

**Baoshan Iron & Steel Co., Ltd.**

**600019**

**2014 Semi-annual Report**

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**Definitions**

| Abbreviation               | Definitions   |
|----------------------------|---|
| Carbon Steel               | Refers to an alloy of iron and carbon in which the carbon content normally is between 0.04% and 2%, but mostly below 1.4%. This kind of steel contains no other alloying elements than iron, carbon, silicon, manganese, sulphur and phosphorus, among which the silicon content is no more than 0.4% and the manganese content no more than 0.8%.  |
| Silicon steel              | Refers to a kind of electrical steel in which the silicon content is between 0.5% and 6.5%. It is mainly used in iron cores of various motors and transformers, a magnetically soft alloy indispensable for electric, electronic and military sectors, and can be categorized into non-oriented silicon steel and oriented silicon steel, etc.  |
| Non-oriented silicon steel | Refers to a kind of silicon steel that does not have any obvious pattern or certain orientation in crystallization arrangement, and in which the content of (Si+Al) is normally between 1.5% and 4.0%. It has a low core loss and relatively lower magnetic induction, of which the nominal thickness may be 0.35mm or 0.50mm, etc. Non-oriented silicon steel is used in motor, generator, household appliance, relay, electromagnetic switch, and so on in electric power industry. |
| Oriented silicon steel     | Refers to a kind of silicon steel that has an obvious pattern and certain orientation in crystallization arrangement, and in which the content of Si is commonly around 3%. It has a low core loss and high magnetic induction, of which the nominal thickness may be 0.20mm, 0.23mm, 0.27mm, 0.30mm or 0.35mm, etc. Oriented silicon steel is used in all kinds of electric transformers, etc.   |
| Heavy Plate TMCP           | Refers to those produced with thermo-mechanical control process.  |
| Heavy Plate DQ             | Refers to those produced with direct quenching process.   |
| GA Automotive Steel Sheet  | Refers to alloyed and hot-dip galvanized steel sheet.   |
| NO <sub>x</sub>            | Refers to nitrogen oxide, including various compounds, such as N <sub>2</sub> O, NO, NO <sub>2</sub> , N <sub>2</sub> O <sub>3</sub> , etc.   |
| High strength steel        | Steel is divided by tensile strength into three types: soft steel with a tensile strength <340MPa, high strength steel with a tensile strength between 340MPa and 780MPa, and ultra-high strength steel with a tensile strength > 780MPa.   |

**I. Important Notice**

(I) 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 this 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.

(II) Director absent from the Board of Directors' meeting examining the Report and reason of absence

| Absent director | Position | Reason | Authorized Representative |
|-----------------|----------|--------|---------------------------|
| Zhu Junsheng    | Director | Work   | Wang Li                   |

(III) The semi-annual financial statement of the Company is unaudited.

(IV) As a result of a change in his job, Mr. He Wenbo submitted a letter of resignation to the Board of Directors of the Company on August 1<sup>st</sup> 2014 to resign from the position as Chairman of the Board. The resignation became effective upon the delivery of the said letter of resignation to the Board of Directors. As per relevant provisions of the Articles of Association of the Company, all of the eight members of the Board of Directors of the Company have jointly chosen Mr. Dai Zhihao as the acting Chairman to perform / exercise the duties / powers as Chairman of the Board until a new chairman is elected by the Board.

(V) Mr. Dai Zhihao, Director and President of the Company; Mr. Zhu Keping, the person in charge of accounting affairs and CFO; and Ms. Wang Juan, Head of the Accounting Department (the person responsible for the accounting department) and Director of the Finance Department hereby guarantee that the financial statements contained in this Report are truthful, accurate and complete.

(VI) Future plans, development strategies and other perspective narratives referred to in this Report shall not be deemed as substantive commitments made by the Company to investors, and the Company hereby reminds investors of investment risks.

(VII) No capital was found in the Company to be occupied by the controlling shareholder and its related parties for non-operating purposes.

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

**II. Company Profile**

(I) Basic Information

|   |                                |
|---|--------------------------------|
| Legal Chinese Name of the Company                     | 宝山钢铁股份有限公司                     |
| Abbreviated Legal Chinese Name of the Company         | 宝钢股份                           |
| Legal English Name of the Company                     | Baoshan Iron & Steel Co., Ltd. |
| Abbreviated Legal English Name of the Company         | Baosteel                       |
| Legal Representative of the Company <sup>(Note)</sup> | Dai Zhihao                     |

Note: Please see “I. Important Notice (IV)” of the Report for details.

## (II) Contact Information

|           | Secretary to Board of Directors   | Representative of Securities Affairs  |
|-----------|---|---|
| Name      | Zhu Keping  | Yu Hong   |
| Address   | Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai | Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai |
| Telephone | 86-21-26647000  | 86-21-26647000  |
| Fax       | 86-21-26646999  | 86-21-26646999  |
| Email     | ir@baosteel.com   | ir@baosteel.com   |

## (III) Information Disclosure and Place of Inquiry

|   |   |
|---|---|
| Name of Newspaper Designated by the Company for Information Disclosure  | China Securities Journal, Shanghai Securities News and Securities Times   |
| Internet Website Designated by China Securities Regulatory Commission for the Publication of the Company's Semi-Annual Report | http://www.sse.com.cn   |
| Place of Semi-annual Report Available for Inquiry   | Secretary to Board of Directors' Office, Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai |

## (IV) Stock Profile of the Company

| Stock Profile of the Company |                         |            |            |  |
|------------------------------|-------------------------|------------|------------|--|
| Class                        | Stock Listed at         | Stock Name | Stock Code | Abbreviation of the Stock before Alternation |
| A Stock                      | Shanghai Stock Exchange | Baosteel   | 600019     | G Baosteel                                   |

## III. Accounting and Financial Highlights

## 1. Core operating data

|   |  |
|---|--|
| Domestic steel composite price index (CISA)<br>95.81<br>1H 2013: 105.67 -9.3%                           | Aver. price of Baosteel's carbon steel<br>RMB 4703/t<br>1H 2013: RMB 4848/t -3.0%                    |
| Sales volume of Baosteel's steel products<br>11.214 million tons<br>1H 2013: 11.078 million tons +1.2%  | Total operating income<br>RMB 97.79 billion<br>1H 2013: RMB 96.26 billion +1.6%                      |
| Sales volume of exclusive & leading products<br>6.216 million tons<br>1H 2013: 5.988 million tons +3.8% | Ratio of R&D investment<br>1.84%<br>1H 2013: 1.7% +0.14%   |
| Total profit<br>RMB 4.47 billion<br>1H 2013: RMB 5.18 billion -13.7%                                    | Total profit (excl. exchange gains or losses)<br>RMB 4.74 billion<br>1H 2013: RMB 4.71 billion +0.6% |
| Gross profit margin<br>9.6%<br>1H 2013: 9.2% +0.4%  | Cash flow from operating activities<br>RMB 14.28 billion<br>1H 2013: RMB 6.55 billion +117.9%        |

Note: domestic steel composite price index: Wind Info

## January

- The Development and Industrialization Project of the Low-temperature High-magnetic Induction Oriented Silicon Steel Manufacturing Technology won the First Prize of the National Science and Technology Progress Award.

## February

- On the day when the Detailed Rules and Regulations on the Cross-Border Use of RMB in Shanghai Pilot Free Trade Zone was issued, the Company successfully received RMB70

million in the form of a cross-border RMB working capital loan, which was the first cross-border RMB financing transaction of the Company.

#### March

- The Development and Industrialization Project of the High Grade Non-oriented Silicon Steel Manufacturing Technology won the First Prize of the Shanghai Municipal Science and Technology Progress Award.
- Consecutively selected as General Motors' "Supplier of the Year" and for the first time selected as GAC FIAT's "Excellent Supplier".

#### April

- Shanghai Banking Chattle Mortgage Information Platform, built by the Company, finished its first warehouse receipt mortgage transaction. As at the end of June, the registered volume of mortgaged steel has exceeded 60,000 tons.

#### May

- In response to the rapid development of cloud computing and mobile internet, Phase I of Bao Zhi Yun IDC, the largest single cloud computer room in Shanghai, was officially put in use.
- The stock ownership incentive plan of the Company passed at the first temporary meeting of shareholders inspires the morale of managers at all levels and further promotes the convergence of both managers' interests and shareholders' interests.

#### June

- The on-line trading volume via the web-based B2B billing service platform built by the Company exceeded RMB10 billion.
- Approved to join the high-value payment system of the Central Bank, enabling electronic bill clearing directly with commercial banks.
- Construction of Zhanjiang Steel Project is going on steadily and smoothly, the steel structures of the main works already at the stage of installation.
- The Company was rated by Intelligent Finance Peak List as "The Best-Investor-Relationship Company Listed on Main Board", and was rated by Shanghai Stock Exchange as a Class-A listed company for Y2013 in the aspect of information disclosure.

### 3. Major Accounting Data

Unit: RMB Million

| Major Accounting Data   | Reporting Period<br>(January to June) | Same Period Last Year | Increase or Decrease (%)<br>over the Same Period Last<br>Year |
|---|---------------------------------------|-----------------------|---|
| Operating income  | 97,598                                | 96,100                | 1.56  |
| Net profit attributable to shareholders of<br>listed company  | 3,154                                 | 3,703                 | -14.82  |
| Net profit attributable to shareholders of<br>the listed Company less non-recurring<br>gains and losses | 3,144                                 | 3,665                 | -14.22  |
| Net cash flows from operating activities  | 14,282                                | 6,554                 | 117.90  |
| Major Accounting Data   | End of Reporting Period               | End of Last Year      | Increase or Decrease (%)<br>over the End of Last Year         |
| Net assets attributable to shareholders of<br>listed company  | 111,899                               | 110,512               | 1.26  |
| Total assets  | 228,917                               | 226,668               | 0.99  |

## 4. Major Financial Indicators

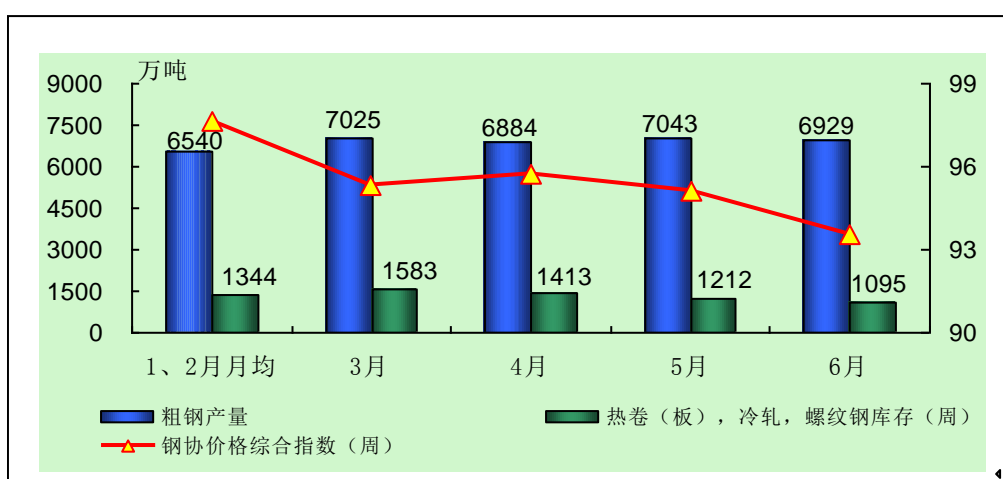
| Major Financial Indicators  | Reporting Period (January to June) | Same Period Last Year | Increase or Decrease (%) over the Same Period Last Year |
|---|------------------------------------|-----------------------|---|
| Basic earnings per share (Yuan/share)                                       | 0.19                               | 0.22                  | -12.70  |
| Diluted earnings per share (Yuan/share)                                     | 0.19                               | 0.22                  | -12.70  |
| Basic earnings per share net of non-recurring gains and losses (Yuan/share) | 0.19                               | 0.22                  | -12.10  |
| Weighted average return on equity (%)                                       | 2.83                               | 3.35                  | Down 0.52 pts   |
| Weighted average return on equity net of non-recurring gains and losses (%) | 2.82                               | 3.31                  | Down 0.49 pts   |

## 5. Non-recurring Items and Amounts

| Non-recurring Items  | Unit: RMB Million                 |     |
|--|-----------------------------------|-----|
|  | Amounts from January to June 2014 |     |
| Gains and losses from disposal of non-current assets                         |                                   | -77 |
| Investment income from disposal of available-for-sale financial assets, etc. |                                   | 10  |
| Other net non-operating income and expenditure                               |                                   | 85  |
| Effect of income tax   |                                   | -4  |
| Affected amount belonging to minority shareholders                           |                                   | -4  |
| In total   |                                   | 10  |

## IV. Board of Directors' Report

The first half of 2014 saw a continued growth in iron and steel output, with a nationwide production of 0.41 billion tons of crude steel in the first six months, a YoY increase of 3%; a production of 0.55 billion tons of steel products, a YoY increase of 6.4%. Since the end of last year, major domestic cities have been experiencing a continuous rise in the inventory of hot-rolled, cold-rolled and deformed steel. The inventory once reached its peak in the first quarter, but by the end of June dropped to the same level as the end of last year. Meanwhile, the steel price has been dropping all the way, so the profit of the iron and steel industry is still meager.



Source: Crude steel output – National Bureau of Statistics

Inventory of hot-rolled (sheet), cold-rolled and deformed steel for major cities of China (weekly) –wind

CISA Composite Steel Price Index -wind

Faced with a meager-profit trend in the iron and steel industry, and in order to respond to the changing market requirements, the Company worked hard to strengthen itself, actively optimized the product mix, strived to improve its manufacturing capabilities, and continued to enhance cost management and control. In the first half of 2014, the Company produced 10.89 million tons of iron, 11.149 million tons of steel, and sold 11.214 million tons of steel, realizing a total consolidated profit of RMB 4.47 billion. In the first half of 2014, 88 medium- and large-sized steel enterprises realized a total profit of RMB 7.48 billion yuan, representing a YoY growth of 133.5%. Baosteel accounted for nearly 60% of the said total profit realized by medium- and large-sized steel enterprises, maintaining the best operating performance among its domestic peers.

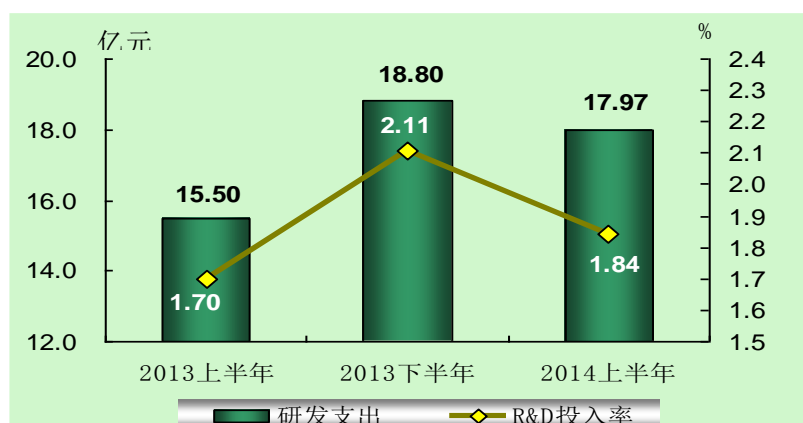
## (I) Analysis of Major Business

### 1. Analysis of Changes to Financial Statements

Unit: RMB Million

| Item                                     | Current Period<br>(January to June) | Same Period Last Year | Change (%) |
|--|-------------------------------------|-----------------------|------------|
| Operating revenue                        | 97,598                              | 96,100                | 1.6        |
| Operating cost                           | 88,204                              | 87,267                | 1.1        |
| Sales expenses                           | 945                                 | 874                   | 8.1        |
| Administrative expenses                  | 3,473                               | 2,904                 | 19.6       |
| Financial expenses                       | 546                                 | -251                  | 317.6      |
| Net cash flow from operating activities  | 14,282                              | 6,554                 | 117.9      |
| Net cash flow from investment activities | -3,298                              | -2,319                | 42.2       |
| Net cash flow from financing activities  | -5,072                              | 1,584                 | -420.4     |
| R&D expenditures                         | 1,797                               | 1,550                 | 15.9       |

- (1) Financial expenses increased RMB 0.80 billion from that of the previous year mainly because of RMB exchange rate fluctuations. In the first half of 2014, the Company recorded an exchange loss of RMB 0.27 billion, but recorded an exchange gain of RMB 0.47 billion in the same period of 2013.
- (2) Please refer to “3 Analysis of Cash Flows” for changes of net cash flow from operating activities, net cash flow investment activities from and net cash flow from financing activities.
- (3) R&D expenditures increased RMB 0.25 billion from that of the previous year mainly because of the intensified R&D investment by Baosteel HQ. The Company upholds its technology leadership strategy by continuously intensifying R&D investment. The Company ranks among the top few among domestic and international steel enterprises in the aspect of R&D investment ratio.



### 2. Analysis of Profit Composition

The Company registered a total consolidated profit of RMB 4.47 billion for the first half of



this year, a decrease of 13.7% (or RMB 0.71 billion) over the same period of 2012, mainly because of exchange loss. The total consolidated profit net of the exchange loss was RMB 4.74 billion, representing a YoY increase of RMB 30 million.

### 3. Analysis of Cash Flows

(1) In the first half of 2014, the net cash flow from operating activities of the Company registered a YoY increase of RMB 7.73 billion or a YoY increase of 117.9%. In the first half of 2014, the Company registered RMB 3.33 billion in net profit, RMB 5.21 billion in depreciation and amortization of fixed assets, RMB 390 million in other non-operating losses and RMB 8.92 billion in cash due from operating activities. Cash flow from decreased inventory increased by RMB 2.35 billion; cash flow from increased receivables from operating activities decreased by RMB 0.44 billion; cash flow from increased payables from operating activities increased by RMB 3.45 billion. The Company realized RMB 14.28 billion in net cash inflow from operating activities, marking a YoY increase of RMB 7.73 billion. Leaving out the factor of the Finance Co., the net cash inflow arising from operating activities was RMB 15.48 billion, RMB 7.25 billion more than that of the same period last year. This increase is caused by the following factors:

- ① Net profit marked a YoY decrease of RMB 0.43 billion, which decreased the cash flow;
- ② Depreciation and amortization of fixed assets marked a YoY increase of RMB 0.27 billion, which increased the cash flow;
- ③ Financial expenses marked a YoY increase of RMB 0.81 billion, which increased the cash flow;
- ④ Allowances for assets impairment, loss on investment and other items marked a YoY decrease of RMB 70 million, which decreased the cash flow;
- ⑤ At the end of June, the inventory decreased by RMB 2.35 billion, while the inventory of the same period last year increased by RMB 2.81 billion, resulting in a YoY increase of RMB 5.17 billion in cash flow;
- ⑥ At the end of June, the receivables from operating activities increased by RMB 190 million, marking a YoY increase of RMB 140 million and resulting in a YoY decrease of RMB 50 million in cash flow;
- ⑦ At the end of June, the payables from operating activities increased by RMB 4.40 billion, marking a YoY increase of RMB 2.85 billion and resulting in a YoY increase of RMB 1.55 billion in cash flow;

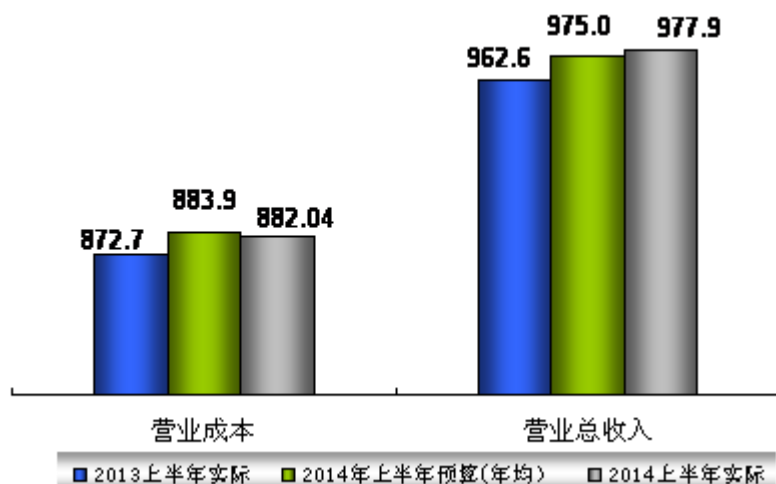
(2) The net cash outflow from investing activities increased by RMB 0.98 billion (or 42.2%) on a YoY basis, mainly because in the first half of 2014 the Company paid RMB 2.34 billion as transfer fee for the land in Western Luojing Area; the Zhanjiang Steel Project construction expenditure increased by RMB 2.70 billion; the Company contributed RMB 3.20 billion to the Third West to East Gas Pipeline in the first half of 2013; the investment in fixed assets of corporate legal persons and Shanghai Meishan Iron & Steel Co., Ltd. was RMB 0.93 billion less than that of the same period last year.

(3) Net cash outflow from financing activities marked a YoY increase of RMB 6.66 billion, mainly because in the first half of 2014 the Company paid RMB 10 billion for the 08 Baosteel Convertible Bond which became due in current period and spent RMB 0.19 billion on repurchasing stock (the Company spent RMB 3.08 billion on repurchasing stock in the same period last year).

### 4. Analysis of Budgets and Plans Fulfilment

The total operating revenue budget for 2014 is RMB 195 billion, and RMB 97.79 billion was

actually attained in the first half, accounting for 50.1% of the annual budget; the total operating cost budget is RMB 176.77 billion, and RMB 88.2 billion was actually expended, accounting for 49.9% of the annual budget; in the second half of the year, the Company shall spare no effort to counter difficulties and challenges, and further break down and implement all kinds of measures, with a view to maintaining the best operating performance among domestic peers.



In the second half of 2014, uncertain factors will still exist in the macro environment and downstream markets of the iron & steel industry with overcapacity still being an outstanding issue. In addition, in the second half of 2014, the Headquarters of the Company will overhaul its No.4 Blast Furnace, carry out series of annual overhauls and implement technical innovations, which will adversely affect the production capacity utilization, production-sales balance and cost & expense control. Thus, the Company shall spare no effort to counter difficulties and challenges, strengthen market forecast, further improve internal production stability and resource utilization, continuously focus on inventory and cash flow control, and further break down and implement all kinds of measures, with a view to maintaining stable performance indicators and the best operating performance among domestic peers.

## (II) Analysis of Business by Industry, by Products or by Region

### 1. Principal Business by Segment

Unit: RMB Million

| Segment                    | Operating revenue | Operating cost | Gross margin | YoY change in revenue | YoY change in cost | YoY Change in gross margin |
|----------------------------|-------------------|----------------|--------------|-----------------------|--------------------|----------------------------|
| Iron & steel manufacturing | 64,712            | 58,384         | 9.78%        | -2.39%                | -3.04%             | Up 0.6 ppts                |
| Processing & distribution  | 89,272            | 87,184         | 2.34%        | 1.39%                 | 1.12%              | Up 0.3 ppts                |
| Information technology     | 1,606             | 1,112          | 30.77%       | 5.35%                 | -3.24%             | Up 6.2 ppts                |
| E-commerce                 | 6,062             | 6,038          | 0.40%        | 6509.39%              | 6638.99%           | Down 1.9 ppts              |
| Chemical                   | 4,976             | 4,534          | 8.88%        | -15.00%               | -14.02%            | Down 1.0 ppts              |
| Finance                    | 304               | 143            | 52.90%       | 8.31%                 | 11.02%             | Down 1.2 ppts              |
| Offset between segments    | -69,108           | -69,065        | 0.06%        | 5.04%                 | 5.14%              | Almost no change           |
| Total                      | 97,824            | 88,330         | 9.70%        | 1.58%                 | 1.08%              | Up 0.5 ppts                |

Note: Based on the internal organizational structure, the Company is divided into six segments, i.e. iron & steel manufacturing, processing & distribution, information technology, e-commerce, chemical and finance. The iron & steel manufacturing segment consists of all iron & steel

manufacturing units; the processing & distribution segment consists of such trading units as Baosteel International and overseas companies, etc.; the information technology segment is the business of BAOSIGHT; the e-commerce segment consists of such units as Shanghai Iron & Steel Trade Center, Bsteel, etc.; the chemical segment is the business of the chemical company; the finance segment is the business of the Finance Co..

## 2. Operating Revenue and Cost for Major Iron & Steel Products

Unit: RMB Million

| Product                                   | Operating revenue | Operating cost | Gross margin | YoY change in revenue | YoY change in cost | YoY Change in gross margin |
|---|-------------------|----------------|--------------|-----------------------|--------------------|----------------------------|
| Cold-rolled carbon steel sheets and coils | 27,288            | 23,317         | 14.55%       | 5.24%                 | 4.61%              | Up 0.5 ppts                |
| Hot-rolled carbon steel sheets and coils  | 15,475            | 13,166         | 14.92%       | -3.27%                | -3.44%             | Up 0.2 ppts                |
| Heavy plates                              | 2,629             | 2,903          | -10.46%      | 1.72%                 | 10.08%             | Down 8.4 ppts              |
| Steel tubes and pipes                     | 4,602             | 4,663          | -1.34%       | -11.96%               | -3.03%             | Down 9.3 ppts              |
| Other iron and steel products             | 2,742             | 2,674          | 2.47%        | -30.86%               | -31.76%            | Up 1.3 ppts                |
| Total                                     | 52,735            | 46,725         | 11.40%       | -1.81%                | -1.20%             | Down 0.6 ppts              |

Note: In the first half of 2014, the domestic market prices of heavy plates experienced a twisting drop. The prices of heavy plates of the Company dropped less than the average market in the same period, but, restricted by the overall market environment, the profit margin of heavy plates further narrowed compared to that of the same period last year. Due to falling sales prices and volumes, the Company's operating revenue and cost of steel tubes and pipes suffered a significant drop from that of the same period last year. The operating revenues and costs of other iron & steel products also saw considerable drops from those of the same period last year, mainly because their sales volumes dropped considerably from those of the same period last year.

## 3. Principal Business by Region

In the first half of 2014, the Company exported 1.059 million tons of iron and steel products, while in the previous year the figure was 1.077 million tons. The regional distribution of operating revenue is as follows:

Unit: RMB Million

| Region          | Operating revenue | Operating cost | Gross margin | YoY change in revenue | YoY change in cost | YoY Change in gross margin |
|-----------------|-------------------|----------------|--------------|-----------------------|--------------------|----------------------------|
| Domestic market | 86,515            | 77,637         | 10.26%       | -0.44%                | -0.95%             | Up 0.5 ppts                |
| Overseas market | 11,309            | 10,693         | 5.44%        | 20.24%                | 18.79%             | Up 1.2 ppts                |
| Total           | 97,824            | 88,330         | 9.70%        | 1.58%                 | 1.09%              | Up 0.4 ppts                |

### (III) Analysis of Core Competitiveness

As per the strategic path defined in its new plan, namely "1 Body + 2 Wings" and "Implement 3 Transformations/Upgrades", the Company has subdivided and promoted various strategic initiatives. The Company has achieved the following stage-specific results during the reporting period:

#### 1. Improved competitiveness of iron & steel business and innovated services

In the aspect of construction of the iron & steel base, construction of the Baosteel Zhanjiang Steel Project is moving on smoothly. By the end of May, lifting and installation of the steel structures of the project's main works was already fully initiated. Installation of the body of No.1 Blast Furnace is expected to be completed in August this year, which will lay a solid foundation for official operation in the coming year. The 300,000-ton unloading dock, self-owned power plant and other works of the Zhanjiang Steel Project have already entered the stage of equipment installation and commissioning. Genset 1 of the power plant is expected to be combined to the grid by the end of this year. Other works like the power distribution system, rainfall drainage system and the gas system are already at their peak of construction.

With respect to service innovation, Baosteel International, through interacting with automobile makers at the early stage, cooperates with automobile makers in carrying out new automobile projects from the very beginning of vehicle model designing. The Company has established a cooperation mechanism with the technical departments of main users to provide them with process designs for parts of new vehicle model and high-quality technical services. While maintaining cutting and processing services, the Company also fully applies new processes for hydroforming, thermoforming, rolling, etc, with a view to maximize the values of both Baosteel's steel and users' production facilities. In addition, in order to further strengthen its overseas sales service system, the Company added 2 to its existing 13 overseas sales outlets (incl. subsidiaries and representative offices), thus accelerating the arrangement of overseas processing centers.

In the aspect of technology innovation, Baosteel's "The Development and Industrialization Project of the Low-Temperature High Magnetic Induction Oriented Silicon Steel Manufacturing Technology" won the First Prize of the National Science and Technology Progress Award, and its "The Development and Industrialization Project of the High Grade Non-oriented Silicon Steel Manufacturing Technology" won the First Prize of the Shanghai Municipal Science and Technology Progress Award.

As to the environmental-friendly operation, the Company has officially issued the "Baosteel Sustainability Report (2013)" and the "Baosteel Green Manufacturing Development Plan (2013-2018)", and is implementing energy-saving initiatives from three aspects – management, technology and process.

## 2. Accelerated the development of "2 Wings"

In the aspect of e-commerce, since the beginning of this year, the financial service team consisting of Baosteel Eastern Pay and Baosteel Finance Co. has been closely following the e-commerce platform requirements by employing diversified financial products and services to promote the rapid growth of payment business, and has been gradually expanding from iron & steel to B2B for commodities like chemicals, non-ferrous metals, agricultural products, etc. As at the end of the reporting period, the cumulative on-line trading volume of Baosteel Eastern Pay had exceeded RMB 10 billion. In the first half of 2014, Shanghai Iron & Steel Trading Center cumulatively settled the transaction of 1.78 million tons with a transaction value of RMB 6 billion, 45% of which being socially traded.

In the IT field, China Mobile Shanghai Branch and Shanghai Bassinet Software Co., Ltd. signed in Shanghai a custodies data center service contract and an agreement intended to further deepen strategic cooperation. Both parties will join hands to promote the upgrading and development of the information industry in Shanghai and contribute to the construction of the "4 Centers".

## (IV) Investment Analysis

### 1. Overall Equity Investment

In the first half of 2014, the Company spent RMB 1.08 billion in equity investment projects, marking a decrease of RMB 3.37 billion from the RMB 4.45 billion of the same period last year. Please see the following table for the main investment projects.

Unit: RMB Million

| Name of Invested Company                              | Nature of Business     | Baosteel's Share in Equity of Invested Company | Capital Actually Contributed by Baosteel | Means of Capital Contribution        |
|---|------------------------|--|--|--------------------------------------|
| Shanghai Bassinet Software Co., Ltd                   | Information technology | 55.5%  | 361                                      | Cash                                 |
| Shanghai Baosteel Pudong International Trade Co., Ltd | Iron & steel trading   | 100.0%   | 450                                      | Surplus reserve converted to capital |
| Baosteel Chemicals Zhanjiang Co., Ltd                 | Manufacturing          | 100.0%   | 100                                      | Cash                                 |
| Baosteel Packaging (Italy) Co., Ltd                   | Manufacturing          | 10.0%  | 17                                       | Cash                                 |
| Total   |                        |  | 928                                      |                                      |

## 2. Investment in Securities

None.

## 3. Stocks held of other listed companies

Unit: RMB Million

| Code   | Abbreviation                  | Initial investment | BOP shareholding ratio (%) | EOP shareholding ratio (%) | EOP book value | Gains and Losses in current period | Change in shareholders' equity in current period | Accounting type                     | Share source                    |
|--------|-------------------------------|--------------------|----------------------------|----------------------------|----------------|------------------------------------|--|-------------------------------------|---------------------------------|
| 000983 | Xishan Coal Electricity Group | 941.66             | 1.35                       | 1.35                       | 224.81         | 0.43                               | -58.55   | Financial assets available for sale | Acquisition at secondary market |
| 601699 | Lu'an Environmental Energy    | 5.05               | 0.51                       | 0.51                       | 89.64          | -                                  | -27.28   | Financial assets available for sale | Investment when established     |
| 600508 | Shanghai Energy               | 5.55               | 0.77                       | 0.77                       | 43.91          | -                                  | -8.48  | Financial assets available for sale | Investment when established     |
| 600997 | Kailuan Corporation           | 3.51               | 0.38                       | 0.38                       | 20.32          | 0.29                               | -4.23  | Financial assets available for sale | Investment when established     |
| 601001 | Datong Coal Industry          | 2.57               | 0.22                       | 0.22                       | 19.69          | -                                  | -0.84  | Financial assets available for sale | Investment when established     |
| Total  |                               | 958.33             | /                          |                            | 398.37         | 0.72                               | -99.38   | /                                   | /                               |

## 4. Equities held of financial enterprises

None.

## 5. Purchase and Sale of Stocks of Other Listed Companies

None.

## 6. Investment In Entrusted Financial Management Products and the Derivative Products by Non-Financial Companies

## (1) Entrusted Financial Management

None.

## (2) Entrusted loans

None.

## (3) Other investment in financial management products and the derivative products

Unit: RMB Million

| Investment type                                    | Capital             | Signing                 | Shares of        | Investment         | Product    | Anticipated  | Profit       | Involvement |
|--|---------------------|-------------------------|------------------|--------------------|------------|--------------|--------------|-------------|
| <b>I. Other investment in financial management</b> |                     |                         |                  |                    |            |              |              |             |
| <b>Financial assets available for sale</b>         |                     |                         |                  |                    |            |              |              |             |
| Corporate bond                                     | Self-generated fund | Inter bank market       | 554.27           | Over one year      | Bond       | 8.47         | 11.02        | No          |
| Policy financial bonds                             | Self-generated fund | Inter bank market       | 334.22           | Over one year      | Bond       | 15.74        | 0.00         | No          |
| <b>Sub-total</b>                                   |                     |                         | <b>888.49</b>    |                    |            | <b>24.21</b> | <b>11.02</b> |             |
| <b>Held-to-maturity investment</b>                 |                     |                         |                  |                    |            |              |              |             |
| Trust plan   | Self-generated fund | Trust company           | 180.00           | Over one year      | Trust      | 0.00         | 11.92        | No          |
| Bank financial products                            | Self-generated fund | Trust company           | 310.00           | Over one year      | Trust      | 0.00         | 3.42         | No          |
| Entrusted government securities repurchase         | Self-generated fund | Inter bank market       | 12,005.00        |                    |            | 0.00         | 9.28         | No          |
| <b>Sub-total</b>                                   |                     |                         | <b>12,495.00</b> |                    |            | <b>0.00</b>  | <b>24.62</b> |             |
| <b>Held-for-trading financial assets</b>           |                     |                         |                  |                    |            |              |              |             |
| Money fund   | Self-generated fund | Fund company            | 535.00           | Less than one year | Fund       | 0.00         | 2.46         | No          |
| Trust plan   | Self-generated fund | Trust company           | 277.03           | Less than one year | Trust      | 0.00         | 2.30         | No          |
| Corporate bond                                     | Self-generated fund | Shanghai Stock Exchange | 30.26            | Over one year      | Bond       | 0.67         | 0.00         | No          |
| <b>Sub-total</b>                                   |                     |                         | <b>842.29</b>    |                    |            | <b>0.67</b>  | <b>4.76</b>  |             |
| <b>Total</b>                                       |                     |                         | <b>14,225.78</b> |                    |            | <b>24.88</b> | <b>40.40</b> |             |
| <b>II. Investment in derivative products</b>       |                     |                         |                  |                    |            |              |              |             |
| Forwards and Swaps                                 | Self-generated fund | Bank                    | 7,164.62         | Less than one year | Derivative | -22.83       | -27.25       | No          |

Note: ①All of the above financial management businesses were carried out by the Company's subsidiary, the Finance Co., a financial subsidiary controlled by the Company. The financial management is within its business scope.

②The "Shares of investment" listed above consisted of the book value as at the end of the previous year and the capital investment in this reporting year, and were not the shares of investment corresponding to the investment types held at the end of the period.

③The investment in derivative products consists of the forward business carried out by the Company and its subsidiary, Baosteel Singapore PTE Ltd. etc., to avoid the exchange rate risk of asset liabilities calculated by foreign currencies and the swap business carried out to avoid price fluctuation risk of iron ore.

## 7. Use of Funds Raised

None.

## 8. Performance of its Controlled Subsidiaries and Joint Stock Companies

### (1) Shanghai Meishan Iron & Steel Co., Ltd.

By June 30, 2014, the Company had 77.04% shareholding of Shanghai Meishan Iron & Steel Co., Ltd. With a registered capital of RMB 7.08 billion, Meishan Steel specializes in black metal metallurgy, rolling processing and sales. By June 30, 2014, it had a total asset of RMB 34.56 billion and a net asset of RMB 11.2 billion, and achieved a net profit of RMB 50 million for the first half of 2014.

### (2) Baosteel Zhanjiang Iron & Steel Co., Ltd.

By June 30, 2014, the Company had 85.7% shareholding of Baosteel Zhanjiang Iron & Steel Co., Ltd. With a registered capital of RMB 20 billion and an actually paid-up capital of RMB 14 billion, Zhanjiang Steel specializes in black metal metallurgy, rolling processing and sales. Currently, it is under construction. By June 30, 2014, it had a total asset of RMB 24.63 billion and a net asset of RMB 14.48 billion, and reported a net profit of RMB -20 million for the first half of 2014.

### (3) Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd.

By June 30, 2014, the Company owned 50% of Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA). With a registered capital of RMB 3 billion, BNA is mainly engaged in the manufacturing and sales of cold-rolled steel sheets and hot-dip and electrolytic galvanized steel sheets for automobile and automotive parts and other services related to such businesses. By June 30, 2014, BNA had a total asset of RMB 4.52 billion and a net asset of RMB 3.38 billion, and achieved a net profit of RMB 70 million for the first half of 2014.

### (4) Yantai Lubao Steel Tubes Co., Ltd.

By June 30, 2014, the Company owned 79.82% of Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes). With a registered capital of RMB 100 million, Lubao Steel Tubes is mainly engaged in the processing and sales of seamless steel tubes. Its major products include structural seamless steel tubes, low/medium pressure boiler seamless tubes, seamless pipelines for transportation of fluids, hydraulic seamless tubes, high pressure boiler seamless tubes, seamless tubes for oil pipelines, geological drillings, oil pipelines, oxygen canisters, and so on. By June 30, 2014, Lubao Steel Tubes had a total asset of RMB 0.74 billion and a net asset of RMB 0.49 billion, and reported a net profit of RMB -50 million for the first half of 2014.

### (5) Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd.

By the end of June 30, 2014, the Company owned 58.45% of Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd. (Huangshi). With a registered capital of RMB 150 million, Huangshi specializes in the production and sales of cold-rolled sheets, aluminium coated steel sheets, color-coated steel sheets and related coated steel products. By June 30, 2014, Huangshi had a total asset of RMB 1.1 billion and a net asset of RMB 340 million, and achieved a net profit of RMB 10 million for the first half of 2014.

### (6) Shanghai Baosteel International Economic & Trading Co., Ltd.

By June 30, 2014, the Company had a full shareholding of Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International). With a registered capital of RMB 2.25 billion, Baosteel International is mainly engaged in independent and agency imports and exports of goods and technology approved by the government, the imports of steel and scrap steel, processing with imported materials and the "three-plus-one" trading-mix. By June 30, 2014, Baosteel International had a total asset of RMB 41.31 billion and a net asset of RMB 13.33 billion, and achieved a net profit of RMB 620 million for the first half of 2014.

### (7) Shanghai Bassinet Software Co., Ltd.

By June 30, 2014, the Company owned 55.5% of Shanghai Bassinet Software Co., Ltd. (Bassinet). With a registered capital of RMB 0.36 billion, Bassinet is mainly engaged in the research, design, development, manufacturing and integration of computer, automation, network

communication systems and software & hardware products. By June 30, 2014, Bassinet had a total asset of RMB 4.60 billion and a net asset of RMB 2.44 billion, and achieved a net profit of RMB 140 million for the first half of 2014.

(8) Shanghai Baosteel Chemical Co., Ltd.

By June 30, 2014, the Company had a full shareholding of Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical). With a registered capital of RMB 2.11 billion, Baosteel Chemical is mainly engaged in the production and sales of raw chemical materials and products, “four techniques” services in chemical industry, and import and export activities of self-manufactured products. By June 30, 2014, Baosteel Chemical had a total asset of RMB 5.93 billion and a net asset of RMB 4.48 billion, and achieved a net profit of RMB 0.25 billion for the first half of 2014.

(9) Baosteel Nantong Iron & Steel Co., Ltd.

By June 30, 2014, the Company had 95.82% of Nantong Iron & Steel. With a registered capital of RMB 620 million, Nantong Iron & Steel is mainly engaged in the production and sales of deformed steel bars, round steel bars, structural steel, semi-finished steel products (such as billet steel and steel ingot, etc.), as well as other iron & steel products and by-products. By June 30, 2014, Nantong Iron & Steel had a total asset of RMB 1.83 billion and a net asset of RMB -170 million, and reported a net profit of RMB -290 million for the first half of 2014. Since April 2014, Baosteel Nantong Iron & Steel Co., Ltd. has been operating economically.

(10) Baosteel Group Finance Co., Ltd.

By June 30, 2014, the Company had 62.1% of Baosteel Group Finance Co., Ltd. (Finance Co.). With a registered capital of RMB 1.1 billion, Finance Co. is mainly engaged in absorbing deposits from member entities, providing loans to them, conducting internal financial transfers and relevant settlements between them, helping them in entrusted loan and investment, and engaged in deposits from or to other financial institutions. By June 30, 2014, Finance Co. had a total asset of RMB 13.17 billion and a net asset of RMB 1.79 billion, and achieved a net profit of RMB 80 million for the first half of 2014.

(11) Yantai Baosteel Tubes Co., Ltd.

By June 30, 2014, the Company owned 80% of Yantai Baosteel Tubes Co., Ltd., with the rest 20% owned by Lubao Steel Tubes. With a registered capital of RMB 2 billion, Yantai Baosteel Tubes is mainly engaged in manufacturing, processing and sales of steel tubes, matching products and by-products, while providing technical consultation, storage, shipping, importing and exporting services of steel tube rolling technology. By June 30, 2014, Yantai Baosteel Tubes had a total asset of RMB 4.35 billion and a net asset of RMB 90 million, and reported a net profit of RMB -240 million for the first half of 2014.

(12) Overseas Companies

By June 30, 2014, the Company had overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, and Hong Kong China. These overseas subsidiaries extended the Company's sales and purchase networks, and played a critical role in enhancing the Company's international competitiveness.

## 9. Major Non-fundraising Investment Projects

In the first half of 2014, the Company invested RMB 5.61 billion in fixed assets.

### (1) Continued Projects

Revamping of HQ Phase I coke ovens. In order to achieve technical upgrading of the coke ovens and improve its energy-saving level, it is decided to dismantle the existing 4×50-hole 6M coke ovens and build a 4×50-hole 7M coke ovens. With a combined designed annual coke output of 2.47 million tons, 1A1B is planned to produce coke in July 2015 and 2A2B in November 2015. Upon completion of the revamping project, 4×50-hole 6M coke ovens of Phase II will be dismantled, reducing the total number of coke ovens from 12 to 10, while the total production capacity of 5.53 million tons/year will remain unchanged. Construction of the bed of 1A1B Coke



Oven has been completed, while that of 2A2B Coke Oven is still under construction. Steel structures for the main coke dry quenching process are being manufactured.

Zhanjiang Steel Project. The project is established to implement the national "Steel Industry Restructuring and Revitalization Plan", achieve steel industry strategic adjustment in Guangdong and Shanghai with new ironmaking, steelmaking, hot rolling and cold rolling production lines, designed with an annual production of hot metal of 8.23 million tons, liquid steel of 8.928 million tons, con-cast slabs of 8.749 million tons, steel of 6.89 million tons and planned to be put into operation in September 2016. Up to now, the main works of Zhanjiang Steel Project are already at the end of pile foundation construction and are at their peak of civil construction. For example, shells of blast furnaces are already being installed; lifting and installation of steel structures for main workshops of steel making, continuous casting, hot rolling and cold rolling is already begun; public and auxiliary linear works are already at their peak of construction; construction of such works as roads, power pipelines, cable tunnels, water supply and discharge pipelines, etc. is progressing in an orderly manner.

## (2) Newly-started Projects

Revamping of the hearth of 4# Blast Furnace at the Headquarters. Without changing the furnace type or capacity, the furnace capacity will remain at 4747M<sup>3</sup> after revamping with an annual hot metal production capacity of 3.90 million tons. The revamped blast furnace will have an 18-year campaign and will be put into operation in December 2014.

Revamping of the hot-dip galvanizing line of 2030 Unit of the cold-rolling workshop at Headquarters. In order to optimize the structure of hot-dip galvanized products and improve the competitiveness of Baosteel's hot-dip galvanized products, the Company is now building a new hot-dip galvanizing line with a designed annual production capacity of 380,000 tons, mainly thick, high-strength and ultra-high-strength GI auto sheets. It is planned to be put into operation in December 2015.

## (V) Caution from the Operational Results

None.

## (VI) Profit distribution plan or capital reserve capitalization plan

The historical dividend distribution plans of the Company has met the requirements of the Articles of Association and been passed with shareholders' meeting resolution. The historical dividend distribution plans of the Company has met the requirements of the Articles of Association and been passed with shareholders' meeting resolution. The Company's cash dividend standard and ratio are precise and clear, the related decision-making procedures and mechanisms are complete, the independent directors have performed due diligence and played due role, the minority shareholders have full opportunity to express their views and appeals, the legitimate rights and interests of minority shareholders have been fully maintained.

The Company's 2012 annual shareholders meeting passed "Motion on the Amendment of Articles of Association of Baoshan Iron & Steel Co. Ltd", which provides that "When the audited Company statements (unconsolidated) record positive net profit, the accumulated undistributed profit is positive, and the Company's cash flow meets the Company's normal operations and sustainable development, the Company shall distribute cash dividends of the year, which shall be no less than 50% of net profits attributable to the parent company in the annual audited consolidated statements of the Company, the cash dividend amount shall be tax inclusive. The cash paid for stock repurchase in the year shall be deemed as cash dividend."

As per the resolution of the 2013 annual shareholders' meeting held on April 30<sup>th</sup> 2014, the profit distribution plan of 2013 is as follows: based on the total shares (16,471,724,924 shares) of the Company, the cash dividend distributed for each share is RMB0.10 yuan (including tax), so the total cash dividend distributed is RMB1,647,172,492.40 (including tax); for Y2013, no profit will be distributed in any other form, e.g. capitalization of capital public reserve, etc. The

Company published the dividend distribution announcement in China Securities Journal, Shanghai Securities News and Securities Times on June 24<sup>th</sup> 2014, and determined June 27<sup>th</sup> 2014 as the dividend distribution record date, June 30<sup>th</sup> 2014 as the ex-dividend date and June 30<sup>th</sup> 2014 as the dividend payment date. The distribution targets include all shareholders of the Company registered by China Securities Depository and Clearing Corporation Limited Shanghai Branch after the Shanghai Stock Exchange closed trading on the afternoon of June 27, 2014.

## V. Significant Events

### (I) Corporate Governance

Since established and listed at the stock exchange in 2000, the Company has been strictly following the Company Law, the Securities Law, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange in standardizing its corporate governance structure and regulating its operation and, with full and transparent information disclosure, good interactive relationship with investors, and strict and effective internal control and risk control system, sound credit and transparency in management, has established a complete and comprehensive corporate governance system. The Company encourages outside directors to fully play their roles, continuously improves the work efficiency of the Board of Directors, promotes scientific decision-making and reasonably prevents risks.

### (II) Material Lawsuits and Arbitrations

There were no material lawsuits and arbitrations in the reporting period.

### (III) Bankruptcy and Restructuring

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

### (IV) Assets Trading and Enterprise Merger

There were no material assets trading and enterprise merger in the reporting period.

### (V) Execution of Stock Ownership Incentive Plan

On March 27<sup>th</sup> and 28<sup>th</sup> 2014, the 13<sup>th</sup> meeting of the 3<sup>rd</sup> Board of Directors of the Company reviewed and approved the restricted stock ownership incentive plan and the Phase-I grant program, and agreed to submit relevant documents of the restricted stock ownership incentive plan to the general meeting of shareholders for discussion.

On March 28<sup>th</sup> 2014, independent directors of the Company gave their independent opinion that the Company is free from any circumstance under which laws and regulations forbids it to implement the restricted stock ownership incentive plan; that the Company is a qualified principal for implementing such a plan; that the targets of the incentive plan meet the conditions specified by law and regulations; that neither the restricted stock ownership incentive plan nor the first grant plan will impair the interests of the Company and all shareholders.

On March 28<sup>th</sup> 2014, the 11<sup>th</sup> meeting of the 5<sup>th</sup> Board of Supervisors of the Company, after examination and verification, gave their opinion that all of the 136 targets of the restricted stock ownership incentive plan meet the conditions specified by laws and regulations and normative documents and are legal and valid as the targets of the incentive plan.

On April 21<sup>st</sup> 2014, Baosteel Group Corporation received the Official Reply to the Implementation by Baoshan Iron & Steel Co., Ltd. of the Restricted Stock Ownership Incentive Plan from the State-owned Assets Supervision and Administration Commission of the State Council that in principle permits Baosteel to implement the restricted stock ownership incentive plan and corresponding performance assessment targets.

On April 28<sup>th</sup> 2014, China Securities Regulatory Commission expressed no objection to the

filing of the restricted stock ownership incentive plan and the Phase-I grant program.

April 29<sup>th</sup> 2014, the 14<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors and the 12<sup>th</sup> meeting of the 5<sup>th</sup> Board of Supervisors of Baosteel respectively reviewed and approved the Phase-I grant program (revised draft).

May 20<sup>th</sup> 2014, Baosteel's 1<sup>st</sup> temporary general meeting of shareholders in 2014 reviewed and approved the restricted stock ownership incentive plan, the Phase-I grant program and relevant administrative rules.

On May 22<sup>nd</sup> 2014, the 15<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of Baosteel reviewed and approved the Proposal for Determination of the Incentive Targets and Respective Grant Quantities of A-Share Restricted Stock Ownership Incentive Plan and the Proposal for the Implementation of Phase I Program of the A-Share Restricted Stock Ownership Incentive Plan and determined May 22<sup>nd</sup> 2014 as the grant date. Independent directors expressed their independent opinions with respect to this. The 13<sup>th</sup> meeting of the 5<sup>th</sup> Board of Supervisors checked and unanimously passed the adjusted list of incentive targets.

From May 23<sup>rd</sup> 2014 to June 11<sup>th</sup> 2014, the Company repurchased a total of 47,446,100 shares (0.3% of the total shares of the Company) through several repurchases and paid a total of RMB 187,734,750.08 yuan (including commission, etc.). The highest repurchase price was RMB 3.99 yuan/share, the lowest was RMB 3.87 yuan/share, and the average repurchase price was RMB 3.96 yuan/share.

On June 19<sup>th</sup> 2014, the 47,446,100 shares repurchased by the Company were changed from floating shares without trading limited conditions to floating shares with trading limited conditions.

There are a total of 136 persons qualified as the incentive targets of this stock incentive plan and 47,446,100 shares are granted in total. The grant price is RMB 1.91 yuan/share. According to the capital verification report issued by Deloitte Touche Tohmatsu, as of June 17<sup>th</sup> 2014 the bank account designated by the Company had received RMB 90,622,051 yuan as the capital paid-up by the 136 incentive targets.

As requested by the Board of Directors of the Company, confirmed by Shanghai Stock Exchange and approved and registered at China Securities Depository and Clearing Corporation Limited (CSDC), as of June 24<sup>th</sup> 2014, the 47,446,100 shares granted this time have already been changed from floating shares without trading limited conditions to floating shares with trading limited conditions and all of the relevant transfer formalities have been fully completed.

All of the details of the execution of the above-mentioned stock ownership incentive plan have been disclosed. Please refer to the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

## (VI) Significant Related Party Transactions

### 1. Day-to-day Related Party Transactions

The major related parties of the Company are the legal persons directly controlled by Baosteel Group. In the reporting period, the Company had undertaken the following day-to-day related party transactions with its major related parties:

#### (1) Purchase and sale of products and acceptance of labor services

Unit: RMB Million

| Related parties                           | Transactions  | Pricing policy | Amount |
|---|---|----------------|--------|
| Baosteel Stainless Steel Co., Ltd.        | Sale of iron & steel products, raw materials, and auxiliary materials | Market price   | 912    |
| Baosteel Group Shanghai Meishan Co., Ltd. | Sale of iron & steel products, etc.                                   | Market price   | 1,228  |

|   |  |                  |               |
|---|--|------------------|---------------|
| Baosteel Development Co., Ltd.                      | Sale of iron & steel products, etc.  | Market price     | 880           |
| Baosteel Special Steel Co., Ltd.                    | Sale of iron & steel products, raw materials, fuels and auxiliary materials                                    | Market price     | 1,155         |
| Baosteel Metal Co., Ltd.                            | Sale of iron & steel products and energy media   | Market price     | 717           |
| <b>Subtotal of product sales</b>                    |  |                  | <b>4,892</b>  |
| Baosteel Stainless Steel Co., Ltd.                  | Purchase of iron & steel products, etc.  | Market price     | 6,843         |
| Baosteel Special Steel Co., Ltd.                    | Purchase of iron & steel products, etc.  | Market price     | 3,671         |
| Ningbo Baoxin Stainless Steel Co., Ltd.             | Purchase of iron & steel products, etc.  | Market price     | 3,138         |
| Baosteel Resources Co., Ltd.                        | Purchase of raw materials and fuels  | Market price     | 2,184         |
| Ningbo Steel Co., Ltd.                              | Purchase of iron & steel products  | Market price     | 1,172         |
| Baosteel Group Shanghai Meishan Co., Ltd.           | Purchase of raw materials, fuels, auxiliary materials, etc.  | Market price     | 710           |
| Baosteel Development Co., Ltd.                      | Purchase of raw materials, fuels and auxiliary materials   | Market price     | 603           |
| Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Purchase of iron & steel products  | Market price     | 578           |
| <b>Subtotal of products purchased</b>               |  |                  | <b>18,898</b> |
| Baosteel Development Co., Ltd.                      | Receipt of services, e.g. comprehensive logistics, engineering, overhauling, warehousing, transportation, etc. | Negotiated price | 698           |
| Baosteel Group Shanghai Meishan Co., Ltd.           | Receipt of services, e.g. comprehensive logistics, engineering, overhauling, transportation, etc.              | Negotiated price | 606           |
| Baosteel Engineering Technology Group Co., Ltd.     | Receipt of services, e.g. testing, overhauling, engineering, etc.  | Negotiated price | 773           |
| <b>Subtotal of services received</b>                |  |                  | <b>2,078</b>  |

Note: All of the companies listed above include their subsidiaries.

The product sales above accounted for 5% of the Company's operating revenue in the reporting period; while the purchase of products and services accounted for 21.4% and 2.4% respectively of the Company's operating cost in the reporting period.

All of the above transactions were settled either by cash or by notes.

## (2) Financial Services

Baosteel Group Finance Co., Ltd. (hereafter referred to as Finance Co.), a national non-bank financial company jointly held by the Company (with 62.10% of the shares) and Baosteel Group (with 35.18% of the shares) etc., was established to enhance the central management of Group funds and increase the use efficiency of Group funds. It provides comprehensive financial services including internal accounting settlement, deposits and loans, financial management of short term capital, investment and financing, and so on for member entities.

In the reporting period, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, loans totaling RMB 8.94 billion to Baosteel Group's controlled subsidiaries, with a loan balance of RMB 1.93 billion and a total interest income of RMB 50 million. At the same time, it absorbed deposits from Baosteel Group and its controlled subsidiaries, retaining a balance held on deposit of RMB 6.66 billion and paying a total interest of RMB 110 million at the end of the period.

In the reporting period, Finance Co., at the discount rate determined on the basis of the rediscount rate set by the People's Bank of China, discounted RMB 640 million for subsidiaries controlled by Baosteel Group with an EOP balance of RMB 430 million and a discount interest income of RMB 30 million.

In the reporting period, Baosteel Desheng Stainless Steel Co., Ltd., a controlled subsidiary of

Baosteel Group, entrusted Finance Co. with government securities repurchase and other financial management business, where Finance Co. was entrusted to manage a total of RMB 950 million and was paid RMB 43,000 for such service.

The related party transactions between the Company and the related parties mentioned in above items (1) and (2) were conducted based on the principle of mutual maximum profits and optimal operation efficiency, where the Company and the related parties chose each other with a clear aim of making the best of each other's advantages via professional collaboration. And the day-to-day related party transactions between the Company and the related parties will continue.

## 2. Transfer of Assets or Equity with Related Parties

None.

## 3. Related External Investments with Related Parties

In the first half of 2014, Baosteel Europe GmbH, a subsidiary wholly-owned by the Company, and Baosteel Packaging (HK) Co., Ltd., which is also ultimately controlled by Baosteel Group Corporation, jointly invested in Baosteel Packaging (Italy) Co., Ltd. (Bao-Metal S.R.L.) with a registered capital of EUR 21.29 million. 10% of the shares of Bao-Metal S.R.L. is held by Baosteel Europe GmbH and 70% by Baosteel Packaging (HK) Co., Ltd. As of June 30<sup>th</sup> 2014, Baosteel Europe GmbH had paid up EUR 2.02 million as agreed.

## 4. Credit and debt with related parties

The credit and debt relationships of the Company with related parties are account receivables and payables that arise from day-to-day operating related-party transactions as well as long-term account receivables that result from transfer of assets to Baosteel Group.

The Company completed transfer of related assets of the subordinate stainless steel and special steel business units on April 1, 2012. The transfer payments of RMB 22.5 billion will be collected in equal installments over five years, or 20% each year. From 2013 onwards, principal and interest of the receivables will be collected on each April 1 until full payment on April 1, 2017. The asset transfer project has been approved by the general meeting of shareholders. At the end of June 2014, the long-term receivable balance was RMB 13.5 billion, including RMB 7.8 billion due from Shanghai Baosteel Stainless Steel Co., Ltd with corresponding installment interest income of RMB 104 million; and RMB 5.7 billion receivable from Baosteel Special Steel Co., Ltd., with installment interest income of RMB 76 million.

## (VII) Significant contracts and performance

### 1. Material transactions, custody, contract or lease matters

There have been no material transactions, trusteeship, contracting, leasing and other matters during the reporting period.

### 2. Significant guarantee

Given the increasingly competitive domestic and international steel markets and to take full advantage of market opportunities and support domestic and international sales offices of the Company to participate in domestic supply tenders under the coordination of the Company, the Proposal for Extending the Performance Bond Authorization Periods for Supplies by Wholly-owned Subsidiaries authorizes the management of the Company to independently approve the performance bonds provided by both domestic and overseas wholly-owned subsidiaries under the comprehensive planning of the Company for participating in supplying products and services, mainly those of the Company. By the end of this reporting period, the Company has provided Howa Trading Co., Ltd., a wholly-owned subsidiary of the Company, with one joint- and several-liability performance bond of USD 36 million, effective from September 30<sup>th</sup> 2011 to January 5<sup>th</sup> 2015. In addition, the Company also provide one joint- and several-liability performance bond of USD 5 million to Baosteel (Australia) Trading Co., Ltd., a subsidiary wholly owned by Howa Trading Co., Ltd. The period of this performance bond is no more than 30 months beginning on April 24<sup>th</sup> 2014. The Company also provided one joint- and several-liability

performance bond of USD250 million, effective from August 30<sup>th</sup> 2012 to August 30<sup>th</sup> 2017, to Baosteel Trading Europe GmbH, a wholly-owned subsidiary of the Company. The total amount of the above performance bonds is USD 291 million, accounting for 1.5% of the EOP net assets of the Company.

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. Other significant contracts

None.

## (VIII) Commitments of the Company or shareholders holding more than 5%

### 1. Commitments related to the initial public offering

At the time of establishment, Baosteel Group Corporation made two commitments:

(1) Baosteel Group commits that the related transactions with the Company will be carried out in accordance with relevant laws, administrative regulations and provisions of relevant regulatory authorities and will not damage the legitimate interests of the Company or non-controlling shareholders.

(2) Baosteel Group commits that it will not directly participate in any competing business or activity, or directly holds equity in competitive business, activity or entity. However, the Group may hold shares of the Company and continue to manage and develop the existing business (including business that has or may have competing business with the Company). Baosteel Group commits that when Baosteel Group or its subsidiaries intend to carry out possibly competing new business, investment and research, the Company shall have the right to develop and/or acquire the project.

The above commitments are valid in the following cases: A. The Company is listed in Hong Kong Exchanges and Clearing Limited and stock exchange in China; B. Baosteel Group holds no less than 30 % of the issued shares of the Company.

In addition, Baosteel Group further made the following commitments to the Company on June 13, 2001 and September 6, 2002 that after the Company's acquisition of part of the Phase III project assets and the remaining assets of Baosteel Group, the above two undertakings are still valid.

These commitments may be referred to in "China Securities Journal", "Shanghai Securities News", "Securities Times" on June 21, 2001 and September 12, 2002 and the Shanghai Stock Exchange website <http://www.sse.com.cn>.

### 2. Commitments associated with refinancing

Baosteel Group made the commitments in the additional issuance prospectus:

(1) For assets and business held by the Group and possibly competing with the Company, the Company has the right to acquire from the Group at an appropriate time.

(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.

These commitments may be found on Shanghai Stock Exchange Web site <http://www.sse.com.cn> of April 2005.

### 3. Other commitments

Baosteel Group's commitment to land in Luojing:

Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, is offering its construction-in-progress and related fixed

assets in Luojing (hereafter, Luojing Assets), which the Company intends to purchase. For the land of the Luojing Project, 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), RMB 2.8 billion as preliminarily estimated, shall be paid by the Company. Baosteel Group promises:

(1) If the Company acquires Luojing assets, Baosteel Group and/or Pudong Steel will actively cooperate with the Company to complete Luojing land transfer procedures, and give appropriate assistance in accordance with the reasonable requirements of the Company.

(2) If the total cost above exceeds RMB 2.8 billion actually, the excessive part shall be borne by Baosteel Group and / or Pudong Steel, which shall make timely and full payment to the Company and / or the relevant government authorities, as the case may be.

The aforementioned commitments may be found in "China Securities Journal", "Shanghai Securities News", "Securities Times" and the Shanghai Stock Exchange website <http://www.sse.com.cn> on December 12, 2007.

The lands involved in the above commitments are the Western Area of Luojing Project, the Eastern Area of Luojing Project and the northern energy corridor. In the first half of 2014, the Company signed the contract for transfer of the land of the Western Area of Luojing Project and paid RMB 2.34 billion as the land transfer expense; paid about RMB 20 million as the land use expense for the northern energy corridor and obtained the tenure certificate. Formalities for transfer of the Eastern Area of Luojing Project are being handled and no land transfer expense has been paid as of yet.

Baosteel Group's commitment to the Desheng Nickel project:

Baosteel Group sent "Consultation Letter on the Desheng Nickel Project" and "Commitment Letter On the Desheng Nickel Project" to the Company on December 16, 2010 and consulted if the Company is willing to invest in the project. The Company agreed that Baosteel Group invest in the Desheng Nickel project, but retained the acquisition right of the project in future. Baosteel Group is committed that when the Company requests takeover in future, it will consider the asset assessment price of independent rating agencies and comply with the relevant laws, regulations and other normative documents to transfer its equity in Desheng Nickel project at a reasonable price to the Company.

These commitments shall be valid in the following cases : (1) The Company is listed on the stock exchange, and (2) Baosteel Group holds no less than 30% of the Company's issued shares.

The aforementioned commitments may be found in "China Securities Journal", "Shanghai Securities News", "Securities Times" and the Shanghai Stock Exchange website <http://www.sse.com.cn> on December 23, 2010.

During the reporting period, neither Baosteel Group nor the Company violated any of the above commitments.

(IX) Punishment and rectification of listed Company and its directors, supervisors senior management, shareholders, actual controller

During the reporting period, the Company and its directors, supervisors, senior management, shareholders and actual controller haven't been inspected, penalized, reprimanded by China Securities Regulatory Commission or publicly condemned by other administrative departments or stock exchanges.

## (X)Information Disclosure Index

| S/N | Items  | Published Date              |
|-----|--|-----------------------------|
| 1   | Performance Express of Baoshan Iron & Steel Co., Ltd. for 2013   | Jan.10 <sup>th</sup> 2014   |
| 2   | Announcement of the resolution of the 12 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Directors of Baoshan Iron & Steel Co., Ltd.   | Feb.11 <sup>th</sup> 2014   |
| 3   | Announcement of Baoshan Iron & Steel Co., Ltd. about the commitments made by the Company and related parties and performance of such commitments   | Feb.13 <sup>th</sup> 2014   |
| 4   | Informative announcement of Baoshan Iron & Steel Co., Ltd. about planned external investment   | March 24 <sup>th</sup> 2014 |
| 5   | Notice of on-line Publication of the Performance of Baoshan Iron & Steel Co., Ltd. for 2013  | March 25 <sup>th</sup> 2014 |
| 6   | Announcement of the resolution of the 13 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Directors of Baoshan Iron & Steel Co., Ltd.   | March 29 <sup>th</sup> 2014 |
| 7   | Announcement of Baoshan Iron & Steel Co., Ltd. about day-to-day connected transactions in 2014   | March 29 <sup>th</sup> 2014 |
| 8   | Announcement of Baoshan Iron & Steel Co., Ltd. for convening the general meeting of shareholders for Y2013   | March 29 <sup>th</sup> 2014 |
| 9   | Announcement of the resolution of the 11 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Supervisors of Baoshan Iron & Steel Co., Ltd.   | March 29 <sup>th</sup> 2014 |
| 10  | Announcement of Baoshan Iron & Steel Co., Ltd. about the abstract of the Restricted Stock Ownership Incentive Plan (Draft)   | March 28 <sup>th</sup> 2014 |
| 11  | Notice of on-line Publication of the Performance of Baoshan Iron & Steel Co., Ltd. for the first quarter of 2014   | April 25 <sup>th</sup> 2014 |
| 12  | Announcement of the "Official Reply to the Implementation by Baoshan Iron & Steel Co., Ltd. of the Restricted Stock Ownership Incentive Plan from the State-owned Assets Supervision and Administration Commission of the State Council" | April 25 <sup>th</sup> 2014 |
| 13  | Announcement of the resolution of the 14 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Directors of Baoshan Iron & Steel Co., Ltd.   | April 30 <sup>th</sup> 2014 |
| 14  | Announcement of Baoshan Iron & Steel Co., Ltd. about independent directors publicly collecting voting rights   | April 30 <sup>th</sup> 2014 |
| 15  | Announcement of Baoshan Iron & Steel Co., Ltd. for convening the 1 <sup>st</sup> temporary general meeting of shareholders in 2014   | April 30 <sup>th</sup> 2014 |
| 16  | Announcement of the resolution of the 12 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Supervisors of Baoshan Iron & Steel Co., Ltd.   | April 30 <sup>th</sup> 2014 |
| 17  | Announcement of the resolution of the annual general meeting of shareholders for Y2013 of Baoshan Iron & Steel Co., Ltd.   | May 5 <sup>th</sup> 2014    |
| 18  | Announcement of Baoshan Iron & Steel Co., Ltd. about proposals added at the 1 <sup>st</sup> temporary general meeting of shareholders in 2014  | May 10 <sup>th</sup> 2014   |
| 19  | Announcement of the resolution of the 1 <sup>st</sup> temporary general meeting of shareholders of Baoshan Iron & Steel Co., Ltd. in 2014  | May 21 <sup>st</sup> 2014   |
| 20  | Announcement of the resolution of the 15 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Directors of Baoshan Iron & Steel Co., Ltd.   | May 23 <sup>rd</sup> 2014   |
| 21  | Announcement of granting restricted shares to incentive targets of Baoshan Iron & Steel Co., Ltd.  | May 23 <sup>rd</sup> 2014   |
| 22  | Announcement of the resolution of the 13 <sup>th</sup> meeting of the 5 <sup>th</sup> Board of Supervisors of Baoshan Iron & Steel Co., Ltd.   | May 23 <sup>rd</sup> 2014   |
| 23  | Announcement of start of repurchasing shares of A-share restricted stock plan of Baoshan Iron & Steel Co., Ltd.  | May 24 <sup>th</sup> 2014   |
| 24  | Announcement of the payment of principal and interest of and delisting of the "08 Baosteel Bond" of Baoshan Iron & Steel Co., Ltd.   | June 11 <sup>th</sup> 2014  |
| 25  | Announcement of result of repurchasing shares of A-share restricted stock plan of Baoshan Iron & Steel Co., Ltd.   | June 12 <sup>th</sup> 2014  |
| 26  | Announcement of the progress of A-share restricted stock plan of Baoshan Iron & Steel Co., Ltd.  | June 19 <sup>th</sup> 2014  |
| 27  | Announcement of the implementation of the profit distribution plan of Baoshan Iron & Steel Co., Ltd. for Y2013   | June 24 <sup>th</sup> 2014  |
| 28  | Announcement of Phase-I granting result of A-Share restricted stock plan of Baoshan Iron & Steel Co., Ltd.   | June 26 <sup>th</sup> 2014  |

The aforementioned announcements may be found in "China Securities Journal", "Shanghai Securities News", "Securities Times" and the Shanghai Stock Exchange website <http://www.sse.com.cn>.



## VI. Changes in Share Capital and Information on Major Shareholders

### (I) Changes in share capital

#### 1. List of changes in share capital

Unit: share

|  | Before the change |                | Increase/decrease (+/-) in the change |             |                                |             |             | After the change |                |
|--|-------------------|----------------|---------------------------------------|-------------|--------------------------------|-------------|-------------|------------------|----------------|
|  | Quantity          | Proportion (%) | New issue                             | Bonus issue | Capitalization of reserve fund | Others      | Subtotal    | Quantity         | Proportion (%) |
| I. Shares subject to conditional sales                 |                   |                |                                       |             |                                | +47,446,100 | +47,446,100 | 47,446,100       | 0.3            |
| II. Shares not subject to conditional sales            |                   |                |                                       |             |                                |             |             |                  |                |
| 1. RMB ordinary shares                                 | 16,471,724,924    | 100            |                                       |             |                                | -47,446,100 | -47,446,100 | 16,424,278,824   | 99.7           |
| 2. Domestically listed international investment shares |                   |                |                                       |             |                                |             |             |                  |                |
| 3. Overseas listed international investment shares     |                   |                |                                       |             |                                |             |             |                  |                |
| 4. Others  |                   |                |                                       |             |                                |             |             |                  |                |
| III. Total Shares                                      | 16,471,724,924    | 100            |                                       |             |                                |             |             | 16,471,724,924   | 100            |

#### 2. Description of changes in share capital

The 1<sup>st</sup> temporary general meeting of shareholders of 2014 held on May 20<sup>th</sup> 2014 reviewed and approved the A-Share Restricted Stock Plan of Baoshan Iron & Steel Co., Ltd. and Phase-I Grant Program of A-Share Restricted Stock Plan of Baoshan Iron & Steel Co., Ltd. The 15<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of the Company held on May 22<sup>nd</sup> 2014 reviewed and approved the Proposal for Determination of the Incentive Targets and Respective Grant Quantities of A-Share Restricted Stock Ownership Incentive Plan and the Proposal for the Implementation of Phase I Program of the A-Share Restricted Stock Ownership Incentive Plan. From May 23<sup>rd</sup> 2014, the Company, as per the list of incentive targets and grant quantities approved by the Board of Directors and through open bidding at Shanghai Stock Exchange, repurchased ordinary shares of A-Share stock of the Company as the source of restricted shares granted to incentive targets. As of June 11<sup>th</sup> 2014, the Company has fulfilled the plan of repurchasing 47,446,100 shares.

As per the provisions of Phase-I grant program, 136 persons are determined as the incentive targets under the stock ownership incentive plan and will be granted 47,446,100 shares in total. As of June 24<sup>th</sup> 2014, the 47,446,100 shares granted under Phase-I grant program have already been changed from floating shares without trading limited conditions to floating shares with trading limited conditions and all of the relevant transfer formalities have been fully completed. After this grant, both the total shares of the Company and the proportions of shares held by controlling shareholders will remain unchanged.

### (II) Convertible corporate bonds

#### 1. Issue of convertible corporate 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). "08 Baosteel Bond" was delisted from Shanghai Stock Exchange on June 20<sup>th</sup> 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 from Shanghai Stock Exchange.

## 2. Information on convertible bond holders and the guarantors in reporting period

None.

## 3. Changes in the Convertible Bond Prices

Unit: RMB/share

| Date of adjustment                                     | Price after adjustment | Disclosure time                 | Disclosure media   | Notes                       |
|--|------------------------|---------------------------------|--|-----------------------------|
| June 15, 2009  | 12.16                  | June 15, 2009                   | “China Securities Journal”, “Shanghai Securities News”, “Securities Times” and website of Shanghai Stock Exchange: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> | Stock dividend distribution |
| May 24, 2010   | 11.80                  | May 24, 2010                    | “China Securities Journal”, “Shanghai Securities News”, “Securities Times” and website of Shanghai Stock Exchange: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> | Stock dividend distribution |
| Latest conversion price at end of the reporting period |                        | Warrant exercise period expired |  |                             |

## (III) Information on shareholders

### 1. Number of shareholders and information on shareholdings

Unit: share

| Number of shareholders at the end of reporting period   |                       | 464,827        |                |   |   |                                    |
|---|-----------------------|----------------|----------------|---|---|------------------------------------|
| Shareholding of top 10 shareholders   |                       |                |                |   |   |                                    |
| Shareholder names   | Shareholders Property | Proportion (%) | Amount         | Increase and decrease within reporting period | Number of floating shares with trading limited conditions | Number of shares pledged or frozen |
| Baosteel Group Corporation  | State-owned           | 79.71          | 13,128,825,267 | -   | 0   | N/A                                |
| China Merchants Bank Co., Ltd. — Everbright Pramerica Advantage Allocation Equity Securities Investment Fund  | Non-state-owned       | 0.38           | 62,599,738     | +12,480,329                                   | 0   | N/A                                |
| China Everbright Bank Co., Ltd. — Everbright Pramerica Quantitative Core Securities Investment  | Non-state-owned       | 0.34           | 55,941,773     | +51,685,504                                   | 0   | N/A                                |
| CSOP Asset Management — CSOP FTSE China A50 ETF   | Non-state-owned       | 0.28           | 46,482,910     | +9,632,517                                    | 0   | N/A                                |
| Ping An Annuity Insurance Company of China, Ltd. — Ping An Annuity “Rich Life” Annuity and Guarantee Entrustment Management Products — Rich Stock Portfolio | Non-state-owned       | 0.21           | 35,186,552     | +35,186,552                                   | 0   | N/A                                |
| Guotai Junan Securities Co., Ltd.- Customer Credit Trading Guarantee Securities Account   | Non-state-owned       | 0.19           | 32,019,668     | +21,788,032                                   | 0   | N/A                                |
| Morgan Stanley Investment   | Non-state-owned       | 0.17           | 28,440,196     | -   | 0   | N/A                                |

|  |   |      |                       |             |   |     |
|--|---|------|-----------------------|-------------|---|-----|
| Management—Morgan Stanley China A-Share Fund   | wned  |      |                       |             |   |     |
| Fidelity Investments Management (HK) Co., Ltd.—Customer Funds  | Non-state-owned   | 0.16 | 26,114,183            | +2,228,600  | 0 | N/A |
| Bank of China Limited—SZSE 300 Transactional open index securities investment fund of Shanghai Stock Exchange and Shenzhen Stock Exchange                | Non-state-owned   | 0.16 | 26,089,493            | -497,049    | 0 | N/A |
| China Foreign Economy And Trade Trust Co.,Ltd.—Chongyang Hedging #1 Pooled Funds Trust Plan  | Non-state-owned   | 0.14 | 23,202,987            | +22,942,987 | 0 | N/A |
| Information on top 10 shareholders of floating shares without trading limited conditions   |   |      |                       |             |   |     |
| Shareholder name   | Number of shares held   |      | Category and quantity |             |   |     |
| Baosteel Group Corporation   | 13,128,825,267  |      | RMB ordinary shares   |             |   |     |
| China Merchants Bank Co., Ltd. —Everbright Pramerica Advantage Allocation Equity Securities Investment Fund  | 62,599,738  |      | RMB ordinary shares   |             |   |     |
| China Everbright Bank Co.,Ltd.—Everbright Pramerica Quantitative Core Securities Investment  | 55,941,773  |      | RMB ordinary shares   |             |   |     |
| CSOP Asset Management—CSOP FTSE China A50 ETF  | 46,482,910  |      | RMB ordinary shares   |             |   |     |
| Ping An Annuity Insurance Company of China,Ltd.—Ping An Annuity “Rich Life” Annuity and Guarantee Entrustment Management Products – Rich Stock Portfolio | 35,186,552  |      | RMB ordinary shares   |             |   |     |
| Guotai Junan Securities Co., Ltd.- Customer Credit Trading Guarantee Securities Account  | 32,019,668  |      | RMB ordinary shares   |             |   |     |
| Morgan Stanley Investment Management—Morgan Stanley China A-Share Fund   | 28,440,196  |      | RMB ordinary shares   |             |   |     |
| Fidelity Investments Management (HK) Co., Ltd.—Customer Funds  | 26,114,183  |      | RMB ordinary shares   |             |   |     |
| Bank of China Limited—SZSE 300 Transactional open index securities investment fund of Shanghai Stock Exchange and Shenzhen Stock Exchange                | 26,089,493  |      | RMB ordinary shares   |             |   |     |
| China Foreign Economy And Trade Trust Co.,Ltd.—Chongyang Hedging #1 Pooled Funds Trust Plan  | 23,202,987  |      | RMB ordinary shares   |             |   |     |
| Description of associated relationship or concerted action of above shareholders   | Everbright Pramerica is the fund manager of both “China Merchants Bank Co., Ltd. —Everbright Pramerica Advantage Allocation Equity Securities Investment Fund” and “China Everbright Bank Co.,Ltd.—Everbright Pramerica Quantitative Core Securities Investment Fund”. The Company does not know whether above shareholders have any associated relationship or take concerted actions prescribed in Acquisition Management Method of Listed Companies. |      |                       |             |   |     |

## 2. Status of Controlling Shareholders and Actual Controllers

The controlling shareholders and actual controllers of the Company remained unchanged during the reporting period.

**VII. Directors, Supervisors, and Senior Executives****(I) Changes in shares held by the directors, supervisors, and senior executives**

Unit: Share

| Name          | Title  | BOY shareholding | Increase of shares in the reporting period | Decrease of shares in the reporting period | EOP shareholding | Reason for the changes   |
|---------------|--|------------------|--|--|------------------|--|
| Dai Zhihao    | Director, President                                      |                  | 543,000                                    |  | 543,000          | Stock ownership incentive plan   |
| Zhao Zhouli   | Director   |                  | 543,000                                    |  | 543,000          | Stock ownership incentive plan   |
| Zhu Junsheng  | Director   | 100,800          | 543,000                                    |  | 643,800          | Stock ownership incentive plan   |
| Li Yongxiang  | Vice President   | 96,500           | 488,700                                    |  | 585,200          | Stock ownership incentive plan   |
| Zhou Jianfeng | Vice President   | 85,000           | 488,700                                    |  | 573,700          | Stock ownership incentive plan   |
| Wang Jing     | Vice President   | 101,000          | 518,700                                    |  | 619,700          | Stock ownership incentive plan and transaction on the secondary market |
| Guo Bin       | Vice President   |                  | 488,700                                    |  | 488,700          | Stock ownership incentive plan   |
| Chu Shuangjie | Vice President   | 90,000           | 488,700                                    |  | 578,700          | Stock ownership incentive plan   |
| Hou An'gui    | Vice President   | 6,600            | 488,700                                    |  | 495,300          | Stock ownership incentive plan   |
| Zhi Xiwei     | Vice President   | 31,700           | 508,700                                    |  | 540,400          | Stock ownership incentive plan and transaction on the secondary market |
| Zhu Kebing    | Secretary to Board of Directors, Chief Financial Officer | 10,000           | 434,400                                    |  | 444,400          | Stock ownership incentive plan   |

**(II) Change of directors, supervisors, and senior executives**

| Name        | Title          | Status   | Reason   | Time          |
|-------------|----------------|----------|----------|---------------|
| Feng Taiguo | Vice President | Resigned | Resigned | February 2014 |
| Zhi Xiwei   | Vice President | Employed | Employed | February 2014 |
| Guo Bin     | Supervisor     | Resigned | Resigned | April 2014    |
| Guo Bin     | Vice President | Employed | Employed | April 2014    |
| Liu Guowang | Supervisor     | Employed | Employed | May 2014      |

As a result of a change in his job, Mr. He Wenbo submitted a letter of resignation to the Board of Directors of the Company on August 1<sup>st</sup> 2014 to resign from the position as Chairman, Director and other positions of the 5<sup>th</sup> Board of Directors of the Company. As per relevant provisions of the Articles of Association of the Company, the resignation became effective upon the delivery of the said letter of resignation to the Board of Directors.

## VIII. Financial Statements

## Consolidated Balance Sheet

June 30<sup>th</sup> 2014

Name of enterprise:: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item   | Note       | June 30 <sup>th</sup> 2014 | Dec.31 <sup>st</sup> 2013 |
|--|------------|----------------------------|---------------------------|
| <b>Current assets:</b>                             |            |                            |                           |
| Monetary fund                                      | (V)1       | 18,505,691,157.43          | 12,881,234,298.49         |
| Held-for-trading financial assets                  | (V)2       | 306,881,148.71             | 28,738,843.94             |
| Notes receivable                                   | (V)3       | 11,922,564,984.67          | 12,147,274,807.14         |
| Accounts receivable                                | (V)4       | 10,998,073,957.58          | 11,274,903,876.09         |
| Advance payment                                    | (V)5       | 3,665,369,023.23           | 3,063,667,270.70          |
| Interest receivable                                | (V)6       | 187,392,595.41             | 740,275,608.57            |
| Dividend receivable                                | (V)7       | 30,487,153.28              | 60,887,153.28             |
| Other receivables                                  | (V)8       | 1,669,086,280.83           | 1,644,745,236.41          |
| Financial assets purchased under resale agreements |            | 100,000,000.00             | 91,000,000.00             |
| Inventory  | (V)9       | 28,866,140,566.33          | 31,086,740,188.46         |
| Non-current assets due within one year             | (V)10      | 6,050,000,000.00           | 4,760,000,000.00          |
| Other current assets                               | (V)11      | 29,332,929.23              | 277,031,463.05            |
| <b>Total current assets</b>                        |            | <b>82,331,019,796.70</b>   | <b>78,056,498,746.13</b>  |
| <b>Non-current assets:</b>                         |            |                            |                           |
| Disbursement of loans and advances                 | (V)12      | 3,355,501,574.58           | 3,071,913,823.54          |
| Available-for-sale financial assets                | (V)13      | 1,226,244,250.42           | 1,009,142,907.29          |
| Long-term receivables                              | (V)14      | 9,003,774,151.00           | 13,514,754,636.88         |
| Long-term equity investment                        | (V)15 & 16 | 13,897,159,688.53          | 13,681,009,703.67         |
| Real estate for investment                         | (V)17      | 461,067,211.44             | 475,625,029.59            |
| Fixed assets                                       | (V)18      | 83,177,220,669.92          | 86,218,213,718.97         |
| Construction in progress                           | (V)19      | 18,089,552,640.28          | 15,173,486,763.50         |
| Materials for construction of fixed assets         | (V)20      | 140,832,094.42             | 232,296,401.98            |
| Intangible assets                                  | (V)21      | 9,162,513,002.86           | 6,878,417,865.39          |
| Long-term deferred and prepaid expenses            | (V)22      | 900,790,763.75             | 886,044,247.32            |
| Deferred income tax assets                         | (V)24      | 2,045,069,244.00           | 2,052,778,079.55          |
| Other non-current assets                           | (V)25      | 5,126,477,928.12           | 5,418,157,904.40          |
| <b>Total non-current assets</b>                    |            | <b>146,586,203,219.32</b>  | <b>148,611,841,082.08</b> |
| <b>Total assets</b>                                |            | <b>228,917,223,016.02</b>  | <b>226,668,339,828.21</b> |

**Consolidated Balance Sheet (continued)**June 30<sup>th</sup>, 2014

Name of enterprise:: Baoshan Iron &amp; Steel Co., Ltd. Unit: Yuan Currency: RMB Audit type: unaudited

| Item   | Note  | June 30 <sup>th</sup> 2014 | Dec.31 <sup>st</sup> 2013 |
|--|-------|----------------------------|---------------------------|
| <b>Current liabilities:</b>                              |       |                            |                           |
| Short-term borrowings                                    | (V)26 | 40,930,964,507.06          | 34,470,625,308.28         |
| Deposits from customers and other financial institutions | (V)27 | 7,005,027,694.41           | 7,598,875,519.12          |
| Borrowed funds   | (V)28 | -                          | 300,000,000.00            |
| Held-for-trading financial liabilities                   | (V)29 | 31,691,511.37              | -                         |
| Notes payable  | (V)30 | 3,055,785,093.84           | 2,429,960,640.68          |
| Accounts payable   | (V)31 | 20,067,753,323.04          | 18,175,471,239.50         |
| Advance receipts   | (V)32 | 11,772,683,916.39          | 11,971,576,846.67         |
| Financial assets sold for repurchase                     |       | 606,173,699.77             | 666,961,287.43            |
| Employee salary payable                                  | (V)33 | 2,006,193,697.72           | 1,696,560,100.99          |
| Tax payable  | (V)34 | 2,810,199,387.37           | 1,781,381,390.45          |
| Interest payable   | (V)35 | 172,303,698.96             | 226,797,561.21            |
| Dividend payable   | (V)36 | 35,502,079.96              | 14,070,461.91             |
| Other payables   | (V)37 | 1,284,245,184.65           | 1,225,243,921.84          |
| Non-current liabilities due within one year              | (V)38 | 4,502,343,862.07           | 12,227,658,084.57         |
| Other current liabilities                                | (V)39 | -                          | 1,848,866,666.64          |
| <b>Total current liabilities</b>                         |       | <b>94,280,867,656.61</b>   | <b>94,634,049,029.29</b>  |
| <b>Non-current liabilities:</b>                          |       |                            |                           |
| Long-term borrowings                                     | (V)40 | 7,555,402,025.35           | 4,702,446,502.87          |
| Bonds payable  | (V)41 | 3,036,661,960.55           | 3,502,708,347.20          |
| Long-term payables                                       | (V)42 | -                          | -                         |
| Special payables   | (V)22 | 715,573,736.15             | 739,598,541.24            |
| Deferred income tax liabilities                          | (V)43 | 310,353,299.22             | 304,859,283.39            |
| Other non-current liabilities                            | (V)44 | 1,179,524,187.14           | 2,718,747,282.41          |
| <b>Total non-current liabilities</b>                     |       | <b>12,797,515,208.41</b>   | <b>11,968,359,957.11</b>  |
| <b>Total liabilities</b>                                 |       | <b>107,078,382,865.02</b>  | <b>106,602,408,986.40</b> |
| <b>Shareholders' equity:</b>                             |       |                            |                           |
| Share capital  | (V)45 | 16,471,724,924.00          | 16,471,724,924.00         |
| Capital reserve  | (V)46 | 32,790,300,813.88          | 32,966,712,988.03         |
| Less: treasury stock                                     | (V)47 | -                          | -                         |
| Special reserve  | (V)48 | 29,648,656.03              | 22,160,961.06             |
| Surplus reserve  | (V)49 | 24,528,201,377.92          | 24,528,201,377.92         |
| Undistributed profit                                     | (V)50 | 38,551,392,344.78          | 37,044,549,468.11         |
| Translation reserve                                      |       | (472,038,710.80)           | (521,151,950.22)          |
| Total shareholders' equity attributable to               |       | 111,899,229,405.81         | 110,512,197,768.90        |
| Minority equity  |       | 9,939,610,745.19           | 9,553,733,072.91          |
| <b>Total shareholders' equity</b>                        |       | <b>121,838,840,151.00</b>  | <b>120,065,930,841.81</b> |
| <b>Total liabilities and shareholders' equity</b>        |       | <b>228,917,223,016.02</b>  | <b>226,668,339,828.21</b> |

Notes form a part of the financial statement.

The financial statement from page 28 to 119 is signed by the following persons in charge:

Legal representative: Dai Zhihao

Person in charge of accounting work: Zhu Kebing

Chief accountant: Wang Juan

## Balance Sheet of the Company

June 30<sup>th</sup>, 2014

Name of enterprise:: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item                                       | Note     | June 30 <sup>th</sup> 2014 | Dec.31 <sup>st</sup> 2013 |
|--|----------|----------------------------|---------------------------|
| <b>Current assets:</b>                     |          |                            |                           |
| Monetary fund                              |          | 12,554,570,134.54          | 6,290,586,489.64          |
| Notes receivable                           |          | 15,906,359,245.44          | 12,214,208,950.73         |
| Accounts receivable                        | (XI)1    | 9,562,325,091.46           | 10,715,045,629.19         |
| Advance payment                            |          | 1,564,136,261.74           | 1,079,542,213.71          |
| Interest receivable                        |          | 221,224,083.28             | 729,665,753.38            |
| Other receivables                          | (XI)2    | 354,617,190.04             | 327,858,990.20            |
| Inventory                                  |          | 14,732,047,785.94          | 17,033,352,986.60         |
| Non-current assets due within one year     |          | 4,500,000,000.00           | 4,730,392,547.84          |
| <b>Total current assets</b>                |          | <b>59,395,279,792.44</b>   | <b>53,120,653,561.29</b>  |
| <b>Non-current assets:</b>                 |          |                            |                           |
| Long-term receivables                      |          | 11,073,532,930.56          | 15,573,532,930.56         |
| Long-term equity investment                | (XI)3, 4 | 45,318,707,883.28          | 44,907,172,562.46         |
| Fixed assets                               |          | 49,954,504,712.47          | 51,969,984,620.58         |
| Construction in progress                   |          | 3,053,220,568.42           | 2,798,593,355.74          |
| Materials for construction of fixed assets |          | 23,839,436.84              | 25,174,314.02             |
| Intangible assets                          |          | 3,829,700,918.94           | 1,505,904,482.93          |
| Long-term deferred and prepaid expenses    |          | 26,383,231.28              | 1,511,118.40              |
| Deferred income tax assets                 |          | 610,950,419.73             | 658,474,261.06            |
| Other non-current assets                   |          | 1,096,848,807.41           | 1,096,036,325.53          |
| <b>Total non-current assets</b>            |          | <b>114,987,688,908.93</b>  | <b>118,536,383,971.28</b> |
| <b>Total assets</b>                        |          | <b>174,382,968,701.37</b>  | <b>171,657,037,532.57</b> |

## Balance Sheet of the Company (continued)

June 30<sup>th</sup>, 2014

Name of enterprise:: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item  | Note | June 30 <sup>th</sup> 2014 | Dec.31 <sup>st</sup> 2013 |
|---|------|----------------------------|---------------------------|
| <b>Current liabilities:</b>                       |      |                            |                           |
| Short-term borrowings                             |      | 13,198,081,877.70          | 8,496,748,388.00          |
| Held-for-trading financial liabilities            |      | 31,691,511.37              | -                         |
| Notes payable                                     |      | 951,082,941.59             | 223,523,900.29            |
| Accounts payable                                  |      | 31,923,679,021.73          | 27,193,534,207.87         |
| Advance receipts                                  |      | 9,485,682,392.05           | 9,032,674,462.93          |
| Employee salary payable                           |      | 1,421,314,393.90           | 1,191,134,290.92          |
| Tax payable                                       |      | 3,076,050,679.93           | 2,111,635,461.99          |
| Interest payable                                  |      | 38,654,892.78              | 69,588,411.99             |
| Other payables                                    |      | 484,168,553.13             | 467,707,218.89            |
| Non-current liabilities due within one year       |      | 1,845,840,000.00           | 11,003,934,462.35         |
| Other current liabilities                         |      | 777,020,099.18             | 1,690,778,800.40          |
| <b>Total current liabilities</b>                  |      | <b>63,233,266,363.36</b>   | <b>61,481,259,605.63</b>  |
| <b>Non-current liabilities:</b>                   |      |                            |                           |
| Long-term borrowings                              |      | 4,306,960,000.00           | 4,267,830,000.00          |
| Special payables                                  |      | 686,807,038.34             | 710,710,498.45            |
| Deferred income tax liabilities                   |      | 302,407,284.28             | 302,407,284.28            |
| Other non-current liabilities                     |      | 577,147,897.69             | 592,406,805.09            |
| <b>Total non-current liabilities</b>              |      | <b>5,873,322,220.31</b>    | <b>5,873,354,587.82</b>   |
| <b>Total liabilities</b>                          |      | <b>69,106,588,583.67</b>   | <b>67,354,614,193.45</b>  |
| <b>Shareholders' equity:</b>                      |      |                            |                           |
| Share capital                                     |      | 16,471,724,924.00          | 16,471,724,924.00         |
| Capital reserve                                   |      | 32,646,138,395.35          | 32,731,184,064.17         |
| Surplus reserve                                   |      | 24,528,201,377.92          | 24,528,201,377.92         |
| Special reserve                                   |      | 518,102.67                 | -                         |
| Undistributed profit                              |      | 31,629,797,317.76          | 30,571,312,973.03         |
| <b>Total shareholders' equity</b>                 |      | <b>105,276,380,117.70</b>  | <b>104,302,423,339.12</b> |
| <b>Total liabilities and shareholders' equity</b> |      | <b>174,382,968,701.37</b>  | <b>171,657,037,532.57</b> |



## Consolidated Income Statement

Jan.-June 2014

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item   | Note  | Jan. to June 2014 | Jan. to June 2013 |
|--|-------|-------------------|-------------------|
| I. Gross operating revenue   |       | 97,792,611,108.31 | 96,259,417,102.86 |
| Incl.: Operating revenue   | (V)51 | 97,598,401,864.49 | 96,099,589,258.59 |
| Interest revenue   |       | 191,910,917.54    | 157,733,546.52    |
| Fee and commission income  |       | 2,298,326.28      | 2,094,297.75      |
| Less: Operating cost   | (V)51 | 88,204,253,466.65 | 87,266,743,460.92 |
| Interest expenditure   |       | 125,605,648.24    | 115,137,445.77    |
| Service charge and commission fee                                      |       | 337,390.93        | 317,976.52        |
| Business tax and surcharges  | (V)52 | 287,334,992.42    | 256,637,867.28    |
| Sales expenses   |       | 944,929,745.86    | 874,147,016.25    |
| Administrative expenses  |       | 3,472,976,377.17  | 2,903,558,082.63  |
| Financial expenses   | (V)53 | 545,988,124.48    | (250,887,943.98)  |
| Assets impairment loss   | (V)54 | (53,729,255.28)   | 282,632,015.73    |
| Plus: Gains on the changes in the fair value (loss expressed with “-”) | (V)55 | (19,267,729.51)   | 26,156,213.39     |
| Investment income (loss expressed with “-”)                            | (V)56 | 217,830,092.37    | 291,380,814.62    |
| Incl.: Income from investments in associates and joint ventures        |       | 79,850,213.44     | 51,503,147.22     |
| II. Operating profit (loss expressed with “-”)                         |       | 4,463,476,980.70  | 5,128,668,209.75  |
| Plus: Non-operating revenue  | (V)57 | 210,927,202.44    | 186,503,047.61    |
| Less: Non-operating expenditure  | (V)58 | 203,030,478.48    | 137,160,663.98    |
| Incl.: Losses from disposal of non-current assets                      |       | 100,739,973.13    | 85,892,494.46     |
| III. Total profit (loss expressed with “-”)                            |       | 4,471,373,704.66  | 5,178,010,593.38  |
| Less: Income tax expense   | (V)59 | 1,145,732,611.45  | 1,364,232,563.99  |
| IV. Net profit (loss expressed with “-”)                               |       | 3,325,641,093.21  | 3,813,778,029.39  |
| Net profit attributable to the owner of parent company                 |       | 3,154,015,369.07  | 3,702,803,522.33  |
| Minority interests   |       | 171,625,724.14    | 110,974,507.06    |
| V. Earnings per share:   |       |                   |                   |
| (I) Basic EPS  | (V)60 | 0.19              | 0.22              |
| VI. Other comprehensive income (loss expressed with “-”)               | (V)61 | (9,861,753.25)    | (517,992,176.47)  |
| VII. Total comprehensive Income  |       | 3,315,779,339.96  | 3,295,785,852.92  |
| Total comprehensive income attributable to owner of the parent company |       | 3,131,138,532.63  | 3,188,317,576.78  |
| Total comprehensive income attributable to minority shareholders       |       | 184,640,807.33    | 107,468,276.14    |

## Income Statement of the Company

Jan.-June 2014

Name of enterprise: Baoshan Iron & Steel Co., Ltd. Unit: Yuan Currency: RMB Audit type: unaudited

| Item   | Note  | Jan.-June 2014    | Jan.-June 2013    |
|--|-------|-------------------|-------------------|
| I. Operating revenue   | (XI)5 | 56,670,793,616.55 | 59,130,497,876.54 |
| Less: Operating cost   | (XI)5 | 50,848,975,174.07 | 53,366,019,342.79 |
| Business tax and surcharges  |       | 163,862,017.81    | 163,366,329.57    |
| Sales expenses   |       | 313,101,330.61    | 302,694,291.37    |
| Administrative expenses  |       | 2,363,633,359.93  | 2,015,736,056.67  |
| Financial expenses   |       | (87,265,803.35)   | (762,365,505.20)  |
| Assets impairment loss   |       | (192,903,366.71)  | (372,480,974.14)  |
| Plus: Gains on the changes in the fair value (loss expressed with “-”) |       | (31,691,511.37)   | 20,789,685.96     |
| Investment income (loss expressed with “-”)                            | (XI)6 | 238,856,871.69    | 74,452,611.95     |
| Incl.: Income from investments in associates and joint ventures        |       | 41,233,460.63     | 35,982,919.31     |
| II. Operating profit (loss expressed with “-”)                         |       | 3,468,556,264.51  | 4,512,770,633.39  |
| Plus: Non-operating revenue  |       | 125,840,600.11    | 52,392,212.26     |
| Less: Non-operating expenditure  |       | 111,981,773.44    | 95,393,710.97     |
| Incl.: Losses from disposal of non-current assets                      |       | 78,699,722.07     | 73,252,032.11     |
| III. Total profit (loss expressed with “-”)                            |       | 3,482,415,091.18  | 4,469,769,134.68  |
| Less: Income tax expense   |       | 776,758,254.05    | 1,001,061,227.42  |
| IV. Net profit (loss expressed with “-”)                               |       | 2,705,656,837.13  | 3,468,707,907.26  |
| V. Other comprehensive income  |       | 9,551,876.19      | (6,305,423.71)    |
| VI. Total comprehensive income   |       | 2,715,208,713.32  | 3,462,402,483.55  |

## Consolidated Cash Flow Statement

Jan.-June 2014

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item  | Note     | Jan.-June 2014            | Jan.-June 2013            |
|---|----------|---------------------------|---------------------------|
| <b>I. Cash flows from operating activities:</b>   |          |                           |                           |
| Cash received from the sale of goods and rendering of services  |          | 113,028,800,964.19        | 110,789,635,039.32        |
| Net decrease in loans and advances to customers   |          | -                         | 96,273,842.64             |
| Net decrease in deposits with central bank and other financial institutions                           |          | 52,079,770.28             | -                         |
| Cash received from interest, handling charges and commission received                                 |          | 197,803,583.68            | 157,016,751.77            |
| Tax refunds   |          | 137,109,885.55            | 100,252,886.99            |
| Other cash received from and related to operating activities  | (V)62(1) | 336,441,051.56            | 394,068,857.20            |
| <b>Subtotal of cash inflow from operating activities</b>  |          | <b>113,752,235,255.26</b> | <b>111,537,247,377.92</b> |
| Cash paid for goods and services  |          | 89,265,147,480.97         | 93,906,337,796.12         |
| Net increase in loans and advances to customers   |          | 315,464,699.23            | -                         |
| Net increase in deposits with central bank and other financial institutions                           |          | -                         | 189,220,346.92            |
| Net decrease in deposits from customers and other financial institutions                              |          | 593,280,803.97            | 810,972,208.77            |
| Net decrease in funds borrowed from other financial institutions                                      |          | 300,000,000.00            | 600,000,000.00            |
| Cash paid for interest, handling charges and commission   |          | 123,607,536.84            | 102,778,811.37            |
| Cash paid to and for employees  |          | 4,347,600,088.55          | 4,093,787,625.61          |
| Cash paid for taxes and surcharges  |          | 3,375,927,161.61          | 3,904,764,741.96          |
| Net decrease in financial assets sold for repurchase  |          | 60,787,587.66             | 136,786,602.97            |
| Other cash paid for and related to operating activities   | (V)62(2) | 1,088,367,573.38          | 1,238,200,155.83          |
| <b>Subtotal of cash outflow from operating activities</b>   |          | <b>99,470,182,932.21</b>  | <b>104,982,848,289.55</b> |
| <b>Net cash flow from operating activities</b>  |          | <b>14,282,052,323.05</b>  | <b>6,554,399,088.37</b>   |
| <b>II. Cash flow from investment activities:</b>  |          |                           |                           |
| Cash received from withdrawal of investments  |          | 772,624,279.08            | 1,377,731,504.54          |
| Cash received from investment income  |          | 197,811,305.60            | 293,351,991.00            |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets         |          | 48,818,446.28             | 94,363,709.72             |
| Other cash received from and related to investment activities   | (V)62(3) | 5,613,560,069.86          | 5,813,459,067.68          |
| <b>Subtotal of cash inflow from investment activities</b>   |          | <b>6,632,814,100.82</b>   | <b>7,578,906,272.94</b>   |
| Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets |          | 9,136,127,777.18          | 5,419,233,367.97          |
| Cash paid for investments   |          | 768,172,591.30            | 4,451,372,028.78          |
| Other cash paid for and related to investment activities  | (V)62(4) | 26,318,400.15             | 27,777,025.40             |
| <b>Subtotal of cash outflow from investment activities</b>  |          | <b>9,930,618,768.63</b>   | <b>9,898,382,422.15</b>   |
| <b>Net cash flow from investment activities</b>   |          | <b>(3,297,804,667.81)</b> | <b>(2,319,476,149.21)</b> |
| <b>III. Cash flow from financing activities:</b>  |          |                           |                           |
| Cash received from accepting investments  |          | 295,146,781.71            | 98,000,512.06             |
| Including: Cash received from investments by minority shareholders in subsidiaries                    |          | 295,146,781.71            | 98,000,549.45             |
| Cash received from borrowings   |          | 36,989,470,890.19         | 42,200,413,080.39         |
| Cash received from bond issue   |          | -                         | 1,792,800,000.00          |
| Other cash received from and related to financing activities  | (V)62(5) | 90,622,051.00             | -                         |
| <b>Subtotal of cash inflow from financing activities</b>  |          | <b>37,375,239,722.90</b>  | <b>44,091,213,592.45</b>  |
| Cash paid for repayment of debts  |          | 39,736,507,518.47         | 36,470,003,173.51         |
| Cash paid for dividend and profit distribution or interest payment                                    |          | 2,522,608,355.10          | 2,954,047,640.86          |
| Including: Dividend and profit paid by subsidiaries to  |          | 75,780,833.73             | 68,659,465.65             |

|  |          |                    |                   |
|--|----------|--------------------|-------------------|
| minority shareholders  |          |                    |                   |
| Cash paid to repurchase corporate stock  | (V)47    | 187,734,750.08     | 3,083,474,132.00  |
| <b>Subtotal of cash outflow from financing activities</b>                            |          | 42,446,850,623.65  | 42,507,524,946.37 |
| <b>Net cash flow from financing activities</b>                                       |          | (5,071,610,900.75) | 1,583,688,646.08  |
| <b>IV. Effect of foreign exchange rate fluctuations on cash and cash equivalents</b> |          | 44,555,181.39      | (79,159,060.48)   |
| <b>V. Net increase (decrease) in cash and cash equivalents</b>                       |          | 5,957,191,935.88   | 5,739,452,524.76  |
| Plus: BOP balance of cash and cash equivalents                                       | (V)63(3) | 11,598,852,396.93  | 7,632,107,621.86  |
| <b>VI. EOP balance of cash and cash equivalents</b>                                  | (V)63(3) | 17,556,044,332.81  | 13,371,560,146.62 |

## Cash Flow Statement of the Company

Jan.-June 2014

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item  | Note  | Jan-Jun 2014              | Jan-Jun 2013              |
|---|-------|---------------------------|---------------------------|
| <b>I. Cash flow from operating activities:</b>  |       |                           |                           |
| Cash received from the sale of goods and rendering of services  |       | 63,033,402,794.07         | 66,243,404,359.77         |
| Tax refunds   |       | 99,632,634.49             | -                         |
| Other cash received from and related to operating activities  |       | 213,151,858.31            | 206,842,265.53            |
| <b>Subtotal of cash inflow from operating activities</b>  |       | <b>63,346,187,286.87</b>  | <b>66,450,246,625.30</b>  |
| Cash paid for goods and services  |       | 45,737,989,775.37         | 53,450,476,921.73         |
| Cash paid to and for employees  |       | 2,684,524,629.57          | 2,465,584,394.21          |
| Cash paid for taxes and surcharges  |       | 1,898,395,615.76          | 2,622,534,186.66          |
| Other cash paid for and related to operating activities   |       | 479,776,722.87            | 588,414,849.37            |
| <b>Subtotal of cash outflow from operating activities</b>   |       | <b>50,800,686,743.57</b>  | <b>59,127,010,351.97</b>  |
| <b>Net cash flow from operating activities</b>  | (XI)8 | <b>12,545,500,543.30</b>  | <b>7,323,236,273.33</b>   |
| <b>II. Cash flow from investment activities:</b>  |       |                           |                           |
| Cash received from withdrawal of investments  |       | 11,300,000,000.00         | 5,200,000,000.00          |
| Cash received from investment income  |       | 224,872,437.73            | 62,411,893.35             |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets         |       | 41,098,747.20             | 62,695,452.93             |
| Other cash received from and related to investment activities   |       | 5,842,368,411.83          | 5,814,817,052.99          |
| <b>Subtotal of cash inflow from investment activities</b>   |       | <b>17,408,339,596.76</b>  | <b>11,139,924,399.27</b>  |
| Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets |       | 4,525,340,192.22          | 2,485,226,157.05          |
| Cash paid for investments   |       | 11,665,749,984.00         | 9,864,836,958.00          |
| Other cash paid for and related to investment activities  |       | 26,318,400.15             | 27,777,025.40             |
| <b>Subtotal of cash outflow from investment activities</b>  |       | <b>16,217,408,576.37</b>  | <b>12,377,840,140.45</b>  |
| <b>Net cash flow from investment activities</b>   |       | <b>1,190,931,020.39</b>   | <b>(1,237,915,741.18)</b> |
| <b>III. Cash flow from financing activities:</b>  |       |                           |                           |
| Cash received from accepting investments  |       | 16,279,663,450.62         | 18,594,367,399.40         |
| Other cash received from and related to financing activities  |       | 90,622,051.00             | 1,135,058,864.51          |
| <b>Subtotal of cash inflow from financing activities</b>  |       | <b>16,370,285,501.62</b>  | <b>19,729,426,263.91</b>  |
| Cash paid for repayment of debts  |       | 21,040,964,383.72         | 13,913,253,057.86         |
| Cash paid for dividend and profit distribution or interest payment                                    |       | 1,890,543,207.20          | 2,484,071,140.86          |
| Cash paid to repurchase corporate stock   |       | 187,734,750.08            | 3,083,474,132.00          |
| Other cash paid for and related to financing activities   |       | 730,831,773.51            | -                         |
| <b>Subtotal of cash outflow from financing activities</b>   |       | <b>23,850,074,114.51</b>  | <b>19,480,798,330.72</b>  |
| <b>Net cash flow from financing activities</b>  |       | <b>(7,479,788,612.89)</b> | <b>248,627,933.19</b>     |
| <b>IV. Effect of foreign exchange rate fluctuations on cash and cash equivalents</b>                  |       | <b>7,340,694.10</b>       | <b>22,708,455.85</b>      |
| <b>V. Net increase (decrease) in cash and cash equivalents</b>  |       | <b>6,263,983,644.90</b>   | <b>6,356,656,921.19</b>   |
| Plus: BOP balance of cash and cash equivalents  |       | 6,290,586,489.64          | 2,036,143,946.73          |
| <b>VI. EOP balance of cash and cash equivalents</b>   |       | <b>12,554,570,134.54</b>  | <b>8,392,800,867.92</b>   |

## Consolidated Statement of Changes in Shareholders' Equity

Jan-Jun 2014

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan

Currency: RMB

Audit type: unaudited

| Item   | Jan-Jun 2014  |                   |                      |                  |                   |                      |                      |  |                               |                            |                    |
|--|---|-------------------|----------------------|------------------|-------------------|----------------------|----------------------|--|-------------------------------|----------------------------|--------------------|
|  | Shareholders' Equity Attributable to Parent Company |                   |                      |                  |                   |                      |                      |  | Minority shareholders' equity | Total shareholders' equity |                    |
|  | Capital stock                                       | Capital reserve   | Less: Treasury share | Special reserves | Surplus reserves  | Generic Risk Reserve | Undistributed profit | Differences arising from translation of financial statements denominated in foreign currencies |                               |                            | Subtotal           |
| I. Ending balance of previous year                                 | 16,471,724,924.00                                   | 32,966,712,988.03 | -                    | 22,160,961.06    | 24,528,201,377.92 | -                    | 37,044,549,468.11    | (521,151,950.22)   | 110,512,197,768.90            | 9,553,733,072.91           | 120,065,930,841.81 |
| II. Beginning balance of current period                            | 16,471,724,924.00                                   | 32,966,712,988.03 | -                    | 22,160,961.06    | 24,528,201,377.92 | -                    | 37,044,549,468.11    | (521,151,950.22)   | 110,512,197,768.90            | 9,553,733,072.91           | 120,065,930,841.81 |
| III. Amount changes of current period                              | -   | (176,412,174.15)  | -                    | 7,487,694.97     | -                 | -                    | 1,506,842,876.67     | 49,113,239.42  | 1,387,031,636.91              | 385,877,672.28             | 1,772,909,309.19   |
| (I) Net profit   | -   | -                 | -                    | -                | -                 | -                    | 3,154,015,369.07     | -  | 3,154,015,369.07              | 171,625,724.14             | 3,325,641,093.21   |
| (II) Other comprehensive income                                    | -   | (71,990,075.86)   | -                    | -                | -                 | -                    | -                    | 49,113,239.42  | (22,876,836.44)               | 13,015,083.19              | (9,861,753.25)     |
| Subtotal of (I) and (II)   | -   | (71,990,075.86)   | -                    | -                | -                 | -                    | 3,154,015,369.07     | 49,113,239.42  | 3,131,138,532.63              | 184,640,807.33             | 3,315,779,339.96   |
| (III) Shareholders' contribution and reduction in capital          | -   | (104,422,098.29)  | -                    | -                | -                 | -                    | -                    | -  | (104,422,098.29)              | 296,401,337.65             | 191,979,239.36     |
| 1. Capital contribution from owners                                | -   | -                 | -                    | -                | -                 | -                    | -                    | -  | -                             | -                          | -                  |
| 2. Capital contribution from minority shareholders in subsidiaries | -   | -                 | -                    | -                | -                 | -                    | -                    | -  | -                             | 297,992,650.32             | 297,992,650.32     |
| 3. Payment for shares  | -   | (94,824,545.01)   | 187,734,750.08       | -                | -                 | -                    | -                    | -  | 92,910,205.07                 | -                          | 92,910,205.07      |
| 4. Others  | -   | (9,597,553.28)    | (187,734,750.08)     | -                | -                 | -                    | -                    | -  | (197,332,303.36)              | (1,591,312.67)             | (198,923,616.03)   |
| (IV) Profit distribution   | -   | -                 | -                    | -                | -                 | -                    | (1,647,172,492.40)   | -  | (1,647,172,492.40)            | (95,767,287.01)            | (1,742,939,779.41) |
| 1. Transfer to surplus reserve                                     | -   | -                 | -                    | -                | -                 | -                    | -                    | -  | -                             | -                          | -                  |
| 2. Distribution to shareholders                                    | -   | -                 | -                    | -                | -                 | -                    | (1,647,172,492.40)   | -  | (1,647,172,492.40)            | -                          | (1,647,172,492.40) |
| 3. Dividends paid to minority shareholders                         | -   | -                 | -                    | -                | -                 | -                    | -                    | -  | -                             | (95,767,287.01)            | (95,767,287.01)    |
| (V) Special reserves   | -   | -                 | -                    | 7,487,694.97     | -                 | -                    | -                    | -  | 7,487,694.97                  | 602,814.31                 | 8,090,509.28       |
| 1. Transfer to special reserve in current period                   | -   | -                 | -                    | 158,101,657.71   | -                 | -                    | -                    | -  | 158,101,657.71                | 1,453,429.60               | 159,555,087.31     |
| 2. Amount utilized in current period                               | -   | -                 | -                    | (150,613,962.74) | -                 | -                    | -                    | -  | (150,613,962.74)              | (850,615.29)               | (151,464,578.03)   |
| IV. Ending balance of current period                               | 16,471,724,924.00                                   | 32,790,300,813.88 | -                    | 29,648,656.03    | 24,528,201,377.92 | -                    | 38,551,392,344.78    | (472,038,710.80)   | 111,899,229,405.81            | 9,939,610,745.19           | 121,838,840,151.00 |

## Consolidated Statement of Changes in Shareholders' Equity (continued)

Y2013

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item   | Y2013   |                    |                      |                  |                   |                                 |                      |  |                    |                               |                            |
|--|---|--------------------|----------------------|------------------|-------------------|---------------------------------|----------------------|--|--------------------|-------------------------------|----------------------------|
|  | Shareholder's Equity Attributable to Parent Company |                    |                      |                  |                   |                                 |                      |  |                    | Minority shareholders' equity | Total shareholders' equity |
|  | Capital stock                                       | Capital reserve    | Less: Treasury share | Special reserves | Surplus reserves  | Generi<br>c Risk<br>Reserv<br>e | Undistributed profit | Differences arising on translation of financial statements denominated in foreign currencies | Subtotal           |                               |                            |
| I. Ending balance of previous year                               | 17,122,048,088.00                                   | 35,892,221,131.19  | (115,785,165.80)     | 17,894,916.86    | 23,229,714,608.04 | -                               | 35,540,808,913.80    | (299,633,775.37)   | 111,387,268,716.72 | 5,954,489,275.04              | 117,341,757,991.76         |
| 1. Effect of merger of enterprises under common control          | -   | 116,748,214.86     | -                    | -                | -                 | -                               | (737,874,887.33)     | -  | (621,126,672.47)   | 3,238,989,075.30              | 2,617,862,402.83           |
| II. Balance on Jan. 1 <sup>st</sup> 2013                         | 17,122,048,088.00                                   | 36,008,969,346.05  | (115,785,165.80)     | 17,894,916.86    | 23,229,714,608.04 | -                               | 34,802,934,026.47    | (299,633,775.37)   | 110,766,142,044.25 | 9,193,478,350.34              | 119,959,620,394.59         |
| III. Amount changes of current year                              | (650,323,164.00)                                    | (3,042,256,358.02) | 115,785,165.80       | 4,266,044.20     | 1,298,486,769.88  | -                               | 2,241,615,441.64     | (221,518,174.85)   | (253,944,275.35)   | 360,254,722.57                | 106,310,447.22             |
| (I) Net profit   | -   | -                  | -                    | -                | -                 | -                               | 5,818,471,202.97     | -  | 5,818,471,202.97   | 221,863,420.25                | 6,040,334,623.22           |
| (II) Other comprehensive income                                  | -   | (400,758,203.35)   | -                    | -                | -                 | -                               | -                    | (221,518,174.85)   | (622,276,378.20)   | (29,323,448.08)               | (651,599,826.28)           |
| Subtotal of ( I ) and ( II )                                     | -   | (400,758,203.35)   | -                    | -                | -                 | -                               | 5,818,471,202.97     | (221,518,174.85)   | 5,196,194,824.77   | 192,539,972.17                | 5,388,734,796.94           |
| (III) Shareholders' contribution and reduction in capital        | -   | (92,562,020.87)    | (3,083,474,132.00)   | -                | -                 | -                               | -                    | -  | (3,176,036,152.87) | 310,045,796.73                | (2,865,990,356.14)         |
| 1. Capital contribution from owners                              | -   | -                  | -                    | -                | -                 | -                               | -                    | -  | -                  | 343,232,523.21                | 343,232,523.21             |
| 2. Purchase of shares from minority shareholders in subsidiaries | -   | (142,903,834.26)   | -                    | -                | -                 | -                               | -                    | -  | (142,903,834.26)   | (33,186,726.48)               | (176,090,560.74)           |
| 3. Others  | -   | 50,341,813.39      | (3,083,474,132.00)   | -                | -                 | -                               | -                    | -  | (3,033,132,318.61) | -                             | (3,033,132,318.61)         |
| (IV) Profit distribution   | -   | -                  | -                    | -                | 1,298,486,769.88  | -                               | (3,576,855,761.33)   | -  | (2,278,368,991.45) | (143,887,860.22)              | (2,422,256,851.67)         |
| 1. Transfer to surplus reserve                                   | -   | -                  | -                    | -                | 1,298,486,769.88  | -                               | (1,298,486,769.88)   | -  | -                  | -                             | -                          |
| 2. Distribution to shareholders                                  | -   | -                  | -                    | -                | -                 | -                               | (2,278,368,991.45)   | -  | (2,278,368,991.45) | -                             | (2,278,368,991.45)         |
| 3. Dividends paid to minority shareholders                       | -   | -                  | -                    | -                | -                 | -                               | -                    | -  | -                  | (143,887,860.22)              | (143,887,860.22)           |
| (V) Internal transfer of shareholders' interests                 | (650,323,164.00)                                    | (2,548,936,133.80) | 3,199,259,297.80     | -                | -                 | -                               | -                    | -  | -                  | -                             | -                          |
| 1. Others  | (650,323,164.00)                                    | (2,548,936,133.80) | 3,199,259,297.80     | -                | -                 | -                               | -                    | -  | -                  | -                             | -                          |
| (VI) Special reserves  | -   | -                  | -                    | 4,266,044.20     | -                 | -                               | -                    | -  | 4,266,044.20       | 1,556,813.89                  | 5,822,858.09               |
| 1. Transfer to special reserve in current year                   | -   | -                  | -                    | 336,082,904.52   | -                 | -                               | -                    | -  | 336,082,904.52     | 9,421,821.58                  | 345,504,726.10             |
| 2. Amount utilized in current year                               | -   | -                  | -                    | (331,816,860.32) | -                 | -                               | -                    | -  | (331,816,860.32)   | (7,865,007.69)                | (339,681,868.01)           |
| IV. Ending balance of current year                               | 16,471,724,924.00                                   | 32,966,712,988.03  | -                    | 22,160,961.06    | 24,528,201,377.92 | -                               | 37,044,549,468.11    | (521,151,950.22)   | 110,512,197,768.90 | 9,553,733,072.91              | 120,065,930,841.81         |

## Statement of Changes in Shareholders' Equity of the Company

Jan-June 2014

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item  | Jan. - June 2014  |                   |                      |                  |                   |                      |                      |                            |
|---|-------------------|-------------------|----------------------|------------------|-------------------|----------------------|----------------------|----------------------------|
|   | Capital stock     | Capital reserve   | Less: Treasury share | Special reserves | Surplus reserves  | Generic Risk Reserve | Undistributed profit | Total shareholders' equity |
| I. Beginning balance of current period                    | 16,471,724,924.00 | 32,731,184,064.17 | -                    | -                | 24,528,201,377.92 | -                    | 30,571,312,973.03    | 104,302,423,339.12         |
| II. Amount changes of current period                      | -                 | (85,045,668.82)   | -                    | 518,102.67       | -                 | -                    | 1,058,484,344.73     | 973,956,778.58             |
| (I) Net profit  | -                 | -                 | -                    | -                | -                 | -                    | 2,705,656,837.13     | 2,705,656,837.13           |
| (II) Other comprehensive income (Loss)                    | -                 | 9,551,876.19      | -                    | -                | -                 | -                    | -                    | 9,551,876.19               |
| Subtotal of (I) and (II)                                  | -                 | 9,551,876.19      | -                    | -                | -                 | -                    | 2,705,656,837.13     | 2,715,208,713.32           |
| (III) Shareholders' contribution and reduction in capital | -                 | (94,597,545.01)   | -                    | -                | -                 | -                    | -                    | (94,597,545.01)            |
| 1. Capital contribution from owners                       | -                 | -                 | -                    | -                | -                 | -                    | -                    | -                          |
| 2. Payment for shares                                     | -                 | (94,824,545.01)   | 187,734,750.08       | -                | -                 | -                    | -                    | 92,910,205.07              |
| 3. Others   | -                 | 227,000.00        | (187,734,750.08)     | -                | -                 | -                    | -                    | (187,507,750.08)           |
| (IV) Profit distribution                                  | -                 | -                 | -                    | -                | -                 | -                    | (1,647,172,492.40)   | (1,647,172,492.40)         |
| 1. Transfer to surplus reserve                            | -                 | -                 | -                    | -                | -                 | -                    | -                    | -                          |
| 2. Distribution to shareholders                           | -                 | -                 | -                    | -                | -                 | -                    | (1,647,172,492.40)   | (1,647,172,492.40)         |
| (V) Special reserves                                      | -                 | -                 | -                    | 518,102.67       | -                 | -                    | -                    | 518,102.67                 |
| 1. Transfer to special reserve in current period          | -                 | -                 | -                    | 134,599,248.42   | -                 | -                    | -                    | 134,599,248.42             |
| 2. Amount utilized in current period                      | -                 | -                 | -                    | (134,081,145.75) | -                 | -                    | -                    | (134,081,145.75)           |
| III. Ending balance of current period                     | 16,471,724,924.00 | 32,646,138,395.35 | -                    | 518,102.67       | 24,528,201,377.92 | -                    | 31,629,797,317.76    | 105,276,380,117.70         |



## Statement of Changes in Shareholders' Equity of the Company (continued)

Y2013

Name of enterprise: Baoshan Iron &amp; Steel Co., Ltd.

Unit: Yuan Currency: RMB Audit type: unaudited

| Item  | Y2013             |                    |                      |                  |                   |                      |                      |                            |
|---|-------------------|--------------------|----------------------|------------------|-------------------|----------------------|----------------------|----------------------------|
|   | Capital stock     | Capital reserve    | Less: Treasury share | Special reserves | Surplus reserves  | Generic Risk Reserve | Undistributed profit | Total shareholders' equity |
| I. Beginning balance of this year                         | 17,122,048,088.00 | 35,894,640,824.12  | (115,785,165.80)     | -                | 23,229,714,608.04 | -                    | 27,655,734,884.98    | 103,786,353,239.34         |
| II. Amount changes of this year                           | (650,323,164.00)  | (3,163,456,759.95) | 115,785,165.80       | -                | 1,298,486,769.88  | -                    | 2,915,578,088.05     | 516,070,099.78             |
| (I) Net profit  | -                 | -                  | -                    | -                | -                 | -                    | 6,492,433,849.38     | 6,492,433,849.38           |
| (II) Other Comprehensive Income                           | -                 | (13,870,928.84)    | -                    | -                | -                 | -                    | -                    | (13,870,928.84)            |
| Subtotal of (I) and (II)                                  | -                 | (13,870,928.84)    | -                    | -                | -                 | -                    | 6,492,433,849.38     | 6,478,562,920.54           |
| (III) Shareholders' contribution and reduction in capital | -                 | (600,649,697.31)   | (3,083,474,132.00)   | -                | -                 | -                    | -                    | (3,684,123,829.31)         |
| 1. Effect of merger of enterprises under common control   | -                 | (621,126,672.47)   | -                    | -                | -                 | -                    | -                    | (621,126,672.47)           |
| 2. Others   | -                 | 20,476,975.16      | (3,083,474,132.00)   | -                | -                 | -                    | -                    | (3,062,997,156.84)         |
| (IV) Profit distribution                                  | -                 | -                  | -                    | -                | 1,298,486,769.88  | -                    | (3,576,855,761.33)   | (2,278,368,991.45)         |
| 1. Transfer to surplus reserve                            | -                 | -                  | -                    | -                | 1,298,486,769.88  | -                    | (1,298,486,769.88)   | -                          |
| 2. Distribution to shareholders                           | -                 | -                  | -                    | -                | -                 | -                    | (2,278,368,991.45)   | (2,278,368,991.45)         |
| (V) Internal transfer of shareholders' equity             | (650,323,164.00)  | (2,548,936,133.80) | 3,199,259,297.80     | -                | -                 | -                    | -                    | -                          |
| 1. Others   | (650,323,164.00)  | (2,548,936,133.80) | 3,199,259,297.80     | -                | -                 | -                    | -                    | -                          |
| (VI) Special reserves                                     | -                 | -                  | -                    | -                | -                 | -                    | -                    | -                          |
| 1. Transfer to special reserve in current period          | -                 | -                  | -                    | 248,583,387.38   | -                 | -                    | -                    | 248,583,387.38             |
| 2. Amount utilized in current period                      | -                 | -                  | -                    | (248,583,387.38) | -                 | -                    | -                    | (248,583,387.38)           |
| III. Ending balance of current year                       | 16,471,724,924.00 | 32,731,184,064.17  | -                    | -                | 24,528,201,377.92 | -                    | 30,571,312,973.03    | 104,302,423,339.12         |

**(I) Company Profile**

Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as "the Company") is a limited liability company registered in the territory of China in accordance with the laws of the People's Republic of China (hereinafter referred to as "China"). As per the GJMQG [1999] No. 1266 document issued by the the State Economic and Trade Commission of China, the Company was founded solely by Baosteel Group Corporation (originally called "Shanghai Baosteel Group Corporation" and hereinafter referred to as "Baosteel Group"), and was officially registered in Shanghai on February 3, 2000, with the registration number of 310000000074519.

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 each on the date of establishment.

The Company issued 1,877,000,000 ordinary shares (A shares) to the general public with a par value of RMB 1 each and an offer price of RMB 4.18 by means of on-line stock exchange listing coupled with off-line rationed subscription, from November 6 to 24, 2000, in compliance with the approval document No. [2000] 140, issued by China Securities Regulatory Commission (the "CSRC").

Following the approval provided in the approval document No. [2005]15 issued by the CSRC on April 13, 2005, April during 21 to 26, 2005, the Company issued five billion shares (A-shares) with a par value of RMB 1 each and an offer price of RMB 5.12 per share, including three billion state-owned shares to Baosteel Group 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.

As per the Doc. No.[2008] 739 by the CSRC on May 17, 2008, the Company issued RMB 10 billion 6-year convertible loan notes featuring the separation between liability and conversion option components on June 20, 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 RMB 100 per share. 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 day when it was listed, 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 RMB 12.50 per stock. The liability and conversion option components were listed and traded on Shanghai Stock Exchange on 4 July 2008. Dividends were paid on May 24, 2010. The exercise price was then adjusted to RMB 11.80 per stock due to dividend. The exercising period was from June 28 to July 3, 2010. A total of 113,785 components were successfully exercised before the stock market closed on July 2, 2010, the last effective exercise date for "Baosteel CWB1", increasing 48,088 shares of the Company.

According to "The Board's Resolution on the Motion for Repurchasing Shares of the Company Through Centralized Bidding", "The Creditors' Notice About Repurchasing Shares of Baoshan Iron & Steel Co., Ltd.", "The Resolution of the Second Temporary Shareholders' Meeting of Baoshan Iron & Steel Co., Ltd. in 2012" and the Company's revised Articles of Association, the Company repurchased A-shares on Shanghai Stock Exchange through centralized bidding with a price no more than RMB 5 per share and an amount no more than RMB 5 billion in total. The first repurchase began on September 21, 2012, and the Company has repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised Articles of Association, the Company applied for reduction of share capital by RMB 0.39 billion and finished all procedures with China Securities Depository and Clearing Corporation Limited., Shanghai Branch on December 20, 2012. The Company renewed all commercial registration on December 31, 2012, and the updated registered share capital is RMB 17,122,048,088.00 as of December 31, 2012.

In 2013 the Company has repurchased 626,267,656 shares, and completed the implementation of the repurchase scheme. In accordance with the resolution of the general shareholders' meeting of the Company and the regulations of the revised Articles of Association, the Company has applied for the decrease of the capital by RMB 650,323,164, and completed the cancellation of 650,323,164 shares with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (CSDC) on May 23, 2013. The Company completed the procedure on the industrial and commercial registration on June 24, 2013, and the updated registered share capital is RMB 16,471,724,924.

By the end of this reporting period, out of the RMB 16,471,724,924 ordinary shares without sales restriction of the Company, Baosteel Group held 13,128,825,267 shares with a shareholding ratio of 79.71%.

**(I) Company Profile (continued)**

The business scope of the Company: iron and steel smelting and processing, power generation, coal, industrial gas production, port terminals, warehousing, transportation and other business relating to iron & steel, as well as technology development, technology transfer, technical service, technical management consultation service, automobile maintenance/repair, exporting self-made products and technologies, importing raw/auxiliary materials, instruments, mechanical equipments, fittings and technologies necessary for production and scientific research of the Company (other than those commodities and technologies permitted to be solely dealt by the companies designated by the State, and those prohibited by the State for import/export), processing imported materials, processing and assembly with supplied materials and parts or compensation trade. The Company is mainly engaged in the manufacture and sales of iron & steel products, as well as sales and service of by-products arising from the production and sales of iron & steel products.

The parent company of the Company is Baosteel Group which is a state-owned enterprise supervised by the State-owned Assets Supervision and Administration Commission of the State Council.

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

**(II) Main Accounting Policies and Accounting Estimates of the Company****1. Basis for Preparation of Financial Statements**

The Group implements the Accounting Standards for Business Enterprises ("ASBE") promulgated by the Ministry of Finance on February 15, 2006 and the relevant regulations. 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 Statement* (Revised in 2010).

Basis of accounting and principle of measurement

The Group adopts the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in 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 June 30, 2014, and the Company's and consolidated results of operations and cash flows during January~June, 2014.

**3. Accounting period**

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

**4. Bookkeeping base 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 bookkeeping base currency. The Company's foreign subsidiaries choose their bookkeeping base currency on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its financial statements.

**5. Accounting treatment methods concerning business combination involving enterprises under common control and not under common control**

Business combinations are classified into the business combinations under common control and the business combinations not under common control.

5.1 Business combinations under common control

Business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary.

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their book value in the combined party on the combining date. As for the balance between the book value of the net assets obtained by the combining party and the book value of the consideration paid by it (or the total par value of the shares issued), the share premium of the capital reserve shall be adjusted. If the share premium is not sufficient to be offset, the retained earnings shall be adjusted. The direct cost for the business combination of the combining party shall be recorded into the profits and losses for the current period.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****5. Accounting treatment methods concerning business combination involving enterprises under common control and not under common control (continued)****5.2 Business combinations not under common control**

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

The combination costs shall be the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquisition. The intermediary costs for audit, legal services, and evaluation and other related overhead costs shall be recorded into the profits and losses for the current period. For a business combination not involving enterprises under common control realized by two or more transactions of exchange, the combination costs shall be the summation of the consideration paid on the acquisition date and the fair values, on the acquisition date, of the equity of the acquired held before the acquisition date. The equity of the acquired party held before the acquisition date shall be re-measured in light of their fair values on the acquisition date. The difference between the fair value and its carrying value shall be recorded into the current investment income; the equity of the acquired party held before the acquisition date which involves the other comprehensive incomes, shall be transferred into the current investment income on the acquisition date in conjunction with the other related comprehensive incomes.

The identifiable assets, liabilities and contingent liabilities which meet the recognition conditions and are obtained by the acquirer from the acquired party shall be measured in light of the fair values. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired party as business reputation and conduct initial measurement on a cost basis. The acquirer shall treat the balance between the combination costs and the fair value of various identifiable net assets it obtains from the acquire, and it shall reexamine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquired party as well as the combination costs. If, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquire, it shall record the balance into the profits and losses of the current period.

**6. Preparation Method 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.

As for the subsidiaries disposed of by the Group, the operating results and cash flow before the disposition date (the date when the control rights are deprived of) have been appropriately included in the consolidated profit statement and the Consolidated Statement of Cash Flow.

Where a subsidiary has been acquired through a business combination not involving enterprises under common control, the subsidiary's operating results and cash flows after the acquisition date are appropriately included in the consolidated income statement and the consolidated cash flow statement, and no adjustments are made to the beginning balance and comparative figures of the consolidated financial statements.

A subsidiary has been acquired through a business combination involving enterprises, as if the subsidiary and the finally controlled party have been incorporated into the consolidation scope of the Group no matter when the business combination occurs during the reporting period. Where a subsidiary has been acquired through a business combination involving enterprise under common control, the subsidiaries' operating results and cash flows from the beginning of the reporting period to the combination date are appropriately included in the consolidated income statement and the consolidated cash flow statement.

Major accounting policies and accounting periods adopted by the subsidiaries are defined according to the standardized accounting policies and accounting periods established by the Company.

All significant intra-group accounts and transactions between the Company and its subsidiaries or between subsidiaries are eliminated on consolidation.

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

When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders portion of the beginning balance of owners' equity of the subsidiary, the excess amount is still allocated against minority interests.

Changes in a parent company's ownership interest in a subsidiary caused by purchase of minority interests or disposal of part of the investment that do not result in the loss of control are accounted for within equity, and the book value of owners' equity attributable to equity holders of the parent company and minority interests should be adjusted to reflect the changes. The difference between the adjustment of minority interests and the fair value of the consideration paid or received is adjusted to capital reserve. If the capital reserve is insufficient to offset, the adjustment shall be made to the retained earnings.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****6. Preparation Method of Consolidated Financial Statements (continued)**

When an entity loses control of a subsidiary resulting from the disposal of part of the investment or other reasons, the investment retained in the former subsidiary is re-measured at its fair value at the date when control is lost. The difference between the sum of the consideration received from the disposal of the investment and the fair value of the investment retained in the former subsidiary, and the shares of the net assets calculated according to former proportion of the ownership interest is recognized in the investment income at the date when control is lost. Amounts arising from interests in the acquired party prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to investment income when the control is lost.

In the event of disposal of equity investment in a subsidiary through two or more transactions until loss of control of the subsidiary, such transactions are a package of transactions if the terms and conditions of such transactions as well as their economic effects meet one or more of the following conditions: (1) such transactions were concluded at the same time or were concluded taking into consideration their mutual impacts; (2) such transactions could not form a complete business result unless taken as a whole; (3) the occurrence of one transaction depended on the occurrence of at least one other transaction; (4) one transaction, when viewed independently, is not economic, but is economic when considered together with other transactions. Where all the transactions intended for disposal of equity investment in a subsidiary until loss of control of the subsidiary are a package of transactions, each transaction will be treated as one intended for disposal of the equity investment in and resulting in loss of control of the subsidiary. The difference between the price of each disposal and the share of the net assets of the subsidiary corresponding to the disposed investment prior to the loss of control is recognized as "Other comprehensive income" and, after loss of the control, will be recorded into the gains and losses for the period in which the control is lost. Where all the transactions intended for disposal of equity investment in a subsidiary until loss of control of the subsidiary are not a package of transactions, each transaction will be recorded as an independent transaction.

**7. Criteria for Determining Cash and Cash Equivalents**

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to a very low risk of change in value.

**8. Foreign Currency Transactions and Translation of Foreign Currency Financial Statements****8.1 Foreign currency transactions**

At the time of initial recognition, a foreign currency transaction is translated by applying the spot exchange rate at the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated to RMB using the spot exchange rate at that date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognized in profit or loss for the current period, except for: (1) exchange differences arising from specific-purpose borrowings in foreign currencies that are eligible for capitalization, which are capitalized during the capitalization period and included in the cost of related assets; and (2) exchange differences arising from hedging instruments for foreign currency risk, which are treated under hedge accounting (3) exchange differences arising from foreign currency non-monetary available-for-sale items i.e. stocks and changes in book value of available-for-sale monetary items other than its unamortized cost, which are treated as other comprehensive income in capital reserve and recorded in current gains and losses.

Where the Consolidated Financial Statements involve overseas businesses, the exchange differences resulting from fluctuation in exchange rates will be listed into "differences from foreign currency translation" under owner's equities in case of substantial foreign currency monetary items of net overseas investments. And the foreign currency monetary items shall be recorded into current profits and losses when the overseas businesses are disposed.

Foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are accounted for as changes in fair value (including changes in foreign exchange rates) and included in profit or loss for the period or capital reserve of shareholders' equity.

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

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 EOP balance of the previous year's retained earnings; the EOP 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.

(II) **Main Accounting Policies and Accounting Estimates of the Company (continued)**  
**8. Foreign Currency Transactions and Foreign Currency Financial Statements (continued)**  
8.2 Translation of financial statements denominated in foreign currencies (continued)

Cash flows arising from a transaction in foreign currency and the cash flows of an overseas 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**

The Group shall recognize a financial asset or a financial liability when the Group becomes a party to a financial instrument contract. When a financial asset or financial liability is recognized initially, the Group shall measure it at its fair value. In the case of a financial asset or financial liability at fair value through profit or loss, transaction costs shall be charged to the profit or loss for the period. For other financial assets or financial liabilities, transaction costs shall be included in their initially 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 arms length transaction. If there is an active market for a financial instrument, the quoted price in the active market is used to establish the fair value of the financial instrument by the Group. If no active market exists for a financial instrument, the Group establishes fair value by using a valuation technique, which includes using recent 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, etc.

9.2 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or 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 payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net book value 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 any future credit loss). Meanwhile, the calculation of the effective interest rate 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 the following categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, loans and receivables and available-for-sale (AFS) financial assets. Financial assets are initially recognized at fair value. All regular purchases or sales of financial assets are recognized and derecognized on a settlement date basis.

9.3.1 Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if: (1) it has been acquired principally for the purpose of selling in the near future; or (2) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; 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 from an active market) whose fair value cannot be reliably measured.



**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****9. Financial Instruments (continued)**9.3 Classification, recognition and measurement of financial assets (continued)9.3.1 Financial assets at FVTPL (continued)

The financial assets meeting any of the following requirements can be designated, when they are initially recognized, as financial assets or financial liabilities as measured at its fair value and of which the variation is included in the current profits and losses: (1) The designation is able to eliminate or significantly reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities; (2) The official written documents on risk management or investment strategies of the Group have recorded that the combination of said financial assets, the combination of said financial liabilities, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel; (3) Mixed instruments, related to embedded derivative instruments, of financial assets which are permitted by the "Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments" to be designated as FVTPL.

Financial assets at held for trading are subsequently measured at fair value, with gains or losses arising from changes in fair value as well as dividends and interest income related to such financial assets recognized in profit or loss for the current period.

9.3.2 Held-to-maturity investments

The term "held-to-maturity investment" refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of recoverable price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity.

Investments held until their maturity are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognizing, impairment or amortization are recognized in profit or loss for the current period.

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. The notes receivable, accounts receivable, interests receivable, dividends receivable, other receivables, loans and advances and long-term receivables are included in this category.

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

9.3.4 AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or the financial assets other than the financial assets at FVTPL, loans and receivables and held-to-maturity investments.

AFS financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets and amortized costs which are recognized in profit or loss for the current period) are recognized as the other comprehensive incomes and recorded into the capital reserves, and recognized in profit or loss for the period when such financial assets are derecognized.

Interest received during the period in which the Group holds the AFS financial assets and cash dividends declared by the invested are recognized as the current profits and losses.

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 assets that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****9. Financial Instruments (continued)****9.4 Impairment of financial assets**

The Group assesses the book value of all financial assets other than the financial assets which are measured at their fair values and whose variations are recorded into the current profits and losses, at each balance sheet date. If there is objective evidence that financial assets are impaired the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence arising from one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset which can be reliably estimated.

Objective evidences that a financial asset is impaired include evidences that might be observed from the following events:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract, such as a default or delinquency in interest or principal payments;
- (3) The Group, for economic or legal or other reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- (4) It is likely that the borrower will go bankrupt or undergo any other financial restructuring;
- (5) It is impossible to continue trading the financial assets of an issuer in an active market due to its serious financial difficulties;
- (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a 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, including:
  - Deteriorating solvency of the debtor of the group of financial assets;
  - Economic conditions in the country or region in which the debtor operates may result in nonpayment of the group of financial assets;
- (7) Significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument;
- (9) Other objective evidences indicating impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

If a financial asset measured at amortized cost is impaired, the book value of the financial asset shall be reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The written-down amount shall be recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on a financial asset measured at amortized cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However, the reversal shall not result in a book value of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

The Group will separately perform an impairment test on any financial asset with a significant single amount. With regard to the financial assets with insignificant single amounts, a separate impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon the separate test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test.

- Impairment of AFS financial assets

For an investment in an AFS equity instrument, objective evidences of impairment include significant or pro-longed decline of the fair value of the said investment. If the fair value is below the cost of the said investment, it is insufficient to indicate an impairment of it. Whether an impairment occurs or not shall be comprehensively judged taking into consideration of relevant factors. For an investment in an AFS equity

instrument held mainly for the purpose of strategic cooperation and not to be sold due to any temporary change in its share price, analysis shall be performed of the basic operation of the invested entity: impairment occurs if the operation of the invested entity seriously deteriorates with operating revenue decreasing 10% or more for three years in concession or with EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) decreasing 20% or more for three years in concession; for an investment in an AFS equity instrument held mainly for earning profit from share price, etc., an impairment occurs if the fair value of the said investment on the balance sheet date is over 50% less than its initial investment cost or has been lower than its initial investment cost for more than 24 months in concession.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****9. Financial Instruments (continued)****9.4 Impairment of financial assets (continued)****- Impairment of AFS financial assets (continued)**

Where an AFS financial asset is impaired, the accumulative losses arising from the decrease of the fair values which has been originally included in the capital reserves shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses that are transferred out shall be the balance obtained from the initially obtained costs of the sold financial asset after deducting the principals as taken back, the current fair value and the impairment-related losses as was recorded into the profits and losses of the current period.

Where any financial asset is recognized as having suffered from any impairment loss, if there is any subsequent objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. The reversal of impairment losses of AFS equity instruments is recognized in equity and capital surplus, and the impairment losses of AFS debt instruments are recognized in profit or loss for the current period.

**- Impairment of financial assets measured at cost**

Where an equity instrument investment for which there is no quoted price in the active market and whose fair value cannot be reliably measured, or a derivative financial asset which is connected with the equity instrument and which must be settled by delivering the equity instrument, suffers from any impairment, the gap between the book value of the equity instrument investment or the derivative financial asset and the current value of the future cash flow of similar financial assets capitalized according to the returns ratio of the market at the same time shall be recognized as impairment-related losses and be recorded into the profits and losses of the current period. The impairment loss of financial assets, upon recognition, shall not be reversed.

**9.5 Transfer of financial assets**

The Group derecognizes a financial asset only when: (1) the contractual rights to the cash flows from the financial asset expire; or (2) it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or (3) it transfers the financial asset, neither transfers nor retains substantially all the risks and rewards of ownership but has not retained control over the financial asset.

If an enterprise neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and retains its 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 enterprises 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 derecognizing criteria, the difference between the following two amounts is recognized in profit or loss for the current period: (1) the book value of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognized directly in other comprehensive incomes.

If a part of the transferred financial asset qualifies for derecognizing, the book value of the transferred financial asset in its entirety is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts. In this case, the servicing asset retained is treated as a part that continues to be recognized. The difference between the following two amounts is included in profit or loss for the current period: (1) the book value allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and (if the transfer involves an available-for-sale financial asset) any cumulative gain or loss allocated to it that had been recognized directly in equity.

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

The Group recognizes a financial instrument issued thereby as a financial liability or equity instrument as per the substance of the contractual arrangement of the said financial instrument and the definition of financial liability or equity instrument.

On initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss (FVTPL) or other financial liabilities.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****9. Financial Instruments (continued)**9.6 Classification, recognition and measurement of financial liabilities (continued)9.6.1 Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is either held for trading or designated as at FVTPL. A financial liability is classified as held for trading if: (1) the financial liability is undertaken principally for the purpose of repurchase in the near future; or (2) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking management by the Group; 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 from an active market) whose fair value cannot be reliably measured.

The financial liabilities meeting any of the following requirements can be designated, when they are initially recognized, as financial liabilities or financial liabilities as measured at its fair value and of which the variation is included in the current profits and losses: (1) The designation is able to eliminate or significantly reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial liabilities; (2) The official written documents on risk management or investment strategies of the Group have recorded that the combination of said financial liabilities or the combination of financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel; (3) Mixed instruments, related to embedded derivative instruments, of financial liabilities which are permitted by the "Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments" to be designated as FVTPL.

Financial liabilities at FVTPL are subsequently measured at fair value, with gains or losses arising from changes in fair value as well as dividends and interest income related to such financial liabilities recognized in profit or loss for the current period.

9.6.2 Other financial liabilities

Derivative financial liabilities linked to and which must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be measured reliably is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains or losses arising from derecognizing or amortization is recognized in profit or loss for the period.

9.7 Derecognizing 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, the Group recognizes the difference between the book value 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 for current period.

9.8 Derivative instruments and embedded derivative instruments

The derivative financial instruments include forward contracts, interest rate swap contracts and so on. The derivative instruments shall be initially measured at the fair value on the date when the related contracts are signed, and subsequently measured at the fair value. The variation in fair values of the derivative financial instruments shall be included in the current profits and losses.

Where a mixed instrument containing the embedded derivative instrument fails to be designated as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses; where there is no close relationship between it and the principal contract in terms of economic features and risks; and where it shares the same conditions with that of the embedded derivative instrument, and the independent instrument meets the requirements of the definition of derivative instrument, the embedded derivative instruments shall be separated from the mixed instrument and treated as an independent derivative instrument. Where it is impossible to make an independent measurement on the acquisition date or subsequent balance sheet date, the mixed instrument shall be designated entirely as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses.

**(II) Main Accounting Policies and Accounting Estimates of the Company (continued)****9. Financial instruments (continued)****9.9 Offset of financial assets and financial liabilities**

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability is offset and the net amount presented in the balance sheet when both of the following conditions are satisfied: (1) the Group has legal right to set off the recognized amounts and the legal right is currently enforceable; and (2) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

**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, is added to shareholder's equity.

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

**9.10.1 Repurchase of shares**

Where the consideration and transaction costs paid for the share repurchase minus shareholder's equity, and the shares of the Company is repurchased, transferred or cancelled, the gains or losses shall not be recognized. The repurchased shares shall, before cancellation or transfer, be controlled as the treasury shares. Total expenditures arising from share repurchase shall be transferred into the treasury share costs. The treasury shares arising from the repurchase ordinary shares repurchased by the Company shall not be involved in the profit distribution of the Company, and shall be presented as provision items of owner's equity in the balance sheet. Where the reduction of capital is made by means of the acquisition of the shares of the Company upon approval in accordance with the legal procedures, the capital shall be reduced on the basis of the total amount of the par value of cancelled shares. The difference between the costs paid for repurchase of shares (including transaction costs) and the par value of shares shall be used to adjust the owner's equity. A portion exceeding the total amount of par value shall be used to offset capital reserves (share premium), surplus reserves and undistributed profits; a portion less than the total amount of par value shall be used to increase the capital reserves (share premium).

**9.11 Bond with warrants**

When issuing a bond with warrants, the Group shall determine whether it simultaneously contains the compositions of liabilities and equities in accordance with the provisions. Where the issued bonds with warrants contain both compositions of liabilities and equities, the liabilities composition shall be separated from equities composition at the time of initial recognition, and treated separately. For the separation, the priority shall be given to determine the fair value of the liabilities and to use it as the initially recognized amount. Afterwards, the initially recognized amount of the equities shall be determined by the initially recognized amount of the liabilities deducted from the integral issue price of the bond with warrants. The transaction costs shall be amortized between the composition of liabilities and equities according to their respective fair values. The liabilities composition shall be presented as the liabilities and subsequently measured at the amortized costs until cancelled, converted or redeemed. The equity composition shall be presented as the equities, dispensed with subsequent measurement. Where a subscription right holder fails to exercise the right for a bond with warrants issued by the Group, a part of it originally included in the capital reserves at maturity shall be transferred into the capital reserves (share premiums). Where a subscription right holder exercises the right, a part of it originally included in the capital reserves (other capital reserves) shall be transferred into the capital reserves (share premiums) in light of the amount of the equity composition, included into the capital in light of the total amount of par value of shares and par value of shares calculated by the translated shares, and included into the capital reserve (share premium) on the basis of the difference between the total amount of funds raised by warrants and the share capital.

**(II) Main Accounting Policies and Accounting Estimates (continued)****10. Accounts Receivable****10.1 Individually significant receivables with bad debt provisions separately recognized**

|  |   |
|--|---|
| Criteria for individually significant receivables  | The Group recognizes the accounts receivable of top five clients as the individually significant receivables.   |
| Provision method for individually significant receivables with bad debt provision separately recognized. | An impairment test shall be independently made on the accounts receivable with significant single amounts. Accounts receivable from third parties that are not impaired upon independent test shall be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Accounts receivable from entities in the consolidated statement of the Group that are not impaired upon independent test shall not be included in the portfolio for which the "aging analysis method" is used for bad debt provision. The accounts receivables which have suffered from an impairment loss shall not be included in any combination of financial assets with similar risk features for any impairment test. |

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

|   |  |
|---|--|
| Account receivables with single amount insignificant and the account receivables which have not been impaired during the single test in spite of significant amount | <p>The Group makes the accounts receivable classified into several age groups by taking the age as the credit risk characteristics. On the basis of the actual loss ratio of the age group of the accounts receivable with the credit risk characteristics same as or similar to that of previous years, the proportion of the bad-debt provisions of each age group in the current year shall be determined in light of the present situations, whereby the bad-debt provisions of each age group in the current year which shall be made for the accounts receivable shall be calculated.</p> <p>No bad-debt provisions shall be made for the account receivables with single amount significant or insignificant, which can be recovered in the short term without credit risk.</p> |
|---|--|

***Combination of Bad-debt Provisions Made using the Aging Analysis Method***

| Account age                   | Percentage of Provisions for Bad Debts of Receivables (%) | Percentage of Provisions for Bad Debts of other Receivables (%) |
|-------------------------------|---|---|
| Within 1 year (incl. 1 year)  | 5%  | 5%  |
| 1-2 years (including 2 years) | 30%   | 30%   |
| 2-3 years (including 3 years) | 60%   | 60%   |
| 3 years or more               | 100%  | 100%  |

**10.3 Accounts receivable with single amount insignificant and bad-debt provision made on a single basis**

|   |  |
|---|--|
| Cause for bad-debt provision made on a single basis | Existence of objective evidence for occurrence of decrease in value  |
| Method of bad-debt provision                        | The difference between the estimated revocable amount and book value shall be recognized as the bad-debt provision |

**11. Inventories****11.1 Classification of inventories**

The Inventories are mainly classified as raw materials, products in process, finished products, spare parts, etc., and are initially measured at the cost. The cost of inventory comprises procurement cost, processing cost, and the expenditures available to enable the inventories to reach the present destination and the condition.

**11.2 Measurement of the cost of delivered inventories**

Upon the dispatch of inventories, the weighted average cost formula is used to determine the actual cost of inventories dispatched.

**(II) Main Accounting Policies and Accounting Estimates (continued)****11. Inventories (continued)****11.3 Recognition of the net realizable value and measurement of provision for decline in value of inventories**

On the balance sheet date, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. When the net realizable value is lower than the cost, the inventory falling price shall be made. The net realizable value refers, in the daily activities, to the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories. The Group shall determine the net realizable value of inventories based on solid evidence obtained and after taking into consideration the purpose for which the inventory is held, and the effect of events occurring after the balance sheet date.

For inventories, the excess of cost over the net realizable value is generally recognized as provision for decline in value of inventories on an item-by-item basis.

After provision for decline in value of inventories has been made, if the circumstances that previously caused inventories to be written down no longer exist which results in the net realizable value is higher than the book value, the amount of the write-down is reversed in profit or loss for the current period.

**11.4 Stock counting system of inventories**

The perpetual inventory system is adopted for stock counting.

**11.5 Amortization methods of low-value consumables and wrap pages**

Low-value consumables and wrap pages shall be amortized using the writing-off process.

**12. Long-term equity investments****12.1 Recognition of investment cost**

For a long-term equity investment acquired through a business combination involving enterprises under common control, the share of the book value of the shareholder's equity of the combined party shall be taken as the investment cost on the combination date; for a long-term equity investment acquired through business combination not involving enterprises under common control, the combination cost shall be taken as the investment cost of the long-term equity investment. For a long-term equity investment acquired through business combination not involving enterprises under common control through several transactions, the long-term equity investment cost shall be the sum of the book value of the equity investment of the acquired party held prior to the acquisition date and the investment cost newly added on the acquisition date. The long-term equity investment acquired through means other than a business combination is initially measured at its cost.

**12.2 Subsequent measurement; recognition of profit and loss****12.2.1 Long-term equity investment accounted for using the cost method**

Where the Group does not have joint control or significant influence over the invested, the long-term equity investment is not quoted in an active market and its fair value cannot be reliably measured, a long-term equity investment shall be accounted for using the cost method. Besides, in the Financial Statements of the Company, the long-term equity investment of a subsidiary shall also be accounted for using the cost method. A subsidiary means the invested over which the Group can exercise control.

For the accounting using the cost method, a long-term equity investment shall be measured at initial investment cost. The current investment incomes other than the payment actually made for the acquisition of investment or the cash dividends or profits declared but not distributed as contained in the consideration shall be recognized depending on the cash dividends or profits distributed as declared by the invested.



**(II) Main Accounting Policies and Accounting Estimates (continued)****12. Long-term equity investments - (continued)**12.2 Subsequent measurement; recognition of profit and loss (continued)12.2.2 Long-term equity investments accounted for using the equity method

Long-term equity investments in associated enterprises and in joint ventures shall be accounted for using the equity method. The associated enterprise means the invested over which the Group has joint control and significant influence; the joint venture means invested over which the Group and the other investors exercise joint control.

When the calculation is performed using the equity method, if the initial cost of a long-term equity investment is more than the investor's attributable share of the fair value of the investee's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted; if the initial cost of a long-term equity investment is less than the investing enterprise's attributable share of the fair value of the investee's identifiable net assets for the investment, the difference shall be included in the current profits and losses and the cost of the long-term equity investment shall be adjusted simultaneously.

Under the equity method, investment income or loss represents the share of the invested party's net profits or losses attributable to or sharable by the investor for the current period. The Group recognizes its share of the investee's net profits or losses based on the fair values of the invested individual separately identifiable assets at the acquisition date, after making appropriate adjustments thereto in accordance with the accounting policies and accounting periods of the Group. For the unrealized profit or loss arising from transactions between the Group and an associate or joint venture, the part belongs to the Group, calculated with ratio of shares held by the Group, should be offset. Accordingly, the Group recognizes investment income. But if the unrealized loss is related with an impairment of the assets transferred between the Group and the invested, the loss cannot be offset. For any changes in shareholders' equity other than net profits or losses in the invested, the Group adjusts the book value of the long-term equity investment and includes the corresponding adjustment in other comprehensive income of capital reserve.

The Group's share of net losses of the invested is recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that substantially form part of the investors net investment in the invested are reduced to zero. If the Group has to assume additional obligations, the estimated obligation assumed is provided for and charged to the profit or loss as investment loss for the period. Where the invested realizes net profits in subsequent periods, the Group resumes recognizing its share of profits after setting off profits against the unrecognized share of losses.

For a long-term equity investment in an associate or joint venture held prior to first-time implementation on January 1, 2007 of new CASs, if an equity investment debit balance associated with the investment exists, the amount amortized on a straight-line basis during the remaining period shall be included in profit or loss for the current period.

12.2.3 Disposal of a long-term equity investment

On disposal of a long term equity investment, the difference between the proceeds actually received and the book value shall be recognized in profit or loss for the current period. For a long-term equity investment accounted for using the equity method, any changes in the included in the shareholder's owners equity of the investing enterprise, shall be transferred to profit or loss for the current period on a pro-rata basis according to the proportion disposed of.

12.3 Criteria for recognition of joint control or significant influence over an invested entity

"Control" is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. "Joint control" is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. "Significant influence" is the power to participate in the financial and operating policy decisions of the invested but can not exercise control or joint control over those policies. When determining whether the Group is able to exercise control or significant influence over an invested, the effect of potential voting rights of the invested (for example, warrants and convertible debts) held by the investor and other parties that are currently exercisable or

convertible is considered.

#### 12.4 Long-term investment impairment provision method

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If the recoverable amount of an asset is less than its book value, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

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

**(II) Main Accounting Policies and Accounting Estimates (continued)****13. Investment property**

Investment property means a property held to earn rentals or for capital appreciation or both, comprising a tenure that is leased out, a building that is leased out, etc.

An investment property shall be initially measured at cost. Subsequent expenditures incurred on an investment property are recognized as cost of the investment property only when: 1) it is probable that economic benefits associated with the investment property will flow to the Group; and 2) the cost of the investment property can be measured reliably. Subsequent expenditures that fail to meet such recognition criteria is recognized in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of an investment property, and adopts the depreciation or amortization policy consistent with that applicable to buildings or tenure.

The Group assesses at each balance sheet date whether there is any indication that investment properties may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an enterprise shall determine the recoverable amount of the asset group to which the assets belongs to. If the recoverable amount of an asset or an asset group is less than its book value, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

Once an impairment loss on investment properties is recognized, it is not reversed in any subsequent period.

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

**14. Fixed assets****14.1 Conditions for recognition of fixed assets**

Fixed assets mean tangible assets that are held for the sake of producing commodities, rendering labor service, renting or business management, with their useful life in excess of one fiscal year. No fixed asset may be recognized unless it simultaneously meets the conditions as follows: the economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and the cost of the fixed asset can be measured reliably. A fixed asset shall be initially measured at cost.

Subsequent expenditures incurred for a fixed asset that meet the recognition criteria mentioned in the previous paragraph shall be included in the cost of the fixed asset, and the book value of the replaced portions shall be derecognized. Subsequent expenditures that fail to meet the recognition criteria mentioned in the previous paragraph shall be recognized in profit or loss in the period in which they are incurred.

**14.2 Depreciation method for various fixed assets**

Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are brought to working condition for the intended use, using the straight-line method. The useful lives, estimated net residual values rates and annual depreciation rates of each class of fixed assets are as follows:

| Category of Fixed Assets               | Depreciable Life (Years) | Residual Value (%) | Annual Depreciation (%) |
|--|--------------------------|--------------------|-------------------------|
| Houses and buildings                   | 15-35                    | 4                  | 2.7-6.4                 |
| Machinery equipment                    | 7-15                     | 4                  | 6.4-13.7                |
| Transportation facilities              | 5-10                     | 4                  | 9.6-19.2                |
| Office facilities and other facilities | 4-9                      | 4                  | 10.7-24.0               |

Estimated net residual value of a fixed asset means 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.

**(II) Main Accounting Policies and Accounting Estimates (continued)****14. Fixed assets (continued)****14.3 Impairment test method and bad-debt impairment provision method of fixed assets**

The Group assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset or an asset group is less than its book value, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

Once any impairment loss on fixed assets is recognized, it will not be reversed in any subsequent period.

**14.4 Other notes**

The Group shall review the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at the end of each financial year. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in an accounting estimate.

A fixed asset shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. When a fixed asset is sold, transferred, discarded or damaged, the book value and relevant taxes shall be deducted from the disposal income arising from the sales, transfer, discard or damage of fixed assets and the difference shall be included in the current profits and losses.

**15. Construction in progress**

The cost of construction in progress shall be determined at the actual cost, including the expenditure actually incurred for the construction, borrowing costs capitalized before the project reaches the working condition for its intended use and other related expenses. Construction in progress is not subject to depreciation and is carried over to fixed assets when it is ready for its 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 an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. If the recoverable amount of an asset and asset group is less than its book value, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

Once an impairment of any construction in progress is recognized, it will not be reversed in any subsequent period.

**16. Borrowing costs**

Borrowing costs include the costs for amortization of interest on borrowings, of discounts or of premium, and auxiliary costs, as well as currency translation difference arising from the foreign currency loans, etc. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualified asset, capitalization of such borrowing costs can commence only when all of the following conditions are satisfied: (1) expenditures for the asset have already been incurred; (2) borrowing costs have already been incurred; and (3) 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 already commenced. Capitalization of such borrowing costs ceases when the qualified assets acquired, constructed or produced become ready for their intended use or sale. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualified asset is interrupted abnormally and when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production is resumed. The amount of any other borrowing cost incurred is recognized as an expense in the period in which it is 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 amount of interest to be capitalized on such borrowings is determined by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above 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 period of capitalization, all of the translation differences of special foreign-currency borrowings shall be capitalized; the translation differences of ordinary foreign-currency borrowings shall be recorded into the profits and losses of the current period.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

**(II) Main Accounting Policies and Accounting Estimates (continued)****17. Intangible Assets****17.1 Intangible assets**

Intangible assets include tenure, software, etc.

The intangible assets shall be initially measured at cost. An intangible asset with a definite service life shall be, on an average basis, amortized using the straight-line method over its service life when the asset is available for use with its original cost less any accumulated impairment losses. An intangible asset with an indefinite service life shall not be amortized.

At the end of the period, the service life and amortization method of intangible assets with a definite service life shall be rechecked, and adjusted when necessary.

**17.2 Expenditures on research and development**

The expenditures on research and development shall be recorded into the profits and losses of the current period when they occur.

Expenditures incurred during the development phase shall be recognized as an intangible asset only when they meet the following conditions simultaneously and shall be recognized in profits or losses for the period in which they are incurred if they fail to meet such following conditions simultaneously:

- (1) It is technically feasible to complete the intangible asset and make it ready for use or sale;
- (2) There is an intention to complete the intangible asset and use or sell it;
- (3) There exist the means by which the intangible asset can produce economic benefits, including the evidence of a market for any product produced using this intangible asset or for the intangible asset itself; where the intangible asset is intended for internal use, there exists the evidence of its usability;
- (4) Sufficient technical, financial and other resources available to support and finish the development of the intangible asset and use or sell it;
- (5) Research and development expenditures attributable to this intangible asset can be reliably measured.

If it is impossible to differentiate between the expenditures on the research phase and the expenditures on the development phase, all expenditures incurred during the research and development phases shall be recorded into the profit and losses of the current period.

**17.3 Impairment test method and bad-debt impairment provision method of intangible assets**

The Group assesses at each balance sheet date whether there is any indication of impairment for intangible assets with a definite service life. If there is any indication that an such asset is impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an enterprise shall determine the recoverable amount of the asset group to which the assets belongs to. If the recoverable amount of an asset or an asset group is less than its book value, the difference is recognized as an impairment loss and charged to profit or loss for the current period.

The impairment test shall be performed on an annual basis no matter whether there is any indication that intangible assets with an indefinite service life and intangible assets not ready for use may be impaired.

Once an impairment loss is recognized on an intangible asset, it will not be reversed in a any subsequent period

**18. Long-term Prepaid Expenses**

Long-term prepaid expenses mean various expenditures incurred but that should be allocated over the current and future periods of more than one year. Long-term prepaid expenses shall be evenly amortized over the estimated beneficial period.

**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 recognized 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 recognized as interest income during the term of the agreement using the effective interest method.

**(II) Main Accounting Policies and Accounting Estimates (continued)****19. Assets transferred under repurchase agreements (continued)****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 derecognized 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 recognized as interest expense during the term of the agreement using the effective interest method.

**20. Repurchase of Shares of the Company**

Consideration paid for and costs incurred for repurchased shares are deducted from minority interests. No gains or losses will be recognized when the shares of the Company are repurchased, transferred or cancelled.

**21. Share-based Payment****21.1. Types of share-based payment**

A share-based payment is a transaction in which an equity instrument is granted or a liability based on an equity instrument is born to obtain services from employees. Both the A-share restricted stock incentive plan of the Group and Phase I program thereof are share-based payments settled by equity.

**Share-based payment settled by equity**

Share-based payments settled by equity in exchange for employees' services are measured at the fair values of the equity instruments on the grant date. Services obtained during the current period are included in relevant costs or expenses at the fair value on the equity instrument grant date based on the quantity of exercisable equity instruments on each balance sheet date during the waiting period, and the capital reserve is correspondingly increased without recognizing any subsequent change in the fair value.

If a share-based payment finally fails to meet the conditions for right exercising, neither the costs or expenses will be recognized.

**21.2. Method for determination of the fair value of equity instruments**

For any equity instrument granted by the Group, the fair value at the grant date is calculated and determined using the "Black Scholes Option Pricing Model" based on the market value of the Company's stock at the grant date (see Note (VII)).

**21.3 Basis for confirmation of the best estimate of the quantity of delockable or exercisable equity instruments**

The Group will at each balance sheet date during the waiting period make the best estimate based on the latest subsequent information on delockable or exercisable equity instruments, etc., and correct the previously estimated quantity of delockable or exercisable equity instruments. The final estimated quantity of delockable or exercisable equity instruments shall be consistent with the actual quantity of delockable or exercisable equity instruments at the date of delocking or exercising.

**(II) Main Accounting Policies and Accounting Estimates (continued)****22. Revenue****22.1 Revenue from sales of commodities**

No revenue from selling goods may be recognized unless all of the following conditions are met simultaneously: the significant risks and rewards of ownership of the goods have been transferred to the buyer by the enterprise; the enterprise retains neither continuous management right usually relating to the ownership nor effective control over the goods sold; the relevant amount of revenue can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the relevant costs incurred or to be incurred can be measured in a reliable way.

**22.2 Revenue from rendering of services**

The outcome of a transaction concerning the rendering of labor services can be measured in a reliable way, means that the following conditions shall be met simultaneously: the amount of revenue can be measured in reliable way; the relevant economic benefits are likely to flow into the enterprise; the schedule of completion under the transaction can be confirmed in a reliable way; and the costs incurred or to be incurred in the transaction can be measured in a reliable way. The Group shall recognize the revenue from rendering services employing the percentage-of-completion method. The schedule of completion under the transaction concerning the rendering of labor services shall be determined according to the proportion of the costs incurred against the estimated total cost.

If the result of a transaction concerning the rendering of labor services can not be estimated in a reliable way, the revenue from the rendering of labor services shall be recognized in accordance with the amount of the cost of labor services which has incurred and can be compensated. If no compensation is estimated to be received for the labor service cost incurred, no revenue will be recognized.

Where a contract or agreement signed between the Group and any other enterprise concerns selling of goods and rendering of labor services, if the selling of goods and rendering of labor services can be distinguished from each other and measured separately, the selling of goods shall be treated separately from the rendering of labor services; if it impossible to distinguish the selling of goods from the rendering of labor services, or distinguishable but not reliably measurable, the whole contract will be treated as one for selling of goods.

**22.3 Royalty revenues**

Royalty revenues shall be recognized in accordance with such times and methods as stipulated in the relevant contracts or agreements.

**22.4 Interest revenues**

The amount of interest revenue should be measured and determined in accordance with the length of time for which the Group's cash is used by others and with the actual interest rate.

**23. Government Subsidies**

A government subsidy means the monetary or non-monetary asset obtained free by the Group from the government, but excluding the capital invested by the government as the owner of the enterprise. No government subsidy may be recognized unless relevant conditions are met simultaneously.

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. Government subsidies are divided into government subsidies pertinent to assets and government subsidies pertinent to incomes, depending on the natures of the subsidy targets as expressly defined in relevant government documents.

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses.

The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the Group shall be recognized as deferred income and shall be included in the current profits and losses during the period when the relevant expenses are recognized; or those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.



If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: if deferred income is concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses; and if no deferred income is concerned, it shall be directly included in the current profits and losses.

#### Government compensation for relocation of enterprises for public interest

The Group has to be relocated as a result of overall town planning and other public interests so the relocation compensation directly appropriated from the financial budget by the government shall be treated as a special account payable. Where compensation is made for losses on the fixed assets and intangible assets, the cost of expenses, losses on work stoppage during relocation and reconstruction of enterprise and proposed new assets after the relocation of assets, such compensation shall, after the special account payable is transferred to the deferred incomes, be calculated depending on its natures and in light of the government subsidies related to government and to the revenues. Any balance after the amount transferred into the deferred incomes is deducted from the obtained relocation compensation shall be recognized as the capital reserve.

## (II) Main Accounting Policies and Accounting Estimates (continued)

### **24. Deferred Income Tax Assets and Deferred Income Tax Liabilities**

Income tax expenses shall include the current income taxes and the deferred income taxes.

#### 24.1 Current income taxes

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

#### 24.2 Deferred tax assets and deferred tax liabilities

The difference between the carrying amount of an asset or liability and its tax base, and temporary difference between the tax base and the carrying amount of an item which has not been recognized as an asset or liability but its tax base can be determined in light of the tax law, shall be used to recognize the deferred tax assets and deferred tax liabilities using the balance sheet liability method.

In general cases, related deferred income taxes are recognized for all temporary differences. The Group shall recognize the deferred income tax liabilities arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference. Besides, the Group shall not recognize the deferred income tax assets or liabilities arising from all taxable temporary differences related to: the initial recognition of business reputation; the initial recognition of assets or liabilities arising from the following transactions which are simultaneously featured by the following: (a) the transaction is not business combination; (b) At the time of transaction, the accounting profits will not be affected, nor will the taxable amount (or the deductible loss) be affected.

As for any deductible loss or tax deduction that can be carried forward to subsequent years, the corresponding deferred income tax assets shall be recognized to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

The taxable temporary differences related to the investments of subsidiary companies, associates and joint ventures shall recognize corresponding deferred income tax liabilities. However, those that can simultaneously meet the following conditions shall be excluded: the Group can control the time of reversing temporary differences; and the temporary differences are unlikely to be reversed in the expected future. Where the deductible temporary difference related to the investments of the subsidiaries, associates and joint ventures can meet the following requirements simultaneously, the Group shall recognize the corresponding deferred income tax assets: the temporary differences are likely to be reversed in the expected future; and it is likely to acquire any amount of taxable income tax that may be used for offsetting the deductible temporary differences.

On the balance sheet day, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

Except the income taxes of the current period and deferred income tax related to the transactions or events directly recorded in the other consolidated income or shareholder's equities shall be recorded into the other consolidated income or shareholder's equities, and except the book value of business reputation adjusted by the deferred income taxes arising from the business combination, the remaining current income taxes and deferred income tax expenses or proceeds shall be recorded into the current profits and losses.

The book value of deferred income tax assets shall be reexamined on balance sheet date. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is likely to obtain sufficient taxable income taxes, such written-down amount shall be subsequently reversed.

When the Group has the statutory right for net settlement, and attempts to conduct net settlement or acquisition of assets and satisfaction of liabilities simultaneously, the current income tax assets and the current income tax liabilities shall be presented as the net amount after offset.

The deferred income tax assets and the deferred income tax liabilities of the Group shall be presented as the net amount after offset if and only if: the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the 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 liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**(II) Main Accounting Policies and Accounting Estimates (continued)****25. Operating Lease**

The term "financing lease" shall refer to a lease that has transferred substantially all the risks and rewards related to the ownership of an asset. The term "operating lease" shall refer to a lease other than a financing lease.

**25.1 Operating leases recorded by the Group as a lessee**

The rental expenses from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs shall be included in the profits and losses of the current period, while contingent rents shall be included in the profits and losses of the period in which they are actually incurred.

**25.2 Operating leases recorded by the Group as a lessor**

The rental incomes from operating leases shall be recognized as the current profits and losses by using the straight-line method over each period of the lease term. The initial direct costs with a relatively large amount shall be capitalized, and recorded into the current profits and losses in more than one phase on the basis same as that of the recognition of rental incomes during the entire lease term; the other initial direct costs with a relatively small amount shall be recorded into the profits and losses in the period in which they are actually incurred. Contingent rents shall be included in the profits and losses of the period in which they are actually incurred.

**25.3 Financing leases recorded by the Group as a lessor**

On the date when the lease term starts, the sum of the minimum lease receipts and the initial direct costs shall be treated as the entry values of the financing lease receivable, and the unsecured residual values shall be recorded simultaneously; the difference between the sum of the minimum lease receipts, the initial direct costs and the unsecured residual values thereof, and the sum of the minimum lease receipts, the initial direct costs and the present values thereof shall be recognized as the unrealized financing incomes. During the lease term, unrealized financing incomes shall be recognized during the lease term using the effective interest method. Contingent rents shall be included into the profits or losses of the period in which they are actually incurred.

After the unrealized financing incomes are deducted from the financing lease accounts receivable, the balance shall be presented as the long-term claim and the long-term claim due in one (1) year.

**26. Methods for Preparation of Other Main Accounting Policies, Accounting Estimates and Financial Statements****Employee Compensation**

During the accounting period in which an employee provides services to the Group, the Group shall recognize the compensation payable as liabilities except for the compensations for the cancellation of the labor relationship with the employee.

The Group shall, in accordance with the regulations, participate in the employee's social security system established by the governmental agencies, including basic pensions, medical insurance, unemployment insurance, housing funds and other social insurances. The relevant outlays shall be recognized in the relevant asset costs or the current profits and losses during the period in which they are actually incurred.

If the Group cancels the labor relationship with any employee prior to the expiration of the relevant labor contract or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, and the following conditions are met concurrently, the Group shall recognize the expected liabilities incurred due to the compensation for the cancellation of the labor relationship with the employee, and shall simultaneously record them into the profit or loss for the current period: where the enterprise has formulated a formal plan on the cancellation of labor relationship or has brought forward a proposal on voluntary layoff and will execute it soon; the Group is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal.

The internal staff retirement plan shall be treated according to the principle identical with that of the demission welfare mentioned above. The Group will, when the recognition condition of the estimated liabilities is met, recognize the early-retired personnel's wages proposed to be paid and the social insurance charges paid, etc. during the period from the date when an employee suspends the provision of service to the normal retirement date as the payroll payable and recorded into the profits and losses for the current period.

**(II) Main Accounting Policies and Accounting Estimates (continued)****27. Key Assumptions Adopted for and Uncertain Factors Involved in Significant Judgments and Accounting Estimates Made in the Process of Applying Accounting Policies**

In the application of the accounting policies 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. These judgments, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates of the Group.

The aforementioned judgments, estimates and assumptions are reviewed regularly on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Key Assumptions Adopted for and Uncertain Factors Involved in Accounting Estimates**

The key accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the future accounting periods are outlined as below.

**27.1 Inventory falling price reserve**

As mentioned in Note (II), 11, the inventories shall be measured according to the cost or the net realizable value, whichever is lower. The net realizable value refers to the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories.

Whereas a considerable portion of the operating capitals of the Group is used for inventories, the Group has a special operating procedure to control this risk. On a periodic basis, the Group can implement the all-around stock-taking over the inventories and determine whether there exist obsolete and idle inventories and review their decreases in value. The review procedure involves the determination whether any obsolete and idle inventories need to make provisions in the financial statements by the comparison between the book value of obsolete and idle inventories and their corresponding net realizable value. The appropriate accounting estimate shall be required for the selling price of inventories employed by the net realizable value, the estimated cost of completion, selling expenses, and relevant taxes from the estimated sale price of inventories. The management has ensured the rationality of the accounting estimate in accordance with the optimal estimate, and considering the historical experiences, present production costs and sales expenses. Based on the aforesaid procedure, the falling price reserves have, in the opinion of the management of the Group, been made in full for the obsolete and idle inventories.

**27.2 Impairment of accounts receivable**

If there is any obvious evidence that the recoverability of the receivables is doubtful, the Group will make the bad-debt provisions for such receivables. Because the management needs to make assumptions when taking the bad-debt provisions into consideration, and make judgment for the financial conditions of previous payment collection, age, financial status of debtor, and overall economic environment, the calculation for the bad-debt provisions shall be uncertain. Although there is no reason to confirm whether a significant change in the assumptions and estimates based on which the impairment of receivable is calculated may occur in the future, the book value of receivables and bad-debt losses will be changed when the future actual result differs from the original estimate.

**27.3 Deferred income tax assets**

The realization of the deferred income tax assets mainly depends on the future actual gains and the effective tax rate of temporary differences in the future years of use. If the future effective gains are less than the expected gains, or the effective tax rate is lower than the expected one, the recognized deferred income tax assets shall be reversed, and recognized in the Consolidated Profit Statement during the period in which the reversal is incurred. Any deductible loss that can be carried forward to the next year is not fully recognized as the deferred income tax asset because whether to obtain the sufficient taxable incomes is uncertain.

27.4 Impairment reserve for fixed assets

The Group assesses at each balance sheet date whether there is any indication of impairment of fixed assets. If there is any indication that carrying amount can not be recovered, the impairment test shall be performed. Where the carrying amount of the asset or that of asset group is higher than the recoverable amount, that is, the higher of the net amount after the fair value minus the disposal costs and the present value of expected future cash flow, there shall be indication that the impairment has occurred. The net amount after the fair value minus the disposal costs shall be determined by reference to the negotiated sales price or observable market price of similar assets in the arm's length transaction minus the incremental cost directly attributable to assets disposal. When expecting the present value of future cash flow, the management shall estimate the expected future cash flow of such asset or such asset group, and select the appropriate discount rate to determine the present value of the future cash flow. On the basis of the aforesaid procedures, in the opinion of the management of the Group, the provision for impairment losses have been fully made for the fixed assets.

**(II) Main Accounting Policies and Accounting Estimates (continued)****27. Key Assumptions Adopted for and Uncertain Factors Involved in Significant Judgments and Accounting Estimates Made in the Process of Applying Accounting Policies (continued)**27.5 Impairment reserve for AFS financial assets

The Group at each balance sheet date assesses if there is any indication of impairment of AFS equity instrument investments held by the Company for strategic investment purposes and not to be sold due to any temporary share price fluctuations. The Company will make impairment provision for an AFS financial asset when and if it meets the quantitative criteria established by the Company for judging the impairment of AFS financial assets (Note (II), 9). The management of the Group, after comprehensively taking relevant factors into consideration, thinks there is no need to make impairment provision for AFS financial assets on the balance sheet date.

**(III) Taxes****Main tax categories and tax rates**

| <b>Tax category</b>                    | <b>Taxation Basis</b>                             | <b>Tax Rate</b>                          |
|--|---|--|
| VAT                                    | Taxable sales revenue                             | 6%, 11%, 13% or 17%                      |
| Business tax                           | Taxable income                                    | 3% or 5%                                 |
| Urban maintenance and construction tax | Actually-paid turnover tax                        | 1%~7%                                    |
| Educational surtax and surcharge       | Actually-paid turnover tax                        | 3%~5%                                    |
| Enterprise income tax                  | Taxable income                                    | See "Note"                               |
| Riverway management fee                | Actually-paid turnover tax                        | At the ratio specified by the government |
| Property tax                           | Taxable residual or rent income of taxable houses | At the ratio specified by the government |
| Individual income tax                  | Taxable income                                    | At the ratio specified by the government |

**Note:** The Company shall have the enterprise income tax rate of 25%. Each subsidiary of the Group shall, in light of their respective income tax rate, make accrual and payment for business income tax in proportion to their respective taxable incomes. The overseas subsidiaries of the Group shall, in accordance with the tax laws of their locations, make accrual and payment for business income tax.

**(IV) Business Combination and Consolidated Financial Statement****1. Particulars About Major Subsidiaries****(1) Subsidiaries acquired through business combination under common control**

| Full name of subsidiary   | Type of subsidiary        | Place of registration | Nature of business     | Registered capital (1,000) | Business scope                                  | Actual EOP amount of contribution (1,000) | Balance of other items substantially constituting the net investment in subsidiaries | Shareholding ratio (%) | Voting right ratio (%) | Whether consolidated statement or not | Minority interests (RMB1,000) | Amount of minority interests used to offset minority gains or losses |
|---|---------------------------|-----------------------|------------------------|----------------------------|---|---|--|------------------------|------------------------|---------------------------------------|-------------------------------|--|
| Yantai Lubao Steel Tubes Co., Ltd. ("Lubao Steel Tubes")                                | Limited liability company | Yantai                | Manufacturing          | RMB 100,000                | Production and sale of steel pipes              | RMB79,820                                 | -  | 79.82%                 | 79.82%                 | Yes                                   | 99,191                        | -  |
| Baosteel Huangshi Coated & Galvanized Sheets Co., Ltd. (Huangshi Coating & Galvanizing) | Limited liability company | Huangshi              | Manufacturing          | RMB144,647                 | Production and sales of galvanized sheets, etc. | RMB84,542                                 | -  | 58.45%                 | 58.45%                 | Yes                                   | 141,838                       | -  |
| Shanghai Baosteel International Economic & Trading Co., Ltd. ("Baosteel International") | Limited liability company | Shanghai              | Iron and steel trading | RMB 2,248,879              | Iron and steel trading                          | RMB2,248,879                              | -  | 100%                   | 100%                   | Yes                                   | 1,304,742                     | -  |
| Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel")                               | Joint stock company       | Nanjing               | Manufacturing          | RMB 7,081,426              | Processing and sales of steel                   | RMB5,455,836                              | -  | 77.04%                 | 77.04%                 | Yes                                   | 2,576,165                     | -  |
| Shanghai Bassinet Software Co., Ltd. ("Bassinet Software")                              | Joint stock company       | Shanghai              | Information technology | RMB 364,132                | Software development                            | RMB282,871                                | -  | 55.5%                  | 55.5%                  | Yes                                   | 1,125,365                     | -  |
| Baosteel America Inc. ("Baosteel America")  | Limited liability company | Texas, USA            | Iron and steel trading | USD 980                    | Iron and steel trading                          | USD980                                    | -  | 100%                   | 100%                   | Yes                                   | -                             | -  |
| Howa Trading Co.,Ltd. ("Howa Trading")  | Limited liability company | Tokyo, Japan          | Iron and steel trading | JPY 876,000                | Iron and steel trading                          | JPY876,000                                | -  | 100%                   | 100%                   | Yes                                   | -                             | -  |
| Baosteel Europe GmbH ("Baosteel Europe")  | Limited liability company | Hamburg, Germany      | Iron and steel trading | EUR 2,050                  | Iron and steel trading                          | EUR2,050                                  | -  | 100%                   | 100%                   | Yes                                   | 67,084                        | -  |
| Baosteel Singapore PTE Ltd. ("Baosteel Singapore")                                      | Limited liability company | Singapore             | Iron and steel trading | SGD 1,500                  | Iron and steel trading                          | SGD 1,500                                 | -  | 100%                   | 100%                   | Yes                                   | -                             | -  |
| Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises)                                      | Limited liability company | Hong Kong             | Iron and steel trading | HKD 360,190                | Iron and steel trading                          | HKD 360,190                               | -  | 100%                   | 100%                   | Yes                                   | -                             | -  |
| Baosteel Do Brasil Ltda (Baosteel Brazil Trading)                                       | Limited liability company | Rio, Brazil           | Iron and steel trading | BRL 1,253                  | Iron and steel trading                          | USD980                                    | -  | 100%                   | 100%                   | Yes                                   | -                             | -  |
| Shanghai Baosteel Chemical Co., Ltd. ("Baosteel Chemical")                              | Limited liability company | Shanghai              | Manufacturing          | RMB 2,110,047              | Production and sales of chemical products       | RMB2,110,047                              | -  | 100%                   | 100%                   | Yes                                   | 289,608                       | -  |
| Baosteel Group Finance Co., Ltd. ("Finance Company")                                    | Limited liability company | Shanghai              | Finance                | RMB1,100,000               | Finance, foreign exchange business              | RMB310,500                                | -  | 62.1%                  | 62.1%                  | Yes                                   | 678,564                       | -  |
| Nantong Baosteel Iron & Steel Co., Ltd. ("Baotong Iron & Steel")                        | Limited liability company | Nantong               | Manufacturing          | RMB 620,532                | Processing and sales of steels                  | RMB594,582                                | -  | 95.82%                 | 95.82%                 | Yes                                   | (7,218)                       | -  |
| Baosteel Zhanjiang Iron & Steel Co., Ltd. ("Zhanjiang Steel") (Note 1)                  | Limited liability company | Zhanjiang             | Manufacturing          | RMB20,000,000              | Steel smelting and processing                   | RMB12,000,000                             | -  | 85.71%                 | 85.71%                 | Yes                                   | 3,389,635                     | -  |

**(2) Subsidiaries acquired by establishment or investment and other means**

| Full name of subsidiary                                      | Type of subsidiary        | Place of registration | Nature of business | Registered capital (000) | Business scope                         | Actual EOP amount of contribution (000) | Balance of other items substantially constituting the net investment in subsidiaries | Shareholding ratio (%) | Voting right ratio (%) | Whether consolidated statement or not | Minority shareholder's equity RMB1000 | Amount in Minority shareholder's equity available to write down Minority shareholder's equity |
|--|---------------------------|-----------------------|--------------------|--------------------------|--|---|--|------------------------|------------------------|---------------------------------------|---------------------------------------|---|
| Yantai Baosteel Steel Tubes Co., Ltd. ("Yanbao Steel Tubes") | Limited liability company | Yantai                | Manufacturing      | RMB 2,000,000            | Production and sales of steel pipes    | RMB2,000,000                            | -  | 100%                   | 100%                   | Yes                                   | -                                     | -   |
| Shanghai Huagongbao E-commerce Co.,Ltd. (Huagongbao)         | Limited liability company | Shanghai              | E-commerce         | RMB 6,500                | E-commerce                             | RMB3,500                                | -  | 53.85%                 | 53.85%                 | Yes                                   | 2,617                                 | -   |
| Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube)                | Limited liability company | Karamay               | Manufacturing      | RMB48,898                | Production and sales of steel pipes    | RMB36,674                               | -  | 75%                    | 75%                    | Yes                                   | 11,575                                | -   |
| Poly Pipe (Thailand) Co., Ltd. (Poly Pipe) (Note1)           | Limited liability company | Thailand              | Manufacturing      | THB 2,800,000            | Steel pipe processing                  | USD46,252                               | -  | 51%                    | 51%                    | Yes                                   | 230,406                               | -   |
| BGM Co., Ltd. (BGM)  | Limited liability company | Gyeonggi-do           | Manufacturing      | KRW 10,000,000           | Production and sales of steel products | KRW 5,000,000                           | -  | 50%                    | Majority (Note 1)      | Yes                                   | 30,039                                | -   |

Note 1: At the balance sheet date, the Group holds 50% of the equity of BGM but has a majority of voting rights in the Board of Directors of BGM, so the Group includes BGM as a subsidiary into the consolidated financial statement.

Note 2: At the balance sheet date, the paid-up capital received by Zhanjiang Steel was RMB 14 billion of which RMB 12 billion was contributed by the Company, so the Company holds 85.71% of the equity of Zhanjiang Steel.

## (IV) Business Combination and Consolidated Financial Statement (continued)

## 2. Exchange rates for translation of main report items of overseas operational entities

| Currency | Average exchange rate |          | EOP exchange rate |             |
|----------|-----------------------|----------|-------------------|-------------|
|          | Jan-June 2014         | 2013     | End of June 2014  | End of 2013 |
| USD      | 6.12485               | 6.1912   | 6.1528            | 6.0969      |
| EUR      | 8.40675               | 8.36825  | 8.3946            | 8.4189      |
| JPY      | 0.0593                | 0.0654   | 0.0608            | 0.0578      |
| BRL      | 2.661639              | 2.82597  | 2.805143          | 2.5181354   |
| THB      | 0.1873                | 0.1957   | 0.1897            | 0.1849      |
| KRW      | 0.005938              | 0.005804 | 0.006135          | 0.005740    |

## (V) Notes to Consolidated Financial Statements

## 1. Monetary Funds

RMB

| Item   | EOP balance      |            |                   | Beginning balance |            |                   |
|--|------------------|------------|-------------------|-------------------|------------|-------------------|
|  | Foreign currency | Conversion | RMB Amount        | Foreign currency  | Conversion | RMB Amount        |
| Cash:  |                  |            |                   |                   |            |                   |
| RMB  |                  |            | 1,050,670.09      |                   |            | 862,784.89        |
| Bank deposit:  |                  |            |                   |                   |            |                   |
| RMB  |                  |            | 13,943,069,783.12 |                   |            | 8,712,911,595.21  |
| USD  | 358,459,683.73   | 6.1528     | 2,205,530,742.07  | 309,946,263.41    | 6.0969     | 1,889,711,373.41  |
| JPY  | 7,774,038,476.00 | 0.0608     | 472,778,149.92    | 6,522,202,259.93  | 0.0578     | 376,794,424.53    |
| EUR  | 39,909,914.93    | 8.3946     | 335,027,771.86    | 42,397,306.39     | 8.4189     | 356,937,436.23    |
| HKD  | 1,612,643.34     | 0.7938     | 1,280,035.65      | 1,345,837.74      | 0.7862     | 1,051,979.25      |
| Other currencies   |                  |            | 170,336,174.05    |                   |            | 98,392,763.62     |
| Other monetary funds:  |                  |            |                   |                   |            |                   |
| RMB  |                  |            | 55,307,314.39     |                   |            | 71,190,039.79     |
| Legal reserves deposited by the Finance Company in the Central Bank of China |                  |            | 1,321,310,516.28  |                   |            | 1,373,381,901.56  |
| Total  |                  |            | 18,505,691,157.43 |                   |            | 12,881,234,298.49 |

Particulars about restricted monetary funds:

RMB

| Item   | EOP balance      | Beginning balance |
|--|------------------|-------------------|
| Legal reserves deposited by the Finance Company in the Central Bank of China | 1,321,310,516.28 | 1,373,381,901.56  |

On June 30, 2014, the monetary capital deposited overseas by the Group amounted to RMB 2,223,181,570.56 (on Dec. 31<sup>st</sup> 2013, the figure was RMB 2,018,653,824.16). On June 30, 2014, other monetary capitals of the Group mainly include the refundable deposits of the Group amounting to RMB 7,134,666.85 (December 31, 2013: RMB 4,406,913.56), bank acceptance deposit amounting to RMB 41,759,700.72 (December 31, 2013: RMB 56,178,621.04), L/G deposit amounting to RMB 4,772,942.47 (December 31, 2013: RMB 9,301,224.54), and credit card deposit amounting to RMB 1,288,782.26 (December 31, 2013: RMB 443,801.80), etc.

## 2. Held-for-Trading Financial Assets

The details of held-for-trading financial assets are listed as follows:

RMB

| Item                              | EOP fair value | BOY fair value |
|-----------------------------------|----------------|----------------|
| Held-for-trading bond investments | 26,540,775.35  | 25,870,987.96  |
| Held-for-trading fund investments | 271,663,691.66 | -              |
| Derivative financial assets       | 8,676,681.70   | 2,867,855.98   |
| Total                             | 306,881,148.71 | 28,738,843.94  |

In the opinion of the management of the Company, the realization of the held-for-trading financial asset investment has no major limitation.



**(V) Note to Consolidated Financial Statements (continued)****3. Notes Receivable**

## (1) Categories of notes receivable

RMB

| Category         | EOP balance       | BOY balance       |
|------------------|-------------------|-------------------|
| Bank acceptance  | 11,181,921,838.81 | 11,761,459,876.16 |
| Trade acceptance | 740,643,145.86    | 385,814,930.98    |
| Total            | 11,922,564,984.67 | 12,147,274,807.14 |

(2) At the end of the period and the beginning of the year, in the balance of notes receivable, there are no notes transferred into the receivables due to the drawer's inability to honor the drafts.

(3) At the end of the period and the beginning of the year, in the balance of notes receivable, there are no arrears owed to the Company by any shareholder holding shares representing 5% or more of voting rights of the Company.

(4) Refer to the Note (VI), 6(1) for the notes receivable from the affiliated parties in the balance of notes receivable.

(5) On June 30<sup>th</sup> 2014, there are no notes receivable that are discounted for obtaining short-term borrowings.

**4. Accounts Receivable**

## (1) Disclosure of receivables by category:

RMB

| Category   | EOP balance       |                |                    |                | BOY balance       |                |                    |                |
|--|-------------------|----------------|--------------------|----------------|-------------------|----------------|--------------------|----------------|
|  | Book balance      |                | Bad-debt provision |                | Book balance      |                | Bad-debt provision |                |
|  | Amount            | Proportion (%) | Amount             | Proportion (%) | Amount            | Proportion (%) | Amount             | Proportion (%) |
| Receivables with significant single amounts  | 2,477,766,501.25  | 21             | 76,774,168.71      | 16             | 3,044,601,900.92  | 26             | 25,008,593.45      | 5              |
| Receivables with bad-debt provisions made by portfolio   | 8,926,260,469.87  | 78             | 329,178,844.83     | 67             | 8,618,747,809.20  | 73             | 363,437,240.58     | 79             |
| Receivables with bad-debt provisions made individually in spite of insignificant single amount | 84,268,392.52     | 1              | 84,268,392.52      | 17             | 71,750,227.37     | 1              | 71,750,227.37      | 16             |
| Total  | 11,488,295,363.64 | 100            | 490,221,406.06     | 100            | 11,735,099,937.49 | 100            | 460,196,061.40     | 100            |

The ages of receivables are listed as follows:

RMB

| Age             | EOP balance       |                |                    |                   | BOY balance       |                |                    |                   |
|-----------------|-------------------|----------------|--------------------|-------------------|-------------------|----------------|--------------------|-------------------|
|                 | Amount            | Proportion (%) | Bad-debt provision | Book value        | Amount            | Proportion (%) | Bad-debt provision | Book value        |
| Within 1 year   | 10,840,722,934.69 | 94             | 318,402,665.24     | 10,522,320,269.45 | 11,219,773,991.28 | 95             | 302,399,229.99     | 10,917,374,761.29 |
| 1-2 years       | 402,396,695.89    | 4              | 27,254,537.51      | 375,142,158.38    | 314,018,773.51    | 3              | 25,531,020.75      | 288,487,752.76    |
| 2-3 years       | 124,459,185.85    | 1              | 60,295,810.79      | 64,163,375.06     | 101,846,406.72    | 1              | 60,515,583.29      | 41,330,823.43     |
| 3 years or more | 120,716,547.21    | 1              | 84,268,392.52      | 36,448,154.69     | 99,460,765.98     | 1              | 71,750,227.37      | 27,710,538.61     |
| Total           | 11,488,295,363.64 | 100            | 490,221,406.06     | 10,998,073,957.58 | 11,735,099,937.49 | 100            | 460,196,061.40     | 11,274,903,876.09 |

**(V) Notes to Consolidated Financial Statements (continued)****4. Accounts Receivable (continued)**

(2) Bad-debt provisions for EOP accounts receivable with significant single amounts or those for which independent impairment test already performed in spite of insignificant single amounts

|   |                  |                    |                          | RMB    |
|---|------------------|--------------------|--------------------------|--------|
| Details of accounts receivable                      | Book balance     | Bad-debt provision | Provision proportion (%) | Cause  |
| Accounts receivable with significant single amounts | 2,477,766,501.25 | 76,774,168.71      | 3                        | Note 1 |
| Receivables with relatively long age                | 84,268,392.52    | 84,268,392.52      | 100                      | Note 2 |
| Total   | 2,562,034,893.77 | 161,042,561.23     |                          |        |

Bad-debt provisions for accounts receivable at the end of the pervious year with significant single amounts or those for which independent impairment tests already performed in spite of insignificant single amounts:

|   |                  |                    |                          | RMB    |
|---|------------------|--------------------|--------------------------|--------|
| Details of accounts receivable                      | Book balance     | Bad-debt provision | Provision proportion (%) | Cause  |
| Accounts receivable with significant single amounts | 3,044,601,900.92 | 25,008,593.45      | 0.82                     | Note 1 |
| Receivables with relatively long age                | 71,750,227.37    | 71,750,227.37      | 100                      | Note 2 |
| Total   | 3,116,352,128.29 | 96,758,820.82      |                          |        |

Note 1: The Group independently performed impairment tests on accounts receivable with significant single amounts and at the end of this reporting period did not make impairment provisions for single accounts receivables (nor did the Group make 2013 impairment provisions for single accounts receivables at the end of Y2013). So, bad-debt provision, RMB 76,774,168.71 (Y2013: RMB 25,008,593.45), was made by portfolio as per Note (II), 10.2.

Note 2: Bad-debt provisions are made in full for accounts receivable with relatively long ages and minimum possibility of recovery.

(3) For particulars about the accounts receivable, in this reporting period, due from the shareholders each holding shares representing 5% or more of voting rights of the Company and from the other affiliated parties, refer to Note (VI), 6(2).

(4) As regards other accounts receivable, particulars about top 5 entities are listed as follows:

|                |                               |                  |               | RMB   |
|----------------|-------------------------------|------------------|---------------|---|
| Name of Entity | Relationship with the Company | Amount           | Age limit     | Proportion in total amount of receivables (%) |
| Entity I       | Third party                   | 680,300,485.00   | Within 1 year | 6   |
| Entity II      | Related party                 | 504,943,496.11   | Within 1 year | 4   |
| Entity III     | Related party                 | 482,133,564.59   | Within 1 year | 4   |
| Entity IV      | Related party                 | 455,854,057.55   | Within 1 year | 4   |
| Entity V       | Third party                   | 354,534,898.00   | Within 1 year | 3   |
| Total          |                               | 2,477,766,501.25 |               | 21  |

**5. Advance Payments**

(1) Advance payments presented by age

|                 |                  |                |                  |                | RMB |
|-----------------|------------------|----------------|------------------|----------------|-----|
| Age             | EOP balance      |                | BOY balance      |                |     |
|                 | Amount           | Proportion (%) | Amount           | Proportion (%) |     |
| Within 1 year   | 3,490,048,104.17 | 95             | 2,904,024,382.90 | 95             |     |
| 1-2 years       | 110,098,765.45   | 3              | 75,644,388.11    | 2              |     |
| 2-3 years       | 39,242,327.39    | 1              | 62,844,831.81    | 2              |     |
| 3 years or more | 25,979,826.22    | 1              | 21,153,667.88    | 1              |     |
| Total           | 3,665,369,023.23 | 100            | 3,063,667,270.70 | 100            |     |

On June 30, 2014, the large-amount advance payments by the Group with an age of one year or longer were mainly available for the procurement of large-sized equipment for the Construction in progress.

**(V) Notes to Consolidated Financial Statements (continued)****5. Advance payment (continued)**

(2) As regards the advance payments, the particulars about the top 5 entities are listed as follows:

RMB

| Name of Entity | Relationship with the Company | Amount           | Time          |
|----------------|-------------------------------|------------------|---------------|
| Entity I       | Related party                 | 354,420,216.98   | Within 1 year |
| Entity II      | Third party                   | 328,103,148.25   | Within 1 year |
| Entity III     | Related party                 | 251,184,185.23   | Within 1 year |
| Entity IV      | Related party                 | 167,892,060.95   | Within 1 year |
| Entity V       | Third party                   | 135,675,560.32   | Within 1 year |
| Total          |                               | 1,237,275,171.73 |               |

(3) At the end of the period and the beginning of the year, in the balance of advance payments, there are no accounts advanced to any shareholder holding at least 5% of the Company's shares with voting power.

(4) Advance payments by customer category:

RMB

| Category   | EOP balance      | BOY balance      |
|--|------------------|------------------|
| Advance payments with significant single amounts         | 1,237,275,171.73 | 1,242,990,452.61 |
| Other advance payments with insignificant single amounts | 2,428,093,851.50 | 1,820,676,818.09 |
| Total  | 3,665,369,023.23 | 3,063,667,270.70 |

(5) For amounts advanced to the related parties, please refer to Note (VI), 6(3).

**6. Interest Receivable**

(1) Interest receivable

RMB

| Item                | BOY balance    | Increase in current period | Decrease in current period | EOP balance    |
|---------------------|----------------|----------------------------|----------------------------|----------------|
| Interest receivable | 740,275,608.57 | 550,040,836.91             | 1,102,923,850.07           | 187,392,595.41 |

(2) Note: on the balance sheet date, none of the interests receivable of the Group has an age of more than one year.

(3) For interests receivable from related parties, please refer to Note (VI), 6(4).

**7. Dividends Receivable**

RMB

| Item   | BOY balance   | Increase in current period | Decrease in current period | EOP balance   | Cause of non-recovery | Impairment of related accounts |
|--|---------------|----------------------------|----------------------------|---------------|-----------------------|--------------------------------|
| Dividends receivable with an age within 1 year | 60,887,153.28 | -                          | 30,400,000.00              | 30,487,153.28 | -                     | No                             |

**8. Other Receivables**

(1) Disclosure of other receivables by category:

RMB

| Category  | EOP balance      |                |                    |                | BOY balance      |                |                    |                |
|---|------------------|----------------|--------------------|----------------|------------------|----------------|--------------------|----------------|
|   | Book balance     |                | Bad-debt provision |                | Book balance     |                | Bad-debt provision |                |
|   | Amount           | Proportion (%) | Amount             | Proportion (%) | Amount           | Proportion (%) | Amount             | Proportion (%) |
| Other receivables with significant single amounts   | 436,339,428.90   | 25             | 42,712,929.89      | 50             | 435,869,833.04   | 25             | -                  | -              |
| Other receivables for which the bad-debt provision are made by portfolio                                    | 1,292,827,242.68 | 74             | 17,367,460.87      | 21             | 1,265,502,592.79 | 73             | 56,627,189.42      | 69             |
| Other receivables for which independent impairment tests performed in spite of insignificant single amounts | 24,655,507.12    | 1              | 24,655,507.12      | 29             | 25,031,256.94    | 2              | 25,031,256.94      | 31             |
| Total   | 1,753,822,178.70 | 100            | 84,735,897.87      | 100            | 1,726,403,682.77 | 100            | 81,658,446.36      | 100            |

**(V) Notes to Consolidated Financial Statements (continued)****8. Other accounts receivable (continued)**

(1) Disclosure of other accounts receivable by category (continued):

The ages of other receivables are listed as follows:

RMB

| Age             | EOP balance      |                |                    |                  | BOY balance      |                |                    |                  |
|-----------------|------------------|----------------|--------------------|------------------|------------------|----------------|--------------------|------------------|
|                 | Amount           | Proportion (%) | Bad-debt provision | Book value       | Amount           | Proportion (%) | Bad-debt provision | Book value       |
| Within 1 year   | 1,351,532,791.75 | 77             | 9,803,185.68       | 1,341,729,606.07 | 1,299,454,657.38 | 75             | 9,352,699.87       | 1,290,101,957.51 |
| 1-2 years       | 74,695,720.76    | 5              | 46,304,514.14      | 28,391,206.62    | 110,083,127.79   | 6              | 45,848,624.96      | 64,234,502.83    |
| 2-3 years       | 20,691,875.67    | 1              | 3,972,690.93       | 16,719,184.74    | 4,964,522.61     | 1              | 1,425,864.59       | 3,538,658.02     |
| 3 years or more | 306,901,790.52   | 17             | 24,655,507.12      | 282,246,283.40   | 311,901,374.99   | 18             | 25,031,256.94      | 286,870,118.05   |
| Total           | 1,753,822,178.70 | 100            | 84,735,897.87      | 1,669,086,280.83 | 1,726,403,682.77 | 100            | 81,658,446.36      | 1,644,745,236.41 |

(2) Bad-debt provision for other EOP accounts receivable with significant single amounts or those for which independent impairment tests are performed in spite of insignificant single amounts:

RMB

| Details of other accounts receivable                      | Book balance   | Bad-debt amount | Provision proportion (%) | Cause |
|---|----------------|-----------------|--------------------------|-------|
| Other accounts receivable with significant single amounts | 436,339,428.90 | 42,712,929.89   | 10                       |       |
| Other accounts receivables with a relatively long age     | 24,655,507.12  | 24,655,507.12   | 100                      | Note  |
| Total   | 460,994,936.02 | 67,368,437.01   |                          |       |

Bad-debt provisions for other accounts receivable at the end of the previous year with significant single amounts or those for which independent impairment tests already performed in spite of insignificant single amounts:

RMB

| Details of other accounts receivable                  | Book balance   | Bad-debt amount | Provision proportion (%) | Cause |
|---|----------------|-----------------|--------------------------|-------|
| Other large-amount receivables                        | 435,869,833.04 | -               | -                        |       |
| Other accounts receivables with a relatively long age | 25,031,256.94  | 25,031,256.94   | 100                      | Note  |
| Total   | 460,901,089.98 | 25,031,256.94   |                          |       |

Note: Bad-debt provisions are made in full for other accounts receivable with relatively long ages and minimum possibility of recovery.

(3) As regards other accounts receivable in this reporting period, shareholders that hold 5% or more of shares with voting right of the Company and the other affiliated parties are described in Note (VI), 6(5).

(4) As regards other accounts receivables, the particulars about top 5 entities are as follows:

RMB

| Name of entity | Relationship with the Company | Amount         | Age            | Proportion of the total of other accounts receivable (%) |
|----------------|-------------------------------|----------------|----------------|--|
| Entity I       | Third party                   | 198,911,326.43 | Note           | 11   |
| Entity II      | Third party                   | 112,050,640.10 | Within 1 year  | 6  |
| Entity III     | Third party                   | 52,810,650.00  | Within 2 years | 3  |
| Entity IV      | Third party                   | 37,110,397.88  | Within 2 years | 2  |
| Entity V       | Related party                 | 35,456,414.49  | Within 1 year  | 2  |
| Total          |                               | 436,339,428.90 |                | 25   |

Note: Of the EOP balance, the total amount of accounts receivable with an age of three years or longer is RMB 198,911,326.43.

## (V) Notes to Consolidated Financial Statements (continued)

## 9. Inventory

## (1) Classification of inventories

RMB

| Item                   | EOP balance       |                       |                   | BOY balance       |                       |                   |
|------------------------|-------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
|                        | Book balance      | Falling price reserve | Book value        | Book balance      | Falling price reserve | Book value        |
| Raw materials          | 6,260,326,698.91  | 86,748,507.12         | 6,173,578,191.79  | 7,653,352,540.31  | 167,249,239.32        | 7,486,103,300.99  |
| Work-in-progress       | 9,058,819,516.95  | 402,425,027.07        | 8,656,394,489.88  | 9,207,303,898.78  | 393,120,379.69        | 8,814,183,519.09  |
| Finished goods         | 10,990,576,308.97 | 527,548,991.93        | 10,463,027,317.04 | 11,798,045,628.55 | 590,592,927.36        | 11,207,452,701.19 |
| Spare parts and others | 3,634,326,008.24  | 61,185,440.62         | 3,573,140,567.62  | 3,640,280,331.31  | 61,279,664.12         | 3,579,000,667.19  |
| Total                  | 29,944,048,533.07 | 1,077,907,966.74      | 28,866,140,566.33 | 32,298,982,398.95 | 1,212,242,210.49      | 31,086,740,188.46 |

## (2) Falling price reserve of inventories

RMB

| Category of inventories | Year-beginning book balance | Provision amount for the current period | Decrease for the current period |              | Difference from foreign currency translation | EOP book balance |
|-------------------------|-----------------------------|---|---------------------------------|--------------|--|------------------|
|                         |                             |   | Write-back                      | Write-off    |  |                  |
| Raw materials           | 167,249,239.32              | 15,974,970.93                           | 96,475,703.13                   | -            | -  | 86,748,507.12    |
| Work-in-progress        | 393,120,379.69              | 161,777,334.08                          | 152,472,686.70                  | -            | -  | 402,425,027.07   |
| Finished goods          | 590,592,927.36              | 149,474,339.21                          | 209,319,743.06                  | 2,976,933.24 | (221,598.34)                                 | 527,548,991.93   |
| Spare parts and others  | 61,279,664.12               | 30,998.54                               | 31,489.33                       | 442,285.45   | 348,552.74                                   | 61,185,440.62    |
| Total                   | 1,212,242,210.49            | 327,257,642.76                          | 458,299,622.22                  | 3,419,218.69 | 126,954.40                                   | 1,077,907,966.74 |

## (3) Particulars about falling price reserve of inventories

| Item                   | Basis for inventory falling price reserve                  | Cause of reversing inventory falling price reserve in this period | Proportion of amount reversed in this period to EOP balance of this inventory |
|------------------------|--|---|---|
| Raw materials          | Book value of inventories higher than net realizable value | Rising market price or falling product cost                       | 1.5%  |
| Work-in-progress       | Book value of inventories higher than net realizable value | Rising market price or falling product cost                       | 1.7%  |
| Finished goods         | Book value of inventories higher than net realizable value | Rising market price or falling product cost                       | 1.9%  |
| Spare parts and others | Book value of inventories higher than net realizable value | Rising market price or falling product cost                       | 0.0%  |

The EOP balance of inventories does not include any amount provided for guarantee or any capitalized interest.

## 10. Non-current assets due within 1 year

RMB

| Item   | EOP balance      | BOY balance      |
|--|------------------|------------------|
| Trust financing products                                       | 50,000,000.00    | 260,000,000.00   |
| Zhanjiang Steel's investment in Guangzhou Steel Sheet (Note 1) | 1,500,000,000.00 | -                |
| Proceeds from transfer of assets receivable (Note 2 & Note 3)  | 4,500,000,000.00 | 4,500,000,000.00 |
| Total  | 6,050,000,000.00 | 4,760,000,000.00 |

Note 1: In December 2011, Guangzhou Steel Sheet Co., Ltd. (hereinafter referred to as Guangzhou Steel Sheet) was jointly established by Zhanjiang Iron & Steel Co., Ltd. and Guangzhou Iron & Steel Enterprises Group. Pursuant to the provisions of the JV Contract of the Guangzhou Steel Sheet, the Guangzhou Steel Sheet shall have a registered capital of RMB 3.251 billion, of which Zhanjiang Iron & Steel Co., Ltd. shall contribute 51% of its registered capital in the sum of RMB 1.658 billion. According to the iron & steel restructuring arrangement in Guangzhou by Baosteel Group and the Guangzhou Municipal SASAC, Guangzhou Iron & Steel Enterprises Group shall transfer 46.14% of the equity of Guangzhou Steel Sheet it has held to Zhanjiang Iron & Steel Co., Ltd. at the price of RMB 1.5 billion in April 2012. Meanwhile, it is agreed that the Guangzhou Iron & Steel Enterprises Group is entitled to repurchase such equity at the original price within three (3) years. If Guangzhou Iron & Steel Enterprises Group waives the right of repurchase in due course, Zhanjiang Iron & Steel Co., Ltd. will transfer such long-term receivable into the long-term equity investment in Guangzhou Steel Sheet, and refund Baosteel Group

the long-term payables of RMB 1.5 billion in the meantime. This amount will become due in April 2015, so the corresponding claim and debt are included in non-current assets and liabilities due within 1 year.

Note 2: Proceeds from transfer of assets receivable due within one year amount to RMB 4.5 billion, including RMB 2.6 billion due from Shanghai Baosteel Stainless Steel Co., Ltd. and RMB 1.9 billion due from Shanghai Baosteel Special Steel Co., Ltd. Please see Note (V), 14 Note (1).

Note 3: As regards the accounts due from the related parties in the non-current assets and due within one year, please refer to Note (VI), 6(6).

#### 11. Other Current Assets

| Item                     | EOP balance   | BOY balance    |
|--------------------------|---------------|----------------|
| Trust financing products | 29,332,929.23 | 277,031,463.05 |

## (V) Notes to Consolidated Financial Statements (continued)

## 12. Loans and advances to customers

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

RMB

| Item                          | EOP balance      | BOY balance      |
|-------------------------------|------------------|------------------|
| Loans                         | 2,122,569,616.12 | 2,192,214,717.69 |
| Discount                      | 1,404,275,311.66 | 1,005,039,105.85 |
| Provision for loan impairment | (171,343,353.20) | (125,340,000.00) |
| Total                         | 3,355,501,574.58 | 3,071,913,823.54 |

## (2) Provision for loan impairment

RMB

| Item               | BOY book value | Provision amount for the current period | Decrease for the current period |           | Difference from foreign currency translation | EOP book balance |
|--------------------|----------------|---|---------------------------------|-----------|--|------------------|
|                    |                |   | Write-back                      | Write-off |  |                  |
| Provision for loan | 125,340,000.00 | 46,003,353.20                           | -                               | -         | -  | 171,343,353.20   |

At the end of this reporting period and the beginning of the current year, no loans or advance payments were made to any shareholder holding shares representing 5% or more of the voting rights of the Company.

For particulars of loans and advance payments made to other related parties at the end of this reporting period and the beginning of the current year, please refer to Note (VI), 6(7).

## 13. Available-for-Sale (AFS) Financial Assets

RMB

| Item                   | EOP fair value   | BOY fair value   |
|------------------------|------------------|------------------|
| AFS bonds              | 827,872,300.00   | 478,263,350.00   |
| AFS equity instruments | 398,371,950.42   | 530,879,557.29   |
| Total                  | 1,226,244,250.42 | 1,009,142,907.29 |

## 14. Long-Term Receivables

RMB

| Item  | EOP balance       | BOY balance       |
|---|-------------------|-------------------|
| Proceeds arising from transfer of assets receivable (Note 1)                          | 13,500,000,000.00 | 18,000,000,000.00 |
| Finance lease payment receivable  | -                 | 13,648,375.00     |
| Including: unrealized financing incomes   | -                 | (648,375.00)      |
| Bad-debt provision  | -                 | (1,950,000.00)    |
| Others  | 3,774,151.00      | 3,704,636.88      |
| Less: Proceeds arising from transfer of assets receivable, due within 1 year (Note 1) | 4,500,000,000.00  | 4,500,000,000.00  |
| Total   | 9,003,774,151.00  | 13,514,754,636.88 |

Note 1: In accordance with the *Connected Transaction Bulletin* (Lin 2012-005) issued by the Company on February 29, 2012 and the *Supplementary Bulletin of Proposal on Sales of Related Assets of Stainless Steel and Special Steel Business Unit* (Lin 2012-007) issued by the Company on March 14, 2012, the Company transferred the related assets and equities of the Stainless Steel and Special Steel Business Unit on the basis of evaluation value on the base date of assets evaluation (December 31, 2011) issued by the Zhongzixin Assets Appraisal Co., Ltd., which was completed on April 1, 2012. Out of the proceeds from transfer of these assets, RMB 22.5 billion will be collected in five years, i.e. RMB5.1 billion or 20% each year. One installment (principal and interest thereupon) will be collected on April 1<sup>st</sup> of each year beginning in 2013 and ending in 2017. As of the end of this reporting period, the balance of long-term accounts receivable is RMB13.5 billion, of which RMB7.8 billion is receivable from Shanghai Baosteel Stainless Steel Co., Ltd. and RMB5.7 billion from Baosteel Special Steel Co., Ltd. Of the aforesaid balance of long-term accounts receivable, proceeds from transfer of assets receivable due within one year amount to RMB 4.5 billion, including RMB 2.6 billion receivable from Shanghai Baosteel Stainless Steel Co., Ltd. and RMB 1.9 billion due from Shanghai Baosteel Special Steel Co., Ltd.

Note 2: Neither at the end of this reporting period nor at the beginning of this year did any long-term account receivable include investment by any shareholder holding shares representing 5% or more of the voting rights of the Company.

Note 3: For long-term accounts receivable from other related parties at the end of this reporting period and at the beginning of this year, please see Note (VI), 6(8).

## (V) Notes to Consolidated Financial Statements (continued)

## 15. Investment in Joint Ventures and Associated Enterprises

RMB

| Name of investee   | Type of business          | Place of registration | Legal representative | Nature of business           | Registered capital |           | Shareholding ratio of the Company (%) | Voting right ratio of the Company in the investee (%) | Total amount of EOP assets | Total amount of EOP liabilities | Total amount of net EOP assets | Total operating revenue of this period | Net profit of this period |
|--|---------------------------|-----------------------|----------------------|------------------------------|--------------------|-----------|---------------------------------------|---|----------------------------|---------------------------------|--------------------------------|--|---------------------------|
|  |                           |                       |                      |                              | Currency           | 1,000     |                                       |   |                            |                                 |                                |  |                           |
| I. JVs   |                           |                       |                      |                              |                    |           |                                       |   |                            |                                 |                                |  |                           |
| Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. ("BNA")                   | Limited liability company | Shanghai              | Higuchi Shinya       | Manufacturing                | RMB                | 3,000,000 | 50                                    | 50  | 4,515,584,659.01           | 1,130,644,745.81                | 3,384,939,913.20               | 6,226,961,393.15                       | 66,761,726.25             |
| BAO-ISLAND ENTERPRISES LIMITED ("BAO-ISLAND")                                    | Limited liability company | Hong Kong             | N/A                  | Ship leasing                 | HKD                | 3,300     | 50                                    | 50  | 1,735,083,447.20           | 535,921,185.60                  | 1,199,162,261.60               | 327,901,170.40                         | 15,658,876.00             |
| Shandong Baohua Wear-resistant Steel Co., Ltd. ("Shandong Baohua")               | Limited liability company | Linyi                 | Yao Linlong          | Manufacturing                | RMB                | 200,000   | 50                                    | 50  | 376,435,124.71             | 179,540,181.83                  | 196,894,942.88                 | 70,542,033.78                          | (2,744,165.74)            |
| Guangzhou JFE Steel Sheet Co., Ltd. (JFE Steel Sheet)                            | Limited liability company | Guangzhou             | Huang Zhiyong        | Production of iron and steel | USD                | 442,800   | 50                                    | 50  | 7,141,888,118.86           | 4,902,705,181.83                | 2,239,182,514.89               | 2,137,070,843.99                       | 482,882.55                |
| Hangzhou Baowei Auto Parts Co., Ltd. (Note 2)                                    | Limited liability company | Hangzhou              | Yao Linlong          | Processing                   | RMB                | 180,000   | 50                                    | 50  | 298,357,929.60             | 33,915.47                       | 298,921,097.40                 | -                                      | (750,239.61)              |
| Changsha Baosheng Steel Processing and Delivery Co., Ltd.                        | Limited liability company | Changsha              | Yao Linlong          | Manufacturing                | RMB                | 20,000    | 50                                    | 50  | 20,357,929.60              | 1,327,270.96                    | 19,030,658.64                  | 31,679,099.02                          | (464,039.42)              |
| Changshu Baosheng Fine Blanking Materials Co., Ltd.                              | Limited liability company | Changshu              | Yao Linlong          | Manufacturing                | RMB                | 60,000    | 50                                    | 50  | 182,211,356.46             | 31,276,660.49                   | 150,934,965.97                 | 15,026,154.20                          | 1,042,340.55              |
| II. Associated enterprises   |                           |                       |                      |                              |                    |           |                                       |   |                            |                                 |                                |  |                           |
| Shanghai Baosteel & Arcelor Tailor Metal Co., Ltd. ("Welding Co.")               | Limited liability company | Shanghai              | Hou Xiangdong        | Manufacturing                | RMB                | 121,500   | 38                                    | 38  | 823,389,262.89             | 459,859,380.23                  | 363,529,882.66                 | 522,827,158.20                         | 35,003,296.29             |
| Shanghai Firsttech Software Co., Ltd. "Firsttech Software")                      | Limited liability company | Shanghai              | Song Jianhai         | IT                           | USD                | 1,500     | 41.33                                 | 41.33   | 9,098,156.48               | 3,270,180.62                    | 5,827,975.86                   | 18,907,522.42                          | 241,314.15                |
| Henan Pingbao Coal Industry Co., Ltd. ("Henan Pingbao")                          | Limited liability company | Xuchang               | Chen Jiansheng       | Mining                       | RMB                | 800,000   | 40                                    | 40  | 1,722,972,929.85           | 739,735,980.99                  | 983,236,948.86                 | 332,880,202.84                         | 66,633,872.52             |
| Tianjin BCM Distribution Co., Ltd. (Tianjin BCM)                                 | Limited liability company | Tianjin               | Pan Zhijun           | Iron & steel trading         | RMB                | 140,000   | 40                                    | 40  | 159,791,257.91             | 29,329,232.70                   | 130,462,025.21                 | 78,007,757.27                          | (19,241.73)               |
| Wuxi Baomit Steel Processing and Delivery Co., Ltd. (Wuxi Baomit)                | Limited liability company | Wuxi                  | Diyuanzhongyi        | Iron & steel trading         | RMB                | 640,710   | 51                                    | 注 1   | 238,933,871.98             | 97,589,306.18                   | 141,344,565.80                 | 98,119,846.60                          | 523,801.49                |
| Sichuan Daxing Baohua Chemical Co., Ltd. ("Sichuan Daxing")                      | Limited liability company | Dazhou                | Tang Chun            | Manufacturing                | RMB                | 5,000     | 45                                    | 45  | 131,203,339.64             | 66,466,634.85                   | 64,736,704.79                  | 142,651,031.21                         | 3,101,107.50              |
| NSM Siderurgica Modenese SPA ("NSM")   | Limited liability company | Modena                | N/A                  | Steel-related business       | EUR                | 1,500     | 35                                    | 35  | 243,611,098.82             | 226,661,679.59                  | 16,956,898.92                  | 259,585,829.65                         | (6,680,926.36)            |
| Baosteel Can Making (Vietnam) Co., Ltd. ("Vietnam Can Making")                   | Limited liability company | Binh Duong            | N/A                  | Packaging                    | USD                | 35,600    | 30                                    | 30  | 358,036,065.70             | 169,081,567.58                  | 188,954,498.13                 | 65,097,683.56                          | (4,198,546.05)            |
| Beijing Qingke Chuangtong Information Technology Co., Ltd. ("Qingke Chuangtong") | Limited liability company | Beijing               | Fan Jianming         | Manufacturing                | RMB                | 20,000    | 35                                    | 35  | 28,969,045.03              | 7,770,127.41                    | 21,198,920.62                  | 12,324,032.08                          | 20,785.40                 |



|  |                           |           |                 |               |     |        |    |    |                |                |               |                |                |
|--|---------------------------|-----------|-----------------|---------------|-----|--------|----|----|----------------|----------------|---------------|----------------|----------------|
| MIBao Metal Processing Zhengzhou Co.Ltd. ("MIBAO Zhengzhou")                               | Limited liability company | Zhengzhou | Qi Tengzi       | Manufacturing | RMB | 55,000 | 49 | 49 | 285,596,602.82 | 241,960,961.37 | 43,635,641.45 | 109,449,538.58 | (3,686,720.00) |
| Guangzhou Automobile Baoshang Steel Processing Co., Ltd. ("Guangzhou Automobile Baoshang") | Limited liability company | Guangzhou | Liang Danqing   | Manufacturing | RMB | 68,000 | 35 | 35 | 370,559,974.47 | 291,845,836.88 | 78,714,137.59 | 286,310,454.92 | 9,679,143.53   |
| Wuxi Baomeifeng Steel Processing Co., Ltd. (Wuxi Baomeifeng)                               | Limited liability company | Wuxi      | Sakata Chicheng | Manufacturing | USD | 8,000  | 35 | 35 | 298,989,999.34 | 238,099,413.50 | 60,890,585.84 | 130,596,952.21 | 29,191.19      |
| SFSC-Bassinnet Information Technology Co., Ltd ("SFSC-Bassinnet")                          | Limited liability company | Shanghai  | Bi Peiwen       | IT            | RMB | 10,200 | 40 | 40 | 9,474,752.72   | 373,249.10     | 9,101,503.62  | 6,399,852.14   | (1,447,010.76) |

Note 1: On the balance sheet date, the proportion of investment in Wuxi Baomit Distribution Co., Ltd. is 51%, and half of the directors in the board of directors are appointed by the Group. The chairman is designated from the directors appointed by MITSUI & CO., LTD. In accordance with the Articles of Association of the Wuxi Baomit Distribution Co., Ltd., if the number of directors who present voting and vetoing opinions on a certain event is identical, thus making it impossible to make resolution in accordance with the resolution conditions recorded in the articles of association, the chairman shall decide the event. Therefore, the Group shall calculate the Wuxi Baomit Distribution Co., Ltd. as an affiliated company using the equity method.

Note 2: This investee has not actually started operation as of the balance sheet date.

When the equity method is employed for calculation, the Group and all of its JVs as well as its affiliated companies have no significant difference in accounting policies, and there is no major limitation on the realization of the long-term investment and the repatriation of returns on investment.

## (V) Notes to Consolidated Financial Statements --Continued

## 16. Long-term Equity Investments

Details of long-term equity investments are listed as follows:

|                                     |                    |                         |                  |                |                  |                                    |                                    |   |                      |   | RMB                                       |
|-------------------------------------|--------------------|-------------------------|------------------|----------------|------------------|------------------------------------|------------------------------------|---|----------------------|---|---|
| Investee                            | Accounting Methods | Initial investment cost | BOY balance      | Variation      | EOP balance      | Shareholding ratio in investee (%) | Voting right ratio in investee (%) | Clarification for inconsistency between shareholding ratio in investee and voting right ratio in investee | Depreciation reserve | Provision for depreciation for the current period | Cash bonus realized in the current period |
| <b>JVs</b>                          |                    |                         |                  |                |                  |                                    |                                    |   |                      |   |   |
| BNA                                 | Equity method      | 1,500,000,000.00        | 1,656,663,858.89 | 35,806,097.72  | 1,692,469,956.61 | 50                                 | 50                                 | -   | -                    | -   | -   |
| Bao-Island Enterprise               | Equity method      | 143,084,132.00          | 586,375,454.40   | 14,979,239.10  | 601,354,693.50   | 50                                 | 50                                 | -   | -                    | -   | -   |
| Shandong Baohua                     | Equity method      | 100,000,000.00          | 99,819,554.31    | (1,372,082.87) | 98,447,471.44    | 50                                 | 50                                 | -   | -                    | -   | -   |
| Guangzhou JFE Steel Sheet Co., Ltd. | Equity method      | 1,593,220,650.00        | 1,468,362,499.50 | (5,158,558.72) | 1,463,203,940.78 | 50                                 | 50                                 | -   | 35,000,000.00        | -   | -   |
| Hangzhou Baowei                     | Equity method      | 150,000,000.00          | 89,835,668.50    | 59,624,880.19  | 149,460,548.69   | 50                                 | 50                                 | -   | -                    | -   | -   |
| Changsha Baosheng                   | Equity method      | 10,000,000.00           | 9,747,349.03     | (232,019.71)   | 9,515,329.32     | 50                                 | 50                                 | -   | -                    | -   | -   |
| Changshu Baosheng                   | Equity method      | 75,000,000.00           | 29,952,677.71    | 45,514,670.28  | 75,467,347.99    | 50                                 | 50                                 | -   | -                    | -   | -   |
| Subtotal of JVs                     | Equity method      | 3,571,304,782.00        | 3,940,757,062.34 | 149,162,225.99 | 4,089,919,288.33 |                                    |                                    |   | 35,000,000.00        | -   | -   |
| <b>Associated enterprises</b>       |                    |                         |                  |                |                  |                                    |                                    |   |                      |   |   |
| Welding Co.                         | Equity method      | 74,102,784.20           | 124,831,845.17   | 13,309,510.24  | 138,141,355.41   | 38                                 | 38                                 | -   | -                    | -   | -   |
| Firsttech Software                  | Equity method      | 5,131,591.00            | 2,308,967.29     | 99,735.14      | 2,408,702.43     | 41.33                              | 41.33                              | -   | -                    | -   | -   |
| Henan Pingbao                       | Equity method      | 320,000,000.00          | 358,503,708.38   | 34,791,071.16  | 393,294,779.54   | 40                                 | 40                                 | -   | -                    | -   | -   |
| Tianjin BCM                         | Equity method      | 56,000,000.00           | 52,192,506.78    | (7,696.69)     | 52,184,810.09    | 40                                 | 40                                 | -   | -                    | -   | -   |
| Wuxi Baomit                         | Equity method      | 32,522,976.15           | 70,151,862.84    | 267,138.76     | 70,419,001.60    | 51                                 | 注 1                                | -   | -                    | -   | -   |
| Sichuan Daxing                      | Equity method      | 22,500,000.00           | 29,134,406.37    | (2,889.21)     | 29,131,517.16    | 45                                 | 45                                 | -   | -                    | -   | 2,250,000.00                              |
| NSM                                 | Equity method      | 74,784,021.08           | 53,394,347.58    | (154,115.46)   | 53,240,232.12    | 35                                 | 35                                 | -   | -                    | -   | -   |
| Can Making Vietnam                  | Equity             | 65,176,492.00           | 58,810,207.70    | 614,794.06     | 59,425,001.76    | 30                                 | 30                                 | -   | -                    | -   | -   |
| Qingke Chuangtong                   | Equity             | 3,500,000.00            | 7,661,724.89     | 7,274.89       | 7,668,999.78     | 35                                 | 35                                 | -   | -                    | -   | -   |
| MIBAO Zhengzhou                     | Equity             | 26,950,000.00           | 23,187,957.11    | (1,806,492.80) | 21,381,464.31    | 49                                 | 49                                 | -   | -                    | -   | -   |
| Guangzhou Automobile Baoshang       | Equity             | 23,800,000.00           | 24,193,427.21    | 3,387,700.24   | 27,581,127.45    | 35                                 | 35                                 | -   | -                    | -   | -   |
| Wuxi Baomeifeng                     | Equity             | 35,173,600.00           | 30,133,737.23    | 10,216.92      | 30,143,954.15    | 35                                 | 35                                 | -   | -                    | -   | -   |
| SFSC-Bassinat                       | Equity             | 10,000,000.00           | 4,085,658.70     | (578,804.30)   | 3,506,854.40     | 40                                 | 40                                 | -   | -                    | -   | -   |
| Subtotal of associated enterprises  |                    | 749,641,464.43          | 838,590,357.25   | 49,937,442.95  | 888,527,800.20   |                                    |                                    |   | -                    | -   | 2,250,000.00                              |
| <b>Others</b>                       |                    |                         |                  |                |                  |                                    |                                    |   |                      |   |   |
| BAOVALE MINERACAO S.A               | Cost method        | -                       | 103,282,213.00   | -              | 103,282,213.00   | 50                                 | 注 2                                | -   | -                    | -   | 17,436,100.50                             |
| Bao-Metal SRL                       | Cost method        | -                       | -                | 16,941,981.72  | 16,941,981.72    | 10                                 | 10                                 | -   | -                    | -   | -   |
| CISDI Engineering Co., Ltd.         | Cost method        | -                       | 9,508,999.34     | -              | 9,508,999.34     | 6.28                               | 6.28                               | -   | -                    | -   | -   |

|   |             |   |                   |            |                   |       |       |   |               |   |                |
|---|-------------|---|-------------------|------------|-------------------|-------|-------|---|---------------|---|----------------|
| Jinchuan Group Automation Engineering Co., Ltd.                                 | Cost method | - | 1,000,000.00      | -          | 1,000,000.00      | 7.13  | 7.13  | - | -             | - | -              |
| Zhongjingji Investment Consultation Co., Ltd.                                   | Cost method | - | 3,000,000.00      | -          | 3,000,000.00      | 5     | 5     | - | 666,024.47    | - | -              |
| Hanyang Spare Parts 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 Luojing ORE Terminal Co.,Ltd.  | Cost method | - | 88,734,096.00     | -          | 88,734,096.00     | 12    | 12    | - | -             | - | 7,194,838.62   |
| Yongmei Group Co., Ltd.   | Cost method | - | 279,000,000.00    | -          | 279,000,000.00    | 7.78  | 7.78  | - | -             | - | -              |
| Henan Zhenglong Coal Industry Co., Ltd.   | Cost method | - | 45,569,714.27     | -          | 45,569,714.27     | 4.91  | 4.91  | - | -             | - | -              |
| China Resources Land (Beijing) Co., Ltd.  | Cost method | - | 1,618,750.00      | -          | 1,618,750.00      | 0.09  | 0.09  | - | -             | - | -              |
| Shanghai Huayi Information Technology Co.Ltd                                    | Cost method | - | 3,000,000.00      | -          | 3,000,000.00      | 15    | 15    | - | -             | - | -              |
| Globalore Pte Ltd.  | Cost method | - | 15,242,250.00     | 139,750.00 | 15,382,000.00     | 14.29 | 14.29 | - | 3,457,873.60  | - | -              |
| Guoqi (Beijing) Auto Lightweight Technology Research Co., Ltd.                  | Cost method | - | 3,000,000.00      | -          | 3,000,000.00      | 6.90  | 6.90  | - | -             | - | -              |
| CNPC Northwest Oil pipeline United Co. Ltd.                                     | Cost method | - | 8,000,000,000.00  | -          | 8,000,000,000.00  | 12.8  | 12.8  | - | -             | - | 99,474,885.33  |
| Yangtz River Economic United Development (Group) Co., Ltd.                      | Cost method | - | 980,000.00        | -          | 980,000.00        | 很小    | 很小    | - | -             | - | -              |
| Yantai NCBC Iron & Steel Processing Co., Ltd.                                   | Cost method | - | 5,600,000.00      | -          | 5,600,000.00      | 10    | 10    | - | -             | - | -              |
| Subtotal of others  | Cost method | - | 8,936,116,997.17  | -          | 8,953,198,728.89  | -     | -     | - | 7,435,618.07  | - | 124,105,824.45 |
| Equity transferred from old system trade right due to non-tradable share reform | Cost method | - | 7,949,489.18      | -          | 7,949,489.18      | -     | -     | - | -             | - | -              |
| Total   |             |   | 13,723,413,905.94 |            | 13,939,595,306.60 |       |       |   | 42,435,618.07 |   | 126,355,824.45 |

Note 1: Please refer to Note (V), 15 Note 1

Note 2: Because the Company has not exercised the actual control right or significant influence on the management policies and financial decisions of the BAOVALE MINERACAO S.A., in accordance with the relevant investment agreement, the fixed returns shall be just recovered by the Company pro rata, and the investment in the BAOVALE MINERACAO S.A. shall be reflected as the long-term equity investment.

## (V) Notes to Consolidated Financial Statements (continued)

## 17. Investment Property

Investment property measured at cost

RMB

| Item   | BOY book balance | Increase for the current period | Decrease for the current period | EOP book balance |
|--|------------------|---------------------------------|---------------------------------|------------------|
| I. Total original book value   | 660,695,691.53   | 3,119.00                        | 5,580,000.00                    | 655,118,810.53   |
| 1. Houses and buildings  | 337,070,665.85   | 3,119.00                        | 5,580,000.00                    | 331,493,784.85   |
| 2. Land use rights   | 323,625,025.68   |                                 |                                 | 323,625,025.68   |
| II. Total accumulated depreciation and accumulated amortization        | 185,070,661.94   | 10,394,537.15                   | 1,413,600.00                    | 194,051,599.09   |
| 1. Houses and buildings  | 137,176,018.01   | 6,270,496.88                    | 1,413,600.00                    | 142,032,914.89   |
| 2. Land use rights   | 47,894,643.93    | 4,124,040.27                    | -                               | 52,018,684.20    |
| III. Total net book value of investment property                       | 475,625,029.59   | -                               | -                               | 461,067,211.44   |
| 1. Houses and buildings  | 199,894,647.84   | -                               | -                               | 189,460,869.96   |
| 2. Land use rights   | 275,730,381.75   | -                               | -                               | 271,606,341.48   |
| IV. Accumulated balance of impairment provision of investment property | -                | -                               | -                               | -                |
| 1. Houses and buildings  | -                | -                               | -                               | -                |
| 2. Land use rights   | -                | -                               | -                               | -                |
| V. Total book value of investment property                             | 475,625,029.59   | -                               | -                               | 461,067,211.44   |
| 1. Houses and buildings  | 199,894,647.84   | -                               | -                               | 189,460,869.96   |
| 2. Land use rights   | 275,730,381.75   | -                               | -                               | 271,606,341.48   |

The depreciation of RMB10,394,537.15 has been accrued for the current period.

## 18. Fixed Assets

RMB

| Item                               | BOY book balance   | Increase for the | Decrease for the | EOP book balance   |
|------------------------------------|--------------------|------------------|------------------|--------------------|
| I. Total original book value       | 230,511,808,191.07 | 2,080,811,643.02 | 783,579,287.38   | 231,809,040,546.71 |
| Including: houses and buildings    | 51,516,881,676.70  | 456,786,289.90   | 5,386,028.41     | 51,968,281,938.19  |
| Machinery equipment                | 143,682,351,816.21 | 1,088,282,386.27 | 429,501,399.03   | 144,341,132,803.45 |
| Transportation vehicles            | 17,734,967,022.66  | 247,631,892.32   | 264,477,114.31   | 17,718,121,800.67  |
| Office and other equipment         | 17,577,607,675.50  | 288,111,074.53   | 84,214,745.63    | 17,781,504,004.40  |
| II. Total accumulated depreciation | 143,922,812,172.99 | 5,062,623,808.01 | 717,891,869.61   | 148,267,544,111.39 |
| Including: houses and buildings    | 24,532,093,826.13  | 1,072,058,050.21 | 4,402,546.47     | 25,599,749,329.87  |
| Machinery equipment                | 90,737,877,271.60  | 3,139,397,752.40 | 378,752,564.63   | 93,498,522,459.37  |
| Transportation vehicles            | 14,643,958,385.47  | 297,205,060.18   | 252,246,831.85   | 14,688,916,613.80  |
| Office and other equipment         | 14,008,882,689.79  | 553,962,945.22   | 82,489,926.66    | 14,480,355,708.35  |
| III. Total net book value of       | 86,588,996,018.08  | -                | -                | 83,541,496,435.32  |
| Including: houses and buildings    | 26,984,787,850.57  | -                | -                | 26,368,532,608.32  |
| Machinery equipment                | 52,944,474,544.61  | -                | -                | 50,842,610,344.08  |
| Transportation vehicles            | 3,091,008,637.19   | -                | -                | 3,029,205,186.87   |
| Office and other equipment         | 3,568,724,985.71   | -                | -                | 3,301,148,296.05   |
| IV. Total depreciation reserves    | 370,782,299.11     | 1,840,669.39     | 8,347,203.10     | 364,275,765.40     |
| Including: houses and buildings    | 295,671.34         | -                | -                | 295,671.34         |
| Machinery equipment                | 368,978,001.46     | 1,346,624.25     | 8,140,396.09     | 362,184,229.62     |
| Transportation vehicles            | 168,951.73         | 23,283.90        | 6,504.60         | 185,731.03         |
| Office and other equipment         | 1,339,674.58       | 470,761.24       | 200,302.41       | 1,610,133.41       |
| V. Total book value of fixed       | 86,218,213,718.97  | -                | -                | 83,177,220,669.92  |
| Including: houses and buildings    | 26,984,492,179.23  | -                | -                | 26,368,236,936.98  |
| Machinery equipment                | 52,575,496,543.15  | -                | -                | 50,480,426,114.46  |
| Transportation vehicles            | 3,090,839,685.46   | -                | -                | 3,029,019,455.84   |
| Office and other equipment         | 3,567,385,311.13   | -                | -                | 3,299,538,162.64   |

During the current period, the depreciation of RMB 5,062,623,808.01 has been accrued.

## (V) Notes to Consolidated Financial Statements (continued)

## 19. Construction in Progress

(1) The details of the construction in progress are listed as follows:

RMB

| Item  | EOP balance       |                      |                   | BOY balance       |                      |                   |
|---|-------------------|----------------------|-------------------|-------------------|----------------------|-------------------|
|   | Book balance      | Depreciation reserve | Net book value    | Book balance      | Depreciation reserve | Net book value    |
| Technical innovation and infrastructure construction projects | 18,373,570,776.35 | 284,018,136.07       | 18,089,552,640.28 | 15,457,504,899.57 | 284,018,136.07       | 15,173,486,763.50 |

(2) Significant changes in construction in progress

RMB

| Item   | Budget            | BOY balance       | Increase for the current period | Transferred-in fixed assets | Transferred-in intangible assets | Other decreases |
|--|-------------------|-------------------|---------------------------------|-----------------------------|----------------------------------|-----------------|
| Technical innovation and infrastructure projects | 56,633,269,630.00 | 15,457,504,899.57 | 4,854,753,993.80                | 1,916,985,714.05            | 21,702,402.97                    | -               |

| Item   | Proportion of project investment in budget | Accumulated amount of interest capitalization | Including: capitalized amount of interest for the current period | Capitalization rate of interest for the current period | Source of capital        | EOP balance       |
|--|--|---|--|--|--------------------------|-------------------|
| Technical innovation and infrastructure projects | 36%  | 381,917,736.03                                | 113,639,014.23   | 5.412%-5.535%  | Self-raised and borrowed | 18,373,570,776.35 |

(3) Depreciation reserves for construction in progress:

| Construction in progress                             | BOY balance    | Depreciation reserve for current period | Write-off amount for current period | EOP book balance |
|--|----------------|---|-------------------------------------|------------------|
| Technical renovation project of Baotong Iron & Steel | 284,018,136.07 | -                                       | -                                   | 284,018,136.07   |

## 20. Engineering Materials

RMB

| Item                  | BOY balance    | Increase for the current period | Decrease for the current period | EOP balance    |
|-----------------------|----------------|---------------------------------|---------------------------------|----------------|
| Special materials     | 167,136,896.01 | 503,000,684.20                  | 566,306,042.86                  | 103,831,537.35 |
| Special equipment     | 53,373,579.99  | 28,015,525.89                   | 47,830,162.39                   | 33,558,943.49  |
| Equipments in transit | 11,785,925.98  | 82,805,588.68                   | 91,149,901.08                   | 3,441,613.58   |
| Total                 | 232,296,401.98 | 613,821,798.77                  | 705,286,106.33                  | 140,832,094.42 |

## 21. Intangible Assets

RMB

| Item   | BOY book balance | Increase for the current period | Decrease for the current period | EOP book balance  |
|--|------------------|---------------------------------|---------------------------------|-------------------|
| I. Total original book value                   | 7,968,801,132.35 | 2,398,307,824.99                | 2,380,000.00                    | 10,364,728,957.34 |
| Land use rights                                | 7,607,360,307.25 | 2,386,140,248.38                | -                               | 9,993,500,555.63  |
| Computer software                              | 233,470,121.46   | 11,723,276.61                   | 2,380,000.00                    | 242,813,398.07    |
| Others   | 127,970,703.64   | 444,300.00                      | -                               | 128,415,003.64    |
| II. Total accumulated amortization             | 1,090,383,266.96 | 114,212,687.52                  | 2,380,000.00                    | 1,202,215,954.48  |
| Land use rights                                | 931,603,508.03   | 91,515,133.94                   | -                               | 1,023,118,641.97  |
| Computer software                              | 91,254,312.30    | 19,747,876.91                   | 2,380,000.00                    | 108,622,189.21    |
| Others   | 67,525,446.63    | 2,949,676.67                    | -                               | 70,475,123.30     |
| III. Total net book value of intangible assets | 6,878,417,865.39 |                                 |                                 | 9,162,513,002.86  |
| Land use rights                                | 6,675,756,799.22 |                                 |                                 | 8,970,381,913.66  |
| Computer software                              | 142,215,809.16   |                                 |                                 | 134,198,431.08    |
| Others   | 60,445,257.01    |                                 |                                 | 57,932,658.12     |
| IV. Total depreciation reserves                | -                |                                 |                                 | -                 |
| Total book value of intangible assets          | 6,878,417,865.39 |                                 |                                 | 9,162,513,002.86  |

RMB114,212,687.52 has been accumulatively accrued for amortization in the current period.

## (V) Notes to Consolidated Financial Statements (continued)

## 22. Long-term unamortized expenses

RMB

| Item   | BOY balance    | Increase for the current period | Amount amortized for current period | Difference from foreign currency translation | EOP balance    |
|--|----------------|---------------------------------|-------------------------------------|--|----------------|
| Decoration expenses  | 18,028,054.87  | 3,039,671.34                    | 4,506,595.06                        | -  | 16,561,131.15  |
| Rental expenses  | 8,119,092.02   | 3,342,128.43                    | 1,987,432.17                        | (38.95)                                      | 9,473,749.33   |
| Relocation payment for environmental protection of coke oven of Meishan Steel (Note) | 856,130,198.95 | -                               | 9,547,920.42                        | -  | 846,582,278.53 |
| Expenditure on HV power supply of Huangshi Cold Rolling Phase II                     | 2,513,560.50   | -                               | 295,713.00                          | -  | 2,217,847.50   |
| Corporate shuttle bus improvement cost   | -              | 29,914,529.82                   | 4,985,750.00                        | -  | 24,928,779.82  |
| Others   | 1,253,340.98   | -                               | 227,676.85                          | 1,313.29                                     | 1,026,977.42   |
| Total  | 886,044,247.32 | 36,296,329.59                   | 21,551,087.50                       | 1,274.34                                     | 900,790,763.75 |

Note: In accordance with “Agreement on relocating residents in health protection area of Shanghai Meishan Iron & Steel Co., Ltd. in the 11th 5-year period” (hereinafter referred to as the “Agreement”) jointly signed by and among Shanghai Meishan Iron & Steel Co., Ltd. (hereinafter referred to as the “Meishan Steel”), Nanjing Yuhuatai Banqiao Sub-district Office and Nanjing Yuhuatai Administration Committee of ETDZ on October 16, 2012, the relocation compensation shall be made for the residential areas at a protection distance of 1km from the coke oven construction project of the Meishan Steel. Therefore, Meishan Steel shall bear the relocation expenses of RMB 880,000,000.00, including the expenses of RMB 750,000,000.00 which must be paid to the Nanjing Yuhuatai Banqiao Sub-district Office, and the expenses of RMB 130,000,000.00 which must be paid to the Nanjing Yuhuatai Administration Committee of ETDZ. Pursuant to this Agreement, Meishan Steel paid RMB 120,000,000.00 in 2012 and RMB 510,000,000.00 in 2013; and must pay RMB 250,000,000.00 in 2014 which shall be included in the long-term accounts payable due within 1 year. The aforesaid relocation compensation borne by Meishan Steel shall be amortized according to the remaining service life of the main assets. Please refer to Note (V), 42 Note 1.

## 23. Deferred Income Tax Assets/Deferred Income Tax Liabilities

Recognized deferred income tax assets and deferred income tax liabilities

RMB

| Item  | EOP balance      | BOY balance      |
|---|------------------|------------------|
| Deferred income tax assets:                       |                  |                  |
| Depreciation reserves of assets                   | 711,796,835.29   | 735,772,130.97   |
| Depreciation reserves of other non-current assets | -                | -                |
| Unrealized profits of internal purchase and sale  | 72,779,765.16    | 72,094,670.94    |
| Deductible losses                                 | 858,100,360.80   | 874,815,776.41   |
| Residual rate difference of fixed assets          | 4,473,837.50     | 4,473,837.50     |
| Dismissal welfare                                 | 25,427,632.11    | 24,196,560.60    |
| Losses on variation in fair values                | 141,086,832.82   | 108,520,952.82   |
| Others  | 231,403,980.32   | 232,904,150.31   |
| Subtotal  | 2,045,069,244.00 | 2,052,778,079.55 |
| Deferred income tax liabilities:                  |                  |                  |
| Payment of tax for investment incomes             | 302,407,284.28   | 302,407,284.28   |
| Gains on variation in fair values                 | 5,501,885.73     | 10,161.75        |
| Others  | 2,444,129.21     | 2,441,837.36     |
| Subtotal  | 310,353,299.22   | 304,859,283.39   |

(V) Notes to Consolidated Financial Statements (continued)  
24. Details of Provision for Impairment Losses of Assets

RMB

| Item  | BOY book balance | Increase for the current period | Decrease for the current period |               | Difference from foreign currency translation | EOP book balance |
|---|------------------|---------------------------------|---------------------------------|---------------|--|------------------|
|   |                  |                                 | Write-back                      | Write-off     |  |                  |
| I. Bad-debt provision   | 543,804,507.76   | 90,885,394.17                   | 59,576,023.19                   | 156,191.98    | (382.83)                                     | 574,957,303.93   |
| II. Falling price reserve of inventories                            | 1,212,242,210.49 | 327,257,642.76                  | 458,299,622.22                  | 3,419,218.69  | 126,954.40                                   | 1,077,907,966.74 |
| III. Provision for impairment losses of long-term equity investment | 42,404,202.27    | -                               | -                               | -             | 31,415.80                                    | 42,435,618.07    |
| IV. Provision for impairment losses of fixed assets                 | 370,782,299.11   | -                               | -                               | 8,347,203.10  | 1,840,669.39                                 | 364,275,765.40   |
| V. Provision for impairment losses of construction in progress      | 284,018,136.07   | -                               | -                               | -             | -  | 284,018,136.07   |
| VI. Provision for impairment losses of loans                        | 125,340,000.00   | 46,003,353.20                   | -                               | -             | -  | 171,343,353.20   |
| Total   | 2,578,591,355.70 | 464,146,390.13                  | 517,875,645.41                  | 11,922,613.77 | 1,998,656.76                                 | 2,514,938,143.41 |

## 25. Other Non-current Assets

RMB

| Item   | EOP balance        | BOY balance      |
|--|--------------------|------------------|
| Land transfer fee prepaid for Zhanjiang Steel                | 1,950,000,000.00   | 1,950,000,000.00 |
| Zhanjiang Steel's investment in Guangzhou Steel Sheet (Note) | 1,500,000,000.00   | 1,500,000,000.00 |
| Engineering equipment cost prepaid for Zhanjiang Steel       | 2,693,896,814.09   | 1,480,977,080.05 |
| Borrowings due from Bao-Island                               | 117,905,780.14     | 117,905,780.14   |
| VAT to be deducted for Zhanjiang Steel                       | 361,033,126.27     | 365,473,992.51   |
| Others   | 3,642,207.62       | 3,801,051.70     |
| Less: Non-current assets due within one year                 | (1,500,000,000.00) | -                |
| Total  | 5,126,477,928.12   | 5,418,157,904.40 |

Note: This account will be due in April 2015 and is transferred on the balance sheet date to non-current assets due within one year. For details, please refer to Note (V), 10 Note 1.

## 26. Short-Term Borrowings

RMB

| Item                        | EOP balance       | BOY balance       |
|-----------------------------|-------------------|-------------------|
| Pledged borrowings (Note 1) | -                 | 1,370,000,000.00  |
| Credit borrowings           | 40,873,064,342.10 | 33,100,625,308.28 |
| Pledged borrowings (Note 2) | 37,900,164.96     | -                 |
| Secured borrowings          | 20,000,000.00     | -                 |
| Total                       | 40,930,964,507.06 | 34,470,625,308.28 |

On the balance sheet date, in the short-term borrowing of the Group, the annual interest rate of the RMB borrowings ranges from 4.15% to 7.21% (2013: 5.04% to 6.6%); that of USD borrowings ranges from 3-month LIBOR+0.45% to 6-month LIBOR+4.2% (2013: 3-month LIBOR+0.6% to 6-month LIBOR+3.7%); that of EUR borrowings ranges from 1.40% to 3.77% (2013: 1.47% to 2.25%).

On June 30, 2014, the short-term borrowings of the Group did not include borrowing obtained through note discounting (Dec.31, 2013: none) or borrowing obtained through factoring accounts receivable (Dec.31, 2013: RMB 1,370,000,000).

Note 2: On June 30, 2014, the Group obtained a loan of RMB 37,900,164.96 through pledging fixed assets with a net book value of RMB 1,090,164.96 and land ownership with a net value of RMB36,810,000.

**Bank loan credit lines**

As of June 30, 2014, the total amount of bank loan credit lines unused by the Group was about RMB 109.297 billion. In the opinion of the management of the Group, considering the aforesaid bank loan credit lines and the cash flows from operating activities, the Group will have sufficient funds to pay off various current liabilities which will become due within the next year.

**(V) Notes to Consolidated Financial Statements (continued)****27. Customer deposits and deposits from banks and other financial institutions**

RMB

| Item             | EOP balance      | BOY balance      |
|------------------|------------------|------------------|
| Current deposits | 400,047,448.80   | 505,575,956.61   |
| Fixed deposits   | 6,604,980,245.61 | 7,093,299,562.51 |
| Total            | 7,005,027,694.41 | 7,598,875,519.12 |

For particulars about the deposits received by the end of this reporting period from shareholders each holding shares representing 5% or more of the voting rights of the Company and from other related parties, please refer to Note (VI), 6(9).

**28. Taking from banks and other financial institutions**

RMB

| Item                       | EOP balance | BOY balance    |
|----------------------------|-------------|----------------|
| Taking from domestic banks | -           | 300,000,000.00 |

**29. Held-for-trading financial liabilities**

RMB

| Item                             | EOP fair value | BOY fair value |
|----------------------------------|----------------|----------------|
| Derivative financial liabilities | 31,691,511.37  | -              |

**30. Notes Payable**

RMB

| Category         | EOP balance      | BOY balance      |
|------------------|------------------|------------------|
| Trade acceptance | 2,544,394,064.82 | 1,952,856,799.77 |
| Bank acceptance  | 511,391,029.02   | 477,103,840.91   |
| Total            | 3,055,785,093.84 | 2,429,960,640.68 |

Neither at the end of this reporting period nor at the beginning of this year did the balance of notes payable include any notes payable to shareholders each holding shares representing 5% or more of the voting rights of the Company.

For notes payable to related parties and included in the balance of notes payable, please see Note (VI), 6(10).

**31. Accounts Payable**

(1) Details of the accounts payable:

RMB

| Item  | EOP balance       | BOY balance       |
|---|-------------------|-------------------|
| Accounts payable for equipment procurement        | 3,829,155,635.45  | 4,351,857,953.97  |
| Accounts payable for procurement of raw materials | 16,238,597,687.59 | 13,823,613,285.53 |
| Total   | 20,067,753,323.04 | 18,175,471,239.50 |

(2) For particulars about accounts payable in this reporting period to shareholders each holding shares representing 5% or more of voting right of the Company or to other related parties, please see Note VI, 6(11).



**(V) Notes to Consolidated Financial Statements (continued)****32. Advance Receipts**

(1) Details of advance receipts:

| Item             | RMB               |                   |
|------------------|-------------------|-------------------|
|                  | EOP balance       | BOY balance       |
| Advance receipts | 11,772,683,916.39 | 11,971,576,846.67 |

On June 30, 2014, the Group had no large-amount advance receipts with an age exceeding 1 year.

(2) For advance receipts at the end of this reporting period and at the beginning of this year from shareholders each holding shares representing 5% or more of the voting rights of the Company and from other related parties, please refer to Note (VI), 6(12).

**33. Payroll payable**

| Item   | RMB              |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
|  | BOY book balance | Increase for the | Decrease for the | EOP book balance |
| I. Wages, bonuses, allowances and subsidies                | 1,188,756,171.76 | 3,063,889,804.98 | 2,794,030,350.26 | 1,458,615,626.48 |
| II. Employees' welfare expenses                            | -                | 164,736,104.93   | 164,736,104.93   | -                |
| III. Social insurance charges                              | 2,195,255.48     | 867,846,679.62   | 867,517,550.96   | 2,524,384.14     |
| Including: basic pension insurance                         | 1,047,268.08     | 459,592,726.17   | 459,266,635.68   | 1,373,358.57     |
| Medical insurance  | 497,966.88       | 235,521,919.36   | 235,480,079.56   | 539,806.68       |
| Unemployment insurance                                     | 100,471.79       | 32,797,467.68    | 32,760,945.87    | 136,993.60       |
| Work-related injury insurance                              | 28,653.65        | 13,582,869.06    | 13,583,003.75    | 28,518.96        |
| Maternity insurance  | 42,200.66        | 21,338,558.11    | 21,334,437.50    | 46,321.27        |
| Employment fee for the injured                             | 35,047.70        | 688,921.97       | 718,439.49       | 5,530.18         |
| Enterprise annuity   | 443,646.72       | 101,794,646.54   | 101,844,438.38   | 393,854.88       |
| Others   | -                | 2,529,570.73     | 2,529,570.73     | -                |
| IV. Housing accumulation funds                             | 83,323.70        | 274,464,661.70   | 274,509,436.22   | 38,549.18        |
| V. Dismissal welfare                                       | 107,780,062.47   | 155,813,674.20   | 150,669,035.58   | 112,924,701.09   |
| VI. Labor union expenditures and personnel education funds | 197,507,448.08   | 98,153,641.19    | 69,656,467.93    | 226,004,621.34   |
| VII. Others  | 200,237,839.50   | 158,933,125.76   | 153,085,149.77   | 206,085,815.49   |
| Total  | 1,696,560,100.99 | 4,783,837,692.38 | 4,474,204,095.65 | 2,006,193,697.72 |

In the payroll payables, there are no amounts in arrears and non-monetary benefits.

**34. Taxes Payable**

| Item                                   | RMB              |                  |
|--|------------------|------------------|
|  | EOP balance      | BOY balance      |
| VAT                                    | (401,790,045.04) | (882,917,685.18) |
| Business tax                           | 13,689,551.74    | 12,010,423.80    |
| Enterprise income tax                  | 2,774,740,899.02 | 2,217,924,359.46 |
| Individual income tax                  | 41,479,559.55    | 120,136,917.64   |
| Urban maintenance and construction tax | 34,133,712.95    | 23,809,498.67    |
| Property tax                           | 25,363,348.96    | 14,465,691.82    |
| Others                                 | 322,582,360.19   | 275,952,184.24   |
| Total                                  | 2,810,199,387.37 | 1,781,381,390.45 |

**(V) Notes to Consolidated Financial Statements (continued)****35. Interest Payable**

| Item   | RMB                   |                       |
|--|-----------------------|-----------------------|
|  | EOP balance           | BOY balance           |
| Interest payable for CWBs  | -                     | 42,222,222.22         |
| Interest payable for medium-term notes                               | 4,258,333.34          | 17,033,333.36         |
| Interest payable for borrowings                                      | 162,277,115.62        | 161,826,161.88        |
| Interest payable for corporate bonds issued by Bao-Trans Enterprises | 5,768,250.00          | 5,715,843.75          |
| <b>Total</b>   | <b>172,303,698.96</b> | <b>226,797,561.21</b> |

For interest payable at the end of this reporting period and at the beginning of this year to shareholders each holding shares representing 5% or more of the voting rights of the Company and to other related parties, please see Note (VI), 6(13).

**36. Dividends Payable**

| Name of entity                                   | RMB                  |                      |
|--|----------------------|----------------------|
|  | EOP balance          | BOY balance          |
| China Oriental Asset Management Corporation      | 9,475,888.34         | 9,475,888.34         |
| Mitsui & Co., Ltd.                               | 14,089,753.69        | 1,277,780.39         |
| Corning (Hong Kong) Ltd.                         | 2,082,443.05         | 2,082,443.05         |
| Toyota Tsusho Corporation                        | 142,187.50           | -                    |
| Nanjing New Line Logistics Co., Ltd.             | -                    | 450,000.00           |
| Guizhou Aluminium Factory                        | 603,743.23           | 603,743.23           |
| CEC Co., Ltd.                                    | 6,532.76             | 158,584.69           |
| Sumitomo Corporation                             | 6,106,163.08         | -                    |
| Mitsui Tokyo Co., Ltd.                           | 1,668,336.34         | -                    |
| Van Shung Chong Holdings Limited                 | 934,268.35           | -                    |
| Guangzhou Nansha Hi-tech Development Corporation | 370,741.41           | -                    |
| Others   | 22,022.21            | 22,022.21            |
| <b>Total</b>                                     | <b>35,502,079.96</b> | <b>14,070,461.91</b> |

**37. Other Accounts Payable**

(1) Details about other accounts payable are listed as follows:

| Name of entity                     | RMB                     |                         |
|------------------------------------|-------------------------|-------------------------|
|                                    | EOP balance             | BOY balance             |
| Security deposits and cash pledges | 519,516,213.78          | 462,993,321.14          |
| Advances                           | 146,111,794.65          | 149,367,008.59          |
| Transportation and port fees       | 16,683,844.84           | 17,055,542.99           |
| Project funds payable              | 543,727,013.18          | 555,840,667.37          |
| Safe production risk funds         | 24,647,135.28           | 25,196,247.00           |
| Commission charges                 | 1,255,765.45            | 1,283,742.56            |
| Others                             | 32,303,417.47           | 13,507,392.19           |
| <b>Total</b>                       | <b>1,284,245,184.65</b> | <b>1,225,243,921.84</b> |

(2) For other accounts payable at the end of this reporting period and at the beginning of this year to shareholders each holding shares representing 5% or more of the voting rights of the Company and to other related parties, please see Note (VI), 6(14).

**(V) Notes to Consolidated Financial Statements (continued)****38. Non-current liabilities due within one year**

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

RMB

| Item   | EOP balance      | BOY balance       |
|--|------------------|-------------------|
| Long-term borrowings due within 1 year       | 2,253,841,505.46 | 2,193,103,622.22  |
| Long-term accounts payable due within 1 year | 250,000,000.00   | 250,000,000.00    |
| Bonds payable due within 1 year              | 498,502,356.61   | 9,784,554,462.35  |
| Non-current liabilities due within 1 year    | 1,500,000,000.00 | -                 |
| Total  | 4,502,343,862.07 | 12,227,658,084.57 |

(2) Long-term borrowings due within 1 year

(a) Long-term borrowings due within 1 year

RMB

| Item              | EOP balance      | BOY balance      |
|-------------------|------------------|------------------|
| Credit borrowings | 2,253,841,505.46 | 2,187,783,622.22 |
| Mortgage loans    | -                | 5,320,000.00     |
| Total             | 2,253,841,505.46 | 2,193,103,622.22 |

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

RMB

| Lender                  | Beginning date of borrowing | Ending date of borrowing    | Currency | Interest rate        | EOP balance      |                  |
|-------------------------|-----------------------------|-----------------------------|----------|----------------------|------------------|------------------|
|                         |                             |                             |          |                      | Foreign currency | Local currency   |
| CITIBANK                | Feb.14 <sup>th</sup> 2014   | May 14 <sup>th</sup> 2015   | USD      | 3-month LIBOR+2.1%   | 100,000,000.00   | 615,280,000.00   |
| HSBC                    | April 21 <sup>st</sup> 2014 | May 21 <sup>st</sup> 2015   | USD      | 2.60%                | 75,000,000.00    | 461,460,000.00   |
| Sumitomo Mitsui Banking | July 17 <sup>th</sup> 2013  | Oct.17 <sup>th</sup> 2014   | USD      | 33-month LIBOR+1.05% | 50,000,000.00    | 307,640,000.00   |
| Bank of Communications  | July 25 <sup>th</sup> 2011  | July 25 <sup>th</sup> 2014  | RMB      | 6.15%                | -                | 200,000,000.00   |
| MUFG                    | May 20 <sup>th</sup> 2013   | March 17 <sup>th</sup> 2015 | USD      | 3-month LIBOR+1.25%  | 29,000,000.00    | 178,431,200.00   |
| Total                   |                             |                             |          |                      | -                | 1,762,811,200.00 |

RMB

| Lender                              | Beginning date of borrowing  | Ending date of borrowing    | Currency | Interest rate       | BOY balance      |                  |
|-------------------------------------|------------------------------|-----------------------------|----------|---------------------|------------------|------------------|
|                                     |                              |                             |          |                     | Foreign currency | Local currency   |
| Sumitomo Mitsui Banking Corporation | August 24 <sup>th</sup> 2012 | Feb.14 <sup>th</sup> 2014   | USD      | 3-month LIBOR+2.20% | 50,000,000.00    | 304,845,000.00   |
| Sumitomo Mitsui Banking Corporation | Feb. 8 <sup>th</sup> 2013    | August 5 <sup>th</sup> 2014 | USD      | 3-month LIBOR+1.05% | 50,000,000.00    | 304,845,000.00   |
| Sumitomo Mitsui Banking Corporation | July 17 <sup>th</sup> 2013   | Oct. 17 <sup>th</sup> 2014  | USD      | 3-month LIBOR+1.05% | 50,000,000.00    | 304,845,000.00   |
| JP Morgan Chase & Co                | August 24 <sup>th</sup> 2012 | Feb.14 <sup>th</sup> 2014   | USD      | 3-month LIBOR+2.50% | 50,000,000.00    | 304,845,000.00   |
| Bank of Communications              | Feb.24 <sup>th</sup> 2011    | Feb.24 <sup>th</sup> 2014   | RMB      | 5.9850%             | -                | 230,000,000.00   |
| Total                               |                              |                             |          |                     |                  | 1,449,380,000.00 |

(3) Long-term accounts payable due within one year

RMB

| Item   | EOP balance    | BOY balance    |
|--|----------------|----------------|
| Compensation funds payable for relocation (Note) | 250,000,000.00 | 250,000,000.00 |

Note: Please see Note (V), Note 22.

(4) Non-current liabilities due within one year

RMB

| Item  | EOP balance      | BOY balance |
|---|------------------|-------------|
| Interest-free loan payable to Baosteel Group (Note) | 1,500,000,000.00 | -           |

Note: Please refer to Note (V), 10 Note 1.

(V) **Notes to Consolidated Financial Statements (continued)**  
**38. Non-current liabilities due within one year (continued)**  
(5) Bonds payable due within one year

RMB

| Name of bond                       | Face value     | Issuing date             | Period  | Amount         | BOY interest payable | Interest accrued for this period | Interest paid for this period | EOP interest payable | EOP balance    |
|------------------------------------|----------------|--------------------------|---------|----------------|----------------------|----------------------------------|-------------------------------|----------------------|----------------|
| Medium-term notes (1282134) (Note) | 500,000,000.00 | May 4 <sup>th</sup> 2012 | 3 years | 500,000,000.00 | 17,033,333.36        | 12,776,277.48                    | 25,551,277.50                 | 4,258,333.34         | 498,502,356.61 |

Note: In December 2011, Shanghai Meishan Iron & Steel Co., Ltd. (hereinafter referred to as “Meishan Steel”), a subsidiary of the Group, was approved by National Association of Financial Market Institutional Investors to issue medium-term notes within the territory of China with a registered quota of RMB 4 billion which will remain valid within two years and may be issued in phases within this period of validity. Meishan Steel issued the Phase I medium-term notes of 2012 (“12 Meishan Steel MTN1”) at an issuing price of RMB 100/RMB100 face value with a total value of RMB 500 million on May 4, 2012. The issuing price was RMB 100/RMB100 face value. Interest is accrued at a fixed interest rate, i.e. the coupon rate of 5.11%, and paid on May 4 each year. This note will become due on May 4, 2015.

**39. Other Current Liabilities**

## (1) Details of other current liabilities:

RMB

| Item                             | EOP balance | BOY balance      |
|----------------------------------|-------------|------------------|
| Short-term financing liabilities | -           | 1,848,866,666.64 |
| Total                            | -           | 1,848,866,666.64 |

## (2) Short-term financing liabilities

RMB

| Name of bond  | Face value       | Issuing date             | Period | Amount           | BOY interest payable | Interest accrued for this period | Interest paid for this period | EOP interest payable | EOP balance |
|---|------------------|--------------------------|--------|------------------|----------------------|----------------------------------|-------------------------------|----------------------|-------------|
| Phase III Short-term Financing Liabilities (Meishan Steel) CP001) | 1,800,000,000.00 | May 7 <sup>th</sup> 2013 | 1 year | 1,800,000,000.00 | 51,360,000.00        | 25,680,000.00                    | 77,040,000.00                 | -                    | -           |

**40. Long-term Borrowings**

## (1) Classification of long-term borrowings

RMB

| Item                        | EOP balance      | BOY balance      |
|-----------------------------|------------------|------------------|
| Credit borrowings           | 7,517,635,280.66 | 4,618,707,905.51 |
| Mortgaged borrowings (Note) | 37,766,744.69    | 83,738,597.36    |
| Total                       | 7,555,402,025.35 | 4,702,446,502.87 |

Note: On June 30, 2014, the Group borrowed RMB37,766,744.69 by using fixed assets with a net book value of RMB 26,586,744.69 and land use right with a net value of RMB 11,180,000.00 as collaterals.

## (2) Top five long-term borrowings

RMB

| Lender                          | Beginning date of borrowing | Ending date of borrowing | Currency | Interest rate      | EOP balance             |                       |
|---------------------------------|-----------------------------|--------------------------|----------|--------------------|-------------------------|-----------------------|
|                                 |                             |                          |          |                    | Foreign currency amount | Local currency amount |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 208,000,000.00          | 1,279,782,400.00      |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 100,000,000.00          | 615,280,000.00        |
| The Export-Import Bank of China | 27/12/2013                  | 15/07/2015               | USD      | 2.7000%            | 100,000,000.00          | 615,280,000.00        |
| Construction Bank of China      | 13/09/2013                  | 12/09/2016               | USD      | 3-month LIBOR+2.7% | 100,000,000.00          | 615,280,000.00        |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 92,000,000.00           | 566,057,600.00        |
| Total                           |                             |                          |          |                    |                         | 3,691,680,000.00      |

(V) Notes to Consolidated Financial Statements (continued)  
40. Long-term Borrowings (continued)

RMB

| Lender                          | Beginning date of borrowing | Ending date of borrowing | Currency | Interest rate      | BOY balance             |                       |
|---------------------------------|-----------------------------|--------------------------|----------|--------------------|-------------------------|-----------------------|
|                                 |                             |                          |          |                    | Foreign currency amount | Local currency amount |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 208,000,000.00          | 1,268,155,200.00      |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 100,000,000.00          | 609,690,000.00        |
| The Export-Import Bank of China | 27/12/2013                  | 15/07/2015               | USD      | 2.7000%            | 100,000,000.00          | 609,690,000.00        |
| Construction Bank of China      | 13/09/2013                  | 12/09/2016               | USD      | 3-month LIBOR+2.7% | 100,000,000.00          | 609,690,000.00        |
| The Export-Import Bank of China | 15/07/2013                  | 15/07/2015               | USD      | 2.4000%            | 92,000,000.00           | 560,914,800.00        |
| Total                           |                             |                          |          |                    |                         | 3,658,140,000.00      |

## 41. Bonds Payable

RMB

| Name of bond                      | Face value           | Issuing date | Period  | Amount               | BOY interest payable | Interest accrued for this period | Interest paid for this period | EOP interest payable | EOP balance      |
|-----------------------------------|----------------------|--------------|---------|----------------------|----------------------|----------------------------------|-------------------------------|----------------------|------------------|
| Bao-Trans Corporate Bond (Note 2) | U.S.\$500,000,000.00 | Dec. 5, 2013 | 5 years | U.S.\$500,000,000.00 | 5,715,843.75         | 57,891,468.75                    | 57,839,062.50                 | 5,768,250.00         | 3,036,661,960.55 |

Note: In December 2013, Bao-Trans Co., Ltd ("Bao-Trans"), a subsidiary of the Company was approved by the 2012 general shareholders' meeting held on April 26, 2013 to issue bonds denominated in US dollar in Hong Kong with the amount of USD 0.5 billion and duration of 5 years in accordance with the resolution of the shareholders' meeting of Developing Direct Financing. Bao-Trans issued bonds with issuing price 99.199% of par value and fixed interest rate 3.75% per annum on December 5, 2013. Interest will be paid semi-annually on June 12 and December 12 respectively. The bond will be due on 12 December, 2018.

## 42. Long-term Payables

RMB

| Item   | EOP balance    | BOY balance    |
|--|----------------|----------------|
| Relocation compensation payable for environmental protection project of Meishan Steel coke oven (Note 1) | 250,000,000.00 | 250,000,000.00 |
| Less: Long-term payable due within one year (Note 2)   | 250,000,000.00 | 250,000,000.00 |
| Total  | -              | -              |

Note 1: For details of relocation compensation payment for environmental protection project of Meishan Steel coke oven, please see Note (V), Note 22.

Note 2: For details of long-term payable due within one year, please see Note (V), Note 38(3).

## 43. Special Payables

RMB

| Item              | BOY balance    | Increase for the | Decrease for the current | EOP balance    |
|-------------------|----------------|------------------|--------------------------|----------------|
| Government grants | 739,598,541.24 | -                | 24,024,805.09            | 715,573,736.15 |

## 44. Other Non-current Liabilities

RMB

| Item  | EOP book balance   | BOY book balance |
|---|--------------------|------------------|
| Interest-free loan payable to Baosteel Group (Note 1) | 1,500,000,000.00   | 1,500,000,000.00 |
| Deferred incomes                                      | 1,179,444,021.60   | 1,218,672,931.60 |
| Others  | 80,165.54          | 74,350.81        |
| Less: Non-current liabilities due within one year     | (1,500,000,000.00) | -                |
| Total   | 1,179,524,187.14   | 2,718,747,282.41 |

Note 1: See Note (V), 10 Note 1.

## (V) Notes to Consolidated Financial Statements (continued)

## 45. Share capital

The registered capitals and the paid-up share capitals of the Company amount to RMB 16,471,724,924.00, with par value of RMB 1.00 per share. The stock class and structure are as follows:

|                                       | BOY balance       | Current changes     |             |                                      |                  |                  | EOP balance       |
|---------------------------------------|-------------------|---------------------|-------------|--------------------------------------|------------------|------------------|-------------------|
|                                       |                   | New issue of shares | Bonus issue | Capitalization of accumulation funds | Others           | Subtotal         |                   |
| <b>RMB</b>                            |                   |                     |             |                                      |                  |                  |                   |
| <b>Jan-June 2014:</b>                 |                   |                     |             |                                      |                  |                  |                   |
| I. Shares with selling restriction    | -                 | -                   | -           | -                                    | 47,446,100.00    | 47,446,100.00    | 47,446,100.00     |
| I. Shares without selling restriction |                   |                     |             |                                      |                  |                  |                   |
| 1. RMB ordinary shares                | 16,471,724,924.00 | -                   | -           | -                                    | (47,446,100.00)  | (47,446,100.00)  | 16,424,278,824.00 |
| III. Sum of shares                    | 16,471,724,924.00 | -                   | -           | -                                    | -                | -                | 16,471,724,924.00 |
| <b>2013:</b>                          |                   |                     |             |                                      |                  |                  |                   |
| I. Shares without selling restriction |                   |                     |             |                                      |                  |                  |                   |
| 1. RMB ordinary shares                | 17,122,048,088.00 | -                   | -           | -                                    | (650,323,164.00) | (650,323,164.00) | 16,471,724,924.00 |
| II. Sum of shares                     | 17,122,048,088.00 | -                   | -           | -                                    | (650,323,164.00) | (650,323,164.00) | 16,471,724,924.00 |

In accordance with the *Agreement for Proposal on Repurchase of Shares of the Company by Centralized Competitive Price Transaction*, the *Notification to Creditors of Baoshan Iron & Steel Co., Ltd. on Repurchase of Shares*, and the *Resolution of the 2<sup>nd</sup> Extraordinary General Meeting 2012 of Baoshan Iron & Steel Co., Ltd.* as well as the regulations of the revised Articles of Associations, the Company will repurchase A-share stocks through centralized competitive price transactions at Shanghai Stock Exchange. The repurchase price per share shall not exceed RMB 5, and the maximum total amount available for repurchase shall not exceed RMB 5 billion. On September 21, 2012, the Company implemented the repurchase for the first time, and totally repurchased 414,055,508 shares up to December 31, 2012. In accordance with the resolutions and the regulations of the revised articles of association, the Company has applied for the decrease of capital of RMB 390,000,000, and completed the cancellation of 390,000,000 shares with the Shanghai Branch of the China Securities Depository and Clearing Corporation Limited (CSDC) on December 20, 2012. The Company completed the procedure on the industrial and commercial registration on December 31, 2012. After change, the registered capital and the capital amount to RMB 17,122,048,088. The equity changes in 2012 were verified by Deloitte Touche Tohmatsu CPA LLP., for which the DSB (Y) Z (12) No. 0078 Capital Verification Report has been issued.

Up to May 21, 2013, the Company had completed the implementation of the share repurchase scheme, and repurchased 1,040,323,164 shares, and the number of repurchased shares will be 650,323,164 after the 390,000,000 cancelled shares are deducted from the total repurchased shares. In accordance with the resolution of the general meeting of the Company and the regulations of the revised articles of association, the Company has applied for the decrease of the capital of RMB 650,323,164, and completed the cancellation of 650,323,164 shares with the Shanghai Branch of the China Securities Depository and Clearing Corporation Limited (CSDC) on May 23, 2013. The Company completed the procedure on the industrial and commercial registration on June 24, 2013. After change, the registered capital and the capital amount to RMB 16,471,724,924. The equity changes in 2013 were verified by Deloitte Touche Tohmatsu CPA LLP., for which the DSB (Y) Z (13) No. 0103 Capital Verification Report has been issued.

The 2014 first temporary general meeting of shareholders held on May 20, 2014 reviewed and approved the A-share Restricted Stock Ownership Incentive Plan of Baoshan Iron & Steel Co., Ltd., the Phase-I Grant Program under the A-share Restricted Stock Ownership Incentive Plan of Baoshan Iron & Steel Co., Ltd. And

relevant resolutions. On May 22, 2014, the 15<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of Baosteel reviewed and approved the Proposal for Determination of the Incentive Targets and Respective Grant Quantities of A-Share Restricted Stock Ownership Incentive Plan and the Proposal for the Implementation of Phase I Program of the A-Share Restricted Stock Ownership Incentive Plan. From May 23 to June 11, 2014, the Company, in accordance with the list of incentive targets and grant quantities approved by the Board of Directors, finished the repurchase plan by repurchasing a total of 47,446,100 A-share ordinary shares of the Company at Shanghai Stock Exchange through centralized competitive price transaction as the source of restricted shares granted to incentive targets.

As per the provisions of the Phase I grant scheme, there are a total of 136 persons qualified as the incentive targets of this stock incentive plan and 47,446,100 shares are granted in total. As of June 24, 2014, the 47,446,100 shares granted in Phase I have already been changed from floating shares without trading limited conditions to floating shares with trading limited conditions and all of the relevant transfer formalities have been fully completed. Both the total share capital and the proportion of shares held by controlling shareholder will remain unchanged after this grant.

As of the end of this reporting period, Baosteel Group holds 13,128,825,267 shares or 79.71% of the total shares.

## (V) Notes to Consolidated Financial Statements (continued)

## 46. Capital Reserves

RMB

| Item   | BOY balance       | Increase for the current period | Decrease for the current period | EOP balance       |
|--|-------------------|---------------------------------|---------------------------------|-------------------|
| <b>Jan-June 2014:</b>  |                   |                                 |                                 |                   |
| Capital premium  |                   |                                 |                                 |                   |
| Including: Difference from share exchanges of state shares             | 5,726,556,609.73  | -                               | -                               | 5,726,556,609.73  |
| Share capital premium (Note 1)   | 25,743,652,887.00 | -                               | 22,296,525.53                   | 25,721,356,361.47 |
| Difference from merger under common control                            | 116,748,214.86    | -                               | -                               | 116,748,214.86    |
| Other comprehensive incomes  |                   |                                 |                                 |                   |
| Including: Reserves for equity investment (Note 2)                     | (55,852,472.21)   | 16,114,364.04                   | -                               | (39,738,108.17)   |
| Variation in fair value of AFS financial assets                        | (426,057,725.02)  | -                               | 117,472,586.54                  | (543,530,311.56)  |
| Effect of changes in fair values of AFS financial assets on income tax | 98,507,205.77     | 29,368,146.64                   | -                               | 127,875,352.41    |
| Others   | (2,400.00)        | -                               | -                               | (2,400.00)        |
| Others Capital reserves  |                   |                                 |                                 |                   |
| Including : Others Capital reserves (Note 3)                           | 1,763,160,667.90  | -                               | 82,125,572.76                   | 1,681,035,095.14  |
| Total  | 32,966,712,988.03 | 45,482,510.68                   | 221,894,684.83                  | 32,790,300,813.88 |
| <b>Y2013:</b>  |                   |                                 |                                 |                   |
| Capital premium  |                   |                                 |                                 |                   |
| Including: Difference from share exchanges of state shares             | 5,726,556,609.73  | -                               | -                               | 5,726,556,609.73  |
| Share capital premium  | 28,292,589,020.80 | -                               | 2,548,936,133.80                | 25,743,652,887.00 |
| Difference from merger under common control                            | 116,748,214.86    | -                               | -                               | 116,748,214.86    |
| Other comprehensive incomes  |                   |                                 |                                 |                   |
| Including: Reserves for equity investment                              | (26,971,288.79)   | -                               | 28,881,183.42                   | (55,852,472.21)   |
| Variation in fair value of AFS financial assets                        | 69,775,101.55     | -                               | 495,832,826.57                  | (426,057,725.02)  |
| Effect of changes in fair values of AFS financial assets on income tax | (25,451,000.87)   | 123,958,206.64                  | -                               | 98,507,205.77     |
| Others   | -                 | -                               | 2,400.00                        | (2,400.00)        |
| Others Capital reserves  |                   |                                 |                                 |                   |
| Including : Others Capital reserves (Note 3)                           | 1,855,722,688.77  | 50,639,539.20                   | 143,201,560.07                  | 1,763,160,667.90  |
| Total  | 36,008,969,346.05 | 174,597,745.84                  | 3,216,854,103.86                | 32,966,712,988.03 |

Note 1: The decrease in share capital premium is caused by the cost of repurchasing shares under the incentive stock ownership plan and by the difference between the said cost and the fair value of the target shares.

Note 2: The increase in equity investment reserve is caused by the change in the capital reserves of associated enterprises and joint ventures, as measured by the Group using the equity method.

Note 3: Other decreases in capital reserves are mainly the cumulative amount of the share payments by the Company in exchange for services from employees during the waiting period.

## 47. Treasury Shares

RMB

| Item                                | Amount         |
|-------------------------------------|----------------|
| <b>Jan.-June 2014</b>               |                |
| BOY balance                         | -              |
| Increase for the current period:    | 187,734,750.08 |
| Acquisition of shareholders' shares | -              |
| Decrease for the current period:    | 187,734,750.08 |
| Write-off                           | -              |
| EOP balance                         | -              |

On June 30, 2014, the Company did not have any treasury shares.



## (V) Notes to Consolidated Financial Statements (continued)

## 48. Special Reserves

RMB

| Item                     | BOY balance   | Increase for the current period | Decrease for the current period | EOP balance   |
|--------------------------|---------------|---------------------------------|---------------------------------|---------------|
| <b>Jan.-June 2014:</b>   |               |                                 |                                 |               |
| Safe production expenses | 22,160,961.06 | 158,101,657.71                  | 150,613,962.74                  | 29,648,656.03 |
| <b>2013:</b>             |               |                                 |                                 |               |
| Safe production expenses | 17,894,916.86 | 336,082,904.52                  | 331,816,860.32                  | 22,160,961.06 |

The Company appropriates special reserves in accordance with the provisions of the Measures on the Appropriation and Use of Production Safety Expenses (CQ [2012] No. 16) as the expenditure on production safety.

## 49. Surplus Reserves

RMB

| Item                       | BOY balance       | Increase for the current period | Decrease for the current period | EOP balance       |
|----------------------------|-------------------|---------------------------------|---------------------------------|-------------------|
| <b>Jan-June 2014:</b>      |                   |                                 |                                 |                   |
| Statutory surplus reserves | 10,628,374,519.07 | -                               | -                               | 10,628,374,519.07 |
| Arbitrary surplus reserves | 13,899,826,858.85 | -                               | -                               | 13,899,826,858.85 |
| Total                      | 24,528,201,377.92 | -                               | -                               | 24,528,201,377.92 |
| <b>2013:</b>               |                   |                                 |                                 |                   |
| Statutory surplus reserves | 9,979,131,134.13  | 649,243,384.94                  | -                               | 10,628,374,519.07 |
| Arbitrary surplus reserves | 13,250,583,473.91 | 649,243,384.94                  | -                               | 13,899,826,858.85 |
| Total                      | 23,229,714,608.04 | 1,298,486,769.88                | -                               | 24,528,201,377.92 |

## 50. Undistributed Profits

RMB

| Item  | Amount            | Provision or distribution proportion |
|---|-------------------|--------------------------------------|
| <b>Jan-June 2014:</b>   |                   |                                      |
| Undistributed BOY profit  | 37,044,549,468.11 |                                      |
| Plus: Net profit attributable to shareholders of parent company in current period | 3,154,015,369.07  |                                      |
| Less: Provisions for statutory surplus reserves                                   | -                 |                                      |
| Provisions for mandatory surplus reserves   | -                 |                                      |
| Dividends distributed of ordinary shares  | 1,647,172,492.40  |                                      |
| Undistributed EOP profit  | 38,551,392,344.78 |                                      |
| <b>2013:</b>  |                   |                                      |
| Undistributed BOY profit  | 34,802,934,026.47 |                                      |
| Plus: Net profit attributable to shareholders of parent company in current year   | 5,818,471,202.97  |                                      |
| Less: Provisions for statutory surplus reserves                                   | 649,243,384.94    | 10% of parent company's net profit   |
| Provisions for mandatory surplus reserves   | 649,243,384.94    | 10% of parent company's net profit   |
| Dividends distributed of ordinary shares  | 2,278,368,991.45  |                                      |
| Undistributed EOY profit  | 37,044,549,468.11 |                                      |

## (V) Notes to Consolidated Financial Statements (continued)

## 51. Operating Incomes and Operating Costs

## (1) Operating revenue

RMB

| Item                         | Jan-June 2014     | Jan-June 2013     |
|------------------------------|-------------------|-------------------|
| Principal operating revenues | 96,520,732,659.34 | 95,105,313,763.16 |
| Other operating revenues     | 1,077,669,205.15  | 994,275,495.43    |
| Operating revenue            | 97,598,401,864.49 | 96,099,589,258.59 |
| Operating cost               | 88,204,253,466.65 | 87,266,743,460.92 |

## (2) Principal businesses by industry

RMB1,000

| Industry                   | Jan-June 2014     |                | Jan-June 2013     |                |
|----------------------------|-------------------|----------------|-------------------|----------------|
|                            | Operating revenue | Operating cost | Operating revenue | Operating cost |
| Iron and steel manufacture | 63,827,669        | 57,520,349     | 65,964,123        | 60,363,110     |
| Iron and steel sales       | 89,214,194        | 87,130,090     | 87,505,449        | 85,691,379     |
| Chemicals                  | 4,846,573         | 4,413,663      | 5,740,520         | 5,163,602      |
| E-commerce                 | 6,059,439         | 6,034,205      | 91,721            | 84,899         |
| IT                         | 1,602,082         | 1,111,925      | 1,520,915         | 1,145,814      |
| Inter-industry offset      | (69,029,224)      | (69,026,484)   | (65,717,415)      | (65,620,732)   |
| Total                      | 96,520,733        | 87,183,748     | 95,105,314        | 86,828,072     |

## (3) Principal businesses by product

RMB1,000

| Product               | Jan-June 2014     |                | Jan-June 2013     |                |
|-----------------------|-------------------|----------------|-------------------|----------------|
|                       | Operating revenue | Operating cost | Operating revenue | Operating cost |
| Iron & steel products | 87,150,470        | 78,761,785     | 90,257,439        | 82,939,038     |
| Chemical products     | 2,124,753         | 1,691,843      | 3,593,568         | 3,016,650      |
| IT services           | 1,304,683         | 814,527        | 1,175,328         | 800,226        |
| Others                | 5,940,827         | 5,915,593      | 78,979            | 72,157         |
| Total                 | 96,520,733        | 87,183,748     | 95,105,314        | 86,828,072     |

## (4) Principal businesses by region

RMB1,000

| Region        | Jan-June 2014     |                | Jan-June 2013     |                |
|---------------|-------------------|----------------|-------------------|----------------|
|               | Operating revenue | Operating cost | Operating revenue | Operating cost |
| Inside China  | 85,211,555        | 76,498,406     | 85,700,089        | 77,826,077     |
| Outside China | 11,309,178        | 10,685,342     | 9,405,225         | 9,001,995      |
| Total         | 96,520,733        | 87,183,748     | 95,105,314        | 86,828,072     |

## (5) Operating revenues from top five clients of the Company

RMB

| Client     | Operating revenue | Percentage of total operating revenue of the Company (%) |
|------------|-------------------|--|
| Entity I   | 5,422,961,143.23  | 6  |
| Entity II  | 1,673,065,609.12  | 2  |
| Entity III | 1,487,104,403.67  | 2  |
| Entity IV  | 1,480,549,500.43  | 2  |
| Entity V   | 1,374,852,207.31  | 1  |
| Total      | 11,438,532,863.76 | 13   |

**(V) Notes to Consolidated Financial Statements (continued)****52. Business Tax and Surcharges**

RMB

| Item                                   | Jan-June 2014  | Jan-June 2013  | Payment criterion |
|--|----------------|----------------|-------------------|
| Business tax                           | 26,890,572.68  | 22,949,449.07  | Note              |
| Urban construction and maintenance tax | 130,077,113.10 | 112,763,285.64 | Note              |
| Education surcharge                    | 116,824,948.00 | 106,872,855.99 | Note              |
| Others                                 | 13,542,358.64  | 14,052,276.58  | Note              |
| Total                                  | 287,334,992.42 | 256,637,867.28 |                   |

Note: For the business tax payment criterion, see Note (III).

**53. Financial Expense**

RMB

| Item                             | Jan-June 2014  | Jan-June 2013    |
|----------------------------------|----------------|------------------|
| Interest expense                 | 931,251,770.22 | 875,585,804.01   |
| Less: capitalized interest costs | 113,639,014.23 | 69,923,256.75    |
| Less: interest incomes           | 563,647,741.14 | 615,105,916.95   |
| Exchange losses (gains)          | 269,296,735.19 | (466,875,848.11) |
| Others                           | 22,726,374.44  | 25,431,273.82    |
| Total                            | 545,988,124.48 | (250,887,943.98) |

**54. Loss on assets impairment**

RMB

| Item                                | Jan-June 2014    | Jan-June 2013  |
|-------------------------------------|------------------|----------------|
| I. Loss on bad debts                | 31,309,370.98    | 35,183,277.56  |
| II. Loss on inventory falling price | (131,041,979.46) | 215,713,738.17 |
| III. Loan loss                      | 46,003,353.20    | 31,735,000.00  |
| Total                               | (53,729,255.28)  | 282,632,015.73 |

**55. Gains from changes in fair values**

RMB

| Source of gains from changes in fair values | Jan-June 2014   | Jan-June 2013 |
|---|-----------------|---------------|
| Held-for-trading financial assets           | 12,423,781.86   | 26,156,213.39 |
| Held-for-trading financial liabilities      | (31,691,511.37) | -             |
| Total                                       | (19,267,729.51) | 26,156,213.39 |

**56. Investment income****(1) Details of investment incomes**

RMB

| Item  | Jan-June 2014   | Jan-June 2013   |
|---|-----------------|-----------------|
| Long-term equity investment incomes calculated using the cost method    | 124,105,824.45  | 201,787,600.00  |
| Long-term equity investment incomes calculated using the equity method  | 79,850,213.44   | 51,503,147.22   |
| Share investment income/(loss)  | 715,503.06      | 6,903,685.31    |
| Bond investment income/(loss)   | 20,233,904.50   | 15,784,669.63   |
| Fund investment income/(loss)   | 2,399,741.80    | 827.69          |
| Income/(loss) arising from disposal of derivative financial instruments | (27,249,026.67) | (14,773,709.28) |
| Investment income arising from disposal of long-term equity investments | -               | 4,075,963.93    |
| Others  | 17,773,931.79   | 26,098,630.12   |
| Total   | 217,830,092.37  | 291,380,814.62  |

**(V) Notes to Consolidated Financial Statements (continued)****56. Investment income (continued)**

(2) Long-term equity investment incomes calculated using the cost method

The following are the top five investees that yield investment incomes accounting for the highest proportions in the total amount of profits:

| Investee                                       |                       |                       | RMB                 |
|--|-----------------------|-----------------------|---------------------|
|  | Jan-June 2014         | Jan-June 2013         | Cause of YoY change |
| CNPC North-West United Pipelines Co., Ltd.     | 99,474,885.33         | -                     | Cash dividends      |
| Baovale Mineracao S.A.                         | 17,436,100.50         | -                     | Cash dividends      |
| Shanghai Luojing Ore Terminal Co.,Ltd.         | 7,194,838.62          | -                     | Cash dividends      |
| Yongcheng Coal & Electricity (Group) Co., Ltd. | -                     | 201,547,600.00        | Cash dividends      |
| Anhui Huishang Co., Ltd                        | -                     | 240,000.00            | Cash dividends      |
| <b>Total</b>                                   | <b>124,105,824.45</b> | <b>201,787,600.00</b> |                     |

(3) Long-term equity investment incomes calculated using the equity method

The following are the top five investees that yield investment incomes accounting for the highest proportions in the total amount of profits:

| Investee                              |                      |                      | RMB                                    |
|---------------------------------------|----------------------|----------------------|--|
|                                       | Jan-June 2014        | Jan-June 2013        | Cause of YoY change                    |
| BNA                                   | 33,380,863.13        | 35,352,691.91        | Change in profit of JV                 |
| Henan Pingbao Coal Industry Co., Ltd. | 29,080,195.72        | 30,508,017.53        | Change in profit of associated company |
| Welding Co.                           | 13,309,510.24        | 1,526,793.07         | Change in profit of associated company |
| Bao-Island                            | 7,852,597.50         | 630,227.40           | Change in profit of JV                 |
| Guangzhou Automobile Baoshang         | 3,387,700.24         | -                    | Change in profit of associated company |
| <b>Total</b>                          | <b>87,010,866.83</b> | <b>68,017,729.91</b> |  |

On June 30, 2014, the Group experienced no major limitation in the repatriation of investment incomes.

**57. Non-operating incomes**

| Item  |                       |                       | RMB |
|---|-----------------------|-----------------------|-----|
|   | Jan-June 2014         | Jan-June 2013         |     |
| Total gains from disposal of non-current assets | 23,468,782.01         | 6,565,631.67          |     |
| Including: Gains from disposal of fixed assets  | 23,468,782.01         | 6,221,727.06          |     |
| Gains from intangible assets                    | -                     | 343,904.61            |     |
| Government subsidies                            | 131,576,368.38        | 111,229,365.08        |     |
| Compensation incomes                            | 5,461,057.15          | 18,003,146.23         |     |
| Others  | 50,420,994.90         | 50,704,904.63         |     |
| <b>Total</b>                                    | <b>210,927,202.44</b> | <b>186,503,047.61</b> |     |

## (V) Notes to Consolidated Financial Statements (continued)

## 58. Non-operating expenditures

RMB

| Item   | Jan-June 2014  | Jan-June 2013  |
|--|----------------|----------------|
| Total loss from disposal of non-current assets | 100,739,973.13 | 85,892,494.46  |
| Including: Loss from disposal of fixed assets  | 100,739,973.13 | 83,254,252.05  |
| Loss from disposal of intangible assets        | -              | 2,638,242.41   |
| Donations                                      | 9,805,000.00   | 500,000.00     |
| Others   | 92,485,505.35  | 50,768,169.52  |
| Total  | 203,030,478.48 | 137,160,663.98 |

## 59. Income tax expenses

RMB

| Item                         | Jan-June 2014    | Jan-June 2013    |
|------------------------------|------------------|------------------|
| Current income tax expenses  | 1,105,175,523.48 | 1,432,481,920.65 |
| Deferred income tax expenses | 40,557,087.97    | (68,249,356.66)  |
| Total                        | 1,145,732,611.45 | 1,364,232,563.99 |

## 60. Calculation process of basic EPS

At the time of calculating the basic EPS, the net profit of the current year attributable to the holders of ordinary shares is as follows:

RMB

| Item  | Jan-June 2014    | Jan-June 2013    |
|---|------------------|------------------|
| Net profit of the current year attributable to the holders of ordinary shares | 3,154,015,369.07 | 3,702,803,522.33 |
| Incl.: net profit attributable to ongoing operations                          | 3,154,015,369.07 | 3,702,803,522.33 |
| Net profit attributable to discontinued operations                            | -                | -                |

In the calculation of the basic EPS, the denominator is the weighted average of outstanding ordinary shares. The calculation is as follows:

RMB

| Item  | Jan-June 2014     | Jan-June 2013     |
|---|-------------------|-------------------|
| Number of outstanding ordinary shares at the beginning of the year                      | 16,471,724,924.00 | 17,122,048,088.00 |
| Plus: weighted average number of ordinary shares issued in the current period           | -                 | -                 |
| Less: weighted average number of ordinary shares repurchased in the current period      | -                 | 240,491,296.33    |
| Weighted average number of outstanding ordinary shares at the end of the current period | 16,471,724,924.00 | 16,881,556,791.67 |

## Earning per share (EPS)

RMB

| Item  | Jan-June 2014 | Jan-June 2013 |
|---|---------------|---------------|
| Calculated by the net profit attributable to shareholders of the parent company:                            |               |               |
| Basic earning per share   | 0.19          | 0.22          |
| Calculated by the net profit of going operations attributable to shareholders of the parent company:        |               |               |
| Basic earning per share   | 0.19          | 0.22          |
| Calculated by the net profit of discontinued operations attributable to shareholders of the parent company: |               |               |
| Basic earning per share   | -             | -             |

In this accounting period, the Company has no diluted potential ordinary shares, so the diluted EPS has not been disclosed.

**(V) Notes to Consolidated Financial Statements (continued)****61. Other comprehensive incomes**

|  | RMB              |                  |
|--|------------------|------------------|
| Item   | Jan-June 2014    | Jan-June 2013    |
| 1. Amount of gains (losses) arising from AFS financial assets                              | (108,296,624.05) | (444,093,867.61) |
| Less: Income tax effect of AFS financial assets  | (27,074,156.01)  | (111,023,466.90) |
| Subtotal   | (81,222,468.04)  | (333,070,400.71) |
| 2. Share in other comprehensive incomes of investees as calculated using the equity method | 16,114,364.05    | (11,937,113.24)  |
| Subtotal   | 16,114,364.05    | (11,937,113.24)  |
| 3. Difference from translation of foreign currency statements                              | 55,246,350.74    | (172,984,662.52) |
| Subtotal   | 55,246,350.74    | (172,984,662.52) |
| Total  | (9,861,753.25)   | (517,992,176.47) |

**62. Notes to items of cash flow statement****(1) Other cash receipts related to operating activities**

|   | RMB            |                |
|---|----------------|----------------|
| Item  | Jan-June 2014  | Jan-June 2013  |
| Non-operating incomes, government subsidies and other incomes | 336,441,051.56 | 394,068,857.20 |

**(2) Other cash payments related to operating activities**

|                | RMB              |                  |
|----------------|------------------|------------------|
| Item           | Jan-June 2014    | Jan-June 2013    |
| Sales expenses | 456,708,240.97   | 418,354,736.75   |
| Overheads      | 424,580,421.14   | 681,202,617.21   |
| Others         | 207,078,911.27   | 138,642,801.87   |
| Total          | 1,088,367,573.38 | 1,238,200,155.83 |

**(3) Other cash receipts related to investment activities**

|                                      | RMB              |                  |
|--------------------------------------|------------------|------------------|
| Item                                 | Jan-June 2014    | Jan-June 2013    |
| Interest incomes                     | 141,560,069.90   | 72,516,875.86    |
| Proceeds from disposal of Wusong Lot | 5,471,999,999.96 | 5,740,942,191.82 |
| Total                                | 5,613,560,069.86 | 5,813,459,067.68 |

**(4) Other cash payments related to investment activities**

|  | RMB           |               |
|--|---------------|---------------|
| Item   | Jan-June 2014 | Jan-June 2013 |
| Cash paid for settlement of derivative instruments | 26,318,400.15 | 27,777,025.40 |

**(5) Other cash receipts related to fundraising activities**

|  | RMB           |               |
|--|---------------|---------------|
| Item   | Jan-June 2014 | Jan-June 2013 |
| Cash received under the incentive stock ownership plan | 90,622,051.00 | -             |

## (V) Notes to Consolidated Financial Statements (continued)

## 63. Supplementary data for cash flow statement

## (1) Supplementary data for cash flow statement

RMB

| Supplementary data   | Jan-June 2014     | Jan-June 2013      |
|--|-------------------|--------------------|
| <b>1. Reconciliation of net profit to cash flow from operating activities:</b>         |                   |                    |
| Net profit   | 3,325,641,093.21  | 3,813,778,029.39   |
| Plus: Provision for impairment losses of assets  | (53,729,255.28)   | 282,632,015.73     |
| Depreciation of fixed assets and investment property                                   | 5,073,018,345.16  | 4,830,980,081.92   |
| Amortization of intangible assets  | 114,212,687.52    | 89,355,306.75      |
| Amortization of long-term deferred expenses  | 21,551,087.50     | 16,557,968.15      |
| Losses on disposal of fixed, intangible and other long-term assets (with "-"for gains) | 77,271,191.12     | 79,326,862.79      |
| Losses on the changes in fair value (with "-"for gains)                                | 19,267,729.51     | (26,156,213.39)    |
| Financial expenses (with "-"for gains)   | 524,106,065.04    | (276,319,217.80)   |
| Investment losses (with "-"for gains)  | (217,830,092.37)  | (291,380,814.62)   |
| Decrease in deferred tax assets (with "-"for increase)                                 | 40,274,715.55     | (161,599,932.26)   |
| Increase in deferred tax liabilities (with "-"for decrease)                            | 2,291.85          | (17,177,783.64)    |
| Decrease in inventory (with "-"for increase)   | 2,351,641,601.59  | (2,813,742,413.86) |
| Decrease in receivables from operating activities (with "-"for increase)               | (438,509,098.48)  | (316,963,315.46)   |
| Increase in payables for operating activities (with "-"for decrease)                   | 3,445,133,961.13  | 1,345,108,514.67   |
| Net cash flow from operating activities  | 14,282,052,323.05 | 6,554,399,088.37   |
| <b>2. Net changes in cash and cash equivalents:</b>                                    |                   |                    |
| EOP balance of cash  | 17,184,380,641.15 | 12,871,560,146.62  |
| Less: BOY balance of cash  | 11,507,852,396.93 | 7,632,107,621.86   |
| Plus: EOP balance of cash equivalents  | 371,663,691.66    | 500,000,000.00     |
| Less: BOY balance of cash equivalents  | 91,000,000.00     | -                  |
| Net increase (decrease) in cash and cash equivalents                                   | 5,957,191,935.88  | 5,739,452,524.76   |

## (2) Constitution of cash and cash equivalents

RMB

| Item   | EOP balance       | BOY balance       |
|--|-------------------|-------------------|
| I. Cash  | 17,184,380,641.15 | 11,507,852,396.93 |
| Including: cash on hand                                | 1,050,670.09      | 862,784.89        |
| Bank deposits available for payment at any time        | 17,128,022,656.67 | 11,435,799,572.25 |
| Other monetary funds available for payment at any time | 55,307,314.39     | 71,190,039.79     |
| II. Cash equivalents                                   | 371,663,691.66    | 91,000,000.00     |
| Including: money market funds                          | 271,663,691.66    | -                 |
| Financial assets purchased under resale agreements     | 100,000,000.00    | 91,000,000.00     |
| III. EOP balance of cash and cash equivalents          | 17,556,044,332.81 | 11,598,852,396.93 |

Cash and cash equivalents exclude such cash and cash equivalents which the parent company or the subsidiaries within the group are restricted to use.

**(VI) Related Parties and Connected Transactions****1. Particulars about the parent company of the Company**

RMB

| Name of parent company     | Relationship with the Company | Type of business          | Registration place | Legal representative | Nature of business            | Registered capital (RMB) | Shareholding ratio of parent company in the Company (%) | Voting right ratio of parent company in the Company (%) | Final controller of the Company   | Organization code |
|----------------------------|-------------------------------|---------------------------|--------------------|----------------------|-------------------------------|--------------------------|---|---|---|-------------------|
| Baosteel Group Corporation | Parent company                | Limited liability company | Shanghai           | Xu Lejiang           | Steel smelting and processing | 52,791,100,998.89        | 79.71   | 79.71   | State-owned Assets Supervision and Administration Commission of the State Council | 13220082-1        |

**2. Particulars about the subsidiaries of the Group**

For particulars about the subsidiaries of the Group, please see Note (IV), 1.

**3. Particulars about the JVs and associated enterprises of the Group**

For the particulars about the JVs and the associated enterprises, see Note (V). 15.

**4. Particulars about the other related parties of the Group**

| Name of related party   | Relationship of related party with the Company | Organizational code |
|---|--|---------------------|
| Baosteel Resources (International) Co., Ltd. ("Baosteel Resources (International) and its subsidiaries")                              | Both under common control of Baosteel          | #6080030-0          |
| Baosteel Metal Co., Ltd. and its subsidiaries ("Baosteel Metal and its subsidiaries")   | Both under common control of Baosteel          | 13223304-1          |
| Shanghai Baosteel Engineering & Technology Group Co., Ltd. and its subsidiaries ("Engineering & Technology Co. and its subsidiaries") | Both under common control of Baosteel          | 63083393-9          |
| Hwabao Trust Co., Ltd. ("Hwabao Trust")   | Both under common control of Baosteel          | 63124192-7          |
| Hwabao Investment Co., Ltd. ("Hwabao Investment")   | Both under common control of Baosteel          | 13222881-6          |
| Baosteel Group Baoshan Hotel ("Baoshan Hotel")  | Both under common control of Baosteel          | 13342754-2          |
| Baoshan Development Co., Ltd. and its subsidiaries ("Baosteel Development" and its subsidiaries")                                     | Both under common control of Baosteel          | 13343894-6          |
| Baosteel Group Shanghai No. 2 Iron & Steel Co., Ltd. and its subsidiaries ("No. 2 Iron & Steel Co., Ltd. and its subsidiaries")       | Both under common control of Baosteel          | 13320566-7          |
| Baosteel Group Shanghai No. 1 Iron & Steel Co., Ltd. and its subsidiaries ("No. 1 Iron & Steel Co., Ltd. and its subsidiaries")       | Both under common control of Baosteel          | 13220760-1          |
| Baosteel Group Shanghai Steel Pipe Co., Ltd. ("Steel Pipe Company")   | Both under common control of Baosteel          | 63057927-2          |
| Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries ("Meishan Company and its subsidiaries")                               | Both under common control of Baosteel          | 13226493-X          |
| Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries ("Pudong Steel and its subsidiaries")                      | Both under common control of Baosteel          | 13221291-0          |
| Baosteel Group Shanghai No. 5 Co., Ltd. and its subsidiaries ("No. 5 Steel Company and its subsidiaries")                             | Both under common control of Baosteel          | 13220240-5          |
| Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries ("Xinjiang Bayi and its subsidiaries")                       | Both under common control of Baosteel          | 22860110-1          |
| Baosteel Resources Co., Ltd. and its subsidiaries ("Baosteel Resources and its subsidiaries")   | Both under common control of Baosteel          | 79144036-X          |
| Shanghai Iron & Steel Research Institute ("Iron & Steel Research Institute")  | Both under common control of Baosteel          | 13342720-0          |
| Baosteel Desheng Stainless Steel Co., Ltd. ("Baosteel Desheng")   | Both under common control of Baosteel          | 78216761-3          |
| Ningbo Iron & Steel Co., Ltd. ("Ningbo Steel")  | Both under common control of Baosteel          | 74497613-7          |
| Guangdong Baosteel Properties Co., Ltd. ("Guangdong Properties")  | Both under common control of Baosteel          | 67706963-2          |
| Guangdong Shaoguan Iron & Steel Group Co., Ltd. ("Guangdong Shaogang and its subsidiaries")   | Both under common control of Baosteel          | 19152191-6          |
| Shanghai Baosteel Stainless Steel Co., Ltd. ("Shanghai Stainless")  | Both under common control of Baosteel          | 59041990-0          |
| Baosteel Stainless Steel Co., Ltd. ("Baosteel Stainless")   | Both under common control of Baosteel          | 59167293-2          |
| Baosteel Special Steel Co., Ltd. ("Baosteel Special Steel and its subsidiaries")  | Both under common control of Baosteel          | 59041866-8          |
| Shanghai Baohua International Tendering Co., Ltd. ("Baohua Tendering")  | Both under common control of Baosteel          | 78425734-8          |
| Beijing Huili Property Development Co., Ltd. ("Beijing Huili")  | Both under common control of Baosteel          | 76847696-2          |
| Shanghai Baosteel Technical and Economic Development Co., Ltd. ("Technical & Economic and its subsidiaries")                          | Both under common control of Baosteel          | 13220712-6          |



|  |                                       |            |
|--|---------------------------------------|------------|
| Baosteel (Australia) Mining Co., Ltd. (“Baosteel Australia Mining”)                    | Both under common control of Baosteel | N/A        |
| Ningbo Baoxin Stainless Steel Co., Ltd. (“Ningbo Baoxin”)                              | Both under common control of Baosteel | 61027433-2 |
| Baosteel Group (Shanghai) Properties Co., Ltd (“Baosteel Properties (Shanghai) ”)      | Both under common control of Baosteel | 062553794  |
| Fujian Baosteel Properties Co., Ltd.(“Fujian Properties”)                              | Both under common control of Baosteel | 062262452  |
| Shanghai Baosteel (Changning) Properties Co., Ltd. (“Changning Properties”)            | Both under common control of Baosteel | 08200555X  |
| Ningbo Baosteel New Construction Materials Co., Ltd. (“Ningbo Construction Materials”) | Both under common control of Baosteel | 071480750  |

## (VI) Related Parties and Connected Transactions (continued)

## 5. Particulars about connected transactions

Connected transactions of purchases and sales of commodities and provisions and acceptance of labor services

## (1) Sales

RMB1,000

| Related party   | Type of connected transaction | Details of connected transaction                           | Pricing method and decision-making process of connected transaction | Amount incurred in Jan-June 2014 |  | Amount incurred in Jan-June 2013 |  |
|---|-------------------------------|--|---|----------------------------------|--|----------------------------------|--|
|   |                               |  |   | Amount                           | Proportion in the amount of similar transactions (%) | Amount                           | Proportion in the amount of similar transactions (%) |
| Baosteel Group  | Sales                         | Energy, auxiliary materials                                | Market price  | 4,148                            | 0.00   | 1,477                            | 0.00   |
| Xinjiang Bayi and its subsidiaries                      | Sales                         | Auxiliary materials, etc.                                  | Market price  | 58                               | 0.00   | 292                              | 0.00   |
| Baosteel Development and its subsidiaries               | Sales                         | Iron and steel products, auxiliary materials, energy, etc. | Market price  | 880,002                          | 0.90   | 1,262,752                        | 1.31   |
| Engineering & Technology Co. and its subsidiaries       | Sales                         | Iron and steel products, energy, auxiliary materials, etc. | Market price  | 122,529                          | 0.13   | 27,863                           | 0.03   |
| Baosteel Metal and its subsidiaries                     | Sales                         | Iron and steel products, energy, etc.                      | Market price  | 716,565                          | 0.73   | 760,930                          | 0.79   |
| Meishan Company and its subsidiaries                    | Sales                         | Iron and steel products, energy and auxiliary materials    | Market price  | 1,227,615                        | 1.26   | 975,606                          | 1.02   |
| Baosteel Resources and its subsidiaries                 | Sales                         | Raw materials  | Market price  | 79,624                           | 0.08   | 101,799                          | 0.11   |
| Baosteel Resources (International) and its subsidiaries | Sales                         | Raw materials  | Market price  | 485,416                          | 0.50   | 1,038,227                        | 1.08   |
| Baosteel Stainless                                      | Sales                         | Raw materials, auxiliary materials, energy, etc.           | Market price  | 912,363                          | 0.93   | 1,721,356                        | 1.79   |
| Baosteel Special Steel and its subsidiaries             | Sales                         | Raw materials, auxiliary materials, energy, etc.           | Market price  | 1,155,490                        | 1.18   | 1,053,702                        | 1.10   |
| Baosteel Desheng  | Sales                         | Raw materials  | Market price  | 705                              | 0.00   | 1,312                            | 0.00   |
| Ningbo Baoxin   | Sales                         | Iron and steel products, etc.                              | Market price  | 148,017                          | 0.15   | 72,933                           | 0.08   |
| Ningbo Steel  | Sales                         | Iron and steel products, etc.                              | Market price  | 6,179                            | 0.01   | 260,759                          | 0.27   |
| Guangdong Shaogang and its subsidiaries                 | Sales                         | Raw materials, etc.  | Market price  | 103,286                          | 0.11   |                                  |  |
| BNA   | Sales                         | Iron and steel products, energy and auxiliary materials    | Market price  | 5,367,871                        | 5.49   | 5,290,912                        | 5.51   |
| Welding Co.   | Sales                         | Iron and steel products, energy and auxiliary material     | Market price  | 294,080                          | 0.30   | 308,417                          | 0.32   |
| Tianjin BCM   | Sales                         | Iron and steel products, energy and auxiliary material     | Market price  | 75,368                           | 0.08   | 67,427                           | 0.07   |
| Guangzhou JFE   | Sales                         | Iron and steel products, energy and auxiliary material     | Market price  | 391,050                          | 0.40   | 296,423                          | 0.31   |
| Others  | Sales                         | auxiliary materials, etc.                                  | Market price  | 40,260                           | 0.04   | 31,444                           | 0.03   |
| <b>Total</b>  |                               |  |   | 12,010,626                       | 12.28  | 13,273,629                       | 13.81  |

(VI) **Related Parties and Connected Transactions (continued)****5. Particulars about connected transactions (continued)**

Connected transactions of purchases and sales of commodities and provisions and acceptance of labor services (continued)

## (2) Procurement of commodities

RMB1,000

| Related party   | Type of connected transaction | Details of connected transaction                 | Pricing method and decision-making process of connected transaction | Amount incurred in Jan-June 2014 |  | Amount incurred in Jan-June 2013 |  |
|---|-------------------------------|--|---|----------------------------------|--|----------------------------------|--|
|   |                               |  |   | Amount                           | Proportion in the amount of similar transactions (%) | Amount                           | Proportion in the amount of similar transactions (%) |
| Xinjiang Bayi and its subsidiaries                      | Procurement                   | Iron & steel products, etc.                      | Market price  | 578,137                          | 0.66   | 644,237                          | 0.74   |
| Baosteel Development and its subsidiaries               | Procurement                   | Iron & steel products, auxiliary materials, etc. | Market price  | 602,934                          | 0.68   | 624,165                          | 0.72   |
| Engineering & Technology Co. and its subsidiaries       | Procurement                   | Equipment, etc.                                  | Market price  | 269,874                          | 0.31   | 225,196                          | 0.26   |
| Baosteel Metal and its subsidiaries                     | Procurement                   | auxiliary materials, etc.                        | Market price  | 35,686                           | 0.04   | 55,800                           | 0.06   |
| Meishan Company and its subsidiaries                    | Procurement                   | Raw materials, auxiliary materials, etc.         | Market price  | 709,785                          | 0.80   | 673,555                          | 0.77   |
| Baosteel Resources and its subsidiaries                 | Procurement                   | Raw materials                                    | Market price  | 2,183,720                        | 2.48   | 2,928,830                        | 3.36   |
| Baosteel Resources (International) and its subsidiaries | Procurement                   | Raw materials                                    | Market price  | 132,226                          | 0.15   | 125,381                          | 0.14   |
| Baosteel Stainless                                      | Procurement                   | Iron & steel products, etc.                      | Market price  | 6,842,582                        | 7.76   | 6,990,587                        | 8.01   |
| Baosteel Special Steel and its subsidiaries             | Procurement                   | Iron & steel products                            | Market price  | 3,671,063                        | 4.16   | 3,265,090                        | 3.74   |
| Baosteel Desheng  | Procurement                   | Iron & steel products                            | Market price  | 249,181                          | 0.28   | 6,340                            | 0.01   |
| Ningbo Stainless  | Procurement                   | Iron & steel products                            | Market price  | 3,138,379                        | 3.56   | 3,215,783                        | 3.68   |
| Ningbo Steel  | Procurement                   | Iron & steel products                            | Market price  | 1,171,645                        | 1.33   | 913,984                          | 1.05   |
| BNA   | Procurement                   | Iron & steel products, etc.                      | Market price  | 5,748,371                        | 6.52   | 5,423,256                        | 6.21   |
| Guangzhou JFE   | Procurement                   | Iron & steel products, etc.                      | Market price  | 258,562                          | 0.29   | -                                | -  |
| Others  | Procurement                   | Auxiliary materials, energy, etc.                | Market price  | 13,695                           | 0.02   | 21,594                           | 0.02   |
| Total   |                               |  |   | 25,605,840                       | 29.03  | 25,113,799                       | 28.78  |

**(VI) Related Parties and Connected Transactions (continued)****5. Particulars about connected transactions (continued)**

Connected transactions of purchases and sales of commodities and provisions and acceptance of labor services (Continued)

(3) Provision of transportation and technical services, etc.

| Related party                                     | Type of connected transaction | Details of connected transaction                  | Pricing method and decision-making process of connected transaction | RMB1,000                         |                                  |
|---|-------------------------------|---|---|----------------------------------|----------------------------------|
|   |                               |   |   | Amount incurred in Jan-June 2014 | Amount incurred in Jan-June 2013 |
|   |                               |   |   | Amount                           | Amount                           |
| Baosteel Resources and its subsidiaries           | Service sales                 | Transportation and technical services, etc.       | Negotiated price  | 36,637                           | 29,837                           |
| Engineering & Technology Co. and its subsidiaries | Service sales                 | Technical services                                | Negotiated price  | 45,979                           | 90,724                           |
| Meishan Company and its subsidiaries              | Service sales                 | Transportation and technical services             | Negotiated price  | 21,290                           | 18,033                           |
| Baosteel Special Steel and its subsidiaries       | Service sales                 | Processing, transportation and technical services | Negotiated price  | 46,123                           | 28,752                           |
| Baosteel Stainless                                | Service sales                 | Transportation and technical services             | Negotiated price  | 67,309                           | 26,269                           |
| Baosteel Development and its subsidiaries         | Service sales                 | Technical services                                | Negotiated price  | 9,879                            | 10,728                           |
| Baosteel Group                                    | Service sales                 | Technical services                                | Negotiated price  | 18,545                           | 12,596                           |
| Ningbo Steel                                      | Service sales                 | Technical services                                | Negotiated price  | 14,812                           | 10,393                           |
| Ningbo Baoxin                                     | Service sales                 | Technical services                                | Negotiated price  | 7,008                            | 26,159                           |
| Xinjiang Bayi and its subsidiaries                | Service sales                 | Technical services                                | Negotiated price  | 23,494                           | 5,632                            |
| Guangdong Shaogang and its subsidiaries           | Service sales                 | Technical services                                | Negotiated price  | 11,747                           | 11,571                           |
| BNA   | Service sales                 | Transportation and technical services             | Negotiated price  | 47,106                           | 36,449                           |
| Others  | Service sales                 | Transportation and technical services             | Negotiated price  | 26,065                           | 11,321                           |
| Total   |                               |   |   | 375,994                          | 318,463                          |

**(VI) Related Parties and Connected Transactions (continued)****5. Particulars about connected transactions (continued)**

Connected transactions of purchases and sales of commodities and provisions and acceptance of labor services (Continued)

## (4) Acceptance of labor services

| Related party                                     | Type of connected transaction | Details of connected transaction  | Pricing method and decision-making process of connected transaction | RMB1,000                         |                                  |
|---|-------------------------------|---|---|----------------------------------|----------------------------------|
|   |                               |   |   | Amount incurred in Jan-June 2014 | Amount incurred in Jan-June 2013 |
|   |                               |   |   | Amount                           | Amount                           |
| Baosteel Development and its subsidiaries         | Service procurement           | Comprehensive logistics, engineering, transportation, maintenance service, etc. | Negotiated price  | 832,162                          | 989,469                          |
| Engineering & Technology Co. and its subsidiaries | Service procurement           | Engineering, maintenance, detection service, etc.                               | Negotiated price  | 159,951                          | 700,104                          |
| Meishan Company and its subsidiaries              | Service procurement           | Comprehensive logistics, engineering, transportation, maintenance service, etc. | Negotiated price  | 447,953                          | 294,552                          |
| Baosteel Resources and its subsidiaries           | Service procurement           | Comprehensive logistics, engineering, transportation, maintenance service, etc. | Negotiated price  | 161,590                          | 246,718                          |
| Bao-Island  | Service procurement           | Comprehensive logistics, engineering, transportation, maintenance service, etc. | Negotiated price  | 153,923                          | 175,345                          |
| BNA   | Service procurement           | Processing, etc.  | Negotiated price  | 127,026                          | 80,944                           |
| Baosteel Group                                    | Service procurement           | Education, training, etc.   | Negotiated price  | 4,954                            | 3,748                            |
| Baosteel Special Steel and its subsidiaries       | Service procurement           | Processing service, etc.  | Negotiated price  | 7,688                            | -                                |
| Others  | Service procurement           | Transportation service, etc.  | Negotiated price  | 5,144                            | 3,681                            |
| <b>Total</b>                                      |                               |   |   | <b>1,900,390</b>                 | <b>2,494,561</b>                 |

**(VI) Related Parties and Connected Transactions (continued)****5. Particulars about connected transaction (continued)**

## (5) Other main connected transactions

RMB1,000

| Category of connected transaction          | Note   | Amount incurred in Jan-June 2014 | Amount incurred in Jan-June 2013 |
|--|--------|----------------------------------|----------------------------------|
| Payment for land rental expense            | Note 1 | 125,843                          | 125,843                          |
| Rental expenses for houses and automobiles | Note 2 | 35,193                           | 96,525                           |
| Rental incomes from houses and automobiles | Note 3 | 26,096                           | 4,777                            |
| Financial service revenues                 | Note 4 | 95,938                           | 80,686                           |
| Financial service expenditures             | Note 5 | 113,923                          | 106,547                          |

Note 1: Upon the establishment of the Company, a 20-year Lease Agreement was entered into by and between Baosteel Group and the Company, whereby Baosteel Group will rent out the plant land to the Company. In September 2001, Baosteel Group signed another 20-year Lease Agreement with the Company for the plant land under the phase-III assets acquisition project. In November 2002, Baosteel Group signed another 20-year Lease Agreement with the Company for the plant land of some newly-acquired assets under custody. In November 2010, due to the increase in the tenure tax, the Supplementary Agreement on Tenure Lease was signed by and between Baosteel Group and the Company, whereby the land-use fees of the Company have been increased.

Notes 2 & 3: The Group rents houses and automobiles from Baosteel Development as well as Baosteel Metal and its subsidiaries, while Baosteel Resources and its subsidiaries rent houses from the Group, at the prices negotiated and determined by both parties.

Note 4: The Group, through the Finance Co., a subsidiary of the Company, provides Baosteel Group and its affiliated companies with financial services (loans, discounting, entrusted loans, etc.), and as a result receives interest incomes from loans, discount interest incomes, entrusted loan handling charges, etc.

Note 5: The Group takes the deposits from Baosteel Group and its affiliates and pays them the interest thereon. The RMB deposit interest rates are subject to the interest rates specified by the People's Bank of China.

**6. Accounts receivable from and payable to related parties**

## (1) Notes receivable

RMB1,000

| Item  | EOP balance | BOY balance |
|---|-------------|-------------|
| Baosteel Special Steel and its subsidiaries       | 335,974     | 224,782     |
| Baosteel Development and its subsidiaries         | 259,917     | 196,550     |
| Meishan Company and its subsidiaries              | 300,794     | 194,005     |
| Baosteel Metal and its subsidiaries               | 203,975     | 190,840     |
| Engineering & Technology Co. and its subsidiaries | 17,730      | 30,299      |
| Tianjin BCM                                       | 12,829      | 7,549       |
| Ningbo Baoxin and its subsidiaries                | 8,319       | 7,515       |
| Xinjiang Bayi and its subsidiaries                | 8,856       | 3,982       |
| Baosteel Resources and its subsidiaries           | 30,000      | 3,000       |
| Ningbo Steel                                      | 3,966       | 3,599       |
| Baosteel Desheng and its subsidiaries             | 1,800       | 1,680       |
| Guangzhou JFE                                     | 340,110     | -           |
| Others  | 112,088     | 15,000      |
| Total   | 1,636,358   | 878,801     |

**(VI) Related Parties and Connected Transactions (continued)****6. Accounts receivable from and payable to related parties (continued)**

## (2) Accounts receivable

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Ningbo Steel  | 455,854     | 775,168     |
| Meishan Company and its subsidiaries                    | 329,936     | 720,131     |
| Guangdong Shaogang and its subsidiaries                 | 5,208       | 631,605     |
| Baosteel Special Steel and its subsidiaries             | 482,134     | 417,526     |
| BNA   | 504,943     | 237,938     |
| Baosteel Stainless                                      | 223,995     | 212,981     |
| Engineering & Technology Co. and its subsidiaries       | 154,020     | 187,805     |
| Baosteel Resources (International) and its subsidiaries | -           | 94,099      |
| Baosteel Metal and its subsidiaries                     | 45,677      | 49,295      |
| Baosteel Development <sup>7</sup> and its subsidiaries  | 47,121      | 34,795      |
| Ningbo Baoxin and its subsidiaries                      | 24,510      | 21,394      |
| Baosteel Group  | 7,284       | 19,581      |
| Baosteel Resources and its subsidiaries                 | 8,772       | 18,950      |
| Desheng Stainless Steel and its subsidiaries            | 9,460       | 10,618      |
| Welding Co.   | 11,414      | 8,427       |
| Xinjiang Bayi and its subsidiaries                      | 3,323       | 2,439       |
| Hwabao Trust  | 315         | 284         |
| Pudong Steel and its subsidiaries                       | 72          | -           |
| Others  | 4,046       | 1,785       |
| Total   | 2,318,084   | 3,444,821   |

## (3) Advances

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Ningbo Steel                                      | 354,420     | 366,690     |
| BNA   | 167,892     | 354,040     |
| Baosteel Resources and its subsidiaries           | 251,184     | 209,332     |
| Xinjiang Bayi and its subsidiaries                | 108,035     | 172,817     |
| Guangdong Shaogang and its subsidiaries           | 53,969      | 48,529      |
| Baosteel Stainless                                | 42,924      | 37,412      |
| Engineering & Technology Co. and its subsidiaries | 91,039      | 30,258      |
| Baosteel Metal and its subsidiaries               | 7,605       | 7,284       |
| Baosteel Special Steel and its subsidiaries       | 233         | 1,182       |
| Meishan Company and its subsidiaries              | 652         | 880         |
| Baosteel Development and its subsidiaries         | 147         | 822         |
| Ningbo Baoxin and its subsidiaries                | -           | 2           |
| Others  | 26,431      | 656         |
| Total   | 1,104,531   | 1,229,904   |

**(VI) Related Parties and Connected Transactions (continued)****6. Accounts receivable from and payable to related parties (continued)**

## (4) Interest receivable

| Item                   | RMB1,000    |             |
|------------------------|-------------|-------------|
|                        | EOP balance | BOY balance |
| Shanghai Stainless     | 103,858     | 421,585     |
| Baosteel Special Steel | 75,896      | 308,081     |
| Total                  | 179,754     | 729,666     |

Note: For interest receivables from Shanghai Stainless and Baosteel Special Steel, please see Note (V), 14 Note 1.

## (5) Other accounts receivable

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Baosteel Stainless                                | 35,456      | 34,987      |
| Baosteel Development and its subsidiaries         | 6,514       | 16,410      |
| Ningbo Steel                                      | 6,133       | 7,325       |
| Baosteel Special Steel and its subsidiaries       | 31          | 1,662       |
| Welding Co.                                       | 1,148       | 1,387       |
| Guangdong Shaogang and its subsidiaries           | 3,781       | 1,157       |
| Meishan Company and its subsidiaries              | 1,441       | 769         |
| Shandong Baohua                                   | 250         | 570         |
| Xinjiang Bayi and its subsidiaries                | 299         | 133         |
| Engineering & Technology Co. and its subsidiaries | 219         | 42          |
| Baosteel Group                                    | 24          | 1           |
| Others  | 5,058       | 1,107       |
| Total   | 60,354      | 65,550      |

## (6) Non-current assets due within one year

| Item                          | RMB1,000    |             |
|-------------------------------|-------------|-------------|
|                               | EOP balance | BOY balance |
| Shanghai Stainless (Note)     | 2,600,000   | 2,600,000   |
| Baosteel Special Steel (Note) | 1,900,000   | 1,900,000   |
| Total                         | 4,500,000   | 4,500,000   |

Note: For non-current assets receivable from Shanghai Stainless and Baosteel Special Steel and due within one year, please see Note (V), 14 Note 1.



**(VI) Related Parties and Connected Transactions (continued)****6. Accounts receivable from and accounts payable to related parties (continued)**

## (7) Loans and advances to customers

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Xinjiang Bayi and its subsidiaries                | 700,000     | 700,000     |
| Ningbo Steel                                      | 684,140     | 640,825     |
| Baosteel Resources and its subsidiaries           | 628,072     | 430,970     |
| Meishan Company and its subsidiaries              | 69,588      | 423,563     |
| Engineering & Technology Co. and its subsidiaries | 112,500     | 157,500     |
| Baosteel Metal and its subsidiaries               | 86,148      | 69,485      |
| Others  | 189,867     | 80,000      |
| Total   | 2,470,315   | 2,502,343   |

## (8) Long-term accounts receivable

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Shanghai Stainless                                | 5,200,000   | 7,800,000   |
| Baosteel Special Steel                            | 3,800,000   | 5,700,000   |
| Engineering & Technology Co. and its subsidiaries | -           | 13,000      |
| Total   | 9,000,000   | 13,513,000  |

## (9) Customer deposits and deposits from banks and other financial institutions

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Baosteel Group                                    | 6,432,221   | 6,811,594   |
| BNA   | 267,099     | 332,344     |
| Hwabao Trust                                      | 391         | 132,932     |
| Baosteel Development                              | 122,201     | 120,236     |
| Engineering & Technology Co. and its subsidiaries | 43,253      | 59,142      |
| Iron & Steel Research Institute                   | 52,087      | 58,348      |
| Baosteel Resources and its subsidiaries           | 4,356       | 23,375      |
| Hwabao Investment                                 | 6           | 2,005       |
| Others  | 5,512       | 9,015       |
| Total   | 6,927,126   | 7,548,991   |

## (10) Notes payable

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| BNA   | 566,879     | 500,003     |
| Meishan Company and its subsidiaries              | 70,000      | 429,370     |
| Ningbo Baoxin and its subsidiaries                | 125,883     | 327,137     |
| Baosteel Special Steel and its subsidiaries       | 208,631     | 174,208     |
| Baosteel Stainless                                | 165,501     | 117,545     |
| Engineering & Technology Co. and its subsidiaries | 1,019       | 55,897      |
| Baosteel Development and its subsidiaries         | 32,522      | 55,150      |
| Guangdong Shaogang and its subsidiaries           | 11,702      | 45,288      |
| Baosteel Resources and its subsidiaries           | 370,319     | 6,624       |
| Others  | -           | 475         |
| Total   | 1,552,456   | 1,711,697   |

**(VI) Related Parties and Connected Transactions (continued)****6. Accounts receivable from and accounts payable to related parties (continued)**

## (11) Accounts payable

| Item  | RMB1,000         |                  |
|---|------------------|------------------|
|   | EOP balance      | BOY balance      |
| Baosteel Stainless                                | 1,289,339        | 1,003,617        |
| Baosteel Resources and its subsidiaries           | 698,447          | 562,225          |
| Engineering & Technology Co. and its subsidiaries | 540,167          | 458,863          |
| Meishan Company and its subsidiaries              | 920,595          | 409,979          |
| Baosteel Development and its subsidiaries         | 396,584          | 385,227          |
| BNA   | 192,507          | 346,886          |
| Ningbo Baoxin and its subsidiaries                | 736,944          | 332,961          |
| Baosteel Group                                    | 120,112          | 211,403          |
| Baosteel Special Steel and its subsidiaries       | 448,176          | 183,104          |
| Shanghai Stainless                                | 76,700           | 74,814           |
| Ningbo Steel                                      | 42,002           | 11,808           |
| Bao-Island  | 9,503            | 3,531            |
| Others  | 81,451           | 71,083           |
| <b>Total</b>                                      | <b>5,552,527</b> | <b>4,055,501</b> |

## (12) Advance receipts

| Item  | RMB1,000       |                |
|---|----------------|----------------|
|   | EOP balance    | BOY balance    |
| Baosteel Metal and its subsidiaries                     | 194,277        | 214,239        |
| Baosteel Development and its subsidiaries               | 312,393        | 88,444         |
| Engineering & Technology Co. and its subsidiaries       | 28,915         | 39,751         |
| Guangzhou JFE   | 297,772        | 33,146         |
| Meishan Company and its subsidiaries                    | 70,869         | 28,483         |
| Tianjin BCM   | 18,206         | 20,885         |
| Baosteel Group  | -              | 16,419         |
| Wuxi Baomit   | 5,908          | 8,897          |
| Guangdong Shaogang and its subsidiaries                 | 3,953          | 6,714          |
| Ningbo Baoxin and its subsidiaries                      | 4,820          | 4,208          |
| Baosteel Special Steel and its subsidiaries             | -              | 381            |
| Ergang and its subsidiaries                             | 200            | 200            |
| Pudong Steel and its subsidiaries                       | 153            | 153            |
| Baosteel Stainless                                      | 24             | -              |
| Welding Co.   | 9,074          | -              |
| Baosteel Resources (International) and its subsidiaries | 43,705         | -              |
| Others  | 1,540          | 3,203          |
| <b>Total</b>  | <b>991,809</b> | <b>465,123</b> |

**(VI) Related Parties and Connected Transactions (continued)****6. Accounts receivable from and accounts payable to related parties (continued)**

## (13) Interest payable

RMB1,000

| Item                            | EOP balance | BOY balance |
|---------------------------------|-------------|-------------|
| Baosteel Group                  | 96,959      | 79,194      |
| Iron & Steel Research Institute | 1,178       | 585         |
| Others                          | 993         | 786         |
| Total                           | 99,130      | 80,565      |

## (14) Other accounts payable

RMB1,000

| Item  | EOP balance | BOY balance |
|---|-------------|-------------|
| Baosteel Group                                    | 5,490       | 5,598       |
| Engineering & Technology Co. and its subsidiaries | 6,234       | 5,491       |
| Baosteel Resources and its subsidiaries           | 2,008       | 3,003       |
| Baosteel Development and its subsidiaries         | 1,995       | 1,728       |
| Baosteel Metal and its subsidiaries               | 569         | 1,463       |
| Meishan Company and its subsidiaries              | 1,201       | 1,059       |
| Baosteel Special Steel and its subsidiaries       | 150         | 270         |
| No. 5 Steel Company and its subsidiaries          | -           | 234         |
| Others  | 551         | 535         |
| Total   | 18,198      | 19,381      |

## (15) Non-current liabilities due within one year

RMB1,000

| Item           | EOP balance | BOY balance |
|----------------|-------------|-------------|
| Baosteel Group | 1,500,000   | -           |

## (16) Other non-current liabilities

RMB1,000

| Item           | EOP balance | BOY balance |
|----------------|-------------|-------------|
| Baosteel Group | -           | 1,500,000   |

**(VII) Payment for Shares****1. Overview of payment for shares**

At the 1<sup>st</sup> temporary general meeting of shareholders of 2014 held on May 20, 2014, A-Share Restricted Stock Ownership Incentive Plan of Baoshan Iron & Steel Co., Ltd., the Phase-I Grant Program Under the A-Share Restricted Stock Ownership Incentive Plan of Baoshan Iron & Steel Co., Ltd. and relevant proposals were reviewed and approved. At the 15<sup>th</sup> meeting of the 5<sup>th</sup> Board of Directors of the Company held on May 22, 2014, the Proposal for Determination of the Incentive Targets and Respective Grant Quantities of A-Share Restricted Stock Ownership Incentive Plan and the Proposal for the Implementation of Phase I Program of the A-Share Restricted Stock Ownership Incentive Plan were reviewed and approved. As per the provisions of Phase-I grant program, 136 persons are determined as the incentive targets under the stock ownership incentive plan and will be granted 47,446,100 shares in total at a grant price of RMB 1.91/share. The period in which shares granted under Phase I are restricted from selling is 2 years beginning on and from May 22, 2014. The three years following the expiration of the aforesaid 2-year period is the de-locking period. If the conditions for de-locking shares restricted from selling are satisfied, the incentive targets may apply for de-locking 33.3% of the shares held thereby on and after each of May 23, 2016, 2017 and 2018. In case either the corporate performance or individual performance, as assessed, fails to reach the conditions for de-locking, shares that are not de-locked will be repurchased by the Company as per relevant provisions of Phase I grant program.

On and from May 23, 2014, the Company, as per the list of incentive targets and grant quantities approved by the Board of Directors and through open bidding at Shanghai Stock Exchange, repurchased ordinary shares of A-Share stock of the Company as the source of restricted shares granted to incentive targets. As of June 11, 2014, the Company has fulfilled the plan of repurchasing 47,446,100 shares. As of June 24, 2014, the 47,446,100 shares granted under Phase-I grant program have already been changed from floating shares without trading limited conditions to floating shares with trading limited conditions and all of the relevant transfer formalities have been fully completed. Information on payment for shares is as shown in the following table:

| Item   | Jan.-June 2014    |
|--|-------------------|
| Total amount of equity instruments granted in current period (RMB)             | 74,816,173.55     |
| Total amount of equity instruments exercised in current period (RMB)           | -                 |
| Total amount of equity instruments becoming invalid in current period (RMB)    | -                 |
| Quantity of restricted shares outstanding at the end of current period (share) | 47,446,100 shares |
| Grant price (RMB/share)  | RMB 1.91/share    |

**2. Method for determination of fair value of equity instruments**

For any equity instrument granted by the Group, the fair value at the grant date is calculated and determined using the "Black Scholes Option Pricing Model" based on the market value of the Company's stock at the grant date. Parameters selected for the model are as follows:

| Parameter                                  | Parameter Value |
|--|-----------------|
| Estimated share price fluctuation rate (%) | 18.3~22.9       |
| Risk-free interest rate (%)                | 2.7~2.9         |
| Estimated waiting period (year)            | 2~4 years       |
| Share price at grant date (RMB/share)      | 3.86            |

**(VII) Payment for Shares (continued)****3. Share payments settled by equity**

The period in which shares granted under Phase I are restricted from selling is 2 years beginning on and from May 22, 2014. The three years following the expiration of the aforesaid 2-year period is the de-locking period. During the aforesaid 2-year period the shares granted under Phase I are restricted and locked from selling and shall not be transferred. If the conditions specified in the plan for de-locking shares restricted from selling are satisfied, incentive targets may apply for de-locking such shares 24 months, 36 months and 48 months, respectively, after the grant date. Expenses relating to restricted shares de-locked at the first time will be amortized over a period of 24 months; expenses relating to restricted shares de-locked at the second time will be amortized over a period of 36 months; expenses relating to restricted shares de-locked at the third time will be amortized over a period of 48 months. Amortization rates of expenses relating to and payments for restricted shares are as shown in the following table:

| Period                            | Total  | June 2014 ~May 2015 | June 2015~ May 2016 | June 2016~ May 2017 | June 2017~ June 2018 |
|-----------------------------------|--------|---------------------|---------------------|---------------------|----------------------|
| 1 <sup>st</sup> de-locking period | 33.3%  | 16.7%               | 16.7%               |                     |                      |
| 2 <sup>nd</sup> de-locking period | 33.3%  | 11.1%               | 11.1%               | 11.1%               |                      |
| 3 <sup>rd</sup> de-locking period | 33.3%  | 8.3%                | 8.3%                | 8.3%                | 8.3%                 |
| Total                             | 100.0% | 36.1%               | 36.1%               | 19.4%               | 8.3%                 |

Unit: RMB

| Item   | Jan.-June 2014 |
|--|----------------|
| Total amount of share-based payments in exchange for employees' services (RMB) | 74,816,173.55  |
| Total amount of expenses confirmed by share payments settled by equity (RMB)   | 2,288,154.07   |
| Total amount of share payments settled by equity in capital reserve (RMB)      | 2,288,154.07   |

**(VIII) Contingencies**

As of the balance sheet date, the Group had no contingencies necessary for disclosure.

**(IX) Commitments****1. Significant commitments****(1) Capital commitments**

RMB 1,000

| Item  | EOP balance | BOY balance |
|---|-------------|-------------|
| Capital commitments that have been entered into but have not been recognized in the financial statements: |             |             |
| Contracted but not provided   | 26,297,333  | 19,170,883  |
| Approved by the Board but not contracted  | 2,789,056   | 2,509,301   |
| Total   | 29,086,389  | 21,680,184  |

**(2) Operating lease commitments**

As of the balance sheet date, the non-cancellable operating leases signed by the Group with external parties are listed as follows:

RMB 1,000

|  | EOP balance | BOY balance |
|--|-------------|-------------|
| Minimum lease payment for irrevocable operating lease: |             |             |
| 1 <sup>st</sup> year after the balance sheet date      | 403,052     | 388,454     |
| 2 <sup>nd</sup> year after the balance sheet date      | 376,822     | 367,396     |
| 3 <sup>rd</sup> year after the balance sheet date      | 368,415     | 359,996     |
| Subsequent years                                       | 993,533     | 1,304,090   |
| Total  | 2,141,822   | 2,419,936   |

**(X) Events After the Balance Sheet Date**

As per the new *Accounting Standards For Business Enterprises* issued by the Ministry of Finance in the first half of 2014, the Group will implement the new *Accounting Standards For Business Enterprises* on and from July 1. It mainly involves the adjustment of long-term equity investments previously calculated using the cost method and having no significant effect or control on available-for-sale financial assets. The Group will in the Q3 of 2014 disclose the financial statements prepared in accordance with the new *Accounting Standards For Business Enterprises* and reviewed and approved by the Board of Directors, and will disclose the changed or adjusted items and amounts.

**(XI) Other Important Events****1. Assets and liabilities measured by fair values**

RMB

| Item   | BOY balance      | Profit or loss from change in fair value of current period | Cumulative change in fair value included in equity | Provision made for impairment of current period | EOP balance      |
|--|------------------|--|--|---|------------------|
| Financial assets   |                  |  |  |   |                  |
| 1. Financial assets measured by fair value, with their changes recognized in the profits and losses for the current period | 28,738,843.94    | 12,423,781.86  | -  | -   | 306,881,148.71   |
| 2. AFS financial assets  | 1,009,142,907.29 |  | 108,296,624.05                                     | -   | 1,226,244,250.42 |
| Subtotal of financial assets   | 1,037,881,751.23 | 12,423,781.86  | 108,296,624.05                                     | -   | 1,533,125,399.13 |
| Financial liabilities  | -                | (31,691,511.37)  | -  | -   | 31,691,511.37    |

**2. Foreign currency financial assets and foreign currency financial liabilities**

RMB

| Item   | BOY balance       | Profit or loss from change in fair value of current period | Cumulative change in fairvalue included in equity | Provision made for impairment of current period | EOP balance       |
|--|-------------------|--|---|---|-------------------|
| Financial assets   |                   |  |   |   |                   |
| 1. Loans and receivables (including accounts receivable, other accounts receivable and advances) | 21,753,612,366.33 | -  | -   | -548,163.30                                     | 28,495,370,090.44 |
| 2. Derivative financial assets   | 2,867,855.98      | 11,753,994.47  | -   | -   | 8,676,681.70      |
| Subtotal of financial assets   | 21,756,480,222.31 | 11,753,994.47  | -   | -548,163.30                                     | 28,504,046,772.14 |
| Financial liabilities  | 31,001,892,678.20 | -  | -   | -   | 39,835,173,540.06 |

**3. Main contents of and significant changes in annuity plan**

In accordance with the *Reply to Trial Implementation of Enterprise Annuity System by Baosteel Group* (GZFP [2008] No. 1268) issued by the State-owned Assets Supervision and Administration Commission of the State Council and the *Notification on Clarifying Relevant Issues on Ratio of Enterprise Annuity Payment Made by Enterprise* issued by the HR Dept. of Baosteel Group, since January 1, 2008, the Company has implemented the enterprise annuity plan. Wherein, the portions paid by enterprises shall be accrued by 4% of the base of payment made by employees in person (wage incomes in the previous year subject to capping and minimum guarantee); the portions paid by employees in person shall be paid by 1%-7% of the base of payment made by employees in person and for the account of employees in person. Since 2009, Hwabao Trust Co., Ltd., a subsidiary of Baosteel Group, has been authorized to conduct management for the aforesaid enterprises annuities.

**(XI) Other Important Events (continued)****4. Others**

## (1) Borrowing costs

RMB

| Item  | Amount of borrowing costs capitalized for the current period | Capitalization rate |
|---|--|---------------------|
| Construction in progress  | 113,639,014.23   | 5.412%-5.535%       |
| Borrowing costs recognized in the profits and losses for the current period | 817,612,755.99   | -                   |
| Total borrowing costs for the current period                                | 931,251,770.22   | -                   |

## (2) Segment-specific report

Since 2009, the Group has determined the reporting segments and disclosed the information on each segment in accordance with the regulations of the *Explanation No. 3 of Accounting Standards for Business Enterprises*.

According to the internal organizational structure, management requirement and internal reporting system of the Group, the business is classified into six reporting segments which are determined on the basis of the business structure of the Group. The management of the Group assesses the operating result of the reporting segments so as to determine the distribution of resources to the segments and evaluates the performance thereof. The main products and services provided by these reporting segment of the Group involve the iron & steel manufacturing segment, iron & steel sales segment, IT segment, e-commerce segment, chemical segment and financial segment. The day-to-day activities of Finance Co. are of a financial nature, so the operating revenue of each segment includes investment incomes of the Finance Co.

The following is a summary of detailed information on aforesaid segments:

- (1) Iron & steel manufacturing subsidiaries: the Company, Meishan Steel, Lubao Steel Tube, Huangshi Coating & Galvanizing, Yantai Lubao Steel Tube, Baosteel Nantong Steel, Baoma Steel Pipe, Poly Pipe, Zhanjiang Steel and so on;
- (2) Iron & steel sales trading subsidiaries: Baosteel International, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-Island Enterprises, Baosteel Brazil Trading and other trading subsidiaries;
- (3) IT: Bassinet Software;
- (4) E-commerce: Shanghai Iron & Steel Trade Center, Bsteel On-line Co., Ltd., Eastern pay and Huagongbao;
- (5) Chemical: Baosteel Chemical;
- (6) Finance: Finance Co.

For the disclosure of the operating information of the Group, the revenues shall be disclosed by the regions where the customers are located; the assets shall be disclosed by the regions where assets are located.

The operating profit of each segment does not include financial costs, assets impairment losses, changes in fair value recognized in profit or loss, and investment incomes (other than the Finance Co.) incurred by each segment. The assets of each segment do not include deferred income tax assets. The liabilities of each segment do not include short-term borrowings, non-current liabilities due in one year, long-term borrowings, long-term accounts payable, bonds payable and deferred income tax liabilities.

The information contained in the segmental report shall be disclosed according to the accounting policies and measuring criterion with which each segment reports to the management. The measuring basis remains identical with the accounting and measuring basis for the compilation of the financial statements.

The sales to individual customer of the Group has not accounted for more than 10% of the total revenue.





**(X) Other Important Events (continued)****4. Others (continued)**

## (2) Segment-specific report (continued)

Revenues from transactions with external parties divided by sources of revenues and non-current assets divided by places of assets:

| Item   | RMB1,000      |               |
|--|---------------|---------------|
|  | Jan-June 2014 | Jan-June 2013 |
| Revenues from transactions with external parties in China      | 86,514,496    | 86,893,567    |
| Revenues from transactions with external parties outside China | 11,309,178    | 9,405,236     |
| Subtotal   | 97,823,674    | 96,298,803    |

| Item                                     | RMB1,000    |             |
|--|-------------|-------------|
|  | EOP balance | BOY balance |
| Non-current assets located in China      | 141,927,131 | 147,241,345 |
| Non-current assets located outside China | 1,387,759   | 1,405,745   |
| Subtotal                                 | 143,314,890 | 148,647,090 |

Note: The non-current assets belong to the areas where they are located, excluding financial assets and deferred income tax assets.

Revenues from transactions with external parties include:

| Item                                      | RMB1,000      |               |
|---|---------------|---------------|
|   | Jan-June 2014 | Jan-June 2013 |
| Investment incomes of the Finance Company | 31,063        | 39,386        |

Items not included in segment-specific operating profits, assets and liabilities are presented as follows:

Segment-specific operating profits do not include:

| Item  | RMB1,000      |               |
|---|---------------|---------------|
|   | Jan-June 2014 | Jan-June 2013 |
| Financial costs                                     | 545,988       | (250,888)     |
| Losses from assets impairment/(write-back)          | (53,729)      | 282,632       |
| Losses/gains on variation in fair values            | 19,268        | (26,156)      |
| Investment incomes (other than the Finance Company) | (186,767)     | (251,995)     |
| Total   | 324,760       | (246,407)     |

Segment-specific assets do not include:

| Item                       | RMB1,000    |             |
|----------------------------|-------------|-------------|
|                            | EOP balance | BOY balance |
| Deferred income tax assets | 2,045,069   | 2,052,778   |

**(X) Other Important Events (continued)****4. Others (continued)**

## (2) Segment-specific report (continued)

Segment-specific liabilities do not include:

| Item  | RMB1,000    |             |
|---|-------------|-------------|
|   | EOP balance | BOY balance |
| Short-term borrowings                       | 40,930,965  | 34,470,625  |
| Non-current liabilities due within one year | 4,502,344   | 12,227,658  |
| Other current liabilities                   | -           | 1,848,867   |
| Long-term borrowings                        | 7,555,402   | 4,702,447   |
| Bonds payable                               | 3,036,662   | 3,502,708   |
| Deferred income tax liabilities             | 310,353     | 304,859     |
| Total                                       | 56,335,726  | 57,057,164  |

## (3) Financial instruments and risk management

The financial instruments of the Group mainly include monetary funds, held-for-trading financial assets, financial assets purchased under resale agreements, loans and advances to customers, short-term borrowing, deposits from customers, convertible bonds, and etc. Financial instruments are held mainly for the purpose of financing or investment in the operation of the Group. The Group has other financial assets and liabilities directly arising from a wide range of operations, e.g. accounts receivable and notes receivables, accounts payable and notes payable, etc.

The Group, for the purpose of risk prevention, also carries out derivative transactions of financial instruments mainly involving forward foreign exchange contracts and iron ore swap contracts, so as to manage the operation of the Group, avoid the interest rate and exchange rate risk of financing as well as price fluctuation risk of raw materials, etc.

The risks associated with the financial instruments of the Group are mainly market risk and finance risk. The Group strengthens the risk control and management mainly from the following four aspects: (1) strengthening the system and procedure improvement, establishing the perfect investment decision-making system for dynamic revision and perfection; (2) establishing and perfecting the financial instruments information management system, enhancing the transparency and the tracking of financial instrument business; (3) intensifying the process control and the periodic patrol inspection system, checking the implementation of systems, and establishing the restriction mechanism of supervision and review; (4) attaching importance to the training of professional qualities of personnel and to the application of analysis technologies, leveraging the power of all team members, and enhancing the scientificity and feasibility of decision making.

The financial instruments of the Group are guaranteed by a rigid system, standard procedures, professional personnel and dynamic evaluation with the risk controllable.

For the accounting policies about the derivative financial instruments of the Group, please see relevant notes hereof.

**(XI) Notes to Main Items of the Financial Statement of the Parent Company****1. Accounts receivable**

(1) Accounts receivable disclosed by category:

RMB

| Category  | EOP balance             |                |                      |                | BOY balance              |                |                      |                |
|---|-------------------------|----------------|----------------------|----------------|--------------------------|----------------|----------------------|----------------|
|   | Book balance            |                | Bad-debt provision   |                | Book balance             |                | Bad-debt provision   |                |
|   | Amount                  | Proportion (%) | Amount               | Proportion (%) | Amount                   | Proportion (%) | Amount               | Proportion (%) |
| Receivables with significant single amounts   | 7,884,806,278.36        | 82             | -                    | -              | 9,306,089,206.37         | 87             | -                    | -              |
| Receivables with bad-debt provisions made individually in spite of insignificant single amounts | 21,250,890.94           | -              | 21,250,890.94        | 38             | 21,250,890.94            | -              | 21,250,890.94        | 49             |
| Bad-debt provision of accounts receivable made by portfolio                                     | 1,712,127,235.30        | 18             | 34,608,422.20        | 62             | 1,431,006,281.80         | 13             | 22,049,858.98        | 51             |
| <b>Total</b>  | <b>9,618,184,404.60</b> | <b>100</b>     | <b>55,859,313.14</b> | <b>100</b>     | <b>10,758,346,379.11</b> | <b>100</b>     | <b>43,300,749.92</b> | <b>100</b>     |

The ages of receivables are listed as follows:

RMB

| Age             | EOP balance             |                |                      |                         | BOY balance              |                |                      |                          |
|-----------------|-------------------------|----------------|----------------------|-------------------------|--------------------------|----------------|----------------------|--------------------------|
|                 | Amount                  | Proportion (%) | Bad-debt provision   | Book value              | Amount                   | Proportion (%) | Bad-debt provision   | Book value               |
| Within 1 year   | 9,212,046,270.48        | 96             | 34,270,537.54        | 9,177,775,732.94        | 10,528,389,098.06        | 98             | 20,112,861.39        | 10,508,276,236.67        |
| 1-2 years       | 304,099,113.38          | 3              | 337,884.66           | 303,761,228.72          | 202,583,405.31           | 2              | 1,936,997.59         | 200,646,407.72           |
| 2-3 years       | 80,662,674.71           | 1              | -                    | 80,662,674.71           | 6,122,984.80             | -              | -                    | 6,122,984.80             |
| 3 years or more | 21,376,346.03           | -              | 21,250,890.94        | 125,455.09              | 21,250,890.94            | -              | 21,250,890.94        | -                        |
| <b>Total</b>    | <b>9,618,184,404.60</b> | <b>100</b>     | <b>55,859,313.14</b> | <b>9,562,325,091.46</b> | <b>10,758,346,379.11</b> | <b>100</b>     | <b>43,300,749.92</b> | <b>10,715,045,629.19</b> |

(2) Bad-debt provisions for EOP accounts receivable with significant single amounts or those for which independent impairment tests already performed in spite of their insignificant single amounts

RMB

| Details of accounts receivables      | Book balance            | Bad-debt amount      | Provision proportion (%) | Cause |
|--------------------------------------|-------------------------|----------------------|--------------------------|-------|
| Large-amount receivables             | 7,884,806,278.36        | -                    | -                        |       |
| Receivables with relatively long age | 21,250,890.94           | 21,250,890.94        | 100                      | Note  |
| <b>Total</b>                         | <b>7,906,057,169.30</b> | <b>21,250,890.94</b> |                          |       |

Note: Bad-debt provisions are made in full for accounts receivable with relatively long ages and minimum possibility of recovery.

(3) Particulars about the accounts receivable, in this reporting period, due from the shareholders each holding shares representing 5% or more of voting rights of the Company

RMB

| Name of Entity | EOP balance |                              | BOY balance   |                              |
|----------------|-------------|------------------------------|---------------|------------------------------|
|                | Amount      | Amount of bad-debt provision | Amount        | Amount of bad-debt provision |
| Baosteel Group | 242,803.24  | -                            | 15,411,607.54 | -                            |

(4) Particulars about top 5 entities ranked by the amount of accounts receivable

RMB

| Name of Entity | Relationship with the Company | Amount                  | Age limit     | Proportion in total amount of receivables (%) |
|----------------|-------------------------------|-------------------------|---------------|---|
| Entity I       | Related party                 | 5,685,441,884.79        | Within 1 year | 59  |
| Entity II      | Related party                 | 637,597,266.12          | Within 1 year | 7   |
| Entity III     | Related party                 | 598,030,208.92          | Within 1 year | 6   |
| Entity IV      | Related party                 | 500,647,991.27          | Within 1 year | 5   |
| Entity V       | Related party                 | 463,088,927.26          | Within 1 year | 5   |
| <b>Total</b>   |                               | <b>7,884,806,278.36</b> |               | <b>82</b>                                     |

**(XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)****2. Other Accounts Receivable**

(1) Other accounts receivable disclosed by category:

RMB

| Category  | EOP balance    |                |                    |                | BOY balance    |                |                    |                |
|---|----------------|----------------|--------------------|----------------|----------------|----------------|--------------------|----------------|
|   | Book balance   |                | Bad-debt provision |                | Book balance   |                | Bad-debt provision |                |
|   | Amount         | Proportion (%) | Amount             | Proportion (%) | Amount         | Proportion (%) | Amount             | Proportion (%) |
| Other receivables with significant single amounts   | 276,101,512.36 | 76             | 5,602,532.01       | 59             | 257,817,634.17 | 77             | -                  | -              |
| Other receivables for which independent impairment tests performed in spite of insignificant single amounts | -              | -              | -                  | -              | -              | -              | -                  | -              |
| Other receivables for which the bad-debt provision are made by portfolio                                    | 88,089,255.71  | 24             | 3,971,046.02       | 41             | 78,092,064.36  | 23             | 8,050,708.33       | 100            |
| Total   | 364,190,768.07 | 100            | 9,573,578.03       | 100            | 335,909,698.53 | 100            | 8,050,708.33       | 100            |

Ages of other accounts receivables:

RMB

| Age             | EOP balance    |                |                    |                | BOY balance    |                |                    |                |
|-----------------|----------------|----------------|--------------------|----------------|----------------|----------------|--------------------|----------------|
|                 | Amount         | Proportion (%) | Bad-debt provision | Book value     | Amount         | Proportion (%) | Bad-debt provision | Book value     |
| Within 1 year   | 297,928,497.91 | 82             | 5,798,550.69       | 292,129,947.22 | 257,309,686.51 | 77             | 5,629,392.86       | 251,680,293.65 |
| 1-2 years       | 33,739,059.24  | 9              | 3,038,180.19       | 30,700,879.05  | 44,133,144.15  | 13             | 2,421,315.47       | 41,711,828.68  |
| 2-3 years       | 5,393,219.78   | 1              | 736,847.15         | 4,656,372.63   | 2,706,867.87   | 1              | -                  | 2,706,867.87   |
| 3 years or more | 27,129,991.14  | 7              | -                  | 27,129,991.14  | 31,760,000.00  | 9              | -                  | 31,760,000.00  |
| Total           | 364,190,768.07 | 100            | 9,573,578.03       | 354,617,190.04 | 335,909,698.53 | 100            | 8,050,708.33       | 327,858,990.20 |

(2) Bad-debt provision for other EOP accounts receivable with significant single amounts or those for which independent impairment tests are performed in spite of insignificant single amounts:

RMB

| Details of other accounts receivable                      | Book balance   | Bad-debt amount | Provision proportion (%) | Cause  |
|---|----------------|-----------------|--------------------------|--------|
| Other accounts receivable with significant single amounts | 276,101,512.36 | 5,602,532.01    | 2                        | Note 1 |

**Note (1)**: Such other large-amount receivables are customs deposits receivable, project funds paid for and on behalf of others and relocation compensation paid for and on behalf of the government. For project funds paid for and on behalf of others and relocation compensation paid for and on behalf of the government, the risk of recovery is low. In addition, no bad-debt provision is made for accounts receivable from related parties within the Group, so no bad-debt provision is made for RMB 164,050,872.26 (Dec. 31, 2013: RMB 257,817,634.17) of the book balance of other accounts receivable of the Company, while 5% bad-debt provision is made by account age for RMB 112,050,640.10 (Dec. 31, 2013: nil) of the book balance of other accounts receivable of the Company.

(2) Neither at the end of this reporting period nor at the beginning of the year did the balance of other accounts receivable include any shareholder holding shares representing 5% or more of the voting rights of the Company.

(3) As regards other accounts receivables, the particulars about top 5 entities are as follows:

RMB

| Name of entity | Relationship with the Company | Amount         | Age limit     | Proportion of the total of other accounts receivable (%) |
|----------------|-------------------------------|----------------|---------------|--|
| Entity I       | Third party                   | 112,050,640.10 | Within 1 year | 31   |
| Entity II      | Related party                 | 75,729,970.17  | Within 1 year | 21   |
| Entity III     | Related party                 | 35,456,414.49  | Within 1 year | 10   |
| Entity IV      | Third party                   | 26,484,487.60  | Within 1 year | 7  |
| Entity V       | Third party                   | 26,380,000.00  | Within 1 year | 7  |
| Total          |                               | 276,101,512.36 |               | 76   |

## (XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)

## 3. Investments in JVs and Associated Enterprises

RMB

| Name of investee | Type of business          | Place of registration | Legal representative | Nature of business     | Registered capital |           | Shareholding ratio by the Company (%) | Voting right ratio held by the Company in investee (%) | Total EOP assets | Total EOP liabilities | Total net EOP assets | Total operating revenue of current period | Net profit of current period |
|------------------|---------------------------|-----------------------|----------------------|------------------------|--------------------|-----------|---------------------------------------|--|------------------|-----------------------|----------------------|---|------------------------------|
|                  |                           |                       |                      |                        | Currency           | 1,000     |                                       |  |                  |                       |                      |   |                              |
| I. JVs           |                           |                       |                      |                        |                    |           |                                       |  |                  |                       |                      |   |                              |
| BNA              | Limited liability company | Shanghai              | Higuchi Shinya       | Manufacturing industry | RMB                | 3,000,000 | 50%                                   | 50%  | 4,515,584,659.01 | 1,130,644,745.81      | 3,384,939,913.20     | 6,226,961,393.15                          | 66,761,726.25                |
| Bao-Island       | Limited liability company | Hong Kong             | N/A                  | Ship leasing industry  | HKD                | 3,300     | 50%                                   | 50%  | 1,735,083,447.20 | 535,921,185.60        | 1,199,162,261.60     | 327,901,170.40                            | 15,658,876.00                |

## (XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)

## 4. Long-term equity investments

The details of the long-term equity investments are as follows:

RMB

| Investee   | Calculation method | Initial investment cost | BOY balance       | Variation      | EOP balance       | Shareholding ratio in investee (%) | Voting right ratio in investee (%) | Clarification for inconsistency between shareholding ratio in investee and voting right ratio in investee | Depreciation reserve | Provision for depreciation for the current period | Cash bonus realized in the current period |
|--|--------------------|-------------------------|-------------------|----------------|-------------------|------------------------------------|------------------------------------|---|----------------------|---|---|
| <b>Subsidiary</b>  |                    |                         |                   |                |                   |                                    |                                    |   |                      |   |   |
| Lubao Steel Tube   | Cost method        | 243,248,705.24          | 361,404,905.16    | -              | 361,404,905.16    | 79.82                              | 79.82                              | -   | -                    | -   | -   |
| Huangshi Coating & Galvanizing                                 | Cost method        | 12,254,475.04           | 175,658,477.39    | -              | 175,658,477.39    | 58.45                              | Majority                           | -   | -                    | -   | 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               | 6,609,321,102.70        | 8,938,982,988.14  | -              | 8,938,982,988.14  | 77.04                              | 77.04                              | -   | -                    | -   | -   |
| Bassinnet Software   | Cost               | 241,213,064.59          | 275,664,363.08    | 360,749,984.00 | 636,414,347.08    | 55.5                               | 55.5                               | -   | -                    | -   | 48,505,636.56                             |
| Baosteel America   | Cost               | 42,567,875.48           | 187,562,180.98    | -              | 187,562,180.98    | 100                                | 100                                | -   | -                    | -   | -   |
| Howa Trading   | Cost               | 154,073,767.03          | 221,975,780.12    | -              | 221,975,780.12    | 100                                | 100                                | -   | -                    | -   | -   |
| Baosteel Europe  | Cost               | 93,801,781.59           | 328,631,981.58    | -              | 328,631,981.58    | 100                                | 100                                | -   | -                    | -   | -   |
| Baosteel Singapore   | Cost               | 76,419,617.09           | 154,883,364.09    | -              | 154,883,364.09    | 100                                | 100                                | -   | -                    | -   | -   |
| Bao-Trans Enterprises  | Cost               | 29,882,599.80           | 370,550,495.27    | -              | 370,550,495.27    | 100                                | 100                                | -   | -                    | -   | -   |
| Baosteel Brazil Trading  | Cost               | 526,327.52              | 728,647.73        | -              | 728,647.73        | 100                                | 100                                | -   | -                    | -   | -   |
| Baosteel Chemical  | Cost               | 3,006,227,819.74        | 3,006,227,819.74  | -              | 3,006,227,819.74  | 100                                | 100                                | -   | -                    | -   | -   |
| Finance Co.  | Cost               | 372,864,751.93          | 568,270,003.65    | -              | 568,270,003.65    | 62.1                               | 62.1                               | -   | -                    | -   | 40,737,600.00                             |
| Yantai Lubao Steel Tube  | Cost               | 640,000,000.00          | 1,600,000,000.00  | -              | 1,600,000,000.00  | 80                                 | 80                                 | -   | -                    | -   | -   |
| Baosteel Nantong Steel   | Cost               | 518,520,310.51          | 948,520,310.51    | -              | 948,520,310.51    | 95.82                              | 95.82                              | -   | -                    | -   | -   |
| Baoma Steel Pipe   | Cost               | 36,673,650.00           | 36,673,650.00     | -              | 36,673,650.00     | 75                                 | 75                                 | -   | -                    | -   | -   |
| Zhanjiang Steel  | Cost               | 4,976,333,561.88        | 11,262,206,889.41 | -              | 11,262,206,889.41 | 75                                 | 75                                 | -   | -                    | -   | -   |
| Subtotal of subsidiaries                                       |                    | 21,789,600,214.25       | 34,451,828,409.52 | 360,749,984.00 | 34,812,578,393.52 |                                    |                                    |   |                      | -   | 93,919,236.56                             |
| <b>JVs</b>   |                    |                         |                   |                |                   |                                    |                                    |   |                      |   |   |
| BNA  | Equity             | 1,500,000,000.00        | 1,656,663,858.89  | 35,806,097.72  | 1,692,469,956.61  | 50                                 | 50                                 | -   | -                    | -   | -   |
| Bao-Island   | Equity             | 143,084,132.00          | 586,375,454.40    | 14,979,239.10  | 601,354,693.50    | 50                                 | 50                                 | -   | -                    | -   | -   |
| Subtotal of JVs  |                    | 1,643,084,132.00        | 2,243,039,313.29  | 50,785,336.82  | 2,293,824,650.11  | -                                  | -                                  | -   | -                    | -   | -   |
| <b>Other investments</b>                                       |                    |                         |                   |                |                   |                                    |                                    |   |                      |   |   |
| Baovale Mineracao S.A.   | Cost               | -                       | 103,282,213.00    | -              | 103,282,213.00    | 50                                 | Note 1                             | Note 1  | -                    | -   | 17,436,100.50                             |
| Shanghai Luojing ORE Terminal Co.,Ltd.                         | Cost               | -                       | 88,734,096.00     | -              | 88,734,096.00     | 12                                 | 12                                 | -   | -                    | -   | 7,194,838.62                              |
| Bsteel on-line Co., Ltd  | Cost method        | -                       | 16,308,530.65     | -              | 16,308,530.65     | 17                                 | 17                                 | -   | -                    | -   | -   |
| Guoqi (Beijing) Auto Lightweight Technology Research Co., Ltd. | Cost method        | -                       | 3,000,000.00      | -              | 3,000,000.00      | 6.9                                | 6.9                                | -   | -                    | -   | -   |
| CNPC Oil pipeline United Co. Ltd.                              | Cost               | -                       | 8,000,000,000.00  | -              | 8,000,000,000.00  | 12.8                               | 12.8                               | -   | -                    | -   | 99,474,885.33                             |
| Others   | Cost               | -                       | 980,000.00        | -              | 980,000.00        | Very small                         | Very small                         | -   | -                    | -   | -   |
| Total of others  |                    | -                       | 8,212,304,839.65  | -              | 8,212,304,839.65  |                                    |                                    |   |                      | -   | 124,105,824.45                            |
| <b>Total</b>   |                    | -                       | 44,907,172,562.46 | 411,535,320.82 | 45,318,707,883.28 |                                    |                                    |   |                      |   | 218,025,061.01                            |

**(XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)****4. Long-term equity investments (continued)**

Note 1: Because the Company does not have actual control, joint control or significant influence over the management policies and financial decisions of Baovale Mineracao S.A., the Company only receives fixed returns at a fixed ratio in accordance with relevant investment agreements, and the investment in Baovale Mineracao S.A. is reflected as a long-term equity investment calculated using the cost method.

**5. Operating revenues and operating costs****(1) Operating revenues**

RMB

| Item                     | Jan-June 2014     | Jan-June 2013     |
|--------------------------|-------------------|-------------------|
| Main operating revenues  | 56,567,379,092.66 | 58,996,990,647.64 |
| Other operating revenues | 103,414,523.89    | 133,507,228.90    |
| Total                    | 56,670,793,616.55 | 59,130,497,876.54 |
| Operating costs          | 50,848,975,174.07 | 53,366,019,342.79 |

**(2) Main business (by industry)**

RMB1,000

| Industry                 | Jan-June 2014      |                | Jan-June 2013      |                |
|--------------------------|--------------------|----------------|--------------------|----------------|
|                          | Operating revenues | Operating cost | Operating revenues | Operating cost |
| Iron & steel manufacture | 56,567,379         | 50,771,453     | 58,996,991         | 53,280,337     |

**(3) Main business (by product)**

RMB1,000

| Product      | Jan-June 2014      |                | Jan-June 2013      |                |
|--------------|--------------------|----------------|--------------------|----------------|
|              | Operating revenues | Operating cost | Operating revenues | Operating cost |
| Iron & steel | 56,567,379         | 50,771,453     | 58,996,991         | 53,280,337     |

**(4) Main business (by region)**

RMB1,000

| Region   | Jan-June 2014      |                | Jan-June 2013      |                |
|----------|--------------------|----------------|--------------------|----------------|
|          | Operating revenues | Operating cost | Operating revenues | Operating cost |
| Domestic | 51,562,578         | 45,622,186     | 53,882,567         | 48,320,939     |
| Overseas | 5,004,801          | 5,149,268      | 5,114,424          | 4,959,398      |
| Total    | 56,567,379         | 50,771,453     | 58,996,991         | 53,280,337     |

**(5) As regards the operating revenues, the particulars about the top 5 customers are listed as follows:**

RMB

| Customer   | Operating revenues | Proportion in the total operating revenue of the Company (%) |
|--|--------------------|--|
| Total amount of operating revenues from top 5 customers of the Company | 31,209,424,857.34  | 55   |

**(XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)****6. Investment incomes**

## (1) Details of investment incomes

| Item   | RMB                   |                      |
|--|-----------------------|----------------------|
|  | Jan-June 2014         | Jan-June 2013        |
| Long-term equity investment incomes calculated using the cost method   | 218,025,061.01        | 48,197,264.93        |
| Long-term equity investment incomes calculated using the equity method | 41,233,460.63         | 35,982,919.31        |
| Incomes from held-to-maturity investments                              | 6,847,376.72          | 5,046,136.99         |
| Incomes/(losses) from disposal of derivative financial instruments     | (27,249,026.67)       | (14,773,709.28)      |
| <b>Total</b>   | <b>238,856,871.69</b> | <b>74,452,611.95</b> |

(2) In the investment incomes calculated using the cost method, particulars about the investees that yield investment incomes accounting for 5% or more of the total profit, or about top 5 investees that yield investment incomes accounting for the highest proportions of the total profit, are listed as follows:

| Investee                          | RMB                   |                      |                                |
|-----------------------------------|-----------------------|----------------------|--------------------------------|
|                                   | Jan-June 2014         | Jan-June 2013        | Cause of YoY increase/decrease |
| CNPC Oil pipeline United Co. Ltd. | 99,474,885.33         |                      | Cash dividends                 |
| Bassinet Software                 | 48,505,636.56         | 43,521,264.93        | Cash dividends                 |
| Finance Company                   | 40,737,600.00         | -                    | Cash dividends                 |
| Baovale Mineracao S.A.            | 17,436,100.50         |                      | Cash dividends                 |
| Luoqing Ore                       | 7,194,838.62          | -                    | Cash dividends                 |
| <b>Total</b>                      | <b>213,349,061.01</b> | <b>43,521,264.93</b> |                                |

(3) Long-term equity investment incomes calculated using the equity method:

| Investee     | RMB                  |                      |                                |
|--------------|----------------------|----------------------|--------------------------------|
|              | Jan-June 2014        | Jan-June 2013        | Cause of YoY increase/decrease |
| BNA          | 33,380,863.13        | 35,352,691.91        | Profit variation of JV         |
| Bao-Island   | 7,852,597.50         | 630,227.40           | Profit variation of JV         |
| <b>Total</b> | <b>41,233,460.63</b> | <b>35,982,919.31</b> |                                |

On June 30, 2014, the repatriation of the investment incomes of the Group had no major limitation.

**7. Bank lines of credit**

Up to June 30, 2014, the bank lines of credit not used had amounted to RMB 92.353 billion. In the opinion of the management of the Company, in view of the cash flows arising from the bank lines of credit and operating activities, the Company will have sufficient funds in the next year to pay various current liabilities at maturity.



**(XI) Notes to Main Items of the Financial Statement of the Parent Company (continued)****8. Supplements to cash flow statement**

## (1) Supplements to cash flow statement

|  | RMB                |                    |
|--|--------------------|--------------------|
| Supplementary data   | Jan-June 2014      | Jan-June 2013      |
| <b>1. Reconciliation of net profit to cash flow from operating activities:</b>         |                    |                    |
| Net profit   | 2,705,656,837.13   | 3,468,707,907.26   |
| Add: Provision for impairment losses of assets   | (192,903,366.71)   | (372,480,974.14)   |
| Depreciation of fixed assets and investment property                                   | 3,412,071,724.56   | 3,214,464,133.64   |
| Amortization of intangible assets  | 33,159,212.68      | 17,404,121.04      |
| Amortization of long-term deferred expenses  | 5,042,416.94       | 56,666.94          |
| Losses on disposal of fixed, intangible and other long-term assets (with "-"for gains) | 59,684,609.80      | 73,062,738.08      |
| Losses on the changes in fair value (with "-"for gains)                                | 31,691,511.37      | (20,789,685.96)    |
| Financial expenses (with "-"for gains)   | (90,213,987.44)    | (765,986,528.90)   |
| Investment losses (with "-"for gains)  | (238,856,871.69)   | (74,452,611.95)    |
| Decrease in deferred tax assets (with "-"for increase)                                 | 47,523,841.33      | 84,048,319.23      |
| Decrease in inventory (with "-"for increase)   | 2,508,290,000.29   | (1,304,622,385.30) |
| Decrease in receivables from operating activities (with "-"for increase)               | (3,015,209,861.17) | (465,781,499.43)   |
| Increase in payables for operating activities (with "-"for decrease)                   | 7,279,564,476.21   | 3,469,606,072.82   |
| Net cash flow from operating activities  | 12,545,500,543.30  | 7,323,236,273.33   |
| <b>2. Net changes in cash and cash equivalents:</b>                                    |                    |                    |
| EOP balance of cash  | 12,554,570,134.54  | 8,392,800,867.92   |
| Less: BOY balance of cash  | 6,290,586,489.64   | 2,036,143,946.73   |
| Plus: EOP balance of cash equivalents  | -                  | -                  |
| Less: BOY balance of cash equivalents  | -                  | -                  |
| Net increase (decrease) in cash and cash equivalents                                   | 6,263,983,644.90   | 6,356,656,921.19   |

**(XII) Approval of Financial Statements**

Both the financial statements and the consolidated financial statements of the Company were approved by the Board of Directors of the Company on August 22, 2014.

**(XIII) Supplements****1. List of non-current profits and losses**

RMB

| Item   | Amount          |
|--|-----------------|
| Profits and losses on disposal of non-current assets   | (77,271,191.12) |
| Government subsidies recognized in profits or losses of current period (excluding government subsidies closely related to corporate operations, or granted on a quota or quantitative basis in accordance with the uniform criteria of the government)   | 131,576,368.38  |
| Profits and losses from changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities, as well as investment revenue from disposal of held-for-trading financial assets and held-for-trading financial liabilities, available-for-sale financial assets, in addition to the effective hedging operations related to the normal operating business of the Company | 10,060,193.17   |
| Other non-operating incomes and expenditures than various items mentioned above  | (46,408,454.00) |
| Effect of income tax   | (4,489,229.11)  |
| Effect of minority interests (after-tax)   | (3,529,459.54)  |
| Total  | 9,938,227.78    |

**2. Return on net assets and EPS**

The Calculation Statement of Return on Net Assets and EPS is prepared by the Baoshan Iron & Steel Co., Ltd. in accordance with the relevant regulations of the *Standards concerning Compilation of Information Disclosure by Companies Offering Securities to the Public No. 9-Calculation and Disclosure of Return on Net Assets and EPS* (Revision 2010).

| Profits in the reporting period  | Weighted average return on net assets (%) | Basic EPS (RMB/share) |
|--|---|-----------------------|
| Net profits attributable to ordinary shareholders of the Company   | 2.83                                      | 0.19                  |
| Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company | 2.82                                      | 0.19                  |

## XIII) Supplements (continued)

## 3. Abnormal financial statements items ("F/S items") and description of reasons of the consolidated financial statement of the Company

|     |   |                   |                   |           | RMB  |
|-----|---|-------------------|-------------------|-----------|--|
| S/N | Item  | Jun. 30, 2014     | Dec. 31, 2013     | Change by | Cause of change  |
| 1   | Monetary funds                              | 18,505,691,157.43 | 12,881,234,298.49 | 44%       | Mainly due to good cash flows in the first half of 2014 and to the low-risk value-adding operations that guarantee the return on the stock of funds; with the subsequent construction of Zhanjiang Steel Project, the balance of funds will drop in the second half of 2014. |
| 2   | Held-for-trading financial assets           | 306,881,148.71    | 28,738,843.94     | 968%      | Mainly due to the increased liquidity of Finance Co. and to the increase in money market funds.  |
| 3   | Interests receivable                        | 187,392,595.41    | 740,275,608.57    | -75%      | Mainly due to the proceeds received in April from transfer of the relevant assets of the stainless steel and special steel business units.   |
| 4   | Dividends receivable                        | 30,487,153.28     | 60,887,153.28     | -50%      | Mainly due to RMB 30 million dividends received by Bassinet Software from investees.   |
| 5   | Long-term accounts receivable               | 9,003,774,151.00  | 13,514,754,636.88 | -33%      | Mainly due to RMB 4.5 billion receivable as a result of transfer of relevant assets of the Stainless Steel and Special Steel business units reclassified into non-current assets due within one year.  |
| 6   | Materials for construction of fixed assets  | 140,832,094.42    | 232,296,401.98    | -39%      | Mainly due to RMB 70 million decrease in the materials for construction of Zhanjiang Steel Project.  |
| 7   | Intangible assets                           | 9,162,513,002.86  | 6,878,417,865.39  | 33%       | Mainly due to RMB 2.34 billion paid in March for the tenure transfer of Luoqing Area.  |
| 8   | Borrowed funds                              | -                 | 300,000,000.00    | -100%     | Mainly due to the improved liquidity of Finance Co.  |
| 9   | Held-for-trading financial liabilities      | 31,691,511.37     |                   |           | Mainly the losses on changes in the fair values of forward foreign exchange purchases and iron ore swap transactions.  |
| 10  | Tax payable                                 | 2,810,199,387.37  | 1,781,381,390.45  | 58%       | Mainly due to the RMB644 million tax refunds and to the RMB300 million decrease in VAT from BOY  |
| 11  | Dividend payable                            | 35,502,079.96     | 14,070,461.91     | 152 %     | Mainly due to the dividends payable to minority shareholders by Baosteel International   |
| 12  | Non-current liabilities due within one year | 4,502,343,862.07  | 12,227,658,084.57 | -63%      | Mainly due to RMB 10 billion decrease in repayment of "08 Baosteel Bond" in June and RMB 1.5 billion increase in interest-free loan payable to Baosteel Group.   |
| 13  | Long-term borrowings                        | 7,555,402,025.35  | 4,702,446,502.87  | 61%       | Mainly due to RMB 2.72 billion increase in long-term borrowings of Zhanjiang Steel Project.  |
| 14  | Other non-current liabilities               | 1,179,524,187.14  | 2,718,747,282.41  | -57%      | RMB 1.5 billion payable to Baosteel Group reclassified into non-current liabilities due within one year.   |
| 15  | Special reserves                            | 29,648,656.03     | 22,160,961.06     | 34%       | Mainly production safety expenses.   |

| S/N | Item                              | June 30 <sup>th</sup> 2014 | Dec. 31 <sup>st</sup> 2013 | Change % | Cause of change  |
|-----|-----------------------------------|----------------------------|----------------------------|----------|--|
| 16  | Financial expenses                | 545,988,124.48             | -250,887,943.98            | 318%     | Mainly due to RMB 740 million increase in loss on foreign exchange over the same period of last year resulting from the 0.9% depreciation of the middle rate of RMB in the first half of 2014 compared to the 1.7% appreciation of middle rate of RMB in the first half of 2013. |
| 17  | Loss from assets impairment       | -53,729,255.28             | 282,632,015.73             | -119%    | Mainly due to the write-back of RMB 130 million inventory falling price reserve in the first half of 2014 as a result of the provision for RMB 220 million falling price reserve of inventories in the first half of 2013.   |
| 18  | Gains from changes in fair values | -19,267,729.51             | 26,156,213.39              | -174%    | Mainly due to RMB 30 million loss on changes in fair values of forward foreign exchange transactions.  |
| 19  | Non-operating expenditures        | 203,030,478.48             | 137,160,663.98             | 48%      | Mainly due to the labor dispatch and coordination expenses incurred by Baotong Iron & Steel as a result of economic operation.   |

**IX. Documents Available for Reference**

1. The text of the semi-annual report which bears the signature of the president;
2. The text of the financial statement which bears the signatures and seals of the corporate representative, person in charge of accounting, and chief accountant;
3. The originals of all documents and of announcements publicly disclosed at the journals designated by the CSRC;
4. The text of the Articles of Association of the Company.

Director & President: Dai Zhihao  
Baoshan Iron & Steel Co., Ltd.  
August 22, 2014