsidiaries	Sales	Energy, etc.	Fair value	3,234	0.00	32,023	0.00
No. 5 Steel and its subsidiaries	Sales	Energy, etc.	Fair value	2,833	0.00	5,227	0.00
Xinjiang Bayi and its subsidiaries	Sales	Auxiliary materials, etc.	Fair value	14,537	0.01	1,703	0.00
Baosteel Development and its subsidiaries	Sales	Iron and steel products and auxiliary materials, etc.	Fair value	1,461,789	1.49	1,340,129	1.21
Engineering & Technology Co. and its subsidiaries	Sales	Iron and steel products, energy and auxiliary materials, etc.	Fair value	310,395	0.32	196,404	0.18
Baosteel Metal and its subsidiaries	Sales	Iron and steel products, and energy, etc.	Fair value	1,390,097	1.42	781,884	0.70
Meishan Steel and its subsidiaries	Sales	Iron and steel products, energy and auxiliary materials	Fair value	790,426	0.81	758,785	0.68
Baosteel Resource and its subsidiaries	Sales	Raw materials	Fair value	862,536	0.88	5,728,903	5.16
Baosteel Resources (International)	Sales	Raw materials	Fair value	589,329	0.60	=	=
Baosteel Stainless	Sales	Raw materials, auxiliary materials, and energy, etc.	Fair value or contract price	2,471,990	2.52	=	=
Baosteel Special Materials & its subsidiaries	Sales	Steel & iron products, raw materials, auxiliary materials, and engerv, etc.	Fair value or contract price	1,032,877	1.06	=	=
Zhanjiang Longteng	Sales	raw materials	Fair value	14,691	0.02	1,230,858	1.11
Baosteel Desheng	Sales	raw materials	Fair value	=	=	41,205	0.04
Zhanjiang Steel	Sales	Steel and iron products	Fair value	17,424	0.02	997	0.00
Ningbo Steel	Sales	Auxiliary materials, etc.	Fair value	11,868	0.01	21,250	0.02
BNA	Sales	Iron and steel products, energy and auxiliary materials	Fair value	5,860,356	5.99	5,973,061	5.38
Welding Co.	Sales	Steel and iron products	Fair value	267,540	0.27	299,660	0.27
Tianjin BCM	Sales	Steel and iron products	Fair value	102,988	0.11	=	=
Others	Sales	Auxiliary materials, etc.	Fair value	21,278	0.02	20,790	0.02
Total				15,230,294	15.56	16,436,573	14.81



**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****5. Related party transactions - continued****Sales and purchases of goods, provision and receipt of services - continued****(2) Purchase of goods**

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Jan.-June 2012		Jan.-June 2011	
				Amount	Proportion of the amount of related party transactions to that of similar transactions (%)	Amount	Proportion of the amount of related party transactions to that of similar transactions (%)
No. 1 Steel and its subsidiaries	Purchase	Energy media	Fair value	47,203	0.05	128,083	0.13
No. 5 Steel and its subsidiaries	Purchase	Energy media	Fair value	18	0.00	-	-
Xinjiang Bayi and its subsidiaries	Purchase	Iron and steel products, etc.	Fair value	838,888	0.93	841,479	0.84
Engineering & Technology Co. and its subsidiaries	Purchase	Equipment, etc.	Fair value	917,233	1.02	749,854	0.75
Baosteel Development and its subsidiaries	Purchase	Iron and steel products, and auxiliary materials, etc.	Fair value	1,038,565	1.15	683,802	0.68
Baosteel Metal and its subsidiaries	Purchase	auxiliary materials, etc.	Fair value	46,273	0.05	20,698	0.02
Baosteel Stainless	Purchase	Iron and steel products, etc.	Fair value or contract price	4,082,445	4.52	-	-
Baosteel Special Materials & its subsidiaries	Purchase	Iron and steel products	Fair value	1,378,241	1.53	-	-
Meishan Steel and its subsidiaries	Purchase	Raw and auxiliary materials, etc.	Fair value	563,194	0.62	735,427	0.73
Baosteel Resource and its subsidiaries	Purchase	Raw materials	Fair value	3,804,050	4.22	5,301,081	5.28
Baosteel Resources (International)	Purchase	Raw materials	Fair value	123,446	0.14	431,090	0.43
BNA	Purchase	Iron and steel products, etc.	Fair value	6,120,332	6.78	6,399,081	6.38
Ningbo Steel	Purchase	Iron and steel products	Fair value	965,114	1.07	1,068,844	1.07
Zhanjiang Longteng	Purchase	Raw materials	Fair value	-	-	1,139,806	1.14
Baosteel Desheng	Purchase	Iron and steel products	Fair value	17,037	0.02	64,974	0.06
Others	Purchase	Auxiliary materials and energy, etc.	Fair value	3,838	0.00	23,535	0.02
Total				19,945,877	22.10	17,587,754	17.53

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****5. Related party transactions - continued**Sales and purchases of goods, provision and receipt of services - continued(3) Provision of transportation service and technical supports

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Jan.-June 2012	Jan.-June 2011
				Amount	Amount
Baosteel Resource and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	63,016	38,993
BNA	Provision of services	Transportation services and technical supports	Contract price	37,016	28,706
Engineering & Technology Co. and its subsidiaries	Provision of services	Technical supports	Contract price	17,867	11,681
Meishan Steel and its subsidiaries	Provision of services	Transportation services and technical supports	Contract price	12,799	12,932
Baosteel Special Materials & its subsidiaries	Provision of services	Transportation services and technical supports, etc.	Contract price	11,507	-
Baosteel Stainless	Provision of services	Transportation services and technical supports, etc.	Contract price	10,183	-
Baosteel Development and its subsidiaries	Provision of services	Technical supports	Contract price	9,287	3,287
Baosteel Group	Provision of services	Technical supports	Contract price	7,246	1,936
Ningbo Steel	Provision of services	Technical supports	Contract price	3,275	2,007
Xinjiang Bayi and its subsidiaries	Provision of services	Technical supports	Contract price	1,393	3,756
No. 5 Steel and its subsidiaries	Provision of services	Technical supports	Contract price	178	183
No. 1 Steel and its subsidiaries	Provision of services	Technical supports	Contract price	10	22
Shanghai Baojiang Shipping	Provision of services	Transportation services	Contract price	-	1,831
Others	Provision of services	Transportation services and technical supports	Contract price	12,939	5,212
<b>Total</b>				<b>186,716</b>	<b>110,546</b>

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****5. Related party transactions - continued**Sales and purchases of goods, provision and receipt of services - continued(4) Receipt of service

RMB'000

Related party	Transaction type	Details of related party transactions	Pricing of related party transactions	Jan.-June 2012	Jan.-June 2011
				Amount	Amount
Baosteel Development and its subsidiaries	Receipt of services	Logistics, project, transportation, and maintenance, etc.	Contract price	989,469	576,562
Engineering & Technology Co. and its subsidiaries	Receipt of services	Project, examination, and maintenance, etc.	Contract price	700,104	1,005,546
Meishan Steel and its subsidiaries	Receipt of services	Logistics, project, transportation, and maintenance, etc.	Contract price	294,552	377,301
Baosteel Resource and its subsidiaries	Receipt of services	Transportation services	Contract price	246,718	125,145
Bao-Island Enterprise	Receipt of services	Transportation services	Contract price	175,345	275,506
BNA	Receipt of services	Processing, etc.	Contract price	80,944	111,633
Baosteel Group	Receipt of services	Training, etc.	Contract price	3,748	3,710
No. 1 Steel and its subsidiaries	Receipt of services	Logistic services, etc.	Contract price	998	57,418
No. 5 Steel and its subsidiaries	Receipt of services	Logistics, etc.	Contract price	745	38,501
Baojiang Shipping	Receipt of services	Transportation services	Contract price	-	54,027
Baosteel Resources (International)	Receipt of services	Transportation services	Contract price	-	37,515
Others		Transportation services, etc.	Contract price	1,938	3,682
Total				2,494,561	2,662,867

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****5. Related party transactions - continued**Sales and purchases of goods, provision and receipt of services - continued(5) Other main related party transactions

<u>Items</u>	<u>Note</u>	<u>RMB'000</u>	
		<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Payment for land lease expenses</u>	<u>Note 1</u>	<u>128,895</u>	<u>117,093</u>
<u>Rental expenses for housing and vehicle</u>	<u>Note 1</u>	<u>18,551</u>	<u>9,450</u>
<u>Leasing out housing and vehicle</u>	<u>Note 1</u>	<u>4,984</u>	<u>5,507</u>
<u>Financial service income</u>	<u>Note 2</u>	<u>84,669</u>	<u>79,414</u>
<u>Financial service expenses</u>	<u>Note 3</u>	<u>113,681</u>	<u>87,766</u>
<u>Joint research and development with Baosteel Group</u>	<u>Note 4</u>	<u>299,750</u>	<u>476,655</u>
<u>Recapitalization of Wusong land</u>	<u>Note 5</u>	<u>41,314,918</u>	<u>-</u>

Note 1: When founded, the Company signed a twenty-year agreement with Baosteel Group for the lease of the plant site land use right. In September 2001, the Company enter into a further twenty-year lease agreement with Baosteel Group for the use of the land for the plant site for assets acquired for Phase 3. In November, 2002, the Company signed a new twenty-year lease agreement with Baosteel Group for the land use of the plant site for assets in custody due to acquisitions. In November 2010, because of the rise in land use tax, the Company and Baosteel Group signed the *Supplementary Agreement on the Lease of Land Use Right*. As a result, the land lease expenses of the Company increased.

The Group leases properties and vehicle to such related parties as Baosteel Development, Baosteel Metal and its subsidiaries. In the meantime, the Group leases properties from Baosteel Resources and its subsidiaries. Contract prices are applied to these leases.

Note 2: The Group provided, via Finance Co., one of its subsidiaries, with loans, discount and entrusted financing services to Baosteel Group and its subsidiaries, and hereby obtained interest income, discount income and fees from entrusted financing.

Interest rate of the RMB loans is based on the rate set by the People's Bank of China, interest rates of foreign currency loans are based on the market rate, and the discount rate is based on the market rate.

Note 3: The Group collected deposits from Baosteel Group and its subsidiaries, and paid interest expenses at the RMB interest rate on saving as set by the People's Bank of China.

Note 4: In April 2010, the Company and Baosteel Group entered into agreements of "Baosteel COREX-3000 Key Production Technology Platform Construction and Joint Research and Development Agreement" and "Baosteel Special Steel Research Center (Platform) Technology and Product Research under Joint Research and Development Agreement". In accordance with the above agreements, the Company and Baosteel Group equally share the technology achievement of joint research and development, such as patent, proprietary technology, and equally assume the research and development expenses as well.

The "Baosteel COREX-3000 Key Production Technology Platform Construction and Joint Research and Development Agreement" was terminated in the end of 2011. In this reporting period, the related assets of the business units of Stainless Steel and Special Steel were transferred to the subsidiaries of Baosteel Group. The other contract "Baosteel Special Steel Research Center (Platform) Technology and Product Research under Joint Research and Development Agreement" terminated on March 31.

Note 5: As at 30 June 2012, the Company had completed the settlement of the following items: all assets and

small amount of liabilities from operating activities of the business units of Stainless Steel and Special Steel, 100% equity of Shanghai Special Materials Co., Ltd. held by Baoshan Iron & steel Co., Ltd., 58.50% equity of Baoyin Special Steel Tubes, 94.5% equity of Shanghai No. 5 Steel Gas Co., Ltd., and 9.71% equity of AVIC Special Materials Industry Co., Ltd. (Xi'an). The settlement date was 1 April 2012. In May, the adjustment to the transferring price was made to reflect the price change between the date of the benchmark evaluation and the day of actual settlement. The settlement of the above assets and equities totaled RMB 41.1315 billion.

As for the equity held by Baoshan Iron & Steel Co., Ltd. of the following companies: 54% equity of Ningbo Baoxin Stainless Steel Co., Ltd., 40% equity of Shanghai STAL Precision Stainless Steel Co., Ltd., and 20% equity of Rihong Stainless Steel (Shanghai) Co., Ltd., settlement can only be made after obtaining approvals from the administrative department since the subject companies are foreign-invested ones. Applications have been filed for the equity settlement.

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****6. Amounts due from / to related parties****(1) Notes receivable**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Development and its subsidiaries	71,119	721,860
Engineering & Technology Co. and its subsidiaries	34,280	9,176
Meishan Steel and its subsidiaries	68,500	412,149
Xinjiang Bayi and its subsidiaries	2,250	7,150
Baosteel Resource	6,757	-
Tianjin BCM	21,912	14,316
Baosteel Metal and its subsidiaries	113,129	388,986
Baosteel Special Materials	572,429	-
Others	27,264	1,764
<b>Total</b>	<b>917,640</b>	<b>1,555,401</b>

**(2) Accounts receivable**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Group	3,935	898
Baosteel Development and its subsidiaries	53,910	115,668
Meishan Steel and its subsidiaries	237,726	99,658
Pudong Steel and its subsidiaries	23,398	2,301
No. 5 Steel and its subsidiaries	69	1,408
Xinjiang Bayi and its subsidiaries	3,954	12,628
Baosteel Resource and its subsidiaries	15,803	34,294
Hwabao Trust	4,395	1,736
Baosteel Metal and its subsidiaries	22,334	18,795
Engineering & Technology Co. and its subsidiaries	270,144	182,618
Zhanjiang Longteng	207,760	454,463
BNA	226,634	146,473
Welding Co.	8,904	2,509
Ningbo Steel	23,490	28,054
Zhanjiang Longteng	719,977	-
Baosteel Special Materials	581,065	-
Others	10,709	10,724
<b>Total</b>	<b>2,414,207</b>	<b>1,112,227</b>

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****(3) Prepayments**

	RMB'000	
<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Baosteel Development and its subsidiaries	558	7,395
Meishan Steel and its subsidiaries	2,514	7,569
Xinjiang Bayi and its subsidiaries	151,248	252,012
Baosteel Resource and its subsidiaries	294,289	276,994
Engineering & Technology Co. and its subsidiaries	179,992	345,549
BNA	240,033	340,312
Ningbo Steel	162,674	298,845
Baosteel Metal and its subsidiaries	23,535	557,840
Shanghai Stainless	16,249	-
Baosteel Stainless	283,119	-
Baosteel Special Materials	70,737	-
Others	12,564	458
<b>Total</b>	<b>1,437,512</b>	<b>2,086,974</b>

**(4) Other receivables**

	RMB'000	
<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Baosteel Group	153,945	167,028
Baosteel Development and its subsidiaries	5,533	4,683
Meishan Steel and its subsidiaries	3,135	26,648
Engineering & Technology Co. and its subsidiaries	884	1,014
Welding Co.	883	1,970
Zhanjiang Iron & Steel	30,960	12,514
Ningbo Steel	15,511	15,780
BNA	22,430	12
Others	6,660	1,928
<b>Total</b>	<b>239,941</b>	<b>231,577</b>

**(5) Loans and advances to customers**

	RMB'000	
<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Baosteel Development and its subsidiaries	98,970	260,000
Xinjiang Bayi and its subsidiaries	700,000	700,000
Baosteel Resource and its subsidiaries	975,870	667,600
Baosteel Metal and its subsidiaries	52,500	65,735
Engineering & Technology Co. and its subsidiaries	197,500	225,000
Ningbo Steel	641,890	652,787
Henan Pingbao	40,000	140,000
Others	360,000	622,500
<b>Total</b>	<b>3,066,730</b>	<b>3,333,622</b>

**(6) Long-term receivables**

	RMB'000	
<u>Item</u>	<u>Closing balance</u>	<u>Opening balance</u>
Shanghai Stainless	13,000,000	-
<i>Including: due within one year</i>	<i>2,600,000</i>	<i>-</i>
Baosteel Special Steel	9,500,000	-
<i>Including: due within one year</i>	<i>1,900,000</i>	<i>-</i>
Engineering & Technology Co. and its subsidiaries	49,994	27,389
<b>Total</b>	<b>22,549,994</b>	<b>27,389</b>
<i>Including: due within one year</i>	<i>4,500,000</i>	<i>-</i>

**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****6. Amounts due from / to related parties - continued****(7) Customer deposits and deposits from banks and other financial institution**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Group	6,978,903	7,838,751
Baosteel Development and its subsidiaries	97,990	10,070
No. 5 Steel and its subsidiaries	18,711	27,383
Hwabao Investment	1,993	1,988
Hwabao Trust	342,405	270,337
Engineering & Technology Co. and its subsidiaries	33,860	33,608
Institute of Steel and Iron	27,052	31,015
Baosteel Resource and its subsidiaries	83,523	86,830
BNA	45,680	78,531
Baosteel Special Materials	65,916	-
Others	16,167	38,273
<b>Total</b>	<b>7,712,200</b>	<b>8,416,786</b>

**(8) Notes payable**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Development and its subsidiaries	659	9,500
Meishan Steel and its subsidiaries	9,297	44,164
Xinjiang Bayi and its subsidiaries	63,989	76,816
Engineering & Technology Co. and its subsidiaries	6,248	195,505
BNA	444,942	701,327
Baosteel Stainless	2,217,781	-
Baosteel Special Materials	17,453	-
Others	4,305	123
<b>Total</b>	<b>2,764,674</b>	<b>1,027,435</b>

**(9) Accounts payable**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Group	425	242,615
Baosteel Development and its subsidiaries	385,197	580,921
No. 1 Steel and its subsidiaries	21	12,997
Meishan Steel and its subsidiaries	465,190	317,481
Pudong Steel and its subsidiaries	30	30
No. 5 Steel and its subsidiaries	1,901	6,277
Baosteel Resource and its subsidiaries	607,130	586,323
Engineering & Technology Co. and its subsidiaries	819,625	645,402
Bao-Island Enterprise	11,731	42,163
BNA	167,161	193,910
Ningbo Steel	29,960	9,760
Baosteel Resources (International)	158,593	-
Zhanjiang Longteng	151,504	185,070
Baosteel Special Steel	3,740	-
Shanghai Stainless	15,405	-
Baosteel Stainless	1,053,429	-
Baosteel Special Materials	438,315	-
Others	60,226	79,135
<b>Total</b>	<b>4,369,583</b>	<b>2,902,084</b>



**(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued****6. Amounts due from / to related parties - continued****(10) Receipts in advance**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Development and its subsidiaries	32,210	191,520
No. 2 Steel and its subsidiaries	200	200
Meishan Steel and its subsidiaries	-	73,608
Pudong Steel and its subsidiaries	153	13,490
No. 5 Steel and its subsidiaries	-	143
Baosteel Resource and its subsidiaries	6	6
Baosteel Metal and its subsidiaries	308,489	203,513
Engineering & Technology Co. and its subsidiaries	46,548	103,430
Tianjin BCM	11,840	25,990
Baosteel Special Materials	3,191	-
Others	6,114	45,522
<b>Total</b>	<b>408,751</b>	<b>657,422</b>

**(11) Other payables**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Development and its subsidiaries	6,800	3,953
Meishan Steel and its subsidiaries	3,150	2,307
Baosteel Metal and its subsidiaries	230	1,150
Engineering & Technology Co. and its subsidiaries	12,924	10,093
Baosteel Resource and its subsidiaries	6,003	6,003
Others	2,367	270
<b>Total</b>	<b>31,474</b>	<b>23,776</b>

**(12) Interest payable**

Item	RMB'000	
	Closing balance	Opening balance
Baosteel Group	90,444	40,786
Hwabao Trust	3,254	1,861
Others	1,813	710
<b>Total</b>	<b>95,511</b>	<b>43,357</b>

Amounts due from / to related parties other than those recorded in notes receivable, loans and advances to customers, notes payable, customer deposits and deposits from banks and other financial institutions, long-term borrowings, and interest payable are free from interests, pledges, and maturity.

**(VII) CONTINGENCIES**

**At the balance sheet date, the Group had no contingencies that need to be disclosed.**

**(VIII) COMMITMENTS****1. Significant commitments****(1) Capital commitment**

	RMB'000	
	<u>Closing balance</u>	<u>Opening balance</u>
<u>Capital commitments that have been entered into but have not been recognized in the financial statements:</u>		
<u>Contracted but not provided</u>	<u>10,759,269</u>	<u>10,219,316</u>
<u>Approved by the Board but not contracted</u>	<u>2,733,639</u>	<u>4,826,128</u>
<u>Total</u>	<u>13,492,908</u>	<u>15,045,444</u>

**(2) Operating lease commitments**

**At the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases:**

	RMB'000	
	<u>Closing balance</u>	<u>Opening balance</u>
<u>Minimum lease payments under non-cancellable operating leases:</u>		
<u>1st year subsequent to the balance sheet date</u>	<u>282,773</u>	<u>294,254</u>
<u>2nd year subsequent to the balance sheet date</u>	<u>281,236</u>	<u>280,023</u>
<u>3rd year subsequent to the balance sheet date</u>	<u>277,910</u>	<u>279,423</u>
<u>Subsequent periods over 3 years</u>	<u>1,455,863</u>	<u>1,716,647</u>
<u>Total</u>	<u>2,297,782</u>	<u>2,570,347</u>

**(IX) EVENTS AFTER THE BALANCE SHEET DATE**

**None.**

**(X) OTHER SIGNIFICANT EVENTS****1. Assets and liabilities measured at fair value**

RMB

Item	Opening balance	Profit or loss arising from changes in fair value for the period	Changes in fair value recognized in equity (post income tax)	Provision for impairment losses in the current period	Closing balance
Financial assets					
1. Financial assets at fair value through profit or loss	352,804,683.86	34,276,720.87			166,645,151.69
2. Available-for-sale financial assets	1,670,413,994.37		34,787,484.17	-	1,676,092,528.65
Sub-total of financial assets	2,023,218,678.23	34,276,720.87	34,787,484.17	-	1,842,737,680.34
Financial liabilities	-				-

**2. Financial assets denominated in foreign currencies and financial liabilities denominated in foreign currencies**

RMB

Item	Opening balance	Closing balance
Financial assets		
1. Loans and receivables (including accounts receivable, other receivables, and prepayments)	16,483,441,598.17	4,690,897,079.88
2. Derivative financial assets	-	27,629,945.97
Sub-total of financial assets	16,483,441,598.17	4,718,527,025.85
Financial liabilities	41,323,132,812.91	18,354,875,727.73

**3. Key terms of annuity plan and major changes therein**

In accordance with the "Reply to Baosteel Group's Application for Trial Enterprise Annuity Plan" (SASAC [2008]1268), by the State-owned Asset Supervision and Administration Commission of the State Council (SASAC), and the "Announcement of Proportion in Enterprise Annuity Plan" by the Human Resource Department of Baosteel Group, the annuity plan has been practised in the Company since 1 January 2008. The portion assumed by the employer is 4% of the base amount of the individual, while the portion by the individual is 1%-7% of the base amount (1% of primary portion and no more than 6% of additional portion). The above annuity is managed by Baosteel Group's subsidiary, Hwabao Trust Co., Ltd. since 2009.

**4. Others****4(1) Borrowing costs**

RMB

Item	Amount of borrowing costs capitalized during the period	Capitalization rate
Construction in progress	193,595,760.94	4.50%-6.00%
Fixed assets	-	
Sub-total of borrowing costs capitalized during the period	193,595,760.94	
Borrowing costs recognized in profit or loss during the period	945,770,252.17	
Total borrowing costs during the period	1,139,366,013.11	

**4(2) Segment reporting**

The Group defined report segments and disclosed segment information according to the "Accounting Standards for Business Enterprise Interpretation No. 3". Regulations on defining geographical segments and business segments and on disclosing segment information on the basis of principal report format and secondary report format in "Accounting Standards for Business Enterprise Interpretation No. 35-segment report", are no longer used.

According to the Group's internal organization structure, management requirement and internal report system,

the business segment is divided into steel and iron, trade and others according to the industries to which the Company and its subsidiaries belong. The Group regularly evaluates operating results of each report segment in order to distribute resources and evaluate their business performance. The main products and services that each report segment provides are as follows:

Subsidiaries:

(1) Iron & steel manufacturing: the Company, Meishan Steel, Ningbo Baoxin, Yantai Lubao, Huangshi coating & Galvanizing, Yantai Baosteel, Baotong Steel, Baoma Tube, Poly Tube and BGM and other iron and steel producing units.

(2) Iron & steel trade: Baosteel International and its subsidiaries, Special Metal, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-Island Enterprises, Baosteel Brazil Trading and other trading subsidiaries.

(3) Others: Finance Co., Chemical Co., Baosight Software, No.5 Steel Gas, Huagongbao and others

The sales volume of no individual customer of the Group has accounted for 10% or more of the Group's revenue.

For disclosure of the Group's operating data, the revenues are classified and disclosed in the region where the customers are situated, and the assets are classified and disclosed in the region where the assets are situated.

As day-to-day activities of the Finance Co. are financial in nature, the investment income of Finance Co. has been included in the segment business income. Financial expenses, impairment losses of assets, gains or losses from changes in fair value, and investment income (excluding Finance Co.) have been excluded from the segment business profit. The deferred tax assets are not included in the segment assets, while short-term borrowings, non-current liabilities due within one year, long-term borrowings, long-term payables, bonds payable, and deferred tax liabilities have not been included in the segment liabilities.

Segment reports are disclosed according to internal accounting policies and measuring standards, which are consistent with the policies and standards used in preparing financial reports.

**(X) OTHER SIGNIFICANT EVENTS - continued****4(2) Segment reporting – continued****(1) Segment information**

RMB'000

	Iron & steel manufacturing		Iron & steel trade		Others		Unallocated items		Inter-segment eliminations		Total	
	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011
Operating income												
External revenue	17,457,545	20,853,100	76,983,141	87,056,499	3,709,166	3,259,887	-	-	-	-	98,149,852	111,169,486
Inter-segment revenue	62,436,225	76,377,520	16,878,745	3,836,495	4,015,725	4,054,301	-	-	(83,330,695)	(84,268,316)	-	-
Total segment operating income	79,893,770	97,230,620	93,861,886	90,892,994	7,724,891	7,314,188	-	-	(83,330,695)	(84,268,316)	98,149,852	111,169,486
Operating expenses	78,693,415	92,391,445	92,788,462	89,604,127	7,076,680	6,579,578	-	-	(83,262,865)	(84,197,243)	95,295,692	104,377,907
Operating profit	1,200,355	4,839,175	1,073,424	1,288,867	648,211	734,610	-	-	(67,830)	(71,073)	2,854,160	6,791,579

RMB'000

	Iron & steel manufacturing		Iron & steel trade		Others		Unallocated items		Inter-segment eliminations		Total	
	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011	Jan.-June 2012	Jan.-June 2011
Total segment assets	198,515,469	204,076,791	62,848,066	41,333,905	20,382,144	18,813,391	-	-	(56,775,088)	(40,541,141)	224,970,591	223,682,946
Total segment liabilities	42,705,632	37,081,115	32,735,648	27,243,701	13,283,334	11,899,649	-	-	(42,871,886)	(25,500,469)	45,852,728	50,723,996
Supplementary information:												
Depreciation and amortization	5,676,410	6,348,426	208,371	165,487	151,487	131,562	-	-	-	-	6,036,268	6,645,475
Impairment loss recognized in the current period	(114,495)	131,669	23,541	(10,089)	64,634	42,977	-	-	55,812	(47,677)	29,492	116,880
Capital expenditures	5,881,226	7,579,238	897,530	347,236	371,946	212,042	-	-	(55,599)	-	7,095,103	8,138,516

**(X) OTHER SIGNIFICANT EVENTS - continued****4(2) Segment reporting – continued**(2) External revenue by geographical area of source and non-current assets by geographical location

	RMB'000	
Item	Jan.-June 2012	Jan.-June 2011
External revenue from domestic customers	88,159,563	99,318,982
External revenue from foreign customers	9,990,289	11,850,504
Sub-total	98,149,852	111,169,486

	RMB'000	
Item	Jan.-June 2012	Jan.-June 2011
Non-current assets located in domestic country	112,855,076	137,623,144
Non-current assets located in foreign countries	218,401	222,510
Writing off	-	-
Sub-total	113,073,477	137,845,654

Note: Non-current assets belong to the region they are situated, excluding financial assets and deferred tax assets.

External revenue includes:

	RMB'000	
Item	Jan.-June 2012	Jan.-June 2011
Investment income of Finance Co.	49,209	20,228

The items excluding segment profit, segment assets and segment liabilities are set out as follows:

The segment profit does not include:

	RMB'000	
Item	Jan.-June 2012	Jan.-June 2011
Financial expenses	499,496	66,095
Impairment losses of assets (reversal)	29,492	116,880
Losses from changes in fair values (gains)	(34,277)	6,687
Investment income (excluding Finance Co.)	(358,175)	(158,194)
Total	136,536	31,468

Segment assets do not include:

	RMB'000	
Item	Closing amount	Opening amount
Deferred tax assets	1,228,962	1,188,690

**(X) OTHER SIGNIFICANT EVENTS - continued****4(2) Segment reporting – continued**

Segment liabilities do not include:

	RMB'000	
<u>Item</u>	<u>Amount at the end of period</u>	<u>Amount at the beginning of period</u>
<u>Short-term borrowings</u>	31,568,374	38,876,458
<u>Non-current liabilities due within one year</u>	8,664,810	16,809,668
<u>Long-term borrowings</u>	8,251,553	7,325,680
<u>Bonds payable</u>	9,618,948	8,918,663
<u>Deferred tax liabilities</u>	2,554,696	316,781
<u>Total</u>	60,658,381	72,247,250

**4(3) Financial instruments and risk management**

The Group's major financial instruments include cash and bank balances, held-for-trading financial assets, financial assets sold for under repurchase agreement, loans and advances to customers, short-term borrowings, customer deposits and deposits in banks and other financial institutions, and convertible bonds etc.. The major purpose of these financial instruments is to finance for the Group's operations or investments. The Group has other financial assets and liabilities such as accounts receivable, notes receivable, accounts payable and notes payable and etc., which arise directly from its diversified operations.

Based on the purpose of hedging risk, the Group has derivatives transactions, including forward currency contracts and interest rate swap contracts, in order to hedge the exchange rate and interest rate risks in its financing channels.

The major risks of the financial instruments used by the Group are market and financial risks. The Group strengthens its risk control through the following four measures: (1) stepping up the systematic construction to build a complete investment decision-making system which allows a dynamic improvement; (2) constructing and improving the financial instrument information management system to enhance the transparency and traceability in financial instrument operations; (3) enforcing the procedure control and regular examination of the system implementation and building a control mechanism for check and supervision; and (4) laying emphasis on the cultivating the professional qualities among the staff and on the application of analytical techniques while exerting the united power of the team, so as to improve the decision making in terms of scientificity and feasibility.

The financial instruments of the Group are operating in the framework with strict system, standardized procedure, professional staff and dynamic evaluation. Therefore, all risks are within control.

The Group's accounting policy of derivatives is set out in Notes to the financial statements.

**4(4) Other events bearing upon investors**

The Company acquired from Pudong Steel, a wholly owned subsidiary of the Group, Luoqing assets and related businesses in 2008. Luoqing assets cover an area of 3.228 million square meters, for which Pudong Steel has paid some initial expenses, but not the land use right transfer expense, for which the Company needs to pay RMB 2.8 billion as preliminarily estimated. Baosteel Group promises:

- (1) Baosteel Group and/or Pudong Steel will help the Company go through the transfer procedures and other matters as required by the Company reasonably.
- (2) In the event of the total actual expense exceeding RMB2.8 billion for the procedures, Baosteel Group and/or Pudong Steel shall fully cover the extra amount in time, by means of paying the Company or government as is required.

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS****1. Accounts receivable****(1) Disclosure of accounts receivable by categories:**

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Accounts receivable that are individually significant	1,836,771,755.09	21	27,119,561.92	6	5,857,028,197.09	80	302,654,712.06	74
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	42,825,844.92	0	42,825,844.92	10	44,084,405.25	1	44,084,405.25	11
Accounts receivable recognizing provision for bad debts classified into groups	7,050,816,363.32	79	362,055,748.75	84	1,405,773,800.19	19	63,369,102.56	15
<b>Total</b>	<b>8,930,413,963.33</b>	<b>100</b>	<b>432,001,155.59</b>	<b>100</b>	<b>7,306,886,402.53</b>	<b>100</b>	<b>410,108,219.87</b>	<b>100</b>

**The aging analysis of accounts receivable is as follows:**

RMB

Aging	Closing balance				Opening balance			
	Carrying amount	Proportion (%)	Bad debt provision	Net carrying amount	Carrying amount	Proportion (%)	Bad debt provision	Net carrying amount
Within 1 year	8,724,137,255.18	98	369,604,739.27	8,354,532,515.91	7,166,137,181.94	98	346,255,399.94	6,819,881,782.00
1-2 years	156,225,597.85	2	19,570,571.40	136,655,026.45	82,113,060.58	1	15,318,287.47	66,794,773.11
2-3 years	6,765,194.80	-	-	6,765,194.80	14,551,754.76	-	4,450,127.21	10,101,627.55
More than 3 years	43,285,915.50	-	42,825,844.92	460,070.58	44,084,405.25	1	44,084,405.25	-
<b>Total</b>	<b>8,930,413,963.33</b>	<b>100</b>	<b>432,001,155.59</b>	<b>8,498,412,807.74</b>	<b>7,306,886,402.53</b>	<b>100</b>	<b>410,108,219.87</b>	<b>6,896,778,182.66</b>

**(2) Individually significant amounts or insignificant accounts receivable but with provision accrued individually as at 31 December 2011:**

RMB

Content of accounts receivable	Carrying amount	Bad debt provision	Proportion of provision (%)	Reasons for the provision
Receivables with significant balances	1,836,771,755.09	27,119,561.92	1	Note 1
Receivables with long age	42,825,844.92	42,825,844.92	100	Note 2
<b>Total</b>	<b>1,879,597,600.01</b>	<b>134,664,432.67</b>		

Note 1: Provision rate for receivables within one year is 5% using the aging analysis approach due to no significant obstacle to collect.

As at 30 June 2012, the balances of some large-sum receivables were within one year and with low risk in recollection. Therefore, no provision was made for these receivables.

Note 2: Bad debt provision was fully made in view of long aging and a slim chance of recollection.

**(3) Accounts receivable due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period**

RMB

Name of entity	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Baosteel Group	327,412.86	16,370.64	300,258.95	15,012.95

**(4) Top five customers with the largest balances of accounts receivable**

RMB

Name of entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total accounts receivable (%)
Entity one	Related party	714,324,479.34	Within 1 year	8
Entity two	Related party	580,056,037.30	Within 1 year	6
Entity three	Related party	222,917,472.89	Within 1 year	2
Entity four	Related party	206,779,892.28	Within 1 year	2
Entity five	Related party	112,693,873.28	Within 1 year	1
<b>Total</b>		<b>1,836,771,755.09</b>		



**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****2. Other receivable****(1) Disclosure of other receivables by categories:**

RMB

Category	Closing balance				Opening balance			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Other receivables that are individually significant	271,122,790.23	82	10,346,276.06	72	459,462,938.83	89	8,985,891.64	68
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	500,000.00	1	500,000.00	4	939,405.00	-	939,405.00	7
Accounts receivable recognizing provision for bad debts classified into groups	57,291,200.39	17	3,452,298.17	24	56,459,110.10	11	3,327,109.31	25
<b>Total</b>	<b>328,913,990.62</b>	<b>100</b>	<b>14,298,574.23</b>	<b>100</b>	<b>516,861,453.93</b>	<b>100</b>	<b>13,252,405.95</b>	<b>100</b>

**Aging analysis of other receivables is as follows:**

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	284,102,975.00	86	12,970,150.73	271,132,824.27	470,564,953.31	92	11,699,107.25	458,865,846.06
1-2 years	3,820,619.62	2	822,185.90	2,998,433.72	2,427,878.92	-	404,363.68	2,023,515.24
2-3 years	10,396.00	-	6,237.60	4,158.40	349,216.70	-	209,530.02	139,686.68
More than 3 years	40,980,000.00	12	500,000.00	40,480,000.00	43,519,405.00	8	939,405.00	42,580,000.00
<b>Total</b>	<b>328,913,990.62</b>	<b>100</b>	<b>14,298,574.23</b>	<b>314,615,416.39</b>	<b>516,861,453.93</b>	<b>100</b>	<b>13,252,405.95</b>	<b>503,609,047.98</b>

**(2) Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually at end of the period:**

RMB

Content of other receivables	Carrying amount	Amount of bad debt	Proportion of provision (%)	Reasons
Other receivables with significant balances	271,122,790.23	10,346,276.06	4	Note 1
Other receivables with long age	500,000.00	500,000.00	100	Note 2
<b>Total</b>	<b>271,622,790.23</b>	<b>10,846,276.06</b>		

Note 1: The custom's deposit and accrued VAT on purchase of related transactions were estimated to have very low risk in collection, and no provision was made by the Company. Therefore, the Company did not fully make bad debt provision using the aging analysis approach for the carrying amount of RMB 64,197,269.00 of other receivables. Provision rate for other receivables aged within one year is 5% using the aging analysis approach due to no significant obstacle to recollection.

Note 2: Bad debt provision is fully made for the other receivables due to long aging and a slim chance of recollection

**(3) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period**

RMB

Name of Entity	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Baosteel Group	153,545,037.40	7,677,251.87	166,627,610.84	8,354,438.92

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****2. Other receivables – continued**

(4) Top five entities with the largest balances of other receivables

				RMB
Name of Entity	Relationship with the Company	Amount	Age	Proportion of the amount to the total other receivables (%)
Entity one	Related party	153,545,037.40	Within 1 year	47
Entity two	Third party	41,380,000.00	Note	13
Entity three	Related party	30,950,648.62	Within 1 year	9
Entity four	Third party	22,817,269.00	Within 1 year	7
Entity five	Related party	22,429,835.21	Within 1 year	7
Total		271,122,790.23		

Note: The amount more than 1 year but not exceeding 2 years is RMB 900,000.00, and the amount more than 3 years is RMB 40,480,000.00.

**3. Investments in joint ventures and associates**

													RMB
Name of investee	Type	Place of incorporation	Legal representative	Nature of business	Registered capital		Proportion of ownership interest held by the Company (%)	Proportion of voting power in the investee held by the Company (%)	Investee's total assets at the end of the period	Investee's total liabilities at the end of the period	Total net assets at the end of the period	Total operating income for the period	Net profit for the period
					Currency	'000							
<b>I. Joint ventures</b>													
BNA	LLC	Shanghai	Wang Jing	Manufacturing	RMB	3,000,000	50%	50%	4,551,422,672.94	1,085,017,717.77	3,466,404,955.17	6,776,511,239.42	57,722,102.34
Bao-Island Enterprise	LLC	Hong Kong	Not applicable	Ship chartering	HKD	3.300	50%	50%	1,531,365,813.30	326,668,435.20	1,197,120,147.90	400,347,195.30	14,496,670.80
<b>II. Associates</b>													
STAL Precision	LLC	Shanghai	Wang Xiaodong	Ship chartering	USD	96,560	40%	40%	1,548,101,524.38	146,322,124.17	1,401,779,400.21	596,562,026.33	62,637,008.07
Rihong Stainless	LLC	Shanghai	Hiraoka Yoshifumi	Ship chartering	RMB	95,000	20%	20%	178,124,448.40	140,991,589.30	37,132,859.10	210,624,126.16	(10,456,593.98)

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****4. Long-term equity investments**

Details of long-term equity investments are as follows:

RMB

Name of investee	Accounting method	Initial investment cost	Opening balance	Increase/(decrease)	Closing balance	Proportion of ownership interest held by the Company (%)	Proportion of voting power in the investee held by the Company (%)	Explanation of the inconsistency between the proportion of ownership interest and the proportion of voting power	Provision for impairment losses	Provision for impairment losses for the period	Cash dividends for the period
<b>Subsidiaries</b>											
Yantai Lubao	Cost method	243,248,705.24	361,404,905.16	=	361,404,905.16	79.82	79.82		=	=	22,789,687.30
Huangshi Coating & Galvanizing	Cost method	12,254,475.04	175,658,477.39	=	175,658,477.39	58.45	More than half		=	=	4,676,000.00
Baosteel International	Cost method	4,735,670,804.11	6,013,886,552.67	=	6,013,886,552.67	100	100		=	=	
Meishan Steel	Cost method	6,609,321,102.70	8,938,982,988.14	=	8,938,982,988.14	77.04	77.04		=	=	
Ningbo Baoxin	Cost method	1,786,187,133.16	1,383,555,177.57	=	1,383,555,177.57	54	54		=	=	
Baosight Software	Cost method	241,213,064.59	275,664,363.08	=	275,664,363.08	55.5	55.5		=	=	28,383,433.65
Baosteel America	Cost method	42,567,875.48	187,562,180.98	=	187,562,180.98	100	100		=	=	
Howa Trading	Cost method	154,073,767.03	221,975,780.12	=	221,975,780.12	100	100		=	=	
Baosteel Europe	Cost method	93,801,781.59	328,631,981.58	=	328,631,981.58	100	100		=	=	
Baosteel Singapore	Cost method	76,419,617.09	154,883,364.09	=	154,883,364.09	100	100		=	=	
Bao-Trans Enterprises	Cost method	29,882,599.80	81,867,650.27	=	81,867,650.27	100	100		=	=	
Baosteel Brazil Trading	Cost method	526,327.52	728,647.73	=	728,647.73	100	100		=	=	
No.5 Steel Gas	Cost method	117,190,067.55	120,755,597.59	(120,755,597.59)	=	94.5	94.5		=	=	
Special Metal	Cost method	50,000,000.00	50,000,000.00	(50,000,000.00)	=	100	100		=	=	
Baosteel Chemical	Cost method	3,006,227,819.74	3,006,227,819.74	=	3,006,227,819.74	100	100		=	=	
Finance Co.	Cost method	372,864,751.93	568,270,003.65	=	568,270,003.65	62.1	62.1		=	=	59,826,510.70
Baoyin Tubes	Cost method	130,000,000.00	130,000,000.00	(130,000,000.00)	=	58.5	58.5		=	=	
Yantai Tubes	Cost method	640,000,000.00	1,600,000,000.00	=	1,600,000,000.00	80	80		=	=	
Nantong Steel	Cost method	518,520,310.51	948,520,310.51	=	948,520,310.51	95.82	95.82		=	=	
Baoma Tube	Cost method	36,673,650.00	36,673,650.00	=	36,673,650.00	75	75		=	=	
Subtotal of subsidiaries		18,896,643,853.08	24,585,249,450.27	(300,755,597.59)	24,284,493,852.68				=	=	115,675,631.65
<b>Joint ventures</b>											
BNA	Equity method	1,500,000,000.00	1,704,341,426.17	28,861,051.17	1,733,202,477.34	50	50		=	=	
Bao-Island Enterprise	Equity method	143,084,132.00	589,379,885.10	9,180,188.85	598,560,073.95	50	50		=	=	
Subtotal of joint ventures		1,643,084,132.00	2,293,721,311.27	38,041,240.02	2,331,762,551.29				=	=	
<b>Associates</b>											
STAL Precision	Equity method	122,004,541.93	535,656,956.86	25,054,803.23	560,711,760.09	40	40		=	=	
Rihong Stainless	Equity method	9,473,440.98	9,517,890.62	(2,091,318.80)	7,426,571.82	20	20		=	=	
Subtotal of associates		131,477,982.91	545,174,847.48	22,963,484.43	568,138,331.91				=	=	
<b>Other investments</b>											
Baovale Mining Co., Ltd.	Cost method	=	103,282,213.00	=	103,282,213.00	50	Note 1	Note 1	=	=	
Shanghai Luoqing Mining Port Co., Ltd.	Cost method	=	88,734,096.00	=	88,734,096.00	12	12		=	=	13,395,251.27
China Aviation Industry (Xi'an) Special Material Co., Ltd.	Cost method	=	40,000,000.00	(40,000,000.00)	=	9.71	9.71		=	=	1,010,000.00
Bsteel On-line Co., Ltd.	Cost method	=	16,308,530.65	=	16,308,530.65	17	17		=	=	
Others	Cost method	=	980,000.00	=	980,000.00	Insignificant	Insignificant		=	=	
Subtotal		=	249,304,839.65	(40,000,000.00)	209,304,839.65				=	=	14,405,251.27
Total			27,673,450,448.67	(279,750,873.14)	27,393,699,575.53				=	=	130,080,882.92

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****4. Long-term equity investments - continued**

Details of long-term equity investments are as follows: - continued

Note 1: As the Company does not exert actual control, joint control or significant influence over the operating policies and financial decisions of Baovale Mining Co., Ltd., but is only entitled to a fixed payment in a certain ratio in accordance with investment agreements. Therefore, the investment in Baovale was regarded as a long-term equity investment, but is measured at cost method.

**5. Operating income and operating costs****(1) Operating income**

Item	RMB	
	Jan.-June 2012	Jan.-June 2011
Principal operating income	70,911,552,119.01	89,269,873,450.81
Other operating income	127,229,624.58	278,829,311.65
Total	71,038,781,743.59	89,548,702,762.46

**(2) Principal operating activities (classified by industries)**

Name of industry	RMB'000			
	Jan.-June 2012	Jan.-June 2011		
	Operating income	Operating costs	Operating income	Operating costs
Iron & steel manufacturing	70,911,552	65,831,919	89,269,873	77,763,730

**(3) Principal operating activities (classified by products)**

Name of product	RMB'000			
	Jan.-June 2012	Jan.-June 2011		
	Operating income	Operating costs	Operating income	Operating costs
Iron & steel	70,911,552	65,831,919	89,269,873	77,763,730

**(4) Principal operating activities (classified by geographical areas)**

Name of geographical area	RMB'000			
	Jan.-June 2012	Jan.-June 2011		
	Operating income	Operating costs	Operating income	Operating costs
Domestic	63,967,929	58,948,791	80,853,563	69,498,085
Overseas	6,943,623	6,883,128	8,416,310	8,265,645
Total	70,911,552	65,831,919	89,269,873	77,763,730

**(5) Operating income from the Company's top five customers**

Name of customer	RMB	
	Operating income	Proportion to total operating income of the Company (%)
Total operating income from the Company's top five customers	34,567,662,007.10	49%

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****6. Investment income****(1) Details of investment income**

<u>Item</u>	<u>RMB</u>	
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>
<u>Income from long-term equity investments under cost method</u>	<u>130,080,882.92</u>	<u>221,632,011.95</u>
<u>Income from long-term equity investments under equity method</u>	<u>59,072,871.00</u>	<u>128,220,529.07</u>
<u>Investment gains(losses) from disposal of derivative financial instruments</u>	<u>7,121,438.16</u>	<u>15,266,791.66</u>
<u>Gains from the entrusted national bond repurchase</u>	<u>1,526,130.14</u>	<u>10,730,054.79</u>
<u>Income from disposal of equity investment</u>	<u>(30,725,211.39)</u>	<u>-</u>
<u>Total</u>	<u>167,076,110.83</u>	<u>375,849,387.47</u>

(2) Income accounting for more than 5% of the pre-tax profit or ranking the top five highest proportion of the total profit from long-term equity investments under cost method are as follows:

<u>Investee</u>	<u>RMB</u>		<u>Reasons for movement in the current period</u>
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>	
<u>Finance Co.</u>	<u>59,826,510.70</u>	<u>145,508,938.76</u>	<u>Cash dividend</u>
<u>Baosight Software</u>	<u>28,383,433.65</u>	<u>43,666,821.00</u>	<u>Cash dividend</u>
<u>Yantai Lubao</u>	<u>22,789,687.30</u>	<u>16,844,577.92</u>	<u>Cash dividend</u>
<u>Shanghai Luojing Mining Port Co., Ltd.</u>	<u>13,395,251.27</u>	<u>8,830,841.82</u>	<u>Cash dividend</u>
<u>Huangshi Coating &amp; Galvanizing</u>	<u>4,676,000.00</u>	<u>-</u>	<u>Cash dividend</u>
<u>Baovale Mining Co., Ltd.</u>	<u>-</u>	<u>6,780,832.45</u>	<u>Cash dividend</u>
<u>Total</u>	<u>129,070,882.92</u>	<u>221,632,011.95</u>	

(3) Income from long-term equity investments under equity method:

<u>Investee</u>	<u>RMB</u>		<u>Reasons for movement in the current period</u>
	<u>Jan.-June 2012</u>	<u>Jan.-June 2011</u>	
<u>BNA</u>	<u>28,861,051.17</u>	<u>71,376,482.39</u>	<u>Profit of the joint venture</u>
<u>Bao-Island Enterprise</u>	<u>7,248,335.40</u>	<u>32,765,377.95</u>	<u>Profit of the joint venture</u>
<u>STAL Precision</u>	<u>25,054,803.23</u>	<u>24,078,668.73</u>	<u>Profit of the associate</u>
<u>Rihong Stainless</u>	<u>(2,091,318.80)</u>	<u>-</u>	<u>Profit of the associate</u>
<u>Total</u>	<u>59,072,871.00</u>	<u>128,220,529.07</u>	

As at 30 June 2012, no significant limitation exists regarding investment income repatriation.

**(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued****7. Bank facilities**

As at 30 June 2012, the unutilized bank facilities of the Company reach RMB94.009 billion. The management of the Company believes that the above mentioned facilities and the net cash flow from operating activities would be sufficient to repay the current liabilities due in the coming period.

**8. Supplementary information to the cash flow statement****(1) Supplementary information to the cash flow statement**

<b>Supplementary information</b>	<b>RMB</b>	
	<b>Jan.-June 2012</b>	<b>Jan.-June 2011</b>
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
Net profit	9,018,186,896.95	4,029,216,910.92
Add: Provision for impairment losses of assets	66,119,232.16	110,712,611.43
Depreciation of fixed assets and investment properties	4,566,189,880.24	5,201,922,912.22
Amortization of intangible assets	33,020,996.34	48,392,095.80
Amortization of long-term prepaid expenses	700,237.11	299,523.80
Losses on disposal of fixed assets, intangible assets and other long-term	(9,053,332,880.64)	38,727,451.03
Losses on changes in fair values (gains are indicated by "-")	(27,629,945.97)	11,021,542.86
Financial expenses (income is indicated by "-")	103,313,056.13	(57,090,895.14)
Losses arising from investments (gains are indicated by "-")	(167,076,110.83)	(375,849,387.47)
Decrease in deferred tax assets (increase is indicated by "-")	(9,908,281.48)	(29,666,830.92)
Increase in deferred tax liabilities (decrease is indicated by "-")	2,227,358,603.13	-
Decrease in inventories (increase is indicated by "-")	(48,431,432.71)	(2,410,793,385.98)
Decrease in receivables from operating activities (increase is indicated by "-")	(486,754,115.22)	(64,844,258.20)
Increase in payables from operating activities	(680,906,166.76)	1,881,791,302.30
Net cash flow from operating activities	5,540,849,968.45	8,383,839,592.65
<b>2. Significant investing and financing activities that do not involve</b>		
Conversion of debt into capital		
Convertible loan notes due within one year		
Fixed assets acquired under finance leases		
<b>3. Net changes in cash and cash equivalents:</b>		
Closing balance of cash	11,836,607,401.24	3,477,892,736.70
Less: Opening balance of cash	8,826,002,497.24	4,076,704,419.19
Add: Closing balance of cash equivalents	=	=
Less: Opening balance of cash equivalents	=	=
Net increase in cash and cash equivalents	3,010,604,904.00	(598,811,682.49)

**(XII) APPROVAL OF THE FINANCIAL STATEMENTS**

The Company's financial statements and the consolidated financial statements were approved by the Board of Directors and authorized for issue on 27 August 2012.

**(XIII) SUPPLEMENTARY INFORMATION****1. Breakdown of non-recurring profit or loss**

	<u>RMB</u>
<u>Item</u>	<u>Amount</u>
Profit or (loss) on disposal of non-current assets	9,065,542,478.61
Government grants recognized in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard)	81,632,500.14
Profit or (loss) on changes in the fair value of held-for-trading financial assets and held-for-trading financial liabilities and investment income on disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets, other than those used in the effective hedging activities relating to normal operating business	12,210,603.44
Other non-operating income or expenses other than the above	488,515,352.16
Tax effects	(2,411,135,021.38)
Effects attributable to minority interests (after tax)	(1,665,985.59)
<b>Total</b>	<b>7,235,099,927.38</b>

**2. Return on net assets and earnings per share ("EPS")**

The return on net assets and EPS have been prepared by Baoshan Iron & Steel Co., Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 - Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revised 2010) issued by China Securities Regulatory Commission.

<u>Profit for the reporting period</u>	<u>Weighted average return on net assets (%)</u>	<u>Basic EPS</u>
<u>Net profit attributable to ordinary shareholders of the Company</u>	8.73	0.55
<u>Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company</u>	2.23	0.14

**(XIII) SUPPLEMENTARY INFORMATION - continued****3. Abnormal financial statements items ("F/S items") and description of reasons**

RMB

	F/S Items	30 June 2012	31 December 2011	Change by %	Cause for the changes
1	Cash and bank balances	18,660,531,086.56	14,379,464,105.74	30%	This is mainly to get prepared for the RMB 5 billion medium-term notes due on 2 July 2012.
2	Held-for-trading financial assets	166,645,151.69	352,804,683.86	-53%	This is mainly because the Company's subsidiary, the Finance Co. reduced its fund investment in the monetary market.
3	Interests receivable	340,206,772.50	11,757,749.94	2793%	This is mainly caused by the interests receivable from the long-term receivables arising from selling the assets of the business units of Stainless Steel and Special Steel.
4	Dividends receivable	41,385,814.61	246,648,970.16	-83%	This is mainly because the Company's subsidiary, Baosteel International received dividends from Henan Longyu Energy.
5	Non-current assets due within one year	4,904,635,536.00	483,907,475.02	914%	This mainly includes the portion that is due within one year of the long-term receivables arising from selling the assets of the business units of Stainless Steel and Special Steel.
6	Long-term receivables	18,049,993,750.00	27,388,500.00	65804%	This is mainly from the asset transfer money arising from selling the assets of the business units of Stainless Steel and Special Steel.
7	Construction materials	203,592,641.96	805,812,260.74	-75%	This is mainly because the Company's subsidiary, Meishan Steel, has transferred some construction materials (imported equipments) to construction-in-progress.
8	Notes payable	3,492,410,202.30	2,677,585,618.61	30%	This is mainly caused by the increase in commercial acceptance draft payment.
9	Dividends payable	94,025,180.56	18,082,635.32	420%	This is mainly because the Company's subsidiary, Baosteel International has an increase in payment of dividends to minority shareholders.
10	Non-current liabilities due within one year	8,664,809,771.94	16,809,668,448.29	-48%	This is mainly because the Company paid the first tranche of the medium-term notes and paid for the long-term US dollar borrowings due within one year.
11	Deferred income tax liabilities	2,554,696,208.05	316,780,621.85	706%	This is mainly because in this period, a provision was made for the income tax of the property VAT of the business units of Stainless Steel and Special Steel.
	F/S Items	Jan.-June 2012	Jan.-June 2011	Change by %	Cause for the changes
12	Financial expenses	499,495,875.29	66,094,513.57	655.73%	This is mainly caused by the exchange impact. In the first half of 2012, the RMB depreciated against US dollars, while in the same period last year, RMB appreciated against US dollars.
13	Loss on the asset impairment	29,491,957.81	116,880,439.16	-74.77%	This is mainly because in view of the market, the inventory loss provision in the first half of 2012 was RMB 0.104 billion less than that of the same period last year.
14	Investment gains	407,383,915.06	178,422,543.57	128.33%	This is mainly because the Company's subsidiary, Baosteel International had an increase in its investment gains from its participating stock companies.
15	Non-operating income	10,226,896,441.53	113,724,564.55	8892.69%	This is mainly caused by gains from selling assets of the business units of Stainless Steel and Special Steel.
16	Non-operating expenses	610,284,454.87	86,825,529.79	602.89%	This is mainly caused by losses from selling assets of the business units of Stainless Steel and Special Steel.
17	Income tax expenses	2,648,984,756.25	1,462,058,259.90	81.18%	This is mainly caused by the YoY increase of the total profit.



### **VIII. Documents Available for Reference**

1. Copy of the Semi-annual Report signed by the board chairman;
2. Copy of the financial statements signed and sealed by the corporate representative, chief accountant and person in charge of the accounting department;
3. All original copies of the documents and announcements published on the newspapers designated by the China Securities Regulatory Committee during the reporting period;
4. Copy of the *Articles of Company*.

Chairman: He Wenbo  
Baoshan Iron & Steel Co., Ltd  
27 August 2012